

**HALIFAX COUNTY SERVICE AUTHORITY
SOUTH BOSTON, VIRGINIA**

**FINANCIAL REPORT
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016**

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SOUTH BOSTON, VIRGINIA

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- Introductory Section -

HALIFAX COUNTY SERVICE AUTHORITY

MEMBERS

Dexter T. Gilliam, Chairman

Stewart Nelson, Vice-Chairman

Bill Snead

Joe Barkley

Katherine D.S. Bane

Gray Ramsey

Fields Thomas

OFFICIALS

Mark Estes, Executive Director

- Financial Section -

ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

Independent Auditors' Report

To the Board of Directors
Halifax County Service Authority
South Boston, Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Halifax County Service Authority, as of and for the years ended June 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Authorities, Boards, and Commissions*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Halifax County Service Authority, as of June 30, 2017 and 2016, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and schedules related to pension funding on pages 3-6 and 39-41 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Halifax County Service Authority's basic financial statements. The introductory section is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 27, 2018, on our consideration of Halifax County Service Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Halifax County Service Authority's internal control over financial reporting and compliance.

Robinson, Farmer, Cox Associates
Charlottesville, Virginia
April 27, 2018

Management's Discussion and Analysis

As management of Halifax County Service Authority ("HCSA" or "the Authority"), we offer readers of our financial statements this narrative, overview, and analysis of the financial activities of the Authority for the years ended June 30, 2017 and 2016.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. Since the Authority is engaged only in business-type activities, its basic financial statements are comprised of only two components: 1) enterprise fund financial statements and 2) notes to financial statements.

Enterprise fund financial statements

The enterprise fund financial statements are designed to provide readers with a broad overview of the Authority's finances, in a manner similar to a private-sector business.

The *Statement of Net Position* presents information on the Authority's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference between the four reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

The *Statement of Revenues, Expenses, and Changes in Net Position* presents information showing how the Authority's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. earned but unused vacation leave).

The basic enterprise fund financial statements can be found on Exhibits 1 - 3 of this report.

Notes to Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The Notes to the Financial Statements can be found on pages 10 through 38 of this report. Note 5 presents certain required supplementary information concerning the Authority's progress in funding its obligation to provide pension benefits to its employees.

Financial Highlights

- The assets and deferred outflows of the Authority exceeded its liabilities at the close of the most recent fiscal year by \$32,298,513 (net position). Of this amount, \$2,735,639 (unrestricted net position) may be used to meet the Authority's ongoing obligations to customers and creditors.

Financial Analysis

Net investment in capital assets

The Authority uses capital assets to provide services to its customers; consequently, these assets are not available for future spending. Although the Authority's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Unrestricted net position

Unrestricted net position is used by the Authority to finance day-to-day operations without restrictions established by debt covenants or other requirements. Unrestricted cash and investments consist of government securities, bank deposits, and other cash-equivalents. The restricted assets are accounts and funds that are held for special purpose uses, such as refunding deposits or debt service reserves. The Authority established several new reserve accounts to accumulate funds in compliance with its Rural Development bond covenants.

The following table provides a summary of the statement of net position.

| | Net Position | | |
|----------------------------------|----------------------|----------------------|----------------------|
| | 2017 | 2016 | 2015 |
| Current and other assets | \$ 5,420,008 | \$ 5,671,086 | \$ 5,817,135 |
| Capital assets | <u>38,818,639</u> | <u>40,706,405</u> | <u>42,724,546</u> |
| Total assets | <u>\$ 44,238,647</u> | <u>\$ 46,377,491</u> | <u>\$ 48,541,681</u> |
| Deferred outflows of resources | <u>\$ 273,161</u> | <u>\$ 265,786</u> | <u>\$ 188,945</u> |
| Long-term liabilities | \$ 10,735,598 | \$ 11,653,528 | \$ 12,426,634 |
| Other liabilities | <u>1,459,122</u> | <u>1,382,909</u> | <u>1,294,084</u> |
| Total liabilities | <u>\$ 12,194,720</u> | <u>\$ 13,036,437</u> | <u>\$ 13,720,718</u> |
| Deferred inflows of resources | <u>\$ 18,575</u> | <u>\$ 35,831</u> | <u>\$ 88,134</u> |
| Net position: | | | |
| Net investment in capital assets | \$ 29,562,874 | \$ 31,099,854 | \$ 32,401,308 |
| Unrestricted | <u>2,735,639</u> | <u>2,471,155</u> | <u>2,520,466</u> |
| Total net position | <u>\$ 32,298,513</u> | <u>\$ 33,571,009</u> | <u>\$ 34,921,774</u> |

Financial Analysis: (Continued)

Changes in Revenues, Expenses, and Net Position

While the Statement of Net Position reflects the change in the Authority's financial position, the Statement of Revenues, Expenses, and Changes in Net Position provides insight as to the nature and source of those changes.

At the end of the current fiscal year, the Authority is able to report positive balances in all categories of net assets.

| | Change in Net Position | | |
|---|------------------------|----------------------|----------------------|
| | 2017 | 2016 | 2015 |
| Revenues: | | | |
| Operating revenues | \$ 4,968,252 | \$ 4,820,824 | \$ 4,738,342 |
| Contribution from participating governments | 126,488 | 125,834 | 125,275 |
| Other nonoperating revenue | 51,950 | 29,683 | 58,195 |
| Investment income | 11,128 | 6,468 | 2,815 |
| Capital contributions | - | - | 896,935 |
| Total revenues | <u>\$ 5,157,818</u> | <u>\$ 4,982,809</u> | <u>\$ 5,821,562</u> |
| Expenses: | | | |
| Operating expenses (excluding depreciation) | \$ 4,053,803 | \$ 3,558,508 | \$ 3,079,750 |
| Depreciation expense | 2,071,540 | 2,277,473 | 2,264,035 |
| Interest expense | 304,971 | 497,593 | 413,126 |
| Total expenses | <u>\$ 6,430,314</u> | <u>\$ 6,333,574</u> | <u>\$ 5,756,911</u> |
| Increase (decrease) in net position | \$ (1,272,496) | \$ (1,350,765) | \$ 64,651 |
| Net position-beginning | <u>33,571,009</u> | <u>34,921,774</u> | <u>34,857,123</u> |
| Net position-ending | <u>\$ 32,298,513</u> | <u>\$ 33,571,009</u> | <u>\$ 34,921,774</u> |

Operating and nonoperating expenses

Operating expenses consist of personnel services, contractual services, materials and supplies, utilities, insurance, and other operating expenses that keep the Authority running on a day to day basis. Non-operating expenses consist of interest expense and other costs that are incurred that do not fall under operating expense. In addition to the interest expense, the principal payments on outstanding debt are included in this chart as they must be paid from the revenues received by the Authority.

Capital Assets

The Authority's net investment in capital assets consists of a broad range of capital assets such as land, buildings, water and sewer lines, water storage facilities, water and wastewater plants, pump stations, machinery, equipment, computers, and vehicles. More information on the Authority's capital assets is presented in Note 3 of the Notes to Financial Statements.

The following table summarizes the Authority's capital assets, net of accumulated depreciation as of June 30, 2017, 2016 and 2015.

| | <u>June 30, 2017</u> | <u>June 30, 2016</u> | <u>June 30, 2015</u> |
|---|-----------------------------|-----------------------------|-----------------------------|
| Capital assets not being depreciated | | | |
| Land | \$ 133,500 | \$ 133,500 | \$ 133,500 |
| Construction in progress | 501,327 | 413,333 | 657,261 |
| Total capital assets not being depreciated | <u>\$ 634,827</u> | <u>\$ 546,833</u> | <u>\$ 790,761</u> |
| Capital assets being depreciated | | | |
| Utility plant lines and accessories | \$ 57,128,764 | \$ 57,182,543 | \$ 56,715,948 |
| Vehicles and equipment | 926,845 | 777,286 | 760,996 |
| Total assets being depreciated | <u>\$ 58,055,609</u> | <u>\$ 57,959,829</u> | <u>\$ 57,476,944</u> |
| Less: Accumulated depreciation | <u>(19,871,797)</u> | <u>(17,800,257)</u> | <u>(15,543,159)</u> |
| Capital assets being depreciated, net | <u>\$ 38,183,812</u> | <u>\$ 40,159,572</u> | <u>\$ 41,933,785</u> |
| Net capital assets | <u><u>\$ 38,818,639</u></u> | <u><u>\$ 40,706,405</u></u> | <u><u>\$ 42,724,546</u></u> |

Debt Administration

Long-term Obligations

Long-term debt is used by the Authority to finance capital projects due to growth in the system, aging equipment and lines, or changes in regulations. Other long-term obligations of the Authority include employee accrued leave. More detailed information on the Authority's long-term liabilities is presented in Note 4 of the Notes to the Financial Statements.

At the end of the current fiscal year, the Authority had \$11,516,685 in bonds and notes outstanding. The Authority also had \$164,216 in compensated absences.

Requests for Information

This financial report is designed to meet reporting standards and to provide a general overview of the Authority's financial operations. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Halifax County Service Authority, 2529 Houghton Avenue, South Boston, Virginia 24592.

