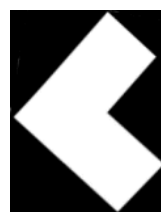


Henry County Public Service Authority
Comprehensive Annual Financial Report
Years Ended June 30, 2020 and 2019



*Creedle, Jones
& Associates, P.C.*
*Certified Public
Accountants*

Henry County Public Service Authority

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Henry County Public Service Authority

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and fiduciary fund of the Henry County Public Service Authority, as of and for the years ended June 30, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the Henry County Public Service 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.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit 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 and specifications 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 auditor's 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and fiduciary fund of the Henry County Public Service Authority, as of June 30, 2020 and 2019, and the respective changes in financial position, and, where applicable, cash flows thereof for the years 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 and OPEB funding on pages 1-6 and 54-66 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

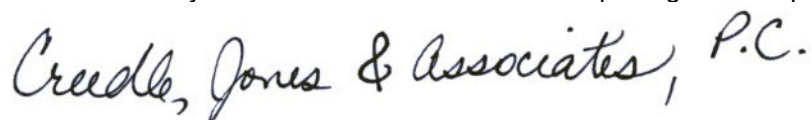
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Henry County Public Service Authority's basic financial statements. The statistical section is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

The statistical 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 them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated, September 29, 2020 on our consideration of the Henry County Public 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 solely 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 the effectiveness of Henry County Public Service Authority's 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 the Henry County Public Service Authority's internal control over financial reporting and compliance.



Creedle, Jones & Associates, P.C.
Certified Public Accountants

South Hill, Virginia
September 29, 2020

Henry County Public Service Authority

Management's Discussion and Analysis

As of June 30, 2020 and 2019

Our discussion and analysis of the Henry County Public Service Authority's financial performance provides an overview of the Authority's financial activities for the fiscal year ended June 30, 2020. Please read this information in conjunction with Henry County Public Service Authority's basic financial statements.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Henry County Public Service Authority (the "Authority") presents four basic financial statements. These are: (1) Statements of Net Position; (2) Statements of Revenues, Expenses, and Changes in Net Position; (3) Statements of Cash Flows; and (4) Statements of Fiduciary Net Position.

Our financial position is measured in terms of resources (assets) we own and obligations (liabilities) we owe on a given date. This information is reported on the Statements of Net Position, which reflects the Authority's assets in relation to its debt to creditors. The excess of our assets over liabilities is our equity, or net position.

Information regarding the results of our operation during the years is reported in the Statements of Revenues, Expenses, and Changes in Net Position. These statements show how much our overall net position increased or decreased during the years as a result of our operations and for other reasons.

Our Statements of Cash Flows disclose the flow of cash resources into and out of the Authority during the years and how we applied those funds.

SUMMARY OF ORGANIZATION AND BUSINESS

The Henry County Public Service Authority is a public body organized and created under the Virginia Water and Waste Authorities Act of the Code of Virginia of 1950 as amended. The Henry County Board of Supervisors created the Authority in 1965. The purpose of the Authority is to "acquire, construct, improve, extend, operate, and maintain a water and sewage disposal system."

The Authority is governed by six citizen members appointed by the Henry County Board of Supervisors to four-year staggered terms.

In 1974, the Authority and neighboring City of Martinsville (the "City") signed a service agreement in which the Authority would purchase sewage treatment from the City. In 1982, the Authority signed a service agreement with the City to purchase water treatment from the City. These agreements require the Authority to share in the annual operating costs of the plants in proportion to its actual use as measured by the volume of water used and sewage it contributed. It also allowed for the Authority to purchase capacity rights into the water and sewer plants at an agreed-upon price.

The Authority has constructed water lines which allows the Philpott Water Treatment Plant to furnish water to the 220 South and 58 East areas and has significantly reduced water purchased from the City of Martinsville, Virginia. The Authority can produce the water at a lower cost.

The Authority's infrastructure assets consist of one water treatment plant, approximately 375 miles of water lines and 243 miles of interceptor sewers, and several pump stations. The collection system, consisting of mains and laterals, is owned and maintained by the Authority. The last remaining waste water plant was converted to a pumping station and was completed in December 2005 and all waste water is now treated by the City of Martinsville.

The Authority has no taxing power. The revenues of the Authority are derived from water and sewage disposal charges based on metered and unmetered water consumption of the Authority's users of the system.

FINANCIAL SUMMARY

Financial Position

A summary of the Authority's Statements of Net Position for 2020 and 2019 is presented below:

	<u>2020</u>	<u>2019</u>	<u>\$ Change</u>	<u>% Change</u>
Current Assets	\$ 19,061,568	\$ 15,811,291	\$ 3,250,277	20.56%
Net Capital Assets	75,311,811	72,219,146	3,092,665	4.28%
Other Noncurrent Assets	2,242,851	6,029,283	(3,786,432)	-62.80%
Total Assets	96,616,230	94,059,720	2,556,510	2.72%
Deferred Outflows of Resources	767,985	327,036	440,949	134.83%
Total Assets and Deferred Outflows of Resources	\$ 97,384,215	\$ 94,386,756	\$ 2,997,459	3.18%
Total Liabilities	\$ 25,986,674	\$ 24,672,258	\$ 1,314,416	5.33%
Deferred Inflows of Resources	288,144	389,047	(100,903)	-25.94%
Net Position				
Net investment in capital assets	54,730,761	51,920,783	2,809,978	5.41%
Restricted for debt	2,242,851	6,029,283	(3,786,432)	-62.80%
Unrestricted	14,135,785	11,375,385	2,760,400	24.27%
Total Net Position	71,109,397	69,325,451	1,783,946	2.57%
Total Liabilities, Deferred Inflows of Resources, and Net Position	\$ 97,384,215	\$ 94,386,756	\$ 2,997,459	3.18%

Change in Net Position

A summary of the Authority's Statements of Revenues, Expenses, and Changes in Net Position for 2020 and 2019 is presented below:

Condensed Statements of Revenues, Expenses, and Changes in Net Position

	<u>2020</u>	<u>2019</u>	<u>\$ Change</u>	<u>% Change</u>
Operating Revenues	\$ 13,058,282	\$ 13,543,433	\$ (485,151)	-3.58%
Operating Expenses	(11,242,437)	(11,130,752)	(111,685)	1.00%
Operating Income	1,815,845	2,412,681	(596,836)	-24.74%
Interest Income	351,975	499,195	(147,220)	-29.49%
Loss/Gain on Sale of Properties	57,453	(1,717)	59,170	-3446.13%
Nonoperating Expense	(567,891)	(597,572)	29,681	-4.97%
Income Before Contributions	1,657,382	2,312,587	(655,205)	-28.33%
Capital Contributions	126,564	355,750	(229,186)	-64.42%
Changes in Net Position	\$ 1,783,946	\$ 2,668,337	\$ (884,391)	-33.14%

During the year, the Authority's net operating income was \$1,815,845. The Authority had nonoperating revenues in the form of interest income and loss/gain on sale of assets, which amounted to \$409,428 and nonoperating expenses in the form of interest expense and related costs amounting to \$567,891. Operating expenses of \$11,242,437 included all expenses necessary to operate the Authority's water and sewer facilities.

Net position increased \$1,783,946 in 2020 as compared to an increase of \$2,668,337 in 2019.

Cash Flows

A summary of the Authority's Statements of Cash Flows for 2020 and 2019 is presented below:

Condensed Statements of Cash Flows

	<u>2020</u>	<u>2019</u>
Cash Provided by (Used in)		
Operating activities	\$ 5,189,721	\$ 5,942,971
Capital and related financing activities	(6,220,874)	(6,173,248)
Investing activities	<u>4,195,860</u>	<u>2,621,461</u>
 Net Increase in Cash	 <u>\$ 3,164,707</u>	 <u>\$ 2,391,184</u>

Cash flows from capital and related financing activities consist of purchases of fixed assets and payments related to debt.

Cash flows from operating activities consist of receipts from customers and grants less operating expenses, creating a positive cash flow.

During fiscal year 2020, there was an increase of \$3,164,707 in cash as compared to an increase of \$2,391,184 in 2019.

Capital Assets

As of June 30, 2020, the Authority's net capital assets total \$75,311,811, which represents a net increase of \$3,092,665 or 4.3% over the previous fiscal year.

Change in Capital Assets

	<u>Balance</u> <u>July 1, 2019</u>	<u>Net Additions</u> <u>and Deletions</u>	<u>Balance</u> <u>June 30, 2020</u>
Land and land improvements	\$ 595,259	\$ -	\$ 595,259
Construction in progress	10,379,009	4,742,916	15,121,925
Building and leasehold improvements	3,002,902	-	3,002,902
Water and sewer system	135,256,078	1,450,038	136,706,116
Trucks and autos	2,420,387	(120,758)	2,299,629
Office equipment	177,074	-	177,074
Total Capital Assets	<u>151,830,709</u>	<u>6,072,196</u>	<u>157,902,905</u>
Less: Accumulated depreciation	<u>(79,611,563)</u>	<u>(2,979,531)</u>	<u>(82,591,094)</u>
Total Capital Assets, Net	<u>\$ 72,219,146</u>	<u>\$ 3,092,665</u>	<u>\$ 75,311,811</u>

Long-Term Debt

As of June 30, 2020, the Authority's long-term debt totals \$21,005,354.

The Authority's long-term debt is presented as follows:

Change in Long-Term Debt

	<u>Balance</u> <u>July 1, 2019</u>	<u>Net Additions</u> <u>and Deletions</u>	<u>Balance</u> <u>June 30, 2020</u>
Long-term notes and bonds	\$ 20,298,363	\$ 282,687	\$ 20,581,050
Compensated absences	<u>392,775</u>	<u>31,529</u>	<u>424,304</u>
	<u>\$ 20,691,138</u>	<u>\$ 314,216</u>	<u>\$ 21,005,354</u>
Refunding on debt	<u>\$ 44,406</u>	<u>\$ (44,406)</u>	<u>\$ -</u>

GENERAL TRENDS AND SIGNIFICANT EVENTS

The Authority's service area in Henry County has the potential for growth. The County is over two hundred years old and has available land that continues to be developed. Growth from new development is not expected to significantly increase the Authority's water and sewage disposal revenues in any given year.

In 2011 and 2012, Henry County secured grants and other funding in the amount of \$4,373,000 to expand water and sewer to and within its newest industrial park, Commonwealth Crossing Business Center. Construction to the Park for water and sewer was completed and remaining funds were used for water and sewer infrastructure in the Park. At the end of fiscal year 2014, the County obtained the environmental permit from the Army Corps of Engineers allowing for grading and development of this Park. Grading commenced in fiscal year 2015 and was completed in fiscal year 2018. This industrial park is being marketed by the County's economic development officials. In July 2018 Press Glass, Inc., the largest independent flat glass processing operation in Europe, announced it will be the first industry to locate at this park and will invest \$43 million to establish a manufacturing operation. In fiscal year 2019 Press Glass, Inc. started construction of their new facility which will be completed in fiscal year 2021.

Due to current water consumption and to position the Authority for future growth, the Authority applied for and received approval to increase its permitted water withdrawal from the Smith River and also the expansion of its water treatment plant to allow for increased capacity from 4 million gallons per day to 6 million gallons per day. In fiscal year 2016, the Authority received a funding offer from the Virginia Department of Health for a low interest loan (financed through the Virginia Resources Authority) in the amount of \$14,500,000 to upgrade the Philpott water treatment plant. This loan, Series 2018B, was closed in June 2018 with an interest rate of 2.50% for 20 years. The project construction began in July 2018 with an estimated completion date in early fiscal year 2021.

To position the Authority for future growth and to control future cost the Authority is evaluating whether to re-open its Lower Smith River plant as a waste water treatment facility. This plant previously operated as a waste water treatment facility before being converted to a pump station over a decade ago. The Authority is working with engineers to design the facility and has a preliminary loan offer from the Virginia Department of Environmental Quality in the amount of \$23,659,400 contingent on receiving a favorable financial report and recommendation from the Virginia Resources Authority. The timeframe for construction is still be evaluated.

In fiscal year 2017, the Authority was approved by the Virginia Department of Health (VDH) for a \$500,000 principal forgiveness loan (grant) to replace lead joint cast iron water pipe and lead water service lines in the water distribution system. The Authority identified the Fieldale community as the best area to dedicate these funds. In fiscal year 2018, this project was started and it was completed in early fiscal year 2019. In fiscal year 2018, the Authority was approved for a second \$500,000 under the same program as all principal forgiveness (grant). These funds were also designated by the Authority for the Fieldale community. This second phase started in fiscal year 2019 and is anticipated to be completed in fiscal year 2021. In September of 2019, the Authority was approved by the Virginia Department of Health (VDH) for a third funding offer under this program in the amount of \$515,000. This offer consisted of a \$322,500 principal forgiveness loan (grant) and a \$192,500 loan at 2.50% for 30 years. The Authority has accepted this award contingent on final closing with funds also to be designated for the Fieldale community.

In September of 2019, the Authority was approved by the Virginia Department of Health (VDH) for a \$2,910,800 funding package for the Preston Road Water Extension project. This package consist of a \$500,000 principal forgiveness (grant) and a \$2,410,800 loan at 2.50% for 30 years. The Authority has accepted this funding contingent on final closing. This water line extension project will become the primary source of water from the Philpott water plant to southern Henry County providing more reliable water service to this area of the county. It will also take two well systems off line providing the customers on these well systems more reliable and higher quality water. Once completed there is a potential to add approximately 160 new water customers.

The COVID-19 Pandemic has impacted the Authority's operations and revenues. Commercial customers have been affected with some reducing or closing their operations for periods of time as the pandemic has progressed. The Authority continues to monitor revenues and expenditures to make sure it makes appropriate management decisions to progress through the pandemic and remain financially sound.

FINANCIAL CONDITION

The Authority's financial condition remained good at year end with adequate liquid assets and a reasonable level of unrestricted net position. The current financial condition, staff capabilities, operating plans, and upgrade plans to meet future water quality requirements are well balanced and under control.

Total assets and deferred outflows of resources increased by \$2,997,459, or 3.2%, while net position increased by \$1,783,946 or 2.6%. Accounts receivable, net at year end was \$1,268,320 compared to \$1,158,972 for fiscal year 2019. The reserve for bad debts equals all accounts over 90 days past due. The bad debt charge for 2020 and 2019 was \$46,410 and \$43,094, respectively. Recovery of bad debts previously written off amounted to \$7,657 and \$11,737 in 2020 and 2019, respectively.

RESULTS OF OPERATIONS

The Authority's main revenues fall into the categories of operating revenues, interest income, and capital contributions. Revenues, including capital contributions, totaled \$13,594,274 compared to \$14,396,661 last year, a 5.6% decrease.

DEBT

At year end, the Authority had \$20,492,403 in long-term debt (before deferrals and compensated absences) with \$832,242 coming due in 2021. More detailed information about the Authority's long-term debt is presented in Note 7 to the financial statements.