- Basic Financial Statements -

Statements of Net Position
As of June 30, 2017 and 2016

| | As of June 30, | |
|---|----------------------|----------------------|
| | 2017 | 2016 |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 1,333,558 | \$ 1,307,319 |
| Restricted cash and cash equivalents | 2,486,564 | 2,753,822 |
| Accounts receivable (net of allowance for uncollectible accounts) | 762,330 | 741,534 |
| Inventory of materials and supplies, at cost | 156,654 | 177,662 |
| Prepaid items | 19,674 | 18,721 |
| Total current assets | <u>\$ 4,758,780</u> | <u>\$ 4,999,058</u> |
| Noncurrent assets: | | |
| Restricted assets: | | |
| Cash and cash equivalents - deposits held | \$ 380,200 | \$ 347,160 |
| Net pension asset | <u>\$ 281,028</u> | <u>\$ 324,868</u> |
| Capital assets: | | |
| Utility plant, lines, and accessories | \$ 57,128,764 | \$ 57,182,543 |
| Machinery and equipment | 926,845 | 777,286 |
| Accumulated depreciation | (19,871,797) | (17,800,257) |
| Sub-total net capital assets | <u>\$ 38,183,812</u> | <u>\$ 40,159,572</u> |
| Land | 133,500 | 133,500 |
| Construction in progress | 501,327 | 413,333 |
| Total net capital assets | <u>\$ 38,818,639</u> | <u>\$ 40,706,405</u> |
| Total noncurrent assets | <u>\$ 39,479,867</u> | <u>\$ 41,378,433</u> |
| Total assets | <u>\$ 44,238,647</u> | <u>\$ 46,377,491</u> |
| DEFERRED OUTFLOWS OF RESOURCES | | |
| Deferred charge on refunding | \$ 61,428 | \$ 66,126 |
| Differences between expected and actual experience | 63,619 | 80,675 |
| Net differences between projected and actual earnings on pension plan investments | 53,710 | - |
| Employer contributions subsequent to the measurement date | 94,404 | 118,985 |
| Total deferred outflows of resources | <u>\$ 273,161</u> | <u>\$ 265,786</u> |
| LIABILITIES | | |
| Current liabilities: | | |
| Accounts payable | \$ 164,974 | \$ 135,644 |
| Accrued interest payable | 61,715 | 69,643 |
| Customers' deposits | 287,130 | 252,553 |
| Compensated absences - current portion | 16,422 | 15,210 |
| Bonds and notes payable - current portion | 928,881 | 909,859 |
| Total current liabilities | <u>\$ 1,459,122</u> | <u>\$ 1,382,909</u> |
| Noncurrent liabilities: | | |
| Compensated absences - noncurrent portion | \$ 147,794 | \$ 136,890 |
| Bonds and notes payable - noncurrent portion | 10,587,804 | 11,516,638 |
| Total noncurrent liabilities | <u>\$ 10,735,598</u> | <u>\$ 11,653,528</u> |
| Total liabilities | <u>\$ 12,194,720</u> | <u>\$ 13,036,437</u> |
| DEFERRED INFLOWS OF RESOURCES | | |
| Differences between expected and actual experience | \$ 18,575 | \$ 35,831 |
| NET POSITION: | | |
| Net investment in capital assets | \$ 29,562,874 | \$ 31,099,854 |
| Unrestricted | 2,735,639 | 2,471,155 |
| Total net position | <u>\$ 32,298,513</u> | <u>\$ 33,571,009</u> |

The accompanying notes to financial statements are an integral part of this statement.

Statements of Revenues, Expenses, and Changes in Net Position
For the Years Ended June 30, 2017 and 2016

| | For the Year Ended June 30, | |
|---|-----------------------------|----------------|
| | 2017 | 2016 |
| Operating revenues: | | |
| Water and sewer charges | \$ 4,819,995 | \$ 4,695,601 |
| Facility fees | 22,000 | 14,377 |
| Other revenues | 126,257 | 110,846 |
| Total operating revenues | \$ 4,968,252 | \$ 4,820,824 |
| Operating expenses: | | |
| Operations and maintenance | \$ 3,526,274 | \$ 3,044,574 |
| Administrative | 527,529 | 513,934 |
| Depreciation | 2,071,540 | 2,277,473 |
| Total operating expenses | \$ 6,125,343 | \$ 5,835,981 |
| Operating income (loss) | \$ (1,157,091) | \$ (1,015,157) |
| Nonoperating revenues (expenses): | | |
| Investment earnings | \$ 11,128 | \$ 6,468 |
| Tower rent | 21,950 | 19,534 |
| Contribution from participating governments | 126,488 | 125,834 |
| Other nonoperating revenues | 30,000 | 10,149 |
| Interest expense | (304,971) | (497,593) |
| Total nonoperating revenues (expenses) | \$ (115,405) | \$ (335,608) |
| Change in net position | \$ (1,272,496) | \$ (1,350,765) |
| Net position, beginning of year | 33,571,009 | 34,921,774 |
| Net position, end of year | \$ 32,298,513 | \$ 33,571,009 |

The accompanying notes to financial statements are an integral part of this statement.

Statements of Cash Flows
For the Years Ended June 30, 2017 and 2016

| | For the Year Ended June 30, | |
|---|-----------------------------|----------------|
| | 2017 | 2016 |
| Cash flows from operating activities: | | |
| Receipts from customers and users | \$ 4,947,456 | \$ 4,852,101 |
| Payments to suppliers and vendors | (2,553,275) | (2,346,477) |
| Payments to and on behalf of employees | (1,337,989) | (1,170,582) |
| Net cash provided by (used for) operating activities | \$ 1,056,192 | \$ 1,335,042 |
| Cash flows from noncapital financing activities: | | |
| Contribution from participating governments | \$ 126,488 | \$ 125,834 |
| Net cash provided by (used for) noncapital financing activities | \$ 126,488 | \$ 125,834 |
| Cash flows from capital and related financing activities: | | |
| Additions to capital assets | \$ (183,774) | \$ (259,332) |
| Principal payments | (872,589) | (2,957,656) |
| Proceeds from indebtedness | - | 2,292,000 |
| Interest payments | (345,424) | (551,985) |
| Net cash provided by (used for) capital and related financing activities | \$ (1,401,787) | \$ (1,476,973) |
| Cash flows from investing activities: | | |
| Interest received | \$ 11,128 | \$ 6,468 |
| Net cash provided by (used for) investing activities | \$ 11,128 | \$ 6,468 |
| Increase (decrease) in cash and cash equivalents | \$ (207,979) | \$ (9,629) |
| Cash and cash equivalents at beginning of year, including restricted cash | 4,408,301 | 4,417,930 |
| Cash and cash equivalents at end of year, including restricted cash | \$ 4,200,322 | \$ 4,408,301 |
| Reconciliation of operating income (loss) to net cash provided by (used for) operating activities: | | |
| Operating income (loss) | \$ (1,157,091) | \$ (1,015,157) |
| Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities: | | |
| Depreciation | 2,071,540 | 2,277,473 |
| Tower rent | 21,950 | 19,534 |
| Other nonoperating revenues | 30,000 | 10,149 |
| Changes in operating assets and liabilities: | | |
| (Increase) decrease in receivables | (20,796) | 31,277 |
| (Increase) decrease in inventory | 21,008 | (5,949) |
| (Increase) decrease in prepaid items | (953) | 6,689 |
| (Increase) decrease in net pension asset | 43,840 | 104,403 |
| (Increase) decrease in deferred outflows of resources - pension | (12,073) | (81,540) |
| Increase (decrease) in deferred inflows of resources - pension | (17,256) | (52,303) |
| Increase (decrease) in customer deposits | 34,577 | 280 |
| Increase (decrease) in payables and accrued expenses | 29,330 | 35,560 |
| Increase (decrease) in compensated absences | 12,116 | 4,626 |
| Net cash provided by (used for) operating activities | \$ 1,056,192 | \$ 1,335,042 |

The accompanying notes to financial statements are an integral part of this statement.

HALIFAX COUNTY SERVICE AUTHORITY

Notes to Financial Statements
As of June 30, 2017 and 2016

Note 1 - Summary of Significant Accounting Policies:

A. Formation of the Authority:

Halifax County Service Authority "the Authority" was created by the County of Halifax, Virginia on September 6, 1994 for the purpose of providing water and sewer service in Halifax County. The Authority was formed pursuant to the Virginia Water and Waste Water Authorities Act (Chapter 51), Title 15.2 of the 1950 Code of Virginia, as amended and has all of the rights, powers, and duties of an authority under the Act. On June 30, 2007 the County of Halifax and the Towns of South Boston and Halifax, Virginia entered into a comprehensive agreement to integrate the water and sewer infrastructure and operations by joining and participating in the Halifax County Service Authority. The three localities "political subdivisions" recognized the efficiencies of creating a regional approach to the provision of water and wastewater treatment. The comprehensive agreement provides that the Authority has the responsibility for establishing, imposing and collecting fees and charges sufficient to operate the system, pay principal and interest on any debt and satisfy any covenants contained in the financing documents entered into or assumed by the Authority. On January 1, 2008 the Authority commenced operations as a regional Authority.

B. Financial Reporting Entity:

The Authority's governing body is composed of seven directors. Replacement directors are nominated for appointment to the Board by the existing Authority Board members. The nominee must then be approved by the governing bodies of all three localities within 45 days. If rejected by any one locality, the Board must submit a new nominee for consideration. None of the localities appoints a voting majority of the directors.

The purposes for which the Authority is organized are to exercise all the powers granted to the Authority to acquire, finance, construct, operate, manage and maintain water, waste water, sewage disposal and storm water control systems and related facilities pursuant to the Virginia Water and Waste Water Authorities Act. No participating locality has access to the resources or surpluses, nor is any participant liable for the Authority's debts or deficits with the exception of the locality compensation agreement. The Authority is perpetual.

Based on the above representations and in accordance with Governmental Accounting Standards Board (GASB) Statement Number 14, Halifax County Service Authority has been determined to be a jointly governed organization of the County of Halifax, Town of South Boston and Town of Halifax. The Authority is not a component unit of any of the participating localities. There are no component units to be included within the Authority's financial statements.

C. Basis of Accounting:

The Halifax County Service Authority operates as an enterprise fund and its accounts are maintained on the accrual basis of accounting. Under this method, revenues are recognized when earned, and expenses are recorded as liabilities when incurred, without regard to receipt or payment of cash. The Authority accrues revenue for services rendered but not yet billed at the end of the fiscal year. The accompanying financial statements are prepared in accordance with pronouncements issued by the Governmental Accounting Standards Board. The principles prescribed by GASB represent generally accepted accounting principles applicable to governmental units.

HALIFAX COUNTY SERVICE AUTHORITY

Notes to Financial Statements
As of June 30, 2017 and 2016 (Continued)

Note 1 - Summary of Significant Accounting Policies: (Continued)

C. Basis of Accounting: (Continued)

The Authority distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services as well as producing and delivering goods in connection with the Authority's principal ongoing operations. The principal operating revenues of the Authority are charges to customers for sales and services. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

D. Allowance for Doubtful Accounts:

Accounts receivable are stated at book value net of the allowance for uncollectible accounts. The allowance for uncollectible accounts amounted to \$152,461 and \$145,394 at June 30, 2017 and 2016, respectively.

E. Basic Financial Statements:

The Authority's financial statements are prepared in accordance with GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - For State and Local Governments*. As a result, the financial statements include a Management's Discussion and Analysis (MD&A) section, providing an analysis of the Authority's overall financial position and results of operations.

Since the Authority is only engaged in business-type activities, it is required to present only the financial statements required for enterprise funds. For the Authority, the basic financial statements and required supplementary information consist of:

- Management's Discussion and Analysis
- Enterprise fund financial statements
 - Statements of Net Position
 - Statements of Revenues, Expenses, and Changes in Net Position
 - Statements of Cash Flows
 - Notes to Financial Statements
- Required Supplementary Information
 - Schedule of Changes in Net Pension Asset and Related Ratios
 - Schedule of Employer Contributions
 - Notes to Required Supplementary Information

HALIFAX COUNTY SERVICE AUTHORITY

Notes to Financial Statements
As of June 30, 2017 and 2016 (Continued)

Note 1 - Summary of Significant Accounting Policies: (Continued)

F. Capital Assets:

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., pipes, hydrants, pumps, and similar items), are reported in the financial statements. Capital assets are defined by the Authority as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation. The capital assets donated to the Authority by the organizing localities were valued by a consulting engineer.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend its useful life are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. No interest was capitalized during the current fiscal year.

Property, plant, and equipment are depreciated using the straight-line method over the following estimated useful lives:

| <u>Assets</u> | <u>Years</u> |
|--------------------------------------|--------------|
| Utility plant, lines and accessories | 12 to 50 |
| Vehicles and equipment | 5 to 15 |

G. Interest on Indebtedness:

Interest expense recognized from indebtedness used to construct new facilities is capitalized during the period of construction as part of the cost of such facilities. Other interest costs of the Authority are treated as nonoperating expenses.

H. Cash and Cash Equivalents:

The Authority's cash and cash equivalents consist of demand deposits, certificates of deposit, short-term U.S. Governmental obligations, and other investments with an original maturity of three months or less from the date of acquisition, all of which are readily convertible to known amounts of cash.

I. Investments:

Money market investments, participating interest-earning investment contracts (repurchase agreements) that have a remaining maturity at time of purchase of one year or less, nonparticipating interest-earning investment contracts (nonnegotiable certificates of deposit (CDs)) and external investment pools are measured at amortized cost in accordance with GASB 79. All other investments are reported at fair value.

HALIFAX COUNTY SERVICE AUTHORITY

Notes to Financial Statements
As of June 30, 2017 and 2016 (Continued)

Note 1 - Summary of Significant Accounting Policies: (Continued)

J. Premiums/Discount on Bonds Held for Investment:

The premium/discounts paid on bonds held for investment are being amortized over the life of investment using the effective interest method.

K. Unamortized Deferred Charge on Refunding:

The deferred charge on refunding, resulting from the advance refunding of the Series 2011B Revenue Bonds is being amortized using the bonds outstanding method over the life of the Series 2011B Revenue Bonds, which is not materially different from the effective interest method. The current year amortization is included in interest expense.

L. Budgets and Budgetary Accounting:

A budget is prepared for informational purposes, fiscal planning purposes, and to provide the basis for setting user rates. None of the participating entities are required to approve the budget. The budget is adopted as a planning document and is not a legal control on expenses. The Authority adopts annual budgets for water service revenues and Operating Fund expenditures. The budgets are prepared on the basis of expected cash receipts and disbursements rather than on the accrual basis.

M. Inventory:

Inventories of material and supplies are recorded at cost, using the first-in, first-out method of valuation. Inventory was valued at \$156,654 and \$177,662 at June 30, 2017 and 2016, respectively.

N. Use of Estimates:

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

O. Net Position:

Net position is the difference between a) assets and deferred outflows of resources and b) liabilities and deferred inflows of resources. Net investment in capital assets represents capital assets, less accumulated depreciation, less any outstanding debt related to the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are also included in this component of net position.

HALIFAX COUNTY SERVICE AUTHORITY

Notes to Financial Statements
As of June 30, 2017 and 2016 (Continued)

Note 1 - Summary of Significant Accounting Policies: (Continued)

P. Deferred Outflows/Inflows of Resources:

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The Authority has two items that qualify for reporting in this category. One item is the deferred charge on refunding reported in the statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The other item is comprised of certain items related to the measurement of the net pension liability. These include differences between expected and actual experience, change in assumptions, the net difference between projected and actual earnings on pension plan investments and contributions to the pension plan made during the current year and subsequent to the net pension liability measurement date, which will be recognized as a reduction of the net pension liability next fiscal year. For more detailed information on the pension items, reference the pension note.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Authority has one item that qualifies for reporting in this category. Certain items related to the measurement of the net pension asset are reported as deferred inflows of resources. These include differences between expected and actual experience, change in assumptions, and the net difference between projected and actual earnings on pension plan investments. For more detailed information on this item, reference the pension note.

Q. Net Position Flow Assumption:

Sometimes the Authority will fund outlays for a particular purpose from both restricted (e.g., restricted bond) and unrestricted resources. In order to calculate the amounts to report as restricted - net position and unrestricted - net position, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Authority's policy to consider restricted - net position to have been depleted before unrestricted - net position is applied.

R. Long-term Obligations:

The Authority assumed existing revenue and general obligation bonds of both the County of Halifax and the Towns of South Boston and Halifax upon the formation of the Authority. Additionally, the Authority assumed a note payable to the Town of South Boston for a "negative cash payment." The obligation will be paid to the Town of South Boston in accordance with the comprehensive agreement.

Bond premiums and discounts are deferred and amortized over the life of the bonds, as applicable. Bonds payable are reported net of the applicable bond premium or discount.

HALIFAX COUNTY SERVICE AUTHORITY

Notes to Financial Statements
As of June 30, 2017 and 2016 (Continued)

Note 1 - Summary of Significant Accounting Policies: (Continued)

S. Compensated Absences:

The liability for compensated absences reported in the financial statements consists of unpaid accumulated leave balances. The liability is based on the leave accumulated at June 30. Limited leave may be accumulated until retirement or termination. Accumulated leave is paid at the employee's current wage upon retirement or termination.

T. Pensions:

For purposes of measuring the net pension asset, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Authority's Retirement Plan and the additions to/deductions from the Authority's Retirement Plan's net fiduciary position have been determined on the same basis as they were reported by the Virginia Retirement System (VRS). For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Note 2 - Deposits and Investments:

Deposits:

Deposits with banks are covered by the Federal Deposit Insurance Corporation (FDIC) and collateralized in accordance with the Virginia Security for Public Deposits Act (the "Act") Section 2.2-4400 et. seq. of the Code of Virginia. Under the Act, banks and savings institutions holding public deposits in excess of the amount insured by the FDIC must pledge collateral to the Commonwealth of Virginia Treasury Board. Financial institutions may choose between two collateralization methodologies and depending upon that choice, will pledge collateral that ranges in the amounts from 50% to 130% of excess deposits. Accordingly, all deposits are considered fully collateralized.

Investments:

Statutes authorize the Authority to invest in obligations of the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, obligations of the International Bank for Reconstruction and Development (World Bank), the Asian Development Bank, the African Development Bank, "prime quality" commercial paper and certain corporate notes, banker's acceptances, repurchase agreements and the State Treasurer's Local Government Investment Pool (LGIP).