One area that demonstrates the Authority's financial ability to pay current debt service (principal and interest) is seen in its debt service coverage, which is shown below. The financing agreement covenant requires the Authority to establish rates, fees, and other charges for the use of and for services furnished by the Authority and collection procedures so that in each fiscal year net revenues and available cash reserves are not less than 1.2 times the debt service (principal and interest) for the fiscal year. Cash reserves available were \$17.1 million for 2020 and \$13.93 million for 2019. The following table calculates debt service coverage for fiscal years 2020 and 2019, including the available cash reserves:

	(In Millions of Dollars)		
	<u>2020</u>	<u>2019</u>	<u>% Change</u>
Unrestricted operating revenue	\$ 13.06	\$ 13.54	-3.5%
Unrestricted investment income	<u>0.40</u>	<u>0.50</u>	-20.0%
Total revenue	13.46	14.04	-4.1%
Total operating expenses (less depreciation)	<u>8.00</u>	<u>7.84</u>	2.0%
Net revenue	5.46	6.20	-11.9%
Unrestricted cash - beginning of year	<u>13.93</u>	<u>11.54</u>	20.7%
Available for Debt Service	<u>\$ 19.39</u>	<u>\$ 17.74</u>	9.3%
Annual Debt Service	<u>\$ 4.63</u>	<u>\$ 4.47</u>	3.6%
Debt Service Coverage	<u>4.19</u>	<u>3.97</u>	5.5%

FINAL COMMENTS

Fiscal year 2020 continued the trend of positive financial performance by the Authority. This positive performance is needed in order for the Authority to maintain flexibility in future borrowing decisions, ensuring that there is an appropriate reserve for operating expenses, expansion, and that resources are available to provide for the effects of time and usage on the significant investment in equipment.

REQUESTS FOR INFORMATION

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the money it receives. Questions concerning this report or requests for additional information should be directed to the General Manager, Henry County Public Service Authority, P. O. Box 69, Collinsville, Virginia 24078, telephone 276-634-4600.

FINANCIAL STATEMENTS

Henry County Public Service Authority

Statements of Net Position

June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Assets and Deferred Outflows of Resources		
Current Assets		
Cash and cash equivalents	\$ 17,096,441	\$ 13,931,734
Accounts receivable, net	1,268,320	1,158,972
Unbilled revenue	474,496	498,512
Inventory	<u>222,311</u>	<u>222,073</u>
Total Current Assets	19,061,568	15,811,291
Capital Assets		
Nondepreciable	15,717,184	10,974,268
Depreciable	<u>59,594,627</u>	<u>61,244,878</u>
Total Capital Assets	75,311,811	72,219,146
Other Noncurrent Assets		
Restricted investments	<u>2,242,851</u>	6,029,283
Total Other Noncurrent Assets	<u>2,242,851</u>	6,029,283
Total Assets	96,616,230	94,059,720
Deferred Outflows of Resources		
Deferred outflows - pension	659,483	224,185
Deferred outflows - OPEB	108,502	58,445
Refunding of debt	<u>-</u>	<u>44,406</u>
Total Deferred Outflows of Resources	<u>767,985</u>	<u>327,036</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 97,384,215</u>	<u>\$ 94,386,756</u>
Liabilities, Deferred Inflows of Resources, and Net Position		
Liabilities		
Current Liabilities		
Accounts payable	\$ 1,062,822	\$ 999,116
Interest payable	388,217	163,783
Accrued expenses and payables	41,636	34,378
Customer deposits	898,071	858,675
Current portion of compensated absences	42,430	39,278
Current maturities of long-term liabilities	<u>845,612</u>	<u>4,074,179</u>
Total Current Liabilities	3,278,788	6,169,409
Long-Term Liabilities		
Due to other governments - Pittsylvania County	929,538	961,653
OPEB Liabilities	367,158	333,924
Net VRS pension liability	1,293,878	629,591
Compensated absences, net of current portion	381,874	353,497
Notes payable, net of current portion	<u>19,735,438</u>	<u>16,224,184</u>
Total Long-Term Liabilities	<u>22,707,886</u>	<u>18,502,849</u>
Total Liabilities	25,986,674	24,672,258
Deferred Inflows of Resources		
Deferred inflows - OPEB	156,620	199,064
Deferred inflows - VRS pension	<u>131,524</u>	<u>189,983</u>
Total Deferred Inflows of Resources	288,144	389,047
Net Position		
Net investment in capital assets	54,730,761	51,920,783
<i>Restricted</i>		
Debt covenants	2,242,851	6,029,283
Unrestricted	<u>14,135,785</u>	<u>11,375,385</u>
Total Net Position	<u>71,109,397</u>	<u>69,325,451</u>
Total Liabilities, Deferred Inflows of Resources, and Net Position	<u>\$ 97,384,215</u>	<u>\$ 94,386,756</u>

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

Henry County Public Service Authority

Statements of Revenues, Expenses, and Changes in Net Position

Years Ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Operating Revenues		
Water and sewer charges	\$ 12,187,450	\$ 12,597,354
Fire protection fees - Henry County	406,800	406,800
Connection fees	30,900	49,700
Miscellaneous	<u>433,132</u>	<u>489,579</u>
Total Operating Revenues	13,058,282	13,543,433
Operating Expenses		
Water and sewer treatment	3,907,038	3,853,792
Depreciation	3,237,823	3,284,794
Maintenance - transmission and collection lines	1,363,480	1,321,487
Administration	1,124,271	1,122,327
Bad debts	46,410	43,094
Customer service	510,264	477,027
Engineering and mapping	387,529	348,134
Maintenance - vehicle and equipment	204,209	182,952
Management information systems	233,347	216,748
Meter reading	109,700	156,004
Service center	43,537	49,652
Safety	<u>74,829</u>	<u>74,741</u>
Total Operating Expenses	<u>11,242,437</u>	<u>11,130,752</u>
Operating Income	1,815,845	2,412,681
Non-Operating Revenues (Expenses)		
Interest income	351,975	499,195
Gain (loss) on sale of properties	57,453	(1,717)
Interest expense and bond costs	<u>(567,891)</u>	<u>(597,572)</u>
Net Non-Operating Revenues (Expenses)	<u>(158,463)</u>	<u>(100,094)</u>
Change in Net Position Before Contributions	1,657,382	2,312,587
Capital Contributions		
Federal grants	<u>126,564</u>	<u>355,750</u>
Total Capital Contributions	<u>126,564</u>	<u>355,750</u>
Change in Net Position	1,783,946	2,668,337
Total Net Position - Beginning of Year	<u>69,325,451</u>	<u>66,657,114</u>
Total Net Position - End of Year	<u>\$ 71,109,397</u>	<u>\$ 69,325,451</u>

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

Henry County Public Service Authority

Statements of Cash Flows

Years Ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Cash Flows from Operating Activities		
Cash received from customers	\$ 13,012,346	\$ 13,680,773
Cash paid for goods and services	(4,124,399)	(4,265,433)
Cash paid to employees and fringes	<u>(3,698,226)</u>	<u>(3,472,369)</u>
Net Cash Provided by Operating Activities	5,189,721	5,942,971
Cash Flows from Capital and Related Financing Activities		
Governmental grant revenue	126,564	355,750
Due to Pittsylvania County	(32,115)	(21,645)
Purchase of capital assets	(6,330,488)	(8,949,201)
Compensated absences	31,529	5,299
Bond proceeds	4,361,026	6,835,222
Bond principal payments	(4,078,339)	(3,904,440)
Bond interest payments (includes debt refunding)	<u>(299,051)</u>	<u>(494,233)</u>
Net Cash Used in Capital and Related Financing Activities	(6,220,874)	(6,173,248)
Cash Flows from Investing Activities		
Interest received	351,975	499,195
Proceeds from sale of property	57,453	25,080
Net change in investments	<u>3,786,432</u>	<u>2,097,186</u>
Net Cash Provided by Investing Activities	4,195,860	2,621,461
Net Increase in Cash and Cash Equivalents	3,164,707	2,391,184
Cash and Cash Equivalents - Beginning of Year	<u>13,931,734</u>	<u>11,540,550</u>
Cash and Cash Equivalents - End of Year	<u>\$ 17,096,441</u>	<u>\$ 13,931,734</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating income	\$ 1,815,845	\$ 2,412,681
Adjustments to reconcile operating income		
Depreciation	3,237,823	3,284,794
Bad debts	46,410	43,094
Change in assets and liabilities		
<i>Decrease (Increase) in</i>		
Accounts receivable	(155,758)	66,727
Inventory	(238)	31,980
Deferred outflows - OPEB	(50,057)	(13,868)
Deferred outflows - pension	(435,298)	156,396
Unbilled revenue	24,016	(11,643)
<i>Increase (Decrease) in</i>		
Accounts payable	63,706	182,846
OPEB liabilities	33,234	(223,350)
Deferred inflows - OPEB	(42,444)	172,174
Net pension liability	664,287	(63,223)
Deferred inflows - pension	(58,459)	(133,063)
Customer deposits	39,396	39,162
Accrued expenses	<u>7,258</u>	<u>(1,736)</u>
Net Cash Provided by Operating Activities	<u>\$ 5,189,721</u>	<u>\$ 5,942,971</u>

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

Henry County Public Service Authority

Statements of Fiduciary Net Position

As of June 30, 2020 and 2019

	<u>2020</u> <u>OPEB</u> <u>Trust Fund</u>	<u>2019</u> <u>OPEB</u> <u>Trust Fund</u>
Assets		
Investment - restricted	\$ <u>199,498</u>	\$ <u>182,082</u>
Total Assets	<u>\$ 199,498</u>	<u>\$ 182,082</u>
Liabilities and Net Position		
Liabilities	\$ -	\$ -
Net Position		
Restricted for OPEB	<u>199,498</u>	<u>182,082</u>
Total Liabilities and Net Position	<u>\$ 199,498</u>	<u>\$ 182,082</u>

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

Henry County Public Service Authority

Notes to the Financial Statements

Year Ended June 30, 2020

1 Organization, Description of the Entity, and Its Activities

The Henry County Public Service Authority (the "Authority") was formed in 1965 under the provisions of the Virginia Water and Sewer Authorities Act, Code of Virginia (1950), as amended. The Authority provides water and sewer services to communities in Henry County, Virginia (the "County"). The Authority is governed by a six-member Board of Directors who are appointed for four-year staggered terms by the Board of Supervisors of the County. Since the Board of Supervisors cannot impose its will on the Authority and since there is no potential financial benefit or burden in the relationship, the County is not financially accountable for the Authority. Accordingly, the Authority is not considered a component unit of the County.

2 Significant Accounting Policies

Financial Statement Presentation

The financial statements of the Henry County Public Service Authority have been prepared in conformity with the specifications promulgated by the Auditor of Public Accounts (APA) of the Commonwealth of Virginia, and the accounting principles generally accepted in the United States as specified by the Governmental Accounting Standards Board. The more significant of the Authority's accounting policies are described below:

Basis of Accounting

The Authority's financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the Authority's financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. The Authority also has the option of following subsequent private-sector guidance, subject to this same limitation. The Authority has elected not to follow subsequent private-sector guidance.

The Authority distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with the Authority's principal ongoing operations. The principal operating revenues of the Authority are charges to customers for water and sewer sales. Operating expenses include the cost of water and sewer treatment, maintenance, and administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Cash and Cash Equivalents

Cash and cash equivalents consists of cash on hand; demand, savings, or money market accounts; and certificates of deposit or short-term investments with purchased maturities of three months or less.

Unbilled Revenue

Unbilled revenue consists of amounts earned as of year-end, but not yet billed because billing dates do not coincide with year-end.

Allowance for Doubtful Accounts

The Authority has calculated its allowance for doubtful accounts using historical collection data and specific account analysis of all accounts greater than or equal to ninety days aged.

Inventory

Inventory consists of meters, pumps, parts, and other supplies on hand at year end, reported at the lower of cost (first-in, first-out) or market. Inventory is generally used for construction and for operation and maintenance work, and is not held for resale.

Capital Assets

Capital assets are recorded at original cost at the time of acquisition. Donated assets are recorded at their fair market value on the date donated. Repair and maintenance items are expensed when incurred. Depreciation is provided on the straight-line method over the following estimated useful lives:

Buildings and structures	40-50 years
Sewer system equipment	10-50 years
Water system equipment	10-40 years
Other equipment	5-20 years

Compensated Absences

The vacation policy provides for the accumulation of earned vacation leave, depending on years of service with a maximum accumulation of 240 hours. The sick leave policy provides for sick leave to be earned at the rate of eight hours per month of service with a maximum accumulation of 720 hours. Accumulated vacation is paid at 100%, and sick leave is paid at 25%, upon termination of employment. These amounts are accrued when incurred.

Pensions

The Virginia Retirement System (VRS) Political Subdivision Retirement Plan is a multi-employer, agent plan. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Political Subdivision's Retirement Plan and the additions to/deductions from the Political Subdivision'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.

Other Postemployment Benefits Plan

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Henry County Public Service Authority's OPEB Plan for Retiree's Health Insurance and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the Plan. See Notes to the financial statement for more information regarding the Plan.

Group Life Insurance

The Virginia Retirement System (VRS) Group Life Insurance Program is a multiple employer, cost-sharing plan. It provides coverage to state employees, teachers, and employees of participating political subdivisions. The Group Life Insurance Program was established pursuant to §51.1-500 et seq. of the Code of Virginia, as amended, and which provides the authority under which benefit terms are established or may be amended. The Group Life Insurance Program is a defined benefit plan that provides a basic group life insurance benefit for employees of participating employers. For purposes of measuring the net Group Life Insurance Program OPEB liability, deferred outflows of resources and deferred inflows of resources related to the Group Life Insurance Program OPEB, and Group Life Insurance Program OPEB expense, information about the fiduciary net position of the VRS Group Life Insurance program OPEB and the additions to/deductions from the VRS Group Life Insurance Program OPEB's net fiduciary position have been determined on the same basis as they were reported by VRS. In addition, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Health Insurance Credit Program

The Political Subdivision Health Insurance Credit Program is a multiple-employer, agent defined benefit plan that provides a credit toward the cost of health insurance coverage for retired political subdivision employees of participating employers. The Political Subdivision Health Insurance Credit Program was established pursuant to §51.1-1400 et seq. of the Code of Virginia, as amended, and which provides the authority under which benefit terms are established or may be amended. For purposes of measuring the net Political Subdivision Health Insurance Credit Program OPEB liability, deferred outflows of resources and deferred inflows of resources related to the Political Subdivision Health Insurance Credit Program OPEB, and the Political Subdivision Health Insurance Credit Program OPEB expense, information about the fiduciary net position of the Virginia Retirement System (VRS) Political Subdivision Health Insurance Credit Program; and the additions to/deductions from the VRS Political Subdivision Health Insurance Credit Program's net fiduciary position have been determined on the same basis as they were reported by VRS. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Revenues

The Authority records water and sewer revenues as billed to its customers principally on a monthly basis. Fees charged for the privilege of connecting to the system are credited to income.

Property and Equipment

Depreciation is provided principally on the straight-line method over the estimated useful lives of the assets.

Use of Estimates

The preparation of financial statements in conformity with 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.

Budgets

The Authority adopts an annual budget for informative and fiscal planning purposes only. The budget is not intended to be a legal control on expenses. Budgets are adopted on the accrual basis of accounting with the exception that depreciation and amortization are not budgeted.

Amortization

Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Amortization of bond premiums or discounts is included in interest expense. Bonds payable are reported net of the applicable bond premium or discount. The deferred amount resulting from bond refunding is amortized over the shorter of the life of the new bond issue or the refunded issue.

Net Position

Net position is the difference between assets and liabilities. Net position invested in capital assets represent capital assets, less accumulated depreciation, less any outstanding debt related to the acquisition, construction, or improvement of those assets.

Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Financial 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 until then.

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 until that time.