Custodial Credit Risk (Investments):

To protect the Authority against potential fraud, the investment policy states that the assets of the Authority shall be secured through third-party custody and safe-keeping procedures. Collateralized securities, such as repurchase agreements, shall be purchased using the delivery vs. payment procedure.

The Authority's investments at June 30, 2017 were held by the Authority or in the Authority's name by the Authority's custodial banks.

HALIFAX COUNTY SERVICE AUTHORITY

Notes to Financial Statements
As of June 30, 2017 and 2016 (Continued)

Note 2 - Deposits and Investments: (Continued)

Credit Risk of Debt Securities:

The Authority's rated debt investments as of June 30, 2017 were rated by Standard and Poor's and the ratings are presented below using the Standard and Poor's rating scale.

| <u>Authority's Rated Debt Investments' Values</u> | |
|---|-----------------------------|
| | <u>Fair Quality Ratings</u> |
| | <u>AAAm</u> |
| State Non-Arbitrage Pool | \$ 1,498,579 |

Interest Rate Risk:

The Authority does not have an investment policy regarding the interest rate risk of investments.

| <u>Investment Maturities (in years)</u> | | |
|---|-------------------|------------------|
| <u>Investment Type</u> | <u>Fair Value</u> | <u>1-5 Years</u> |
| State Non-Arbitrage Pool | \$ 1,498,579 | \$ 1,498,579 |

External Investment Pool:

The State Non-Arbitrage Pool (SNAP) is an open-end management investment company registered with the Securities and Exchange Commission. In May 2016, the Board voted to convert the SNAP fund to an LGIP structure, which would be managed in conformance with GASB 79. On October 3, 2016, the Prime Series became a government money market fund and the name was changed to Government Select Series. The Government Select Series has a policy of investing at least 99.5% of its assets in cash, U.S. government securities (including securities issued or guaranteed by the U.S. government or its agencies or instrumentalities) and/or repurchase agreements that are collateralized fully.

The value of the positions in the external investment pools (Local Government Investment Pool and State Non-Arbitrage Pool) is the same as the value of the pool shares. As LGIP is not SEC registered, regulatory oversight of the pool rests with the Virginia State Treasury. LGIP and SNAP are amortized cost basis portfolios under the provisions of GASB Statement No. 79. There are no withdrawal limitations or restrictions imposed on participants.

HALIFAX COUNTY SERVICE AUTHORITY

Notes to Financial Statements
As of June 30, 2017 and 2016 (Continued)

Note 3 - Capital Assets:

Capital asset activity for the year ended June 30, 2017 was as follows:

| | Beginning Balance | Increases | Decreases | Ending Balance |
|---|------------------------|-----------------------|-------------|------------------------|
| Capital assets, not being depreciated: | | | | |
| Land | \$ 133,500 | \$ - | \$ - | \$ 133,500 |
| Construction in progress | 413,333 | 87,994 | - | 501,327 |
| Total capital assets, not being depreciated | <u>\$ 546,833</u> | <u>\$ 87,994</u> | <u>\$ -</u> | <u>\$ 634,827</u> |
| Capital assets, being depreciated: | | | | |
| Utility plant, lines and accessories | \$ 57,128,764 | \$ - | \$ - | \$ 57,128,764 |
| Machinery and equipment | 831,065 | 95,780 | - | 926,845 |
| Total capital assets, being depreciated | <u>\$ 57,959,829</u> | <u>\$ 95,780</u> | <u>\$ -</u> | <u>\$ 58,055,609</u> |
| Accumulated depreciation: | | | | |
| Utility plant, lines and accessories | \$ (17,220,863) | \$ (2,020,956) | \$ - | \$ (19,241,819) |
| Machinery and equipment | (579,394) | (50,584) | - | (629,978) |
| Total accumulated depreciation | <u>\$ (17,800,257)</u> | <u>\$ (2,071,540)</u> | <u>\$ -</u> | <u>\$ (19,871,797)</u> |
| Total capital assets, being depreciated, net | <u>\$ 40,159,572</u> | <u>\$ (1,975,760)</u> | <u>\$ -</u> | <u>\$ 38,183,812</u> |
| Capital assets, net | <u>\$ 40,706,405</u> | <u>\$ (1,887,766)</u> | <u>\$ -</u> | <u>\$ 38,818,639</u> |

Capital asset activity for the year ended June 30, 2016 was as follows:

| | Beginning Balance | Increases | Decreases | Ending Balance |
|---|------------------------|-----------------------|--------------------|------------------------|
| Capital assets, not being depreciated: | | | | |
| Land | \$ 133,500 | \$ - | \$ - | \$ 133,500 |
| Construction in progress | 657,261 | 179,327 | 423,255 | 413,333 |
| Total capital assets, not being depreciated | <u>\$ 790,761</u> | <u>\$ 179,327</u> | <u>\$ 423,255</u> | <u>\$ 546,833</u> |
| Capital assets, being depreciated: | | | | |
| Utility plant, lines and accessories | \$ 56,662,169 | \$ 466,595 | \$ - | \$ 57,128,764 |
| Machinery and equipment | 814,775 | 36,665 | 20,375 | 831,065 |
| Total capital assets, being depreciated | <u>\$ 57,476,944</u> | <u>\$ 503,260</u> | <u>\$ 20,375</u> | <u>\$ 57,959,829</u> |
| Accumulated depreciation: | | | | |
| Utility plant, lines and accessories | \$ (14,995,369) | \$ (2,225,494) | \$ - | \$ (17,220,863) |
| Machinery and equipment | (547,790) | (51,979) | (20,375) | (579,394) |
| Total accumulated depreciation | <u>\$ (15,543,159)</u> | <u>\$ (2,277,473)</u> | <u>\$ (20,375)</u> | <u>\$ (17,800,257)</u> |
| Total capital assets, being depreciated, net | <u>\$ 41,933,785</u> | <u>\$ (1,774,213)</u> | <u>\$ -</u> | <u>\$ 40,159,572</u> |
| Capital assets, net | <u>\$ 42,724,546</u> | <u>\$ (1,594,886)</u> | <u>\$ 423,255</u> | <u>\$ 40,706,405</u> |

Depreciation expense totaled \$2,071,540 for 2017 and \$2,277,473 for 2016.

HALIFAX COUNTY SERVICE AUTHORITY

Notes to Financial Statements
As of June 30, 2017 and 2016 (Continued)

Note 4 - Long-term Obligations:

Changes in long-term obligations for the year ended June 30, 2017 are as follows:

| | <u>Beginning Balance</u> | <u>Issuances/ Additions</u> | <u>Retirements/ Reductions</u> | <u>Ending Balance</u> | <u>Due Within One Year</u> |
|-------------------------------|------------------------------|---------------------------------|------------------------------------|-----------------------------|------------------------------------|
| Bonds payable | \$ 10,937,988 | \$ - | \$ 779,300 | \$ 10,158,688 | \$ 800,190 |
| Premium on bond issue | 317,111 | - | 37,223 | 279,888 | 33,983 |
| Notes payable | 1,171,398 | - | 93,289 | 1,078,109 | 94,708 |
| Total bonds and notes payable | <u>\$ 12,426,497</u> | <u>\$ -</u> | <u>\$ 909,812</u> | <u>\$ 11,516,685</u> | <u>\$ 928,881</u> |
| Compensated absences | <u>152,100</u> | <u>12,116</u> | <u>-</u> | <u>164,216</u> | <u>16,422</u> |
| Total | <u><u>\$ 12,578,597</u></u> | <u><u>12,116</u></u> | <u><u>\$ 909,812</u></u> | <u><u>\$ 11,680,901</u></u> | <u><u>\$ 945,303</u></u> |

Changes in long-term obligations for the year ended June 30, 2016 are as follows:

| | <u>Beginning Balance</u> | <u>Issuances/ Additions</u> | <u>Retirements/ Reductions</u> | <u>Ending Balance</u> | <u>Due Within One Year</u> |
|-------------------------------|------------------------------|---------------------------------|------------------------------------|-----------------------------|------------------------------------|
| Bonds payable | \$ 11,511,739 | \$ 2,292,000 | \$ 2,865,751 | \$ 10,937,988 | \$ 778,173 |
| Premium on bond issue | 357,415 | - | 40,304 | 317,111 | 37,223 |
| Notes payable | 1,263,302 | - | 91,904 | 1,171,398 | 94,463 |
| Total bonds and notes payable | <u>\$ 13,132,456</u> | <u>\$ 2,292,000</u> | <u>\$ 2,997,959</u> | <u>\$ 12,426,497</u> | <u>\$ 909,859</u> |
| Compensated absences | <u>147,474</u> | <u>4,626</u> | <u>-</u> | <u>152,100</u> | <u>15,210</u> |
| Total | <u><u>\$ 13,279,930</u></u> | <u><u>\$ 2,296,626</u></u> | <u><u>\$ 2,997,959</u></u> | <u><u>\$ 12,578,597</u></u> | <u><u>\$ 925,069</u></u> |

HALIFAX COUNTY SERVICE AUTHORITY

Notes to Financial Statements
As of June 30, 2017 and 2016 (Continued)

Note 4 - Long-term Obligations: (Continued)

Annual requirements to amortize long-term obligations and the related interest are as follows:

| Year Ending June 30 | Bonds Payable | | Notes Payable | |
|------------------------|----------------------|---------------------|---------------------|------------------|
| | Principal | Interest | Principal | Interest |
| 2018 | \$ 800,190 | \$ 306,631 | \$ 94,708 | \$ 13,923 |
| 2019 | 820,008 | 282,980 | 96,169 | 12,461 |
| 2020 | 842,282 | 257,144 | 97,686 | 10,944 |
| 2021 | 430,607 | 237,306 | 99,260 | 9,370 |
| 2022 | 449,985 | 221,261 | 100,893 | 7,737 |
| 2023-2027 | 1,827,531 | 921,543 | 461,133 | 13,386 |
| 2028-2032 | 1,585,637 | 624,998 | 128,260 | - |
| 2033-2037 | 1,371,843 | 343,226 | - | - |
| 2038-2042 | 882,115 | 180,935 | - | - |
| 2043-2047 | 897,530 | 83,470 | - | - |
| 2048-2049 | 250,961 | 4,766 | - | - |
| Total | \$ 10,158,688 | \$ 3,464,260 | \$ 1,078,109 | \$ 67,820 |

Details of the Authority's outstanding long-term indebtedness at June 30, 2017 are as follows:

| Bonds payable: | <u>Amount Due</u> |
|---|-------------------|
| \$985,000 Series 2011B VRA Refunding Bond payable with principal due in annual installments ranging from \$80,000 to \$120,000 and interest payable semi-annually ranging from 2.12% to 5.12%, maturing October 1, 2021 | \$ 540,000 |
| Premium on Series 2011B VRA Refunding Bond | 36,709 |
| \$1,135,000 Series 2012A VRA Revenue Bond payable with principal due in annual installments ranging from \$25,000 to \$80,000 and interest payable semi-annually ranging from 3.52% to 5.12%, maturing October 1, 2037 | 1,035,000 |
| Premium on Series 2012A VRA Refunding Bond | 139,835 |

HALIFAX COUNTY SERVICE AUTHORITY

Notes to Financial Statements
As of June 30, 2017 and 2016 (Continued)

Note 4 - Long-term Obligations: (Continued)

Details of the Authority's outstanding long-term indebtedness at June 30, 2017: (Continued)

| | <u>Amount Due</u> |
|--|-----------------------------|
| Bonds payable: (Continued) | |
| \$5,000,000 Series 2011B USDA Rural Development Revenue Bond issued December 20, 2011, payable through 2049 | \$ 4,391,688 |
| \$1,315,000 Series 2015C VRA GO Public Refund Bond with principal due in semi-annual installments ranging from \$14,000 to \$16,000 until 2018 when installments range from \$203,000 to \$209,000. Interest is payable semi-annually at 2.250% maturing 2020. | 1,255,000 |
| \$977,000 Series 2015A GO Refunding Bond with principal due in semi-annual installments ranging from \$7,000 to \$51,000 and interest payable semi-annually at | 947,000 |
| \$2,205,000 Series 2013B VRA Revenue Bond payable with principal due in annual installments ranging from \$70,000 to \$165,000 and interest payable semi-annually ranging from 3.48% to 4.88%, maturing April 1, 2034 | 1,990,000 |
| Premium on Series 2013B VRA Revenue Bond | 103,344 |
| Total Bonds Payable | <u>\$ 10,438,576</u> |
| Notes payable: | |
| Note payable to the Town of South Boston due in annual installments of \$42,998 with a final payment for the outstanding balance due February 1, 2028, interest at 0% | \$ 659,019 |
| Note payable to the Town of South Boston IDA issued April 2011 for the construction of the Authority's administrative building due in monthly installments of \$4,388 with a final payment due April 2026, interest at 3.71% | 392,990 |
| Note payable to the Town of South Boston IDA issued April 2011 for the land purchase for the Authority's administrative building due in annual installments of \$2,900 with a final payment due April 2026, interest at 0% | 26,100 |
| Total Notes Payable | <u>\$ 1,078,109</u> |
| Compensated absences | <u>\$ 164,216</u> |
| Total Long-term Obligations | <u><u>\$ 11,680,901</u></u> |

Line of Credit:

During fiscal year 2008, the Authority obtained a \$500,000 line of credit for short-term operating needs. Interest on the line of credit is a variable rate of interest. Interest only payments are due quarterly and the entire principal was due January 2, 2013. The line of credit renews annually on January 2. The Authority did not use the line of credit during fiscal year 2017 or 2016.

HALIFAX COUNTY SERVICE AUTHORITY

Notes to Financial Statements
As of June 30, 2017 and 2016 (Continued)

Note 5 - Pension Plan:

Plan Description

All full-time, salaried permanent employees of the Authority are automatically covered by a VRS Retirement Plan upon employment. This is an agent multiple-employer plan administered by the Virginia Retirement System (the System) along with plans for other employer groups in the Commonwealth of Virginia. Members earn one month of service credit for each month they are employed and for which they and their employer pay contributions to VRS. Members are eligible to purchase prior service, based on specific criteria as defined in the Code of Virginia, as amended. Eligible prior service that may be purchased includes prior public service, active military service, certain periods of leave, and previously refunded service.

The System administers three different benefit structures for covered employees - Plan 1, Plan 2, and Hybrid. Each of these benefit structures has different eligibility criteria. The specific information for each plan and the eligibility for covered groups within each plan are set out in the table below:

| RETIREMENT PLAN PROVISIONS | | |
|---|---|--|
| PLAN 1 | PLAN 2 | HYBRID RETIREMENT PLAN |
| <p>About Plan 1 Plan 1 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. Employees are eligible for Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.</p> | <p>About Plan 2 Plan 2 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. Employees are eligible for Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.</p> | <p>About the Hybrid Retirement Plan The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan. Most members hired on or after January 1, 2014 are in this plan, as well as Plan 1 and Plan 2 members who were eligible and opted into the plan during a special election window. (see "Eligible Members")</p> <ul style="list-style-type: none"> • The defined benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. • The benefit from the defined contribution component of the plan depends on the member and employer contributions made to the plan and the investment performance of those contributions. |

HALIFAX COUNTY SERVICE AUTHORITY

Notes to Financial Statements
As of June 30, 2017 and 2016 (Continued)

Note 5 - Pension Plan: (Continued)

Plan Description (Continued)

| RETIREMENT PLAN PROVISIONS (CONTINUED) | | |
|---|---|---|
| PLAN 1 | PLAN 2 | HYBRID RETIREMENT PLAN |
| <p>About Plan 1 (Cont.)</p> | <p>About Plan 2 (Cont.)</p> | <p>About the Hybrid Retirement Plan (Cont.)</p> <ul style="list-style-type: none"> In addition to the monthly benefit payment payable from the defined benefit plan at retirement, a member may start receiving distributions from the balance in the defined contribution account, reflecting the contributions, investment gains or losses, and any required fees. |
| <p>Eligible Members Employees are in Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.</p> <p>Hybrid Opt-In Election VRS non-hazardous duty covered Plan 1 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.</p> <p>The Hybrid Retirement Plan's effective date for eligible Plan 1 members who opted in was July 1, 2014.</p> <p>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</p> | <p>Eligible Members Employees are in Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.</p> <p>Hybrid Opt-In Election Eligible Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.</p> <p>The Hybrid Retirement Plan's effective date for eligible Plan 2 members who opted in was July 1, 2014.</p> <p>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</p> | <p>Eligible Members Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes:</p> <ul style="list-style-type: none"> Political subdivision employees* Members in Plan 1 or Plan 2 who elected to opt into the plan during the election window held January 1-April 30, 2014; the plan's effective date for opt-in members was July 1, 2014. <p>*Non-Eligible Members Some employees are not eligible to participate in the Hybrid Retirement Plan. They include:</p> <ul style="list-style-type: none"> Political subdivision employees who are covered by enhanced benefits for hazardous duty employees. |

HALIFAX COUNTY SERVICE AUTHORITY

Notes to Financial Statements
As of June 30, 2017 and 2016 (Continued)

Note 5 - Pension Plan: (Continued)

Plan Description (Continued)

| RETIREMENT PLAN PROVISIONS (CONTINUED) | | |
|--|---|---|
| PLAN 1 | PLAN 2 | HYBRID RETIREMENT PLAN |
| <p>Hybrid Opt-In Election (Cont.) Members who were eligible for an optional retirement plan (ORP) and had prior service under Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 1 or ORP.</p> | <p>Hybrid Opt-In Election (Cont.) Members who were eligible for an optional retirement plan (ORP) and have prior service under Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 2 or ORP.</p> | <p>*Non-Eligible Members (Cont.) Those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under Plan 1 or Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select Plan 1 or Plan 2 (as applicable) or ORP.</p> |
| <p>Retirement Contributions Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some political subdivisions elected to phase in the required 5% member contribution but all employees are paying the full 5% as of July 1, 2016. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment.</p> | <p>Retirement Contributions Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some political subdivisions elected to phase in the required 5% member contribution but all employees are paying the full 5% as of July 1, 2016.</p> | <p>Retirement Contributions A member's retirement benefit is funded through mandatory and voluntary contributions made by the member and the employer to both the defined benefit and the defined contribution components of the plan. Mandatory contributions are based on a percentage of the employee's creditable compensation and are required from both the member and the employer. Additionally, members may choose to make voluntary contributions to the defined contribution component of the plan, and the employer is required to match those voluntary contributions according to specified percentages.</p> |