Adoption of New GASB Statements

During the fiscal year ended June 30, 2020, the Authority adopted the following GASB statement:

- Statement No. 95, Postponement of the Effective Dates of Certain Authoritative Guidance

This Statement is to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic.

The effective dates of certain provisions contained in the following pronouncements are postponed by one year:

- Statement No. 83, *Certain Asset Retirement Obligations*
- Statement No. 84, *Fiduciary Activities*
- Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*
- Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*
- Statement No. 90, *Majority Equity Interests*
- Statement No. 91, *Conduit Debt Obligations*
- Statement No. 92, *Omnibus 2020*
- Statement No. 93, *Replacement of Interbank Offered Rates*
- Implementation Guide No. 2017-3, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (and Certain Issues Related to OPEB Plan Reporting)*
- Implementation Guide No. 2018-1, *Implementation Guidance Update—2018*
- Implementation Guide No. 2019-1, *Implementation Guidance Update—2019*
- Implementation Guide No. 2019-2, *Fiduciary Activities*

The effective dates of the following pronouncements are postponed by 18 months:

- Statement No. 87, *Leases*
- Implementation Guide No. 2019-3, *Leases*

3 Cash Equivalents

Deposits

All cash of the Authority is maintained in accounts collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.2-4400 et seq. of the Code of Virginia or covered by Federal Depository Insurance.

Investments

Statutes authorize local governments and other public bodies 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, bankers acceptances, repurchase agreements, and the State Treasurer's Local Government Investment Pool (LGIP). Investments are carried at fair value.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Maturity</u>	<u>Moody's Rating</u>
U.S. Treasuries	\$ 57,894	5 months or less	AAA
Certificates of deposit	<u>2,184,957</u>	2021 & 2022	N/A
	<u>\$2,242,851</u>		

Interest Rate Risk – As a means of limiting its exposure to fair value losses arising from rising interest rates, the Authority purchases investments having a maturity not greater than five years from the date of purchase.

Credit Risk – In accordance with State statutes, the Authority authorized investments in obligations of the United States and agencies thereof, commercial paper, repurchase agreements which are collateralized with securities that are approved for direct investment, and LGIP.

Concentration of Credit Risk – The Authority places no limit on the amount that may be invested in any one issuer. More than 20% of the Authority's investments are in certificates of deposit from a single bank.

Debt Service Forward Delivery Agreements

The Authority entered into two Debt Service Forward Delivery Agreements dated May 10, 2002 (one for the Debt Service Fund and one for the Debt Service Reserve Fund) maturing November 15, 2019. Monthly, the Authority transfers cash to the bond trustee in exchange for U.S. Treasury obligations which are held by the bond trustee. These obligations mature in accordance with the debt service payment schedule. The agreement for the debt service fund was terminated in December 2018.

4 Amount of Allowance for Uncollectible Accounts

The Authority calculates its allowance for uncollectible accounts using historical collection data and, in certain cases, specific account analysis. Management estimates the allowance account to be \$50,192 and \$44,311 as of June 30, 2020 and 2019, respectively.

5 Due to Other Governments

The Authority has entered into a long-term agreement with Pittsylvania County concerning the construction of water lines. The agreement allows the Authority to repay Pittsylvania County for the cost of these lines based on water usage by the County. The original contract amount was \$1,250,000. The amount repaid for fiscal year 2020 was \$32,115 leaving a balance of \$929,538 as of June 30, 2020.

6 Capital Assets

The following schedule shows the breakdown of capital assets by category at June 30, 2020:

	<u>Balance July 1, 2019</u>	<u>Acquired (Increased)</u>	<u>Disposed (Decreased)</u>	<u>Balance June 30, 2020</u>
Capital assets, not depreciated				
Land and land improvements	\$ 595,259	\$ -	\$ -	\$ 595,259
Construction in Progress				
Water	9,203,567	5,997,428	1,388,556	13,812,439
Sewer	1,175,442	134,044	-	1,309,486
Other	-	193,181	193,181	-
Total Construction in Progress	<u>10,379,009</u>	<u>6,324,653</u>	<u>1,581,737</u>	<u>15,121,925</u>
Total Capital Assets, Not Depreciated	10,974,268	6,324,653	1,581,737	15,717,184
Capital assets, depreciated				
Buildings and leasehold improvements	3,002,902	-	-	3,002,902
Water and sewer system	135,256,078	1,499,462	49,424	136,706,116
Trucks and autos	2,420,387	88,110	208,868	2,299,629
Office equipment	177,074	-	-	177,074
Total Capital Assets, Depreciated	140,856,441	1,587,572	258,292	142,185,721
Less: Accumulated depreciation for				
Land improvements	2,916	88	-	3,004
Buildings and leasehold improvements	2,396,193	58,870	-	2,455,063
Water and sewer system	75,293,580	3,024,523	49,424	78,268,679
Trucks and autos	1,849,272	142,778	208,868	1,783,182
Office equipment	69,602	11,564	-	81,166
Total Accumulated Depreciation	<u>79,611,563</u>	<u>3,237,823</u>	<u>258,292</u>	<u>82,591,094</u>
Total Capital Assets Depreciated, Net	<u>61,244,878</u>	<u>(1,650,251)</u>	<u>-</u>	<u>59,594,627</u>
Total Capital Assets, Net	<u>\$ 72,219,146</u>	<u>\$ 4,674,402</u>	<u>\$ 1,581,737</u>	<u>\$ 75,311,811</u>

7 Long-Term Debt

The following is a summary of the Authority's long-term liability activity for the year:

<u>Details of Long-Term Indebtedness</u>	<u>Balance July 1, 2019</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance June 30, 2020</u>	<u>Due Within One Year</u>
2000 VRL Fund	\$ 9,320	\$ -	\$ 9,320	\$ -	\$ -
2001 Water and Sewer Refunding	3,540,000	-	3,540,000	-	-
2007 Bonds Payable	1,407,010	-	146,506	1,260,504	154,899
2015 VRA Bond	1,235,000	-	95,000	1,140,000	110,000
2015A VRA Bond	1,477,174	-	76,214	1,400,960	77,785
2015B VRA Bond	2,095,882	-	120,028	1,975,854	120,029
2015C VRA Bond	1,131,061	-	30,101	1,100,960	30,782
2015D VRA Bond	1,230,179	-	32,739	1,197,440	33,479
2018A VRA Bond	620,753	-	14,114	606,639	14,490
2018B VRA Bond (not fully disbursed)	<u>14,500,000</u>	-	-	<u>14,500,000</u>	<u>290,778</u>
Subtotal	27,246,379	-	4,064,022	23,182,357	832,242
Less: Loan funds not disbursed					
VRA Series 2018B Bond	<u>(7,050,980)</u>	-	<u>(4,361,026)</u>	<u>(2,689,954)</u>	-
	<u>(7,050,980)</u>	-	<u>(4,361,026)</u>	<u>(2,689,954)</u>	-
Long-Term Debt before Deferrals	20,195,399	-	(297,004)	20,492,403	832,242
Deferred Amounts					
Imputed interest on 2000 VRL Fund	(227)	-	(227)	-	-
Unamortized premium on 2015 VRA Bond	<u>103,191</u>	-	<u>14,544</u>	<u>88,647</u>	<u>13,370</u>
	<u>102,964</u>	-	<u>14,317</u>	<u>88,647</u>	<u>13,370</u>
Long-Term Debt	20,298,363	-	(282,687)	20,581,050	845,612
Compensated absences	<u>392,775</u>	<u>277,016</u>	<u>245,487</u>	<u>424,304</u>	<u>42,430</u>
Total Long-Term Debt	<u>\$ 20,691,138</u>	<u>\$ 277,016</u>	<u>\$ (37,200)</u>	<u>\$ 21,005,354</u>	<u>\$ 888,042</u>

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	<u>Interest Rates</u>	<u>Date Issued</u>	<u>Final Maturity</u>	<u>Amount of Original Issue</u>	<u>Installment Payments</u>	<u>Installment Period</u>	<u>Balance June 30, 2020</u>
Bonds							
Water and Sewer Revenue Bond, Series 2007	2.470%	11/1/2007	2027	\$ 2,700,000	\$ 15,357	Monthly	\$ 1,260,504
Water and Sewer VRA Series 2015	3.4925%	8/19/2015	2036	1,615,000	Various	Semi-Annual	1,140,000
Water and Sewer VRA Series 2015A	2.050%	8/19/2015	2036	1,733,769	53,054	Semi-Annual	1,400,960
Water and Sewer VRA Series 2015B	0.000%	12/17/2015	2037	2,400,570	60,014	Semi-Annual	1,975,854
Water and Sewer VRA Series 2015C	2.250%	12/17/2015	2047	1,189,280	27,691	Semi-Annual	1,100,960
Water and Sewer VRA Series 2015D	2.250%	12/17/2015	2047	1,293,500	30,117	Semi-Annual	1,197,440
Water and Sewer VRA Series 2018A	2.650%	3/9/2018	2048	621,200	15,241	Semi-Annual	606,639
Water and Sewer VRA Series 2018B	2.500%	6/21/2018	2040	14,500,000	472,028	Semi-Annual	14,500,000
							23,182,357
							Less: Loan funds not disbursed
							VRA Series 2018B Bond
							<u>(2,689,954)</u>
Total Bonded Debt Before Deferrals Less Unfunded Portions of Bonds							<u>\$ 20,492,403</u>

The annual requirements to amortize bond principal and related interest are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Deferred Amounts</u>	<u>Total LT Debt with Deferrals</u>
2021	\$ 832,242	\$ 353,334	\$ 13,370	\$ 845,612
2022	1,141,282	511,809	12,087	1,153,369
2023	1,168,673	484,052	10,562	1,179,235
2024	1,196,616	455,487	8,963	1,205,579
2025	1,225,125	426,100	7,292	1,232,417
2026-2030	5,624,314	1,731,501	25,203	5,649,517
2031-2035	5,788,057	1,106,624	10,868	5,798,925
2036-2040	5,280,350	457,322	302	5,280,652
2041-2045	655,298	75,197	-	655,298
2046-2050	270,400	9,267	-	270,400
	23,182,357	5,610,693	88,647	23,271,004
Less: Loan funds not disbursed				
VRA Series 2018B Bond	(2,689,954)	-	-	(2,689,954)
	<u>\$ 20,492,403</u>	<u>\$ 5,610,693</u>	<u>\$ 88,647</u>	20,581,050
Compensated absences				424,304
				<u>\$ 21,005,354</u>

Required escrow funds for debt service, repairs and replacements, and operating needs were as follows:

Operating funds reserve	\$ 1,612,706
Replacement reserve	572,251
Debt service - 2007, 2015A, 2015B bonds	60
Debt service - 2015C bond	27,702
Debt service - 2015D bond	<u>30,132</u>
	<u>\$2,242,851</u>

The Authority is required to maintain a debt service coverage ratio of 120% (as defined in the bond Master Trust Agreement and related amendments) and to annually obtain a consulting engineer's report to determine amounts needed to escrow for future repairs, replacements, and operating needs. The Authority received the most recent report in May 2020 for the fiscal year 2019. The management of the Authority believes it is in compliance with all requirements.

Revenue bonds require all revenues and receipts derived by the Authority to be pledged as security for the bonds. In addition, a security interest in all accounts receivable for services is granted to the issuer of the bonds.

Advance Refunding and Deferred Amount

In 2001, the Authority issued \$42,470,000 in Refunding Revenue Bonds with an average interest rate of 5.25% to advance refund \$42,465,000 of outstanding 1991 Series bonds with an average interest rate of 6.25% in order to reduce the interest rate and reduce total debt service payments over the life of the loan. The net proceeds from the issuance were deposited into an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1991 Series bonds and, as a result, the 1991 Series bonds are considered defeased and the liability is not reported on the Authority's financial statements, only the balance of the 2001 Series bonds. The reacquisition price of the new bonds was \$42,889,650 and the carrying amount of the old bonds was \$41,292,795 which resulted in a Deferred Amount on Refunding of \$1,596,855. This amount is being amortized into interest expense over 19 years using the effective interest method and had an unamortized balance of \$-0- and \$44,406 at June 30, 2020 and 2019, respectively. This is reported as a Deferred Outflow of Resources on the Authority's Statements of Net Position.

	<u>Balance</u> <u>July 1, 2019</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance</u> <u>June 30, 2020</u>	<u>Due Within</u> <u>One Year</u>
Details of Refunding of Debt					
2001 Refunding of Debt	\$ 44,406	\$ -	\$ 44,406	\$ -	\$ -

8 Net Investment in Capital Assets

The "net investment in capital assets" amount reported on the Statements of Net Position as of June 30, 2020 and 2019 is determined as follows:

	<u>2020</u>	<u>2019</u>
Net Investment in Capital Assets		
Cost of capital assets	\$ 157,902,905	\$ 151,830,709
Less: Accumulated depreciation	<u>(82,591,094)</u>	<u>(79,611,563)</u>
Book value	75,311,811	72,219,146
Less: Capital related debt	<u>(20,581,050)</u>	<u>(20,298,363)</u>
Net Investment in Capital Assets	<u>\$ 54,730,761</u>	<u>\$ 51,920,783</u>

9 Capital Contributions

Capital contributions represent proceeds from federal, state, and local agencies for the following capital projects:

<u>Source of Revenue</u>	<u>Project</u>	
Federal Funding		
Virginia Resources Authority	Fieldale	<u>\$ 126,564</u>
Total Federal Funding		<u>126,564</u>
Total Capital Contributions		<u><u>\$ 126,564</u></u>

10 Operating Leases

The Authority leased its office space from the County for a fifteen-year term commencing November 1, 1997 and ended on October 31, 2012. The lease is renewable annually for one-year terms and has been renewed for a one-year term ending October 31, 2020. In lieu of rent, the Authority renovated a portion of the building for the County's and Authority's use. These improvements (shown as leasehold improvements) are being depreciated over the life of the lease.

11 Commitments and Contingencies

Federal programs in which the Authority participates were audited in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Pursuant to the provisions of the Uniform Guidance, all major programs and certain other programs were tested for compliance with applicable grant requirements. While no matters of noncompliance were disclosed by the audit, the Federal Government may subject grant programs to additional compliance tests which may result in disallowed expenditures. In the opinion of management, any future disallowance of current grant program expenditures, if any, would be immaterial.

Special purpose grants are subject to audit to determine compliance with their requirements. Authority officials believe that if any refunds are required, they will be immaterial.

12 Litigation

The City of Martinsville ("City") on June 4, 2020, filed a suit against the Henry County Public Service Authority ("PSA") wherein it is asserted that the PSA is liable to City for a percentage of the cost of repairs to the City's sewage transmission lines. The suit is based on a 1974 Contract between the parties whereby the City agreed to transport and treat certain of the PSA's sewage. It was discovered in 2014 that the Smith River interceptor and other components of the City's sewage transmission system required immediate remediation and it is alleged by the City that the PSA is liable to it for a portion of the remediation costs based on the proportionate amount of the PSA's sewage that is transported by the City's sewage transmission facilities and treated at the City's waste water treatment plant. The amount that the PSA is liable for, according to City's pleading, is \$8,622,860 with interest at 6% from June 4, 2020. The PSA had offered prior to the filing of this suit to contribute the sum of \$2,315,282 to the rehabilitation of the City's sewer line in return for indemnity against all future capital expenditures.

The litigation is in its very early stages. The City has filed its Complaint and the PSA has filed its responsive pleadings. Each party has propounded its initial paper discovery to the other and, the parties are in the process of responding thereto. No further activity has, as of yet, taken place.