HALIFAX COUNTY SERVICE AUTHORITY

Notes to Financial Statements
As of June 30, 2017 and 2016 (Continued)

Note 5 - Pension Plan: (Continued)

Plan Description (Continued)

| RETIREMENT PLAN PROVISIONS (CONTINUED) | | |
|---|--|--|
| PLAN 1 | PLAN 2 | HYBRID RETIREMENT PLAN |
| <p>Creditable Service Creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.</p> | <p>Creditable Service Same as Plan 1.</p> | <p>Creditable Service <u>Defined Benefit Component:</u> Under the defined benefit component of the plan, creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.</p> <p><u>Defined Contributions Component:</u> Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.</p> |

HALIFAX COUNTY SERVICE AUTHORITY

Notes to Financial Statements
As of June 30, 2017 and 2016 (Continued)

Note 5 - Pension Plan: (Continued)

Plan Description (Continued)

| RETIREMENT PLAN PROVISIONS (CONTINUED) | | |
|--|---|---|
| PLAN 1 | PLAN 2 | HYBRID RETIREMENT PLAN |
| <p>Vesting Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least five years (60 months) of creditable service. Vesting means members are eligible to qualify for retirement if they meet the age and service requirements for their plan. Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund.</p> <p>Members are always 100% vested in the contributions that they make.</p> | <p>Vesting Same as Plan 1.</p> | <p>Vesting <u>Defined Benefit Component:</u> Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years (60 months) of creditable service. Plan 1 or Plan 2 members with at least five years (60 months) of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component.</p> <p><u>Defined Contributions Component:</u> Defined contribution vesting refers to the minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined contribution component of the plan.</p> <p>Members are always 100% vested in the contributions that they make.</p> |

HALIFAX COUNTY SERVICE AUTHORITY

Notes to Financial Statements
As of June 30, 2017 and 2016 (Continued)

Note 5 - Pension Plan: (Continued)

Plan Description (Continued)

| RETIREMENT PLAN PROVISIONS (CONTINUED) | | |
|--|--|---|
| PLAN 1 | PLAN 2 | HYBRID RETIREMENT PLAN |
| Vesting (Cont.) | Vesting (Cont.) | <p>Vesting (Cont.) <u>Defined Contributions Component: (Cont.)</u> Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service.</p> <ul style="list-style-type: none"> • After two years, a member is 50% vested and may withdraw 50% of employer contributions. • After three years, a member is 75% vested and may withdraw 75% of employer contributions. • After four or more years, a member is 100% vested and may withdraw 100% of employer contributions. <p>Distribution is not required by law until age 70½.</p> |
| <p>Calculating the Benefit The Basic Benefit is calculated based on a formula using the member's average final compensation, a retirement multiplier and total service credit at retirement. It is one of the benefit payout options available to a member at retirement.</p> | <p>Calculating the Benefit See definition under Plan 1.</p> | <p>Calculating the Benefit <u>Defined Benefit Component:</u> See definition under Plan 1.</p> |

HALIFAX COUNTY SERVICE AUTHORITY

Notes to Financial Statements
As of June 30, 2017 and 2016 (Continued)

Note 5 - Pension Plan: (Continued)

Plan Description (Continued)

| RETIREMENT PLAN PROVISIONS (CONTINUED) | | |
|---|--|--|
| PLAN 1 | PLAN 2 | HYBRID RETIREMENT PLAN |
| <p>Calculating the Benefit (Cont.) An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit.</p> | <p>Calculating the Benefit (Cont.)</p> | <p>Calculating the Benefit (Cont.) <u>Defined Contribution Component:</u> The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions.</p> |
| <p>Average Final Compensation A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.</p> | <p>Average Final Compensation A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.</p> | <p>Average Final Compensation Same as Plan 2. It is used in the retirement formula for the defined benefit component of the plan.</p> |
| <p>Service Retirement Multiplier VRS: The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.70%.</p> <p>Sheriffs and regional jail superintendents: The retirement multiplier for sheriffs and regional jail superintendents is 1.85%.</p> <p>Political subdivision hazardous duty employees: The retirement multiplier of eligible political subdivision hazardous duty employees other than sheriffs and regional jail superintendents is 1.70% or 1.85% as elected by the employer.</p> | <p>Service Retirement Multiplier VRS: Same as Plan 1 for service earned, purchased or granted prior to January 1, 2013. For non-hazardous duty members the retirement multiplier is 1.65% for creditable service earned, purchased or granted on or after January 1, 2013.</p> <p>Sheriffs and regional jail superintendents: Same as Plan 1.</p> <p>Political subdivision hazardous duty employees: Same as Plan 1.</p> | <p>Service Retirement Multiplier <u>Defined Benefit Component:</u> VRS: The retirement multiplier for the defined benefit component is 1.00%.</p> <p>For members who opted into the Hybrid Retirement Plan from Plan 1 or Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans.</p> <p>Sheriffs and regional jail superintendents: Not applicable.</p> <p>Political subdivision hazardous duty employees: Not applicable.</p> <p><u>Defined Contribution Component:</u> Not applicable.</p> |

HALIFAX COUNTY SERVICE AUTHORITY

Notes to Financial Statements
As of June 30, 2017 and 2016 (Continued)

Note 5 - Pension Plan: (Continued)

Plan Description (Continued)

| RETIREMENT PLAN PROVISIONS (CONTINUED) | | |
|--|--|--|
| PLAN 1 | PLAN 2 | HYBRID RETIREMENT PLAN |
| <p>Normal Retirement Age VRS: Age 65.</p> <p>Political subdivisions hazardous duty employees: Age 60.</p> | <p>Normal Retirement Age VRS: Normal Social Security retirement age.</p> <p>Political subdivisions hazardous duty employees: Same as Plan 1.</p> | <p>Normal Retirement Age <u>Defined Benefit Component:</u> VRS: Same as Plan 2.</p> <p>Political subdivisions hazardous duty employees: Not applicable.</p> <p><u>Defined Contribution Component:</u> Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p> |
| <p>Earliest Unreduced Retirement Eligibility VRS: Age 65 with at least five years (60 months) of creditable service or at age 50 with at least 30 years of creditable service.</p> <p>Political subdivisions hazardous duty employees: Age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service.</p> | <p>Earliest Unreduced Retirement Eligibility VRS: Normal Social Security retirement age with at least five years (60 months) of creditable service or when their age and service equal 90.</p> <p>Political subdivisions hazardous duty employees: Same as Plan 1.</p> | <p>Earliest Unreduced Retirement Eligibility <u>Defined Benefit Component:</u> VRS: Normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90.</p> <p>Political subdivisions hazardous duty employees: Not applicable.</p> <p><u>Defined Contribution Component:</u> Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p> |
| <p>Earliest Reduced Retirement Eligibility VRS: Age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service.</p> | <p>Earliest Reduced Retirement Eligibility VRS: Age 60 with at least five years (60 months) of creditable service.</p> | <p>Earliest Reduced Retirement Eligibility <u>Defined Benefit Component:</u> VRS: Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service.</p> |

HALIFAX COUNTY SERVICE AUTHORITY

Notes to Financial Statements
As of June 30, 2017 and 2016 (Continued)

Note 5 - Pension Plan: (Continued)

Plan Description (Continued)

| RETIREMENT PLAN PROVISIONS (CONTINUED) | | |
|--|---|---|
| PLAN 1 | PLAN 2 | HYBRID RETIREMENT PLAN |
| <p>Earliest Reduced Retirement Eligibility (Cont.)</p> <p>Political subdivisions hazardous duty employees: 50 with at least five years of creditable service.</p> | <p>Earliest Reduced Retirement Eligibility (Cont.)</p> <p>Political subdivisions hazardous duty employees: Same as Plan 1.</p> | <p>Earliest Reduced Retirement Eligibility (Cont.)</p> <p>Political subdivisions hazardous duty employees: Not applicable.</p> <p><u>Defined Contribution Component:</u> Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p> |
| <p>Cost-of-Living Adjustment (COLA) in Retirement The Cost-of-Living Adjustment (COLA) matches the first 3% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4%) up to a maximum COLA of 5%.</p> <p><u>Eligibility:</u> For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full calendar year from the retirement date.</p> <p>For members who retire with a reduced benefit and who have less than 20 years of creditable service, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date.</p> | <p>Cost-of-Living Adjustment (COLA) in Retirement The Cost-of-Living Adjustment (COLA) matches the first 2% increase in the CPI-U and half of any additional increase (up to 2%), for a maximum COLA of 3%.</p> <p><u>Eligibility:</u> Same as Plan 1.</p> | <p>Cost-of-Living Adjustment (COLA) in Retirement <u>Defined Benefit Component:</u> Same as Plan 2.</p> <p><u>Defined Contribution Component:</u> Not applicable.</p> <p><u>Eligibility:</u> Same as Plan 1 and Plan 2.</p> |

HALIFAX COUNTY SERVICE AUTHORITY

Notes to Financial Statements
As of June 30, 2017 and 2016 (Continued)

Note 5 - Pension Plan: (Continued)