The PSA plans to and is vigorously contesting the case. As with most litigation at this stage, it is impossible to estimate what the outcome might be and it is quite possible that the Judge or a jury will have to determine the issue. No liability has been recorded by the Authority due to the uncertainty of the ultimate outcome of this matter.

13 Pension Plan

Plan Description

All full-time, salaried permanent employees of the Political Subdivision are automatically covered by a VRS Retirement Plan upon employment. This plan is 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:

The remainder of this page is left blank intentionally.

RETIREMENT PLAN PROVISIONS

PLAN 1

About Plan 1

Plan 1 is a defined benefit plan. The retirement benefit is based on a member's age, service credit, and average final compensation at retirement using a formula.

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, and they have not taken a refund.

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.

The Hybrid Retirement Plan's effective date for eligible Plan 1 members who opted in was July 1, 2014.

If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.

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.

PLAN 2

About Plan 2

Plan 2 is a defined benefit plan. The retirement benefit is based on a member's age, service credit, and average final compensation at retirement using a formula.

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.

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.

The Hybrid Retirement Plan's effective date for eligible Plan 2 members who opted in was July 1, 2014.

If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.

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.

HYBRID RETIREMENT PLAN

About the Hybrid Retirement Plan

The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan.

- The defined benefit is based on a member's age, service credit, 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.
- 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.

Eligible Members

Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes:

- 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

**Non-Eligible Members*

Some employees are not eligible to participate in the Hybrid Retirement Plan. They include:

- Political subdivision employees who are covered by enhanced benefits for hazardous duty employees

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.

PLAN 1

Retirement Contributions

Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. 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.

Service Credit

Service credit includes active service. Members earn service credit for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional service credit the member was granted. A member's total service credit 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.

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 service credit. 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.

Members are always 100% vested in the contributions that they make.

PLAN 2

Retirement Contributions

Same as Plan 1.

Service Credit

Same as Plan 1.

Vesting

Same as Plan 1.

**HYBRID
RETIREMENT PLAN**

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.

Service Credit

Defined Benefit Component:

Under the defined benefit component of the plan, service credit includes active service. Members earn service credit for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional service credit the member was granted. A member's total service credit 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.

Defined Contributions Component:

Under the defined contribution component, service credit is used to determine vesting for the employer contribution portion of the plan.

Vesting

Defined Benefit Component:

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 service credit. Plan 1 or Plan 2 members with at least five years (60 months) of service credit who opted into the Hybrid Retirement Plan remain vested in the defined benefit component.

Defined Contributions Component:

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.

Members are always 100% vested in the contributions that they make.

PLAN 1

Calculating the Benefit

The basic benefit is determined using the average final compensation, service credit, and plan multiplier. An early retirement reduction is applied to this amount if the member is retiring with a reduced benefit. In cases where the member has elected an optional form of retirement payment, an option factor specific to the option chosen is then applied.

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.

Average Final Compensation

A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.

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%.

Sheriffs and regional jail superintendents: The retirement multiplier for sheriffs and regional jail superintendents is 1.85%.

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.

PLAN 2

Calculating the Benefit

See definition under Plan 1.

Average Final Compensation

A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.

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 service credit earned, purchased, or granted on or after January 1, 2013.

Sheriffs and regional jail superintendents: Same as Plan 1.

Political subdivision hazardous duty employees: Same as Plan 1.

**HYBRID
RETIREMENT PLAN**

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.

- 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.

Distribution not required, except as governed by law .

Calculating the Benefit

Defined Benefit Component:

See definition under Plan 1.

Defined Contribution Component:

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.

Average Final Compensation

Same as Plan 2. It is used in the retirement formula for the defined benefit component of the plan.

Service Retirement Multiplier

Defined Benefit Component:

VRS: The retirement multiplier for the defined benefit component is 1.00%.

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.

Sheriffs and regional jail superintendents: Not applicable.

Political subdivision hazardous duty employees: Not applicable.

Defined Contribution Component

Not applicable.

PLAN 1

Normal Retirement Age

VRS: Age 65.

Political subdivisions hazardous duty employees:
Age 60.

Earliest Unreduced Retirement Eligibility

VRS: Age 65 with at least five years (60 months) of service credit or at age 50 with at least 30 years of service credit.

Political subdivisions hazardous duty employees:
Age 60 with at least five years of service credit or age 50 with at least 25 years of service credit.

Earliest Reduced Retirement Eligibility

VRS: Age 55 with at least five years (60 months) of service credit or age 50 with at least 10 years of service credit.

Political subdivisions hazardous duty employees:
Age 50 with at least five years of service credit.

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%.

Eligibility:

For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of service credit, the COLA will go into effect on July 1 after one full calendar year from the retirement date.

For members who retire with a reduced benefit and who have less than 20 years of service credit, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date.

PLAN 2

Normal Retirement Age

VRS: Normal Social Security retirement age.

Political subdivisions hazardous duty employees:
Same as Plan 1.

Earliest Unreduced Retirement Eligibility

VRS: Normal Social Security retirement age with at least five years (60 months) of service credit or when their age plus service credit equal 90.

Political subdivisions hazardous duty employees:
Same as Plan 1.

Earliest Reduced Retirement Eligibility

VRS: Age 60 with at least five years (60 months) of service credit.

Political subdivisions hazardous duty employees:
Same as Plan 1.

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%.

Eligibility:

Same as Plan 1

**HYBRID
RETIREMENT PLAN
Normal Retirement Age**

Defined Benefit Component:
VRS: Same as Plan 2.

Political subdivisions hazardous duty employees:
Not applicable.

Defined Contribution Component:
Members are eligible to receive distributions upon leaving employment, subject to restrictions.

Earliest Unreduced Retirement Eligibility

Defined Benefit Component:
VRS: Normal Social Security retirement age and have at least five years (60 months) of service credit or when their age plus service credit equal 90.

Political subdivisions hazardous duty employees:
Not applicable.

Defined Contribution Component:
Members are eligible to receive distributions upon leaving employment, subject to restrictions.

Earliest Reduced Retirement Eligibility

Defined Benefit Component:
VRS: Age 60 with at least five years (60 months) of service credit.

Political subdivisions hazardous duty employees:
Not applicable

Defined Contribution Component:
Members are eligible to receive distributions upon leaving employment, subject to restrictions.

Cost-of-Living Adjustment (COLA) in Retirement

Defined Benefit Component:
Same as Plan 2

Defined Contribution Component:
Not applicable

Eligibility:

Same as Plan 1 and Plan 2

PLAN 1

Exceptions to COLA Effective Dates:

The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances:

- 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.
- 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.

Disability Coverage

Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.70% on all service, regardless of when it was earned, purchased, or granted.

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 service credit in their plan. Prior service credit counts towards vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. Members also may be eligible to purchase periods of leave without pay.

PLAN 2

Exceptions to COLA Effective Dates:

Same as Plan 1

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.

Purchase of Prior Service

Same as Plan 1

**HYBRID
RETIREMENT PLAN**

Exceptions to COLA Effective Dates:

Same as Plan 1 and Plan 2

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.

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.

Purchase of Prior Service

Defined Benefit Component:

Same as Plan 1, with the following exceptions:

- Hybrid Retirement Plan members are ineligible for ported service.

Defined Contribution Component:

Not applicable

Employees Covered by Benefit Terms

As of the June 30, 2018 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	48
Inactive members:	
Vested	6
Non-vested	6
LTD	-
Active elsewhere in VRS	<u>15</u>
Total inactive members	27
Active members	<u>53</u>
Total covered employees	<u><u>128</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.

If the employer used the certified rate: Henry County Public Service Authority's contractually required contribution rate for the year ended June 30, 2020 was 6.41% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2017.

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 Henry County Public Service Authority were \$162,290 and \$156,044 for the years ended June 30, 2020 and June 30, 2019, respectively.

Net Pension Liability

The net pension liability (NPL) is calculated separately for each employer and represents that particular employer's total pension liability determined in accordance with GASB Statement No. 68, less that employer's fiduciary net position. For Henry County Public Service Authority, the net pension liability was measured as of June 30, 2019. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2018 rolled forward to the measurement date of June 30, 2019.

Actuarial Assumptions – General Employees

The total pension liability for General Employees in the Political Subdivision's Retirement Plan was based on an actuarial valuation as of June 30, 2018, 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, 2019.

Inflation	2.50%
Salary increases, including inflation	3.5% - 5.35%
Investment rate of return	6.75%, net of pension plan investment expenses, 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 6.75%. However, since the difference was minimal, and a more conservative 6.75% 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 6.75% to simplify preparation of pension liabilities.

Mortality rates:

All Others (Non 10 Largest) – Non-Hazardous Duty: 15% of deaths are assumed to be service related.

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates at ages 81 and older projected with scale BB to 2020; males 95% of rates; females 105% of rates.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 3 years; females 1.0% increase compounded from ages 70 to 90.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with scale BB to 2020; males set forward 2 years, 110% of rates; females 125% of rates.

The actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

All Others (Non 10 Largest) – Non-Hazardous Duty:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Update to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Lowered rates
Salary Scale	No change
Line of Duty Disability	Increase rate from 14% to 15%
Discount Rate	Decrease rate from 7.00% to 6.75%

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>
Public Equity	34.00%	5.61%	1.91%
Fixed Income	15.00%	0.88%	0.13%
Credit Strategies	14.00%	5.13%	0.72%
Real Assets	14.00%	5.27%	0.74%
Private Equity	14.00%	8.77%	1.23%
MAPS - Multi-Asset Public Strategies	6.00%	3.52%	0.21%
PIP - Private Investment Partnership	<u>3.00%</u>	6.29%	<u>0.19%</u>
Total	<u>100.00%</u>		<u>5.13%</u>
	Inflation		<u>2.50%</u>
	*Expected arithmetic nominal return		<u>7.63%</u>

*The above allocation provides a one-year return of 7.63%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 7.11%, including expected inflation of 2.50%. The VRS Board elected a long-term rate of 6.75% which is roughly at the 40th percentile of expected long-term results of the VRS fund asset allocation.

Discount Rate

The discount rate used to measure the total pension liability was 6.75%. 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. Consistent with the phased-in funding provided by the General Assembly for state and teacher employer contributions; political subdivisions were also provided with an opportunity to use an alternate employer contribution rate. For the year ended June 30, 2019, the alternate rate was the employer contribution rate used in FY 2012 or 100% of the actuarially determined employer contribution rate from the June 30, 2017, actuarial valuations, whichever was greater. From July 1, 2019 on, participating employers are assumed to continue 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

	Total Pension Liability (a)	Increase (Decrease) Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at June 30, 2018	\$ 12,408,386	\$ 11,778,795	\$ 629,591
Changes for the Year			
Service cost	196,211	-	196,211
Interest	849,523	-	849,523
Benefit changes	-	-	-
Assumption Changes	397,152	-	397,152
Differences between expected and actual experience	256,321	-	256,321
Contributions - employer	-	148,530	(148,530)
Contributions - employee	-	116,690	(116,690)
Net investment income	-	777,995	(777,995)
Benefit payments, including refunds	(544,698)	(544,698)	-
Administrative expenses	-	(7,805)	7,805
Other changes	-	(490)	490
Net Changes	<u>1,154,509</u>	<u>490,222</u>	<u>664,287</u>
Balances at June 30, 2019	<u>\$ 13,562,895</u>	<u>\$ 12,269,017</u>	<u>\$ 1,293,878</u>

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of Henry County Public Service Authority using the discount rate of 6.75%, as well as what Henry County Public Service Authority's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (5.75%) or one percentage point higher (7.75%) than the current rate:

	1.00% Decrease 5.75%	Current Discount Rate 6.75%	1.00% Increase 7.75%
Political subdivision's Net Pension Liability	\$3,086,413	\$ 1,293,878	\$(141,049)

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

For the year ended June 30, 2020, Henry County Public Service Authority recognized pension expense of \$325,306. At June 30, 2020, Henry County Public Service Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 213,838	\$ -
Change in assumptions	283,355	26,620
Net difference between projected and actual earnings on pension plan investments	-	104,904
Employer contributions subsequent to the measurement date	<u>162,290</u>	<u>-</u>
Total	<u>\$ 659,483</u>	<u>\$ 131,524</u>

\$162,290 reported as deferred outflows of resources related to pensions resulting from Henry County Public Service Authority's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the fiscal year ending June 30, 2021. 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,**

2021	\$ 187,862
2022	81,513
2023	89,005
2024	7,289
2025	-
Thereafter	-

Pension Plan Data

Information about the VRS Political Subdivision Retirement Plan is also available in the separately issued VRS 2019 *Comprehensive Annual Financial Report* (CAFR). A copy of the 2019 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2019-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, Virginia 23218-2500.

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14 Other Post-Employment Benefits - Group Life Insurance Program

Plan Description

All full-time, salaried permanent employees of the state agencies, teachers and employees of participating political subdivisions are automatically covered by the VRS Group Life Insurance Program upon employment. This plan is administered by the Virginia Retirement System (the System), along with pensions and other OPEB plans, for public employer groups in the Commonwealth of Virginia.

In addition to the Basic Group Life Insurance benefit, members are also eligible to elect additional coverage for themselves as well as a spouse or dependent children through the Optional Group Life Insurance Program. For members who elect the optional group life insurance coverage, the insurer bills employers directly for the premiums. Employers deduct these premiums from members' paychecks and pay the premiums to the insurer. Since this is a separate and fully insured program, it is not included as part of the Group Life Insurance Program OPEB.

The specific information for Group Life Insurance Program OPEB, including eligibility, coverage and benefits is set out in the table below:

GROUP LIFE INSURANCE PROGRAM PLAN PROVISIONS
<p>Eligible Employees The Group Life Insurance Program was established July 1, 1960, for state employees, teachers and employees of political subdivisions that elect the program, including the following employers that do not participate in VRS for retirement:</p> <ul style="list-style-type: none"> • City of Richmond • City of Portsmouth • City of Roanoke • City of Norfolk • Roanoke City Schools Board <p>Basic group life insurance coverage is automatic upon employment. Coverage ends for employees who leave their position before retirement eligibility or who take a refund of their accumulated retirement member contributions and accrued interest.</p>
<p>Benefit Amounts The benefits payable under the Group Life Insurance Program have several components.</p> <ul style="list-style-type: none"> • Natural Death Benefit – The natural death benefit is equal to the employee's covered compensation rounded to the next highest thousand and then doubled. • Accidental Death Benefit – The accidental death benefit is double the natural death benefit. • Other Benefit Provisions – In addition to the basic natural and accidental death benefits, the program provides additional benefits provided under specific circumstances. These include: <ul style="list-style-type: none"> Accidental dismemberment benefit Safety belt benefit Repatriation benefit Felonious assault benefit Accelerated death benefit option
<p>Reduction in Benefit Amounts The benefit amounts provided to members covered under the Group Life Insurance Program are subject to a reduction factor. The benefit amount reduces by 25% on January 1 following one calendar year of separation. The benefit amount reduces by an additional 25% on each subsequent January 1 until it reaches 25% of its original value.</p>
<p>Minimum Benefit Amount and Cost-of-Living Adjustment (COLA) For covered members with at least 30 years of creditable service, there is a minimum benefit payable under the Group Life Insurance Program. The minimum benefit was set at \$8,000 by statute in 2015. This amount is increased annually based on the VRS Plan 2 cost-of-living statute. This will be increased annually based on the VRS Plan 2 cost-of-living adjustment calculation. The minimum benefit adjusted for the COLA was \$8,463 as of June 30, 2020.</p>

Contributions

The contribution requirements for the Group Life Insurance Program are governed by §51.1-506 and §51.1-508 of the Code of Virginia, as amended, but may be impacted as a result of funding provided to state agencies and school divisions by the Virginia General Assembly. The total rate for the Group Life Insurance Program was 1.31% of covered employee compensation. This was allocated into an employee and an employer component using a 60/40 split. The employee component was 0.79% (1.31% X 60%) and the employer component was 0.52% (1.31% X 40%). Employers may elect to pay all or part of the employee contribution, however the employer must pay all of the employer contribution. Each employer's contractually required employer contribution rate for the year ended June 30, 2020 was 0.52% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2017. The actuarially determined rate, when combined with employee contributions, was expected to finance the costs of benefits payable during the year, with an additional amount to finance any unfunded accrued liability. Contribution to the Group Life Insurance Program from the entity were \$13,176 and \$12,686 for the years ended June 30, 2020 and June 30, 2019, respectively.

GLI OPEB Liabilities, GLI OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the Group Life Insurance Program OPEB

At June 30, 2020, the entities reported a liability of \$202,432 for its proportionate share of the Net GLI OPEB Liability. The Net GLI OPEB Liability was measured as of June 30, 2019 and the total GLI OPEB liability used to calculate the Net GLI OPEB Liability was determined by an actuarial valuation performed as of June 30, 2018, and rolled forward to the measurement date of June 30, 2019. The covered employer's proportion of the Net GLI OPEB Liability was based on the covered employer's actuarially determined employer contributions to the Group Life Insurance Program for the year ended June 30, 2019 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2019, the participating employer's proportion was .012440% as compared to .012270% at June 30, 2018.

For the year ended June 30, 2020, the participating employer recognized GLI OPEB expense of \$5,113. Since there was a change in proportionate share between measurement dates, a portion of the GLI OPEB expense was related to deferred amounts from changes in proportion.

At June 30, 2020, the employer reported deferred outflows of resources and deferred inflows of resources related to the GLI OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 13,463	\$ 2,626
Change in assumptions	12,780	6,104
Net difference between projected and actual earnings on GLI OPEB program investments	-	4,158
Changes in proportion	2,268	-
Employer contributions subsequent to the measurement date	<u>13,176</u>	<u>-</u>
Total	<u>\$ 41,687</u>	<u>\$ 12,888</u>

\$13,176 reported as deferred outflows of resources related to the GLI OPEB resulting from the employer's contributions subsequent to the measurement date will be recognized as a reduction of the Net GLI OPEB Liability in the Fiscal Year ending June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the GLI OPEB will be recognized in the GLI OPEB expense in future reporting periods as follows:

Year Ended	
<u>June 30.</u>	
2021	\$ 1,151
2022	1,151
2023	2,912
2024	4,520
2025	4,591
Thereafter	1,298

Actuarial Assumptions

The total GLI OPEB liability was based on an actuarial valuation as of June 30, 2018, 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, 2019.

Inflation	2.50%
Salary increases, including inflation -	
General state employees	3.5% - 5.35%
Teachers	3.5% - 5.95%
SPORS employees	3.5% - 4.75%
VaLORS employees	3.5% - 4.75%
JRS employees	4.50%
Locality - General employees	3.5% - 5.35%
Locality - Hazardous Duty employees	3.5% - 4.75%
Investment rate of return	6.75%, net of investment expenses, 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 6.75%. However, since the difference was minimal, and a more conservative 6.75% 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 6.75% to simplify preparation of the OPEB liabilities.

Mortality rates – General State Employees

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with Scale BB to 2020; males set back 1 year, 85% of rates; females set back 1 year.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males set forward 1 year; females set back 1 year with 1.5% increase compounded from ages 70 to 85.

Post-Disablement:

RP-2014 Disability Life Mortality Table projected with scale BB to 2020; males 115% of rates; females 130% of rates.

The actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Update to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70-75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Increase rate from 14% to 25%
Discount Rate	Decrease rate from 7.00% to 6.75%

Mortality rates – Teachers

Pre-Retirement:

RP-2014 White Collar Employee Rates to age 80, White Collar Healthy Annuitant Rates at ages 81 and older projected with scale BB to 2020.

Post-Retirement:

RP-2014 White Collar Employee Rates to age 49, White Collar Health Annuitant Rates at ages 50 and older projected with scale BB to 2020; males 1% increase compounded from ages 70 to 90; females set back 3 years with 1.5% increase compounded from ages 65 to 70 and 2.0% increase compounded from ages 75 to 90.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with Scale BB to 2020; 115% of rates for males and females.

The actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial experience study for the four-year period from July 1, 2012 through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Update to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70-75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Discount Rate	Decrease rate from 7.00% to 6.75%

Mortality rates – SPORS Employees

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with Scale BB to 2020; males 90% of rates; females set forward 1 year.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males set forward 1 year with 1.0% increase compounded from ages 70 to 90; females set forward 3 years.

Post-Disablement:

RP-2014 Disability Life Mortality Table projected with scale BB to 2020; males set forward 2 years; unisex using 100% male.

The actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Update to a more current mortality table – RP-2014 projected to 2020 and reduced margin for future improvement in accordance with experience
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Increased rate from 60% to 85%
Discount Rate	Decrease rate from 7.00% to 6.75%

Mortality rates – VaLORS Employees

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with Scale BB to 2020; males 90% of rates; females set forward 1 year.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males set forward 1 year with 1.0% increase compounded from ages 70 to 90; females set forward 3 years.

Post-Disablement:

RP-2014 Disability Life Mortality Table projected with scale BB to 2020; males set forward 2 years; unisex using 100% male.

The actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Update to a more current mortality table – RP-2014 projected to 2020 and reduced margin for future improvement in accordance with experience
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Decreased rate from 50% to 35%
Discount Rate	Decrease rate from 7.00% to 6.75%

Mortality rates – JRS Employees

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates at ages 81 and older projected with scale BB to 2020; males set back 1 year, 85% of rates; females set back 1 year.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 1 year; females set back 1 year with 1.5% compounding increase from ages 70 to 85.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with Scale BB to 2020; males 115% of rates; females 130% of rates.

The actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial experience study for the four-year period from July 1, 2012 through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Update to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Decreased rates at first retirement eligibility
Withdrawal Rates	No change
Disability Rates	Removed disability rates
Salary Scale	No change
Discount Rate	Decrease rate from 7.00% to 6.75%

Mortality rates – Largest Ten Locality Employers - General Employees

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with Scale BB to 2020; males 95% of rates; females 105% of rates.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males set forward 3 years; females 1.0% increase compounded from ages 70 to 90.

Post-Disablement:

RP-2014 Disability Life Mortality Table projected with scale BB to 2020; males set forward 2 years, 110% of rates; females 125% of rates.

The actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Update to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages and extended final retirement age from 70 to 75
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Lowered disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 20%
Discount Rate	Decrease rate from 7.00% to 6.75%

Mortality rates – Non-Largest Ten Locality Employers - General Employees

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with Scale BB to 2020; males 95% of rates; females 105% of rates.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males set forward 3 years; females 1.0% increase compounded from ages 70 to 90.

Post-Disablement:

RP-2014 Disability Life Mortality Table projected with scale BB to 2020; males set forward 2 years, 110% of rates; females 125% of rates.

The actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Update to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages and extended final retirement age from 70 to 75
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Lowered disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 15%
Discount Rate	Decrease rate from 7.00% to 6.75%

Mortality rates – Largest Ten Locality Employers – Hazardous Duty Employees

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with Scale BB to 2020; males 90% of rates; females set forward 1 year.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males set forward 1 year with 1.0% increase compounded from ages 70 to 90; females set forward 3 years.

Post-Disablement:

RP-2014 Disability Life Mortality Table projected with scale BB to 2020; males set forward 2 years; unisex using 100% male.

The actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Update to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Increased disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 60% to 70%
Discount Rate	Decrease rate from 7.00% to 6.75%

Mortality rates – Non-Largest Ten Locality Employers – Hazardous Duty Employees

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with Scale BB to 2020; males 90% of rates; females set forward 1 year.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males set forward 1 year with 1.0% increase compounded from ages 70 to 90; females set forward 3 years.

Post-Disablement:

RP-2014 Disability Life Mortality Table projected with scale BB to 2020; males set forward 2 years; unisex using 100% male.

The actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Update to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Decreased rate from 60% to 45%
Discount Rate	Decrease rate from 7.00% to 6.75%

Net GLI OPEB Liability

The net OPEB liability (NOL) for the Group Life Insurance Program represents the program’s total OPEB liability determined in accordance with GASB Statement No. 74, less the associated fiduciary net position. As of the measurement date of June 30, 2019, NOL amounts for the Group Life Insurance Program are as follows (amounts expressed in thousands):

	Group Life Insurance OPEB Program
Total GLI OPEB Liability	\$ 3,390,238
Plan Fiduciary Net Position	<u>1,762,972</u>
GLI Net OPEB Liability (Asset)	<u>\$ 1,627,266</u>
Plan Fiduciary Net Position as a Percentage of the Total GLI OPEB Liability	52.00%

The total GLI OPEB liability is calculated by the System’s actuary, and each plan’s fiduciary net position is reported in the System’s financial statements. The net GLI OPEB liability is disclosed in accordance with the requirements of GASB Statement No. 74 in the System’s notes to the financial statements and required supplementary information.

Long-Term Expected Rate of Return

The long-term expected rate of return on the System’s investments was determined using a lognormal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of System’s 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>
Public Equity	34.00%	5.61%	1.91%
Fixed Income	15.00%	0.88%	0.13%
Credit Strategies	14.00%	5.13%	0.72%
Real Assets	14.00%	5.27%	0.74%
Private Equity	14.00%	8.77%	1.23%
MAPS - Multi-Asset Public Strategies	6.00%	3.52%	0.21%
PIP - Private Investment Partnership	<u>3.00%</u>	6.29%	<u>0.19%</u>
Total	<u>100.00%</u>		<u>5.13%</u>
	Inflation		<u>2.50%</u>
	*Expected arithmetic nominal return		<u>7.63%</u>

* The above allocation provides a one-year return of 7.63%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 7.11%, including expected inflation of 2.50%. The VRS Board elected a long-term rate of 6.75% which is roughly at the 40th percentile of expected long-term results of the VRS fund asset allocation.

Discount Rate

The discount rate used to measure the total GLI OPEB liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that member contributions will be made per the VRS guidance 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, 2019, the rate contributed by the entity for the GLI OPEB will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2019 on, employers are assumed to continue to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the GLI OPEB's fiduciary net position was projected to be available to make all projected future benefit payments of eligible employees. Therefore, the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total GLI OPEB liability.

Sensitivity of the Employer's Proportionate Share of the Net GLI OPEB Liability to Changes in the Discount Rate

The following presents the employer's proportionate share of the net GLI OPEB liability using the discount rate of 6.75%, as well as what the employer's proportionate share of the net GLI OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (5.75%) or one percentage point higher (7.75%) than the current rate:

	<u>1.00% Decrease (5.75%)</u>	<u>Current Discount Rate 6.75%</u>	<u>1.00% Increase (7.75%)</u>
State Agency's Proportionate Share of the Group Life Insurance Program Net OPEB Liability	\$ 265,939	\$ 202,432	\$ 150,929

Group Life Insurance Program Fiduciary Net Position

Detailed information about the Group Life Insurance Program's Fiduciary Net Position is available in the separately issued VRS 2019 *Comprehensive Annual Financial Report* (CAFR). A copy of the 2019 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2019-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

15 Other Post-Employment Benefits - Health Insurance Credit Program

Plan Description

All full-time, salaried permanent employees of participating political subdivisions are automatically covered by the VRS Political Subdivision Health Insurance Credit Program upon employment. This plan is administered by the Virginia Retirement System (the System), along with pension and other OPEB plans, for public employer groups in the Commonwealth of Virginia. Members earn one month of service credit toward the benefit for each month they are employed and for which their employer pays contributions to VRS. The health insurance credit is a tax-free reimbursement in an amount set by the General Assembly for each year of service credit against qualified health insurance premiums retirees pay for single coverage, excluding any portion covering the spouse or dependents. The credit cannot exceed the amount of the premiums and ends upon the retiree's death.

The specific information about the Political Subdivision Health Insurance Credit Program OPEB, including eligibility, coverage and benefits is set out in the table below:

POLITICAL SUBDIVISION HEALTH INSURANCE CREDIT PROGRAM (HIC) PLAN PROVISIONS
<p>Eligible Employees The Political Subdivision Retiree Health Insurance Credit Program was established July 1, 1993 for retired political subdivision employees of political subdivision employers who elect the benefit and who retire with at least 15 years of service credit.</p> <p>Eligible employees are enrolled automatically upon employment. They include:</p> <ul style="list-style-type: none">• Full-time permanent salaried employees of the participating political subdivision who are covered under the VRS pension plan.
<p>Benefit Amounts The political subdivision's Retiree Health Insurance Credit Program provides the following benefits for eligible employees:</p> <ul style="list-style-type: none">• At Retirement – For employees who retire, the monthly benefit is \$1.50 per year of service per month with a maximum benefit of \$45.00 per month.• Disability Retirement – For employees who retire on disability or go on long-term disability under the Virginia Local Disability Program (VLDP), the monthly benefit is \$45.00 per month.
<p>Health Insurance Credit Program Notes:</p> <ul style="list-style-type: none">• The monthly Health Insurance Credit benefit cannot exceed the individual premium amount.• No health insurance credit for premiums paid and qualified under LODA, however, the employee may receive the credit for the premiums paid for other qualified health plans.• Employees who retire after being on long-term disability under VLDP must have at least 15 years of service credit to qualify for the health insurance credit as a retiree.

Employees Covered by Benefit Terms

As of the June 30, 2018 actuarial valuation, the following employees were covered by the benefit terms of the HIC OPEB plan:

	<u>Number</u>
Inactive members or their beneficiaries currently receiving benefits	20
Inactive members:	
Vested	-
Non-vested	-
Active elsewhere in VRS	-
Total inactive members	<u>20</u>
Active members	<u>53</u>
Total covered employees	<u><u>73</u></u>

Contributions

The contribution requirement for active employees is governed by §51.1-1402(E) 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. Henry County Public Service Authority's contractually required employer contribution rate for the year ended June 30, 2020 was .33% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2018. The actuarially determined rate 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 from Henry County Public Service Authority to the Political Subdivision Health Insurance Credit Program were \$8,355 and \$8,033 for the years ended June 30, 2020 and June 30, 2019, respectively.

Net HIC OPEB Liability

Henry County Public Service Authority's net Health Insurance Credit OPEB liability was measured as of June 30, 2019. The total Health Insurance Credit OPEB liability was determined by an actuarial valuation performed as of June 30, 2018, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2019.

Actuarial Assumptions

The total HIC OPEB liability was based on an actuarial valuation as of June 30, 2018, 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, 2019.

Inflation	2.50%
Salary increases, including inflation	
Locality - General Employees	3.5% - 5.35%
Locality - Hazardous Duty Employees	3.5% - 4.75%
Investment rate of return	6.75%, net of investment investment expenses, 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 assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 6.75%. However, since the difference was minimal, and a more conservative 6.75% 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 6.75% to simplify preparation of the OPEB liabilities.