Plan Description (Continued)

| RETIREMENT PLAN PROVISIONS (CONTINUED) | | |
|--|---|--|
| PLAN 1 | PLAN 2 | HYBRID RETIREMENT PLAN |
| <p>Cost-of-Living Adjustment (COLA) in Retirement (Cont.)</p> <p><u>Exceptions to COLA Effective Dates:</u> The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances:</p> <ul style="list-style-type: none"> • The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013. • The member retires on disability. • The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP). • The member is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program. • The member dies in service and the member's survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins. | <p>Cost-of-Living Adjustment (COLA) in Retirement (Cont.)</p> <p><u>Exceptions to COLA Effective Dates:</u> Same as Plan 1.</p> | <p>Cost-of-Living Adjustment (COLA) in Retirement (Cont.)</p> <p><u>Exceptions to COLA Effective Dates:</u> Same as Plan 1 and Plan 2.</p> |

HALIFAX COUNTY SERVICE AUTHORITY

Notes to Financial Statements
As of June 30, 2017 and 2016 (Continued)

Note 5 - Pension Plan: (Continued)

Plan Description (Continued)

| RETIREMENT PLAN PROVISIONS (CONTINUED) | | |
|--|--|---|
| PLAN 1 | PLAN 2 | HYBRID RETIREMENT PLAN |
| <p>Disability Coverage Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.7% on all service, regardless of when it was earned, purchased or granted.</p> <p>VSDP members are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.</p> | <p>Disability Coverage Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service, regardless of when it was earned, purchased or granted.</p> <p>VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.</p> | <p>Disability Coverage Employees of political subdivisions (including Plan 1 and Plan 2 opt-ins) participate in the Virginia Local Disability Program (VLDP) unless their local governing body provides an employer-paid comparable program for its members.</p> <p>Hybrid members (including Plan 1 and Plan 2 opt-ins) covered under VLDP are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.</p> |
| <p>Purchase of Prior Service Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as creditable service in their plan. Prior creditable service counts toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. When buying service, members must purchase their most recent period of service first. Members also may be eligible to purchase periods of leave without pay.</p> | <p>Purchase of Prior Service Same as Plan 1.</p> | <p>Purchase of Prior Service <u>Defined Benefit Component:</u> Same as Plan 1, with the following exceptions:</p> <ul style="list-style-type: none"> • Hybrid Retirement Plan members are ineligible for ported service. • The cost for purchasing refunded service is the higher of 4% of creditable compensation or average final compensation. • Plan members have one year from their date of hire or return from leave to purchase all but refunded prior service at approximate normal cost. After that one-year period, the rate for most categories of service will change to actuarial cost. <p><u>Defined Contribution Component:</u> Not applicable.</p> |

Pension Plan Data

Information about the VRS Political Subdivision Retirement Plan is also available in the separately issued VRS 2016 Comprehensive Annual Financial Report (CAFR). A copy of the 2016 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2016-annual-report.pdf> or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

HALIFAX COUNTY SERVICE AUTHORITY

Notes to Financial Statements
As of June 30, 2017 and 2016 (Continued)

Note 5 - Pension Plan: (Continued)

Employees Covered by Benefit Terms

As of the June 30, 2015 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

| | <u>Number</u> |
|--|------------------|
| Inactive members or their beneficiaries currently receiving benefits | 5 |
| Inactive members: | |
| Vested inactive members | 1 |
| Non-vested inactive members | 2 |
| Inactive members active elsewhere in VRS | 1 |
| Total inactive members | <u>4</u> |
| Active members | <u>31</u> |
| Total covered employees | <u><u>40</u></u> |

Contributions

The contribution requirement for active employees is governed by §51.1-145 of the Code of Virginia, as amended, but may be impacted as a result of funding options provided to political subdivisions by the Virginia General Assembly. Employees are required to contribute 5.00% of their compensation toward their retirement. Prior to July 1, 2012, all or part of the 5.00% member contribution may have been assumed by the employer. Beginning July 1, 2012 new employees were required to pay the 5% member contribution. In addition, for existing employees, employers were required to begin making the employee pay the 5.00% member contribution. This could be phased in over a period of up to 5 years and the employer is required to provide a salary increase equal to the amount of the increase in the employee-paid member contribution.

Halifax Service Authority's contractually required contribution rate for the year ended June 30, 2017 was 8.00% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the Authority were \$94,404 and \$118,985 for the years ended June 30, 2017 and June 30, 2016, respectively.

Net Pension Asset

The Authority's net pension asset was measured as of June 30, 2016. The total pension asset used to calculate the net pension asset was determined by an actuarial valuation performed as of June 30, 2015, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2016.

Actuarial Assumptions - General Employees

The total pension asset for General Employees in the Authority's Retirement Plan was based on an actuarial valuation as of June 30, 2015, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2016.

HALIFAX COUNTY SERVICE AUTHORITY

Notes to Financial Statements
As of June 30, 2017 and 2016 (Continued)

Note 5 - Pension Plan: (Continued)

Actuarial Assumptions - General Employees (Continued)

| | |
|---------------------------------------|--|
| Inflation | 2.5% |
| Salary increases, including inflation | 3.5% - 5.35% |
| Investment rate of return | 7.0%, net of pension plan investment expense, including inflation* |

* Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 7.0%. However, since the difference was minimal, and a more conservative 7.0% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 7.0% to simplify preparation of pension liabilities.

Mortality rates: 14% of deaths are assumed to be service related

Largest 10 - Non-LEOS:

Pre-Retirement:

RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set forward 4 years and females set back 2 years

Post-Retirement:

RP-2000 Combined Mortality Table Projected with Scale AA to 2020 with males set forward 1 year

Post-Disablement:

RP-2000 Disability Life Mortality Table Projected to 2020 with males set back 3 years and no provision for future mortality improvement

All Others (Non 10 Largest) - Non-LEOS:

Pre-Retirement:

RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set forward 4 years and females set back 2 years

Post-Retirement:

RP-2000 Combined Mortality Table Projected with Scale AA to 2020 with males set forward 1 year

Post-Disablement:

RP-2000 Disability Life Mortality Table Projected to 2020 with males set back 3 years and no provision for future mortality improvement

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period from July 1, 2008 through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follows:

Largest 10 - Non-LEOS:

- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

HALIFAX COUNTY SERVICE AUTHORITY

Notes to Financial Statements
As of June 30, 2017 and 2016 (Continued)

Note 5 - Pension Plan: (Continued)

Actuarial Assumptions - General Employees (Continued)

- All Others (Non 10 Largest) - Non-LEOS:
- Update mortality table
 - Decrease in rates of service retirement
 - Decrease in rates of disability retirement
 - Reduce rates of salary increase by 0.25% per year

Long-Term Expected Rate of Return

The long-term expected rate of return on pension System investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension System investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimate of arithmetic real rates of return for each major asset class are summarized in the following table:

| <u>Asset Class (Strategy)</u> | <u>Target Allocation</u> | <u>Arithmetic Long-Term Expected Rate of Return</u> | <u>Weighted Average Long-Term Expected Rate of Return</u> |
|-------------------------------|-------------------------------------|---|---|
| U.S. Equity | 19.50% | 6.46% | 1.26% |
| Developed Non U.S. Equity | 16.50% | 6.28% | 1.04% |
| Emerging Market Equity | 6.00% | 10.00% | 0.60% |
| Fixed Income | 15.00% | 0.09% | 0.01% |
| Emerging Debt | 3.00% | 3.51% | 0.11% |
| Rate Sensitive Credit | 4.50% | 3.51% | 0.16% |
| Non Rate Sensitive Credit | 4.50% | 5.00% | 0.23% |
| Convertibles | 3.00% | 4.81% | 0.14% |
| Public Real Estate | 2.25% | 6.12% | 0.14% |
| Private Real Estate | 12.75% | 7.10% | 0.91% |
| Private Equity | 12.00% | 10.41% | 1.25% |
| Cash | 1.00% | -1.50% | -0.02% |
| Total | <u>100.00%</u> | | <u>5.83%</u> |
| | | Inflation | 2.50% |
| | *Expected arithmetic nominal return | | <u>8.33%</u> |

* Using stochastic projection results provides an expected range of real rates of return over various time horizons. Looking at one year results produces an expected real return of 8.33% but also has a high standard deviation, which means there is high volatility. Over larger time horizons the volatility declines significantly and provides a median return of 7.44%, including expected inflation of 2.50%.