Mortality rates – Non-Largest Ten Locality Employers - General Employees

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with Scale BB to 2020; males 95% of rates; females 105% of rates.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males set forward 3 years; females 1.0% increase compounded from ages 70 to 90.

Post-Disablement:

RP-2014 Disability Life Mortality Table projected with scale BB to 2020; males set forward 2 years, 110% of rates; females 125% of rates.

The actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Update to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages and extended final retirement age from 70 to 75
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Lowered disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 15%
Discount Rate	Decrease rate from 7.00% to 6.75%

Mortality rates – Non-Largest Ten Locality Employers – Hazardous Duty Employees

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with Scale BB to 2020; males 90% of rates; females set forward 1 year.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males set forward 1 year with 1.0% increase compounded from ages 70 to 90; females set forward 3 years.

Post-Disablement:

RP-2014 Disability Life Mortality Table projected with scale BB to 2020; males set forward 2 years; unisex using 100% male.

The actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Update to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Decreased rate from 60% to 45%
Discount Rate	Decrease rate from 7.00% to 6.75%

Long-Term Expected Rate of Return

The long-term expected rate of return on the System's investments was determined using a lognormal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of System's 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>
Public Equity	34.00%	5.61%	1.91%
Fixed Income	15.00%	0.88%	0.13%
Credit Strategies	14.00%	5.13%	0.72%
Real Assets	14.00%	5.27%	0.74%
Private Equity	14.00%	8.77%	1.23%
MAPS - Multi-Asset Public Strategies	6.00%	3.52%	0.21%
PIP - Private Investment Partnership	<u>3.00%</u>	6.29%	<u>0.19%</u>
Total	<u>100.00%</u>		<u>5.13%</u>
	Inflation		<u>2.50%</u>
	*Expected arithmetic nominal return		<u>7.63%</u>

* The above allocation provides a one-year return of 7.63%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 7.11%, including expected inflation of 2.50%. The VRS Board elected a long-term rate of 6.75% which is roughly at the 40th percentile of expected long-term results of the VRS fund asset allocation.

Discount Rate

The discount rate used to measure the total HIC OPEB liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that 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, 2019, the rate contributed by the entity for the HIC OPEB will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly, which was 100% of the actuarially determined contribution rate. From July 1, 2019 on, employers are assumed to continue to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the HIC OPEB's fiduciary net position was projected to be available to make all projected future benefit payments of eligible employees. Therefore, the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total HIC OPEB liability.

Changes in Net HIC OPEB Liability:

	Total HIC OPEB Liability (a)	<u>Increase (Decrease)</u> Plan Fiduciary Net Position (b)	Net HIC OPEB Liability (a) - (b)
Balances at June 30, 2018	\$ 133,212	\$ 48,442	\$ 84,770
Changes for the Year			
Service cost	1,879	-	1,879
Interest	8,981	-	8,981
Benefit changes	-	-	-
Changes of assumptions	3,549	-	3,549
Differences between expected and actual experience	12,212	-	12,212
Contributions - employer	-	8,033	(8,033)
Net investment income	-	3,005	(3,005)
Benefit payments	(9,816)	(9,816)	-
Administrative expenses	-	(65)	65
Other changes	-	(3)	3
Net Changes	<u>16,805</u>	<u>1,154</u>	<u>15,651</u>
Balances at June 30, 2019	<u>\$ 150,017</u>	<u>\$ 49,596</u>	<u>\$ 100,421</u>

Sensitivity of the Political Subdivision Health Insurance Credit Net OPEB Liability to Changes in the Discount Rate

The following presents the Political Subdivision Health Insurance Credit Program net HIC OPEB liability using the discount rate of 6.75%, as well as what the Political subdivision's net HIC OPEB liability would be if it were calculated using a discount rate that is one percentage point lower 5.75% or one percentage point higher 7.75% than the current rate:

	1.00% Decrease (5.75%)	Current Discount Rate (6.75%)	1.00% Increase (7.75%)
Political subdivision's Net HIC OPEB Liability	\$ 116,111	\$ 100,421	\$ 87,005

Health Insurance Credit Program OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Health Insurance Credit Program OPEB

For the year ended June 30, 2020, Henry County Public Service Authority recognized Health Insurance Credit Program OPEB expense \$9,190. At June 30, 2020, Henry County Public Service Authority reported deferred outflows of resources and deferred inflows of resources related to Henry County Public Service Authority's Health Insurance Credit Program from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 10,824	\$ -
Net difference between projected and actual earnings on HIC OPEB plan investments	-	548
Change in assumptions	2,970	2,789
Changes in proportion	-	-
Employer contributions subsequent to the measurement date	<u>8,355</u>	<u>-</u>
Total	<u>\$ 22,149</u>	<u>\$ 3,337</u>

\$8,355 reported as deferred outflows of resources related to the HIC OPEB resulting from Henry County Public Service Authority's contributions subsequent to the measurement date will be recognized as a reduction of the Net HIC OPEB Liability in the Fiscal Year ending June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the HIC OPEB will be recognized in the HIC OPEB expense in future reporting periods as follows:

**Year Ended
June 30,**

2021	\$ 1,588
2022	1,589
2023	1,973
2024	2,337
2025	2,635
Thereafter	335

Health Insurance Credit Program Plan Data

Information about the VRS Political Subdivision Health Insurance Credit Program is available in the separately issued VRS 2019 *Comprehensive Annual Financial Report* (CAFR). A copy of the 2019 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2019-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

16 Henry County Public Service Authority OPEB Plan for Retirees' Health Insurance

General Information About the OPEB Plan

Employer. Henry County Public Service Authority

Summary of Plan Provisions

The following is our understanding of the plan provisions for retiree coverage. Where the following differs from the official plan rules, the valuation should be revised.

Eligibility Conditions

A retiring employee participating in the Employer's medical program with at least 15 years of Authority service, and retires under the VRS plan is eligible to elect post-retirement coverage.

Eligibility for VRS Retirement

Early Retirement – Plan 1

- The employee must have 10 years of service and 50 years of age; or,
- The employee must have 5 years of service and 55 years of age.

Full Retirement – Plan 1

- The employee must have 65 years of age and vested in VRS; or,
- The employee must have 30 years of service and 50 years of age.

Early Retirement – Plan 2&Hybrid

- The employee must have 5 years of service and 60 years of age.

Full Retirement – Plan 2&Hybrid

- The employee must have reached Normal Social Security retirement age with at least 5 years of service; or,
- Age and service must equal 90.

Covered Employees

All full time employees (must be covered by the active plan at the time of retirement). Coverage ceases at age 65 for new retirees.

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Type of Coverage	Employee	Spouse
Life Insurance	No post-retirement life insurance is valued.	Not applicable.
Dental Coverage	Post-retirement dental coverage is provided on an Access-only basis, retirees pay the active rate.	Same as Employee.
Vision Coverage	Post-retirement vision coverage is provided on an Access-only basis (COBRA – 18 months). Retirees pay retiree rate.	Same as Employee.
Medical Coverage ➤ Employee Cost Sharing ➤ Coverage Ceases	Active employees and retirees charged the same rate. Retiree pays 100% of this blended premium. For future retirees, coverage ceases upon the earlier of death or attainment of Medicare eligibility. For current retirees, coverage ceases upon death.	Employee pays 100% of blended spousal premium. For future retirees, spouse coverage ceases upon earlier of retiree death or Medicare eligibility. Surviving spouses are offered COBRA to age 65.
Disability Coverage	No post-retirement disability insurance is valued.	Not applicable.
Long Term Care Coverage	No post-retirement long term care insurance is valued.	Not applicable.

Amendments

The Employer reserves the right to amend the Plan at any time subject to Board action.

Commonwealth of Virginia

The Commonwealth of Virginia reimburses Public Service Authority retirees' an amount equal to \$1.50 times their years of service up to 30 years. This credit has no effect on the Employer's medical contribution or OPEB obligation.

Employees covered by benefit terms. At July 1, 2018 (the valuation date) the following employees were covered by the benefit terms:

	<u>Count</u>	<u>Total OPEB Liability</u>
Inactive employees or beneficiaries currently receiving benefits	2	\$ 4,861
Active employees	<u>52</u>	<u>227,468</u>
Total	<u>54</u>	<u>\$ 232,329</u>

Employer Contributions

The funding policy of the plan sponsor is to contribute annually an amount sufficient to satisfy benefit payment requirements to participants.

Employee Contributions

None

Net OPEB Liability

The employer's net OPEB liability is reported herein as of June 30, 2020 for the employer fiscal year and reporting period of July 1, 2019 to June 30, 2020. The values shown for this fiscal year and reporting period are based on a measurement date of July 1, 2019 and the corresponding measurement period of July 1, 2018 to July 1, 2019 for GASB 75 and a measurement date of June 30, 2020 and the corresponding measurement period of July 1, 2019 to June 30, 2020 for GASB 74. The measurement of the total OPEB liability is based on a valuation date of July 1, 2018.

Actuarial Assumptions and Actuarial Methods. The total OPEB liability in the July 1, 2019 actuarial valuation was determined using the following key actuarial assumptions, applied to all periods included in the measurement:

Expected Return on Assets	6.75%
Discount Rate	6.75%
Salary Scale	2.50%
Healthcare Cost Trend Rates	3.10% for fiscal year end 2019 (to reflect actual experience), then 6.90% for fiscal year end 2020, decreasing .30% per year to an ultimate rate of 5.10%
Mortality	RP-2014 Mortality Table, fully generational with base year 2006, projected using two-dimensional mortality improvement scale MP-2019.
Actuarial Cost Method	Entry Age Actuarial Cost Method

Expected Return on Assets

6.75%

Discount Rate

- The discount rate has been set equal to 6.75% which is the rate of return on assets.

Changes in the Net OPEB Liability

	Total OPEB Retiree HI Liability (a)	<u>Increase (Decrease)</u> Plan Fiduciary Net Position (b)	Net OPEB Retiree HI Liability (Asset) (a) - (b)
Balances at July 1, 2019	\$ 224,710	\$ 161,560	\$ 63,150
Changes for the Year			
Service cost	4,768	-	4,768
Interest	16,656	-	16,656
Differences between expected and actual experience	(954)	-	(954)
Contributions - employer	-	28,069 *	(28,069)
Net investment income	-	8,200	(8,200)
Benefit payments	(15,069)	(15,069) **	-
Changes of benefit terms	-	-	-
Administrative expenses	-	(678)	678
Other changes	16,276	-	16,276
Net Changes	<u>21,677</u>	<u>20,522</u>	<u>1,155</u>
Balances at June 30, 2020***	<u>\$ 246,387</u>	<u>\$ 182,082</u>	<u>\$ 64,305</u>

* This is contribution plus "Pay-as-you-go" Cost

** This is the "pay-as-you-go" Cost

*** Measurement date is July 1, 2019

Sensitivity of the net OPEB liability to changes in the discount rate

The following presents the Net OPEB liability/(asset) of the employer as of the measurement date calculated using the discount rate, as well as what the employer's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	<u>1.00%</u> <u>Decrease</u>	<u>Current</u> <u>Discount Rate</u>	<u>1.00%</u> <u>Increase</u>
Employer's Net OPEB Retiree Health Insurance Liability	\$ 88,627	\$ 64,305	\$ 42,596

Sensitivity of the net OPEB liability to changes in the Trend rate

The following presents the Net OPEB liability/(asset) of the employer as of the measurement date calculated using the trend rate, as well as what the employer's net OPEB liability would be if it were calculated using a trend rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	<u>1.00% Decrease</u>	<u>Current Trend Rate</u>	<u>1.00% Increase</u>
Employer's Net OPEB Retiree Health Insurance Liability	\$ 37,504	\$ 64,305	\$ 95,302

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2020, under GASB 75 the employer OPEB expense (credit) is \$(22,038). The deferred outflows of resources and deferred inflows of resources related to OPEB as of June 30, 2020 from various sources are as follows:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 53,211
Changes of assumptions	13,484	87,184
Net difference between projected and actual earnings on OPEB plan investments	3,113	-
Employer contributions after measurement date but prior to fiscal year end	<u>28,069</u>	<u>-</u>
Total	<u>\$ 44,666</u>	<u>\$ 140,395</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<u>Year Ended June 30,</u>	
2021	\$ (33,122)
2022	(33,122)
2023	(33,121)
2024	(26,615)
2025	(2,182)

17 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 Virginia Risk Sharing Association, a public entity risk pool currently operating as a common risk management and insurance program for participating local governments. The Authority pays an annual premium to the pool for substantially all of its insurance coverage. In the event of a loss creating a deficit or depletion of all available excess insurance, the pool may assist all members in the proportion that the premium of each bears to the total premiums of all members in the year in which such deficit occurs. The settled claims for 2020 and 2019 did not exceed insurance.

18 Water and Sewer Purchases

In 1974, the Authority and neighboring City of Martinsville, Virginia (the "City") signed a service agreement in which the Authority would purchase water and sewage treatment from the City and share in the annual operating costs of the plants in proportion to its actual use as measured by the volume of water used and sewage it contributed. It also allowed for the Authority to purchase capacity rights into the water and sewer plants at an agreed-upon price.

19 Subsequent Events

Management has performed an analysis of the activities and transactions subsequent to June 30, 2020 to determine the need for any adjustments to and/or disclosures within the audited financial statements for the year ended June 30, 2020. Management has performed their analysis through September 29, 2020.

**REQUIRED SUPPLEMENTARY
INFORMATION**

Henry County Public Service Authority

Schedule of Changes in the Political Subdivision's Net Pension Liability and Related Ratios - VRS Pension

For the Plan Years Ended June 30

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total pension liability						
Service cost	\$ 196,211	\$ 197,922	\$ 214,217	\$ 207,152	\$ 197,594	\$ 199,863
Interest	849,523	815,669	785,488	761,707	687,221	656,584
Changes in benefit terms	-	-	-	-	-	-
Difference between expected and actual experience	256,321	14,798	123,682	(130,672)	589,016	-
Changes of assumptions	397,152	-	(136,024)	-	-	-
Benefit payments	<u>(544,698)</u>	<u>(544,822)</u>	<u>(567,590)</u>	<u>(429,348)</u>	<u>(390,123)</u>	<u>(447,437)</u>
Net change in total pension liability	1,154,509	483,567	419,773	408,839	1,083,708	409,010
Total pension liability - beginning	<u>\$ 12,408,386</u>	<u>\$ 11,924,819</u>	<u>\$ 11,505,046</u>	<u>\$ 11,096,207</u>	<u>\$ 10,012,499</u>	<u>9,603,489</u>
Total pension liability - ending (a)	<u>\$ 13,562,895</u>	<u>\$ 12,408,386</u>	<u>\$ 11,924,819</u>	<u>\$ 11,505,046</u>	<u>\$ 11,096,207</u>	<u>\$ 10,012,499</u>
 Plan fiduciary net position						
Contributions - employer	\$ 148,530	\$ 156,364	\$ 154,971	\$ 157,317	\$ 152,017	\$ 138,474
Contributions - employee	116,690	116,593	112,606	111,309	119,286	108,301
Net investment income	777,995	826,617	1,238,906	177,159	454,864	1,374,762
Benefit payments	(544,698)	(544,822)	(567,590)	(429,348)	(390,123)	(447,437)
Administrator charges	(7,805)	(7,231)	(7,292)	(6,411)	(6,254)	(7,503)
Other	<u>(490)</u>	<u>(731)</u>	<u>(1,098)</u>	<u>(75)</u>	<u>(94)</u>	<u>72</u>
Net change in plan fiduciary net position	490,222	546,790	930,503	9,951	329,696	1,166,669
Plan fiduciary net position - beginning	<u>11,778,795</u>	<u>11,232,005</u>	<u>10,301,502</u>	<u>10,291,551</u>	<u>9,961,855</u>	<u>8,795,186</u>
Plan fiduciary net position - ending (b)	<u>\$ 12,269,017</u>	<u>\$ 11,778,795</u>	<u>\$ 11,232,005</u>	<u>\$ 10,301,502</u>	<u>\$ 10,291,551</u>	<u>\$ 9,961,855</u>
 Political subdivision's net pension liability - ending (a) - (b)	<u>\$ 1,293,878</u>	<u>\$ 629,591</u>	<u>\$ 692,814</u>	<u>\$ 1,203,544</u>	<u>\$ 804,656</u>	<u>\$ 50,644</u>
 Plan fiduciary net position as a percentage of the total pension liability	90.46%	94.93%	94.19%	89.54%	92.75%	99.49%
 Covered payroll	\$ 2,434,388	\$ 2,329,670	\$ 2,287,191	\$ 2,252,132	\$ 2,161,601	\$ 2,047,723
 Political subdivision's net pension liability as a percentage of covered payroll	53.15%	27.02%	30.29%	53.44%	37.23%	2.47%

Henry County Public Service Authority

Schedule of Employer Contributions

Political Subdivisions Retirement Plan

For the Years Ended June 30, 2011 through 2020

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)		
2020	\$ 162,290	\$ 162,290	\$ -	\$2,531,827	6.41%
2019	156,044	156,044	-	2,434,388	6.41%
2018	161,212	161,212	-	2,329,670	6.92%
2017	158,274	158,274	-	2,287,191	6.92%
2016	159,224	159,224	-	2,252,132	7.07%
2015	152,161	152,161	-	2,161,601	7.04%
2014	138,474	138,474	-	2,047,723	6.76%
2013	136,619	136,619	-	2,109,778	6.48%
2012	40,267	40,267	-	2,035,564	1.98%
2011	40,161	40,161	-	2,056,050	1.95%

For Reference Only:

Column 1 – Employer contribution rate multiplied by the employer’s covered payroll

Column 2 – Actual employer contribution remitted to VRS

Column 4 – Employer’s covered payroll amount for the fiscal year

Henry County Public Service Authority

Notes to Required Supplementary Information – VRS Pension

For the Year Ended June 30, 2020

Changes of benefit terms – There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation.

Changes of assumptions – The actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial study for the period from July 1, 2012 through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

All Others (Non 10 Largest) – Non-Hazardous Duty:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Update to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Lowered rates
Salary Scale	No change
Line of Duty Disability	Increase rate from 14% to 15%
Discount Rate	Decrease rate from 7.00% to 6.75%

Henry County Public Service Authority

Schedule of Employer's Share of Net OPEB Liability Group Life Insurance Program

For the Measurement Dates of June 30, 2019, 2018, and 2017

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Employer's Proportion of the Net GLI OPEB Liability (Asset)	0.012440%	0.012270%	0.012400%
Employer's Proportionate Share of the Net GLI OPEB Liability (Asset)	\$ 202,432	\$ 186,000	\$ 187,000
Employer's Covered Payroll	\$ 2,439,558	\$ 2,329,670	\$ 2,287,191
Employer's Proportionate Share of the Net GLI OPEB Liability (Asset) as a Percentage of its Covered Payroll	8.298%	7.984%	8.176%
Plan Fiduciary Net Position as a Percentage of the Total GLI OPEB Liability	52.00%	51.22%	48.86%

Schedule is intended to show information for 10 years. Since 2019 is the third year of presentation, only three years of data are available. However, additional years will be included as they become available.

For Reference Only

The Plan Fiduciary Net Position as a Percentage of the Total GLI OPEB Liability for the VRS Group Life Insurance Program for each year is presented on page 127 of the VRS 2019 *Comprehensive Annual Financial Report (CAFR)*.

Henry County Public Service Authority

Schedule of Employer Contributions

Group Life Insurance OPEB Plan

For the Years Ended June 30, 2011 through 2020

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)		
2020	\$ 13,176	\$ 13,176	\$ -	\$ 2,536,972	0.52%
2019	12,686	12,686	-	2,439,558	0.52%
2018	12,131	12,131	-	2,329,670	0.52%
2017	11,893	11,893	-	2,287,191	0.52%
2016	10,845	10,845	-	2,259,406	0.48%
2015	10,398	10,398	-	2,166,326	0.48%
2014	10,143	10,143	-	2,113,192	0.48%
2013	9,996	9,996	-	2,082,602	0.48%
2012	5,752	5,752	-	2,054,459	0.28%
2011	5,737	5,737	-	2,049,025	0.28%

For Reference Only:

Column 1 - Employer contribution rate multiplied by the employer's covered payroll.

Column 2 - Actual employer contribution remitted to VRS.

Column 4 - Employer's covered payroll amount for the fiscal year.

Henry County Public Service Authority

Notes to Required Supplementary Information – GLI OPEB

For the Year Ended June 30, 2020

Changes of benefit terms – There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation.

Changes of assumptions – The actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial study for the period from July 1, 2012 through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

General State Employees

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Update to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70-75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Increase rate from 14% to 25%
Discount Rate	Decrease rate from 7.00% to 6.75%

Teachers

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Update to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70-75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Discount Rate	Decrease rate from 7.00% to 6.75%

SPORS Employees

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Update to a more current mortality table – RP-2014 projected to 2020 and reduced margin for future improvement in accordance with experience
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Increased rate from 60% to 85%
Discount Rate	Decrease rate from 7.00% to 6.75%

VaLORS Employees

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Update to a more current mortality table – RP-2014 projected to 2020 and reduced margin for future improvement in accordance with experience
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Decreased rate from 50% to 35%
Discount Rate	Decrease rate from 7.00% to 6.75%

JRS Employees

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Update to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Decreased rates at first retirement eligibility
Withdrawal Rates	No change
Disability Rates	Removed disability rates
Salary Scale	No change
Discount Rate	Decrease rate from 7.00% to 6.75%

Largest Ten Locality Employers – General Employees

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Update to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages and extended final retirement age from 70 to 75
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Lowered disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 20%
Discount Rate	Decrease rate from 7.00% to 6.75%

Non-Largest Ten Locality Employers – General Employees

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Update to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages and extended final retirement age from 70 to 75
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Lowered disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 15%
Discount Rate	Decrease rate from 7.00% to 6.75%

Largest Ten Locality Employers – Hazardous Duty Employees

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Update to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Increased disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 60% to 70%
Discount Rate	Decrease rate from 7.00% to 6.75%

Non-Largest Ten Locality Employers – Hazardous Duty Employees

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Update to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Decreased rate from 60% to 45%
Discount Rate	Decrease rate from 7.00% to 6.75%

Henry County Public Service Authority

Schedule of Changes in the Political Subdivision's Net HIC OPEB Liability and Related Ratios

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Total HIC OPEB liability			
Service cost	\$ 1,879	\$ 1,908	\$ 2,173
Interest	8,981	8,854	9,009
Changes in benefit terms	-	-	-
Differences between expected and actual experience	12,212	874	-
Changes of assumptions	3,549	-	(5,144)
Benefit payments	<u>(9,816)</u>	<u>(9,827)</u>	<u>(6,653)</u>
Net change in total HIC OPEB liability	16,805	1,809	(615)
Total HIC OPEB liability - beginning	133,212	131,403	132,018
Total HIC OPEB liability - ending (a)	<u>\$ 150,017</u>	<u>\$ 133,212</u>	<u>\$ 131,403</u>
Plan fiduciary net position			
Contributions - employer	\$ 8,033	\$ 7,222	\$ 7,090
Net investment income	3,005	3,325	4,912
Benefit payments	(9,816)	(9,827)	(6,653)
Administrator charges	(65)	(76)	(80)
Other	<u>(3)</u>	<u>(246)</u>	<u>246</u>
Net change in plan fiduciary net position	1,154	398	5,515
Plan fiduciary net position - beginning	48,442	48,040	42,525
Plan fiduciary net position - ending (b)	<u>\$ 49,596</u>	<u>\$ 48,438</u>	<u>\$ 48,040</u>
Political subdivision's net HIC OPEB liability - ending (a) - (b)	<u>\$ 100,421</u>	<u>\$ 84,774</u>	<u>\$ 83,363</u>
Plan fiduciary net position as a percentage of the total HIC OPEB liability	33.06%	36.36%	36.56%
Covered payroll	\$ 2,439,558	\$ 2,329,670	\$ 2,287,191
Political subdivision's net HIC OPEB liability as a percentage of covered payroll	4.12%	3.64%	3.64%

Schedule is intended to show information for 10 years. Since 2019 is the third year of presentation, only three years of data are available. However, additional years will be included as they become available.

Henry County Public Service Authority

Schedule of Employer Contributions

Health Insurance Credit - Political Subdivisions

For the Years Ended June 30, 2011 through 2020

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)		
2020	\$ 8,355	\$ 8,355	\$ -	\$ 2,531,827	0.33%
2019	8,033	8,033	-	2,439,558	0.33%
2018	7,222	7,222	-	2,329,670	0.31%
2017	7,090	7,090	-	2,287,191	0.31%
2016	6,756	6,756	-	2,252,132	0.30%
2015	6,485	6,485	-	2,161,710	0.30%
2014	6,755	6,755	-	2,110,884	0.32%
2013	6,664	6,664	-	2,082,602	0.32%
2012	6,780	6,780	-	2,054,459	0.33%
2011	6,762	6,762	-	2,049,025	0.33%

For Reference Only:

Column 1 - Employer contribution rate multiplied by the employer's covered payroll

Column 2 - Actual employer contribution remitted to VRS

Column 4 - Employer's covered payroll amount for the fiscal year

Henry County Public Service Authority

Notes to Required Supplementary Information – HIC OPEB

For the Year Ended June 30, 2020

Changes of benefit terms – There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation.

Changes of assumptions – The actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial study for the period from July 1, 2012 through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

Non-Largest Ten Locality Employers - General Employees

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages and extended final retirement age from 70 to 75
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Lowered disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 15%
Discount Rate	Decrease rate from 7.00% to 6.75%

Non-Largest Ten Locality Employers – Hazardous Duty Employees

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Decreased rate from 60% to 45%
Discount Rate	Decrease rate from 7.00% to 6.75%

Henry County Public Service Authority

Schedule of Changes in the Political Subdivision's
Net OPEB Liability - Retiree Health Insurance
and Related Ratios

Last 10 Fiscal Years (as information becomes available)

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Total OPEB liability			
Service cost	\$ 4,768	\$ 13,667	\$ 13,334
Interest	16,656	15,290	14,774
Changes of benefit terms	-	-	-
Differences between expected and actual experience	(954)	(79,795)	-
Changes of assumptions	16,276	(132,712)	-
Benefit Payments, including refunds of employee contributions	(15,069)	(14,987)	(12,948)
Other	-	-	-
Net change in total OPEB liability	<u>21,677</u>	<u>(198,537)</u>	<u>15,160</u>
Total OPEB liability - beginning	<u>224,710</u>	<u>423,247</u>	<u>408,087</u>
Total OPEB liability - ending (a)	<u>\$ 246,387</u>	<u>\$ 224,710</u>	<u>\$ 423,247</u>
Plan fiduciary net position			
Contributions - employer	\$ 28,069	\$ 27,987	\$ 25,948
Contributions - employee	-	-	-
Net investment income	8,200	12,879	15,136
Benefit Payments, including refunds of employee contributions	(15,069)	(14,987)	(12,948)
Administrative expenses	(678)	(655)	(636)
Other	-	-	-
Net change in plan fiduciary net position	<u>20,522</u>	<u>25,224</u>	<u>27,500</u>
Plan fiduciary net position - beginning	<u>161,560</u>	<u>136,336</u>	<u>108,836</u>
Plan fiduciary net position - ending (b)	<u>\$ 182,082</u>	<u>\$ 161,560</u>	<u>\$ 136,336</u>
Employer's net OPEB liability - ending (a) - (b)	<u>\$ 64,305</u>	<u>\$ 63,150</u>	<u>\$ 286,911</u>
Plan fiduciary net position as a percentage of the total OPEB liability	73.90%	71.90%	32.21%
Covered employee-payroll	\$ 2,351,060	\$ 2,351,060	\$ 2,222,703
Employer's net OPEB liability as a percentage of covered employee-payroll	2.74%	2.69%	12.91%

Henry County Public Service Authority

Schedule of Employer Contributions - OPEB Retiree Health Insurance

For the Years Ended June 30, 2011 through 2020

Date	Contributions in			Expected Covered Employee Payroll (4)	Contributions as a % of Covered Payroll (5)
	Actuarially Determined Contribution (1)	Relation to Actuarially Determined Contribution (2)	Contribution Deficiency (Excess) (3)		
2020	\$ 15,069	\$ 28,069	\$ (13,000)	\$ 2,351,060	1.19%
2019	14,987	27,987	(13,000)	2,351,060	1.19%
2018	12,948	12,948	-	2,222,703	0.58%
2017	N/A	N/A	N/A	N/A	N/A
2016	N/A	N/A	N/A	N/A	N/A
2015	N/A	N/A	N/A	N/A	N/A
2014	N/A	N/A	N/A	N/A	N/A
2013	N/A	N/A	N/A	N/A	N/A
2012	N/A	N/A	N/A	N/A	N/A
2011	N/A	N/A	N/A	N/A	N/A

Notes

The employer has elected to make an annual contribution equal to the benefit payments. The employer share of net benefits is the difference between the expected benefit payments and the retiree contributions. It is sometimes referred to as “pay-as-you-go.”

The expected benefit payments are actuarially determined to reflect the age difference between the overall covered group and the retiree group.

Actuarially determined contributions, which are based on the expected “pay-as-you-go” cost, and actual contributions are from the measurement periods ending June 30 of the year prior to the year-end of the reporting periods shown. This is the first valuation under GASB 75 for the reported Plan.