HALIFAX COUNTY SERVICE AUTHORITY

Notes to Financial Statements
As of June 30, 2017 and 2016 (Continued)

Note 5 - Pension Plan: (Continued)

Discount Rate

The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2018, the rate contributed by the employer for the Halifax County Service Authority Retirement Plan will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2018 on, participating employers are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in Net Pension Liability (Asset)

| | Increase (Decrease) | | |
|--|--------------------------------------|--|--|
| | Total Pension Liability (a) | Plan Fiduciary Net Position (b) | Net Pension Liability (Asset) (a) - (b) |
| Balances at June 30, 2015 | \$ 1,449,048 | \$ 1,773,916 | \$ (324,868) |
| Changes for the year: | | | |
| Service cost | \$ 176,747 | \$ - | \$ 176,747 |
| Interest | 99,639 | - | 99,639 |
| Differences between expected and actual experience | (22,587) | - | (22,587) |
| Contributions - employer | - | 118,144 | (118,144) |
| Contributions - employee | - | 58,181 | (58,181) |
| Net investment income | - | 34,671 | (34,671) |
| Benefit payments, including refunds of employee contributions | (51,278) | (51,278) | - |
| Administrative expenses | - | (1,023) | 1,023 |
| Other changes | - | (14) | 14 |
| Net changes | \$ 202,521 | \$ 158,681 | \$ 43,840 |
| Balances at June 30, 2016 | \$ 1,651,569 | \$ 1,932,597 | \$ (281,028) |

HALIFAX COUNTY SERVICE AUTHORITY

Notes to Financial Statements
As of June 30, 2017 and 2016 (Continued)

Note 5 - Pension Plan: (Continued)

Sensitivity of the Net Pension Liability (Asset) to Changes in the Discount Rate

The following presents the net pension liability (asset) of the Authority using the discount rate of 7.00%, as well as what the Authority's net pension liability (asset) would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate:

| | Rate | | |
|-------------------------------|------------------------|-----------------------------|------------------------|
| | 1% Decrease (6.00%) | Current Discount (7.00%) | 1% Increase (8.00%) |
| Halifax Service Authority | | | |
| Net Pension Liability (Asset) | \$ (62,820) | \$ (281,028) | \$ (462,839) |

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended June 30, 2017, the Authority recognized pension expense of \$108,074. At June 30, 2017, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|-----------------------------------|----------------------------------|
| Differences between expected and actual experience | \$ 63,619 | \$ 18,575 |
| Net difference between projected and actual earnings on pension plan investments | 53,710 | - |
| Employer contributions subsequent to the measurement date | 94,404 | - |
| Total | \$ 211,733 | \$ 18,575 |

\$94,404 reported as deferred outflows of resources related to pensions resulting from the Authority's contributions subsequent to the measurement date will be recognized as an increase to the Net Pension Asset in the fiscal year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in future reporting periods as follows:

| Year ended June 30 | |
|--------------------|-----------|
| 2018 | \$ 17,346 |
| 2019 | 17,348 |
| 2020 | 39,381 |
| 2021 | 27,206 |
| 2022 | (2,527) |
| Thereafter | - |

HALIFAX COUNTY SERVICE AUTHORITY

Notes to Financial Statements
As of June 30, 2017 and 2016 (Continued)

Note 6 - Risk Management:

The Authority is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Authority joined together with other local governments in the Commonwealth to form the Virginia Municipal League Self Insurance Risk Pool, a public entity risk pool currently operating as a common risk management and insurance program for member governments. The Authority pays an annual premium to the pool for its workers' compensation, general liability, automobile liability, property, crime and public officials' insurance coverages. The Agreement for Formation of the pool provides that the pool will be self-sustaining through member premiums. Settled claims have not exceeded pool coverage in any of the past three fiscal years.

Note 7 - Commitments and Contingencies:

Authority officials estimate that no claims, not covered by insurance, would have a material effect on the Authority's financial position.

Note 8 - Upcoming Pronouncements:

Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pension, improves accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). This Statement replaces the requirements of Statements No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, as amended, and No. 57, OPEB Measurements by Agent Employers and Agent Multiple Employer Plans, for OPEB. Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, establishes new accounting and financial reporting requirements for OPEB plans. This Statement is effective for fiscal years beginning after June 15, 2017.

Statement No. 81, Irrevocable Split-Interest Agreements, improves accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2016, and should be applied retroactively.

Statement No. 83, Certain Asset Retirement Obligations, addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018.

Note 8 - Upcoming Pronouncements: (Continued)

Statement No. 84, Fiduciary Activities, establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. This Statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. This Statement also provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018.

Statement No. 86, Certain Debt Extinguishment Issues, improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The requirements of this Statement are effective for reporting periods beginning after June 15, 2017.

Statement No. 87, Leases, increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019.

Management is currently evaluating the impact these standards will have on the financial statements when adopted.

- Required Supplementary Information -

HALIFAX COUNTY SERVICE AUTHORITY

Schedule of Changes in Net Pension Liability (Asset) and Related Ratios
For the Years Ended June 30, 2015 through June 30, 2017

| | <u>2016</u> | <u>2015</u> | <u>2014</u> |
|---|----------------------------|----------------------------|----------------------------|
| Total pension liability | | | |
| Service cost | \$ 176,747 | \$ 179,591 | \$ 198,052 |
| Interest | 99,639 | 77,314 | 60,484 |
| Differences between expected and actual experience | (22,587) | 97,731 | - |
| Benefit payments, including refunds of employee contributions | (51,278) | (20,145) | (16,073) |
| Net change in total pension liability | <u>\$ 202,521</u> | <u>\$ 334,491</u> | <u>\$ 242,463</u> |
| Total pension liability - beginning | 1,449,048 | 1,114,557 | 872,094 |
| Total pension liability - ending (a) | <u><u>\$ 1,651,569</u></u> | <u><u>\$ 1,449,048</u></u> | <u><u>\$ 1,114,557</u></u> |
| Plan fiduciary net position | | | |
| Contributions - employer | \$ 118,144 | \$ 117,501 | \$ 148,496 |
| Contributions - employee | 58,181 | 57,974 | 56,472 |
| Net investment income | 34,671 | 75,638 | 197,809 |
| Benefit payments, including refunds of employee contributions | (51,278) | (20,145) | (16,073) |
| Administrative expense | (1,023) | (864) | (900) |
| Other | (14) | (16) | 10 |
| Net change in plan fiduciary net position | <u>\$ 158,681</u> | <u>\$ 230,088</u> | <u>\$ 385,814</u> |
| Plan fiduciary net position - beginning | 1,773,916 | 1,543,828 | 1,158,014 |
| Plan fiduciary net position - ending (b) | <u><u>\$ 1,932,597</u></u> | <u><u>\$ 1,773,916</u></u> | <u><u>\$ 1,543,828</u></u> |
| Authority's net pension liability (asset) - ending (a) - (b) | <u><u>\$ (281,028)</u></u> | <u><u>\$ (324,868)</u></u> | <u><u>\$ (429,271)</u></u> |
| Plan fiduciary net position as a percentage of the total pension liability | 117.02% | 122.42% | 138.51% |
| Covered payroll | <u><u>\$ 1,180,408</u></u> | <u><u>\$ 1,171,823</u></u> | <u><u>\$ 1,129,817</u></u> |
| Authority's net pension liability (asset) as a percentage of covered payroll | -23.81% | -27.72% | -37.99% |

This schedule is intended to report information for 10 years. Information prior to the 2014 valuation is not available. Additional years will be included when available.

HALIFAX COUNTY SERVICE AUTHORITY

Schedule of Employer Contributions

For the Years Ended June 30, 2008 through June 30, 2017

| Date | Contributions in Relation to | | | Employer's Covered Payroll (4) | Contributions as a % of Covered Payroll (5) |
|------|--|--|---|---|---|
| | Contractually Required Contribution (1) | Contractually Required Contribution (2) | Contribution Deficiency (Excess) (3) | | |
| 2017 | \$ 94,404 | \$ 94,404 | \$ - | \$ 1,201,582 | 7.86% |
| 2016 | 118,985 | 118,985 | - | 1,180,408 | 10.08% |
| 2015 | 118,120 | 118,120 | - | 1,171,823 | 10.08% |
| 2014 | 148,684 | 148,684 | - | 1,129,817 | 13.16% |
| 2013 | 151,915 | 151,915 | - | 1,154,372 | 13.16% |
| 2012 | 136,215 | 136,215 | - | 1,069,194 | 12.74% |
| 2011 | 134,457 | 134,457 | - | 1,055,395 | 12.74% |
| 2010 | 91,554 | 91,554 | - | 1,047,527 | 8.74% |
| 2009 | 92,511 | 92,511 | - | 1,058,481 | 8.74% |
| 2008 | 45,638 | 45,638 | - | 522,175 | 8.74% |

Current year contributions are from Authority records and prior year contributions are from the VRS actuarial valuation performed each year.

HALIFAX COUNTY SERVICE AUTHORITY

Notes to Required Supplementary Information
For the Year Ended June 30, 2017

Changes of benefit terms - There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation. The 2014 valuation includes Hybrid Retirement Plan members for the first time. The hybrid plan applies to most new employees hired on or after January 1, 2014 and not covered by enhanced hazardous duty benefits. Because this is a fairly new benefit and the number of participants was relatively small, the impact on the liabilities as of the measurement date of June 30, 2016 are not material.

Changes of assumptions - The following changes in actuarial assumptions were made effective June 30, 2013 based on the most recent experience study of the System for the four-year period ending June 30, 2012:

Largest 10 - Non-LEOS:

- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

All Others (Non 10 Largest) - Non-LEOS:

- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

- Compliance Section -

ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Board of Directors
Halifax County Service Authority
South Boston, Virginia

We have audited, in accordance with the auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Authorities, Boards, and Commissions*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the business-type activities of Halifax County Service Authority as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Halifax County Service Authority's basic financial statements and have issued our report thereon dated April 27, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Halifax County Service Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Halifax County Service Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of Halifax County Service Authority's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Halifax County Service Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Robinson, Farmer, Cox Associates

Charlottesville, Virginia

April 27, 2018