OTHER INFORMATION

Table 1

Henry County Public Service Authority

Revenues by Source

Last Ten Fiscal Years

<u>Fiscal Years Ended June 30</u>	<u>Water</u>	<u>Sewer</u>	<u>Other</u>	<u>Investment Earnings</u>	<u>Grants and Other Contributions</u>	<u>Connection Fees</u>	<u>Totals</u>
2020	\$ 6,985,664	\$ 5,201,786	\$ 897,385	\$ 351,975	\$ 126,564	\$ 30,900	\$ 13,594,274
2019	7,122,340	5,475,014	894,662	499,195	355,750	49,700	14,396,661
2018	7,092,814	4,972,918	822,748	378,726	677,358	68,000	14,012,564
2017	7,103,980	5,095,250	790,811	340,012	896,386	46,292	14,272,731
2016	7,001,004	5,193,665	837,617	393,482	1,075,869	109,850	14,611,487
2015	6,933,471	4,830,544	863,771	379,498	173,085	57,950	13,238,319
2014	6,828,639	4,656,607	768,128	371,617	37,480	41,600	12,704,071
2013	6,043,520	4,026,670	762,450	366,579	32,739	47,924	11,279,882
2012	6,013,784	4,003,556	735,664	359,540	2,518,393	47,650	13,678,587
2011	5,973,085	4,248,075	772,940	343,548	1,252,729	70,493	12,660,870

Table 2

Expenses by Function

Last Ten Fiscal Years

<u>Fiscal Years Ended June 30</u>	<u>System Maintenance</u>	<u>Treatment</u>	<u>Engineering and Mapping</u>	<u>Administration and Other</u>	<u>Depreciation</u>	<u>Amortization and Interest</u>	<u>Totals</u>
2020	\$ 1,567,689	\$ 3,907,038	\$ 387,529	\$ 2,142,358	\$ 3,237,823	\$ 567,891	\$ 11,810,328
2019	1,504,439	3,853,792	348,134	2,139,593	3,284,794	597,572	11,728,324
2018	1,697,202	3,071,162	321,179	3,238,496	3,218,463	676,436	12,222,938
2017	1,439,404	3,114,831	362,299	2,183,031	3,131,080	833,701	11,064,346
2016	1,336,527	3,491,294	323,939	2,107,370	3,085,840	1,016,061	11,361,031
2015	1,206,781	3,183,910	289,375	2,072,224	3,073,959	1,128,956	10,955,205
2014	1,249,187	3,117,220	320,103	2,091,333	3,061,958	1,263,436	11,103,237
2013	1,319,612	3,024,397	315,279	1,909,491	3,056,933	1,388,263	11,013,975
2012	1,184,196	2,952,894	308,273	1,767,202	3,242,047	1,596,439	11,051,051
2011	1,241,531	2,981,668	303,426	1,810,205	3,547,867	1,715,083	11,599,780

Henry County Public Service Authority

Revenue Bond Debt Service Coverage

Last Ten Fiscal Years

<u>Fiscal Years Ended June 30</u>	<u>Unrestricted Cash Beginning of Year</u>	<u>Gross Revenues</u>	<u>Direct Operating Expenses**</u>	<u>Net Available</u>	<u>Principal***</u>	<u>Interest</u>	<u>Total Debt</u>	<u>Coverage</u>
2020	\$ 13,931,734	\$ 13,467,710	\$ 8,004,614	\$ 19,394,830	\$ 4,064,022	\$ 567,891	\$ 4,631,913	4.19
2019	11,540,550	14,040,911	7,845,958	17,735,503	3,873,197	597,572	4,470,769	3.97
2018	9,143,032	13,335,206	7,216,760	15,261,478	3,684,256	677,694	4,361,950	3.50
2017	8,544,150	13,376,344	7,099,565	14,820,929	3,383,019	832,952	4,215,971	3.52
2016	7,159,883	13,535,618	7,259,130	13,436,371	3,138,527	955,079	4,093,606	3.28
2015	6,344,143	13,065,234	6,752,290	12,657,087	2,960,185	1,128,206	4,088,391	3.10
2014	5,385,959	12,666,591	6,777,843	11,274,707	2,808,413	1,262,686	4,071,099	2.77
2013	5,467,913	11,247,143	6,568,779	10,146,277	2,671,909	1,387,513	4,059,422	2.50
2012	5,398,771	11,160,194	6,212,565	10,346,400	2,545,666	1,504,481	4,050,147	2.55
2011	5,342,244	11,408,141	6,336,830	10,413,555	2,424,671	1,614,321	4,038,992	2.58

**Excluding depreciation, interest, and amortization.

***Excludes debt refinancing payoffs.

Henry County Public Service Authority

Schedule of Insurance in Force

June 30, 2020

<u>Type Coverage (Insurer)</u>	<u>Liability Limits</u>	
Commercial General Liability (Virginia Risk Sharing Association)	\$ 1,000,000	Each Occurrence Limit
	100,000	Fire Damage Limit
	10,000	Medical Expense Limit
	10,000	No Fault Property Damage
Primary Automobile Liability (Virginia Risk Sharing Association)	\$ 25,000	Bodily Injury Per Person
	50,000	Bodily Injury Per Accident
	20,000	Property Damage Per Accident
	1,000,000	Per Occurrence
Automobile Uninsured Motorists (Virginia Risk Sharing Association)	\$ 25,000	Bodily Injury Per Person
	50,000	Bodily Injury Per Accident
	20,000	Property Damage Per Accident
	10,000	Automobile Medical Payments
Automobile Physical Damage (Virginia Risk Sharing Association)	Actual	Comprehensive
	Actual	Collision
	\$ 250	Deductible/Comprehensive
	500	Deductible/Collision
Excess Liability Coverage (Virginia Risk Sharing Association)	\$ 2,000,000	Per Occurrence
Commercial Property Coverage (Virginia Risk Sharing Association)	\$ 50,510,258	Blanket Real and Personal Property
	100,000	Extra Expense (Monthly Limit)
	1,000	Deductible
Commercial Inland Marine Coverage (Virginia Risk Sharing Association)	\$ 400,000	Contractor's Equipment
Boiler and Machinery Coverage (Virginia Risk Sharing Association)	\$ 50,000,000	Direct Damage (Per Accident)
	100,000	Refrigerant
	100,000	Ammonia Contamination
	100,000	Expediting Expenses
	100,000	Hazardous Substances
	100,000	Water Damage
	100,000	Computer
	100,000	Perishable Goods
	250,000	Demolition & ICC
	250,000	Newly Acquired Location
Public Employees Dishonesty Coverage (Virginia Risk Sharing Association)	\$ 1,000,000	Aggregate Amount
	5,000	Deductible
Worker's Compensation (Virginia Risk Sharing Self-Insurance Association)	Statutory	State Statutory Provision
	\$ 1,000,000	Employer's Liability Limit
Public Official Liability (Commonwealth of Virginia - Division of Risk Management)	\$ 1,000,000	Limit of Liability
	1,000	Deductible

Table 5

Henry County Public Service Authority

Raw Water Production by Source (In Million Gallons)

Last Ten Fiscal Years

Fiscal Years Ended June 30	City of Martinsville/ Eden	Philpott	Wells	Totals
2020	6	1,183	3	1,192
2019	7	1,195	3	1,205
2018	6	1,122	3	1,131
2017	6	1,069	4	1,079
2016	9	1,032	9	1,050
2015	10	1,022	10	1,042
2014	12	1,023	11	1,046
2013	14	1,021	9	1,044
2012	13	999	9	1,021
2011	13	1,014	10	1,037

Source: Reports prepared by the Authority and submitted to the Virginia Department of Health.

Table 6

Waste Water Treatment By Plant
(In Million Gallons)

Last Ten Fiscal Years

Fiscal Years Ended June 30	City of Martinsville	Lower Smith River	Totals
2020	917	-	917
2019	903	-	903
2018	696	-	696
2017	767	-	767
2016	854	-	854
2015	651	-	651
2014	590	-	590
2013	681	-	681
2012	580	-	580
2011	716	-	716

Note: Does not include waste treatment in lagoon systems.

Source: Flow Reports

Table 7

Henry County Public Service Authority

Demographic Statistics

Last Ten Fiscal Years

Fiscal Years Ended June 30	Population (1)	Per Capita Income (2)	Median Age (3)	Unemployment Rate (4)
2020	51,019	39,367	47.2	9.3%
2019	51,438	37,827	46.8	3.6%
2018	51,975	35,899	46.2	3.9%
2017	52,352	34,968	46.0	5.1%
2016	52,822	33,439	45.5	5.7%
2015	53,273	32,546	45.0	7.3%
2014	53,560	31,650	44.5	8.4%
2013	53,889	30,097	44.7	9.3%
2012	53,867	29,628	44.7	9.8%
2011	54,151	28,773	44.7	10.7%

Sources:

- 1) U. S. Census, 2010; other figures are annually adjusted estimates prepared by the University of Virginia Weldon Cooper Center for Public Service.
- 2) Bureau of Economic Analysis. Figures are for Martinsville and Henry County combined; Henry County only figures not available; information based on latest available data.
- 3) U. S. Census Bureau.
- 4) Virginia Labor Market Information.

Henry County Public Service Authority

List of Ten Largest Customers

Year Ended June 30, 2020

<u>Customer</u>	<u>Business</u>	<u>Amount</u>	<u>Percent of Total Billings*</u>
C.P. Films, Inc.	Manufacturing	\$ 850,143	6.98%
Monogram Snack Martinsville, LLC	Manufacturing	431,668	3.54%
Henry County Schools	Public School System	155,034	1.27%
County of Henry, Virginia	Local Government	139,377	1.14%
Scrub Board/Bobby Nickelston	Laundries and Car Washes	114,937	0.94%
King's Grant	Retirement Community	120,876	0.99%
CAH Properties	Rental Properties	70,182	0.58%
Stanleytown Healthcare	Healthcare/Rehab Facility	69,619	0.57%
Dayton-Chambers Inc. (Dutch Inn)	Hotel and Restaurant	50,534	0.41%
LIC Associates	Rental Properties	<u>65,113</u>	<u>0.53%</u>
Total		<u>\$ 2,067,483</u>	<u>16.96%</u>
*Total Billings		<u>\$ 12,187,450</u>	

Henry County Public Service Authority

Miscellaneous Statistical Data

As of June 30, 2020

Type of Entity	Independent authority created pursuant to the Virginia Water and Sewer Authorities Act, Section 15.2-5100, Code of Virginia (1950), as amended.	
Date of Incorporation	1965	
Selected Information	Number of Employees	57
	Number of Active Water Connections	12,306
	Number of Active Sewer Connections	7,041
	Miles of Water Lines	375
	Miles of Sewer Lines	243
	Number of Fire Hydrants	1,638
	Water Treatment Plant Capacity	4 MGD
	City of Martinsville, Virginia Purchased Water Capacity	2 MGD
	Sewer Treatment Plant Capacity	6 MGD
	City of Martinsville Purchased Sewer Capacity	4 MGD
	Average Daily Water Consumption	3.27 MGD
	Average Daily Sewage Flow	2.51 MGD
Bond Rating	Not rated	
Minimum Consumption Charge Per Service (Sewer charges are based on water consumption.)	Residential customers charged a minimum monthly consumption charge of \$30 per service for up to 4,000 gallons consumption. Non-Residential customers charged a minimum monthly consumption charge of \$45 per service for up to 4,000 gallons consumption. Institutional customers charged a minimum monthly consumption charge of \$68.50 per service for up to 6,000 gallons consumption.	
Additional Consumption	The following charges apply to each 1,000 gallons, or fractions thereof, of water consumed above mentioned minimums: Residential customers - \$4.70 per additional 1,000 gallons. Non-Residential customers - \$7 per additional 1,000 gallons. Institutional customers - \$8.10 per additional 1,000 gallons.	
Exceptions	The Authority reserves the right to negotiate contracts for service charges with industrial users.	

COMPLIANCE



**INDEPENDENT AUDITOR'S 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
Henry County Public Service Authority

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 and fiduciary fund of the Henry County Public Service Authority, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Henry County Public Service Authority's basic financial statements, and have issued our report thereon dated September 29, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Henry County Public 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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Henry County Public Service Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Henry County Public 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.

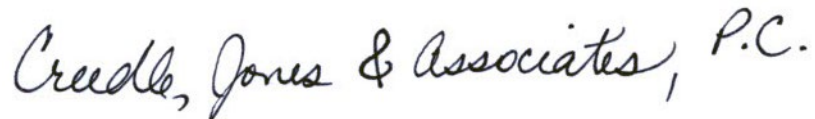
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not 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 the Henry County Public 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.

A handwritten signature in black ink that reads "Creedle, Jones & Associates, P.C." in a cursive script.

Creedle, Jones & Associates, P.C.
Certified Public Accountants

South Hill, Virginia
September 29, 2020



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Board of Directors
Henry County Public Service Authority

Report on Compliance for Each Major Federal Program

We have audited the Henry County Public Service Authority's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Henry County Public Service Authority's major federal programs for the year ended June 30, 2020. Henry County Public Service Authority's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Henry County Public Service Authority's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance 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; the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance); and the *Specifications for Audits of Authorities, Boards, and Commissions* issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards, the Uniform Guidance, and specifications require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Henry County Public Service Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Henry County Public Service Authority's compliance.

Opinion on Each Major Federal Program

In our opinion, the Henry County Public Service Authority, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2020.

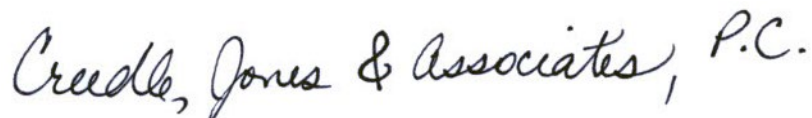
Report on Internal Control over Compliance

Management of the Henry County Public Service Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Henry County Public Service Authority's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Henry County Public Service Authority's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Creedle, Jones & Associates, P.C.
Certified Public Accountants

South Hill, Virginia
September 29, 2020

Henry County Public Service Authority

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2020

Federal Grantor/Pass-through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass- Through Entity Identifying Number	Total Federal Expenditures
Environmental Protection Agency			
Pass-Through Payments			
<i>Virginia Department of Health</i>			
Drinking Water State Revolving Funds Cluster			
Capitalization Grants for Drinking Water State Revolving Funds			
Loan Proceeds/Expenditures			
Series 2018B - Philpott Project	66.468	601	\$ 4,361,026
Subtotal - loan proceeds			4,361,026
Grant Proceeds			
Fieldale Project	66.468	601	126,564
Subtotal - grant proceeds			126,564
Total - Capitalization Grants and Loans			4,487,590
Grand Totals			\$ 4,487,590

See accompanying notes to schedule of expenditures of federal awards

Henry County Public Service Authority

Notes to Schedule of Expenditures of Federal Awards

Year Ended June 30, 2020

1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the Federal award activity of Henry County Public Service Authority under programs of the federal government for the year ended June 30, 2020. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Henry County Public Service Authority, it is not intended to and does not present the financial position, changes in net position, or cash flows of Henry County Public Service Authority.

2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the cash basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

3. Indirect Cost Rate

Henry County Public Service Authority has elected not to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

4. Federal Loans Outstanding

Henry County Public Service Authority had the following federal loan balances outstanding at year-end:

Federal Loans Outstanding through Virginia Resources Authority

Program	Federal Catalog Number	Amount Outstanding
<i>Virginia Department of Health</i>		
Capitalization Grants for Drinking Water State Revolving Funds Cluster		
Loan Name		
Series 2018B - Philpott Project - Loan proceeds	66.468	<u>\$ 11,810,046</u>
Total Loans Outstanding		<u>\$ 11,810,046</u>

5. Subrecipients

No awards were passed through to subrecipients.

Henry County Public Service Authority

Schedule of Findings and Questioned Costs

Year Ended June 30, 2020

SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued on whether the audited financial statements were prepared in accordance with GAAP (unmodified, qualified, adverse, or disclaimer): Unmodified

Internal control over financial reporting:

Material weakness(es) identified? No

Significant deficiency(ies) identified? None Reported

Noncompliance material to financial statements noted? No

Federal Awards

Internal control over major federal programs:

Material weakness(es) identified? No

Significant deficiency(ies) identified? None Reported

Type of auditor's report issued on compliance for major federal programs (unmodified, qualified, adverse, or disclaimer): Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR section 200.516(a)? No

Identification of Major Federal Programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
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66.468	Capitalization Grants for Drinking Water State Revolving Funds
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Dollar threshold used to distinguish between type A and type B programs: \$750,000

Auditee qualified as low-risk auditee? Yes