

ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

Communication with Those Charged with Governance

To the Board of Directors Halifax County Service Authority

We have audited the financial statements of the business-type activities for the year ended June 30, 2011. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated February 7, 2011. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Halifax County Service Authority ("Authority") are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2011. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the Authority's financial statements was:

Management's estimate of the depreciable lives of the capital assets is based on industry standards and actual historical information. We evaluated the key factors and assumptions used to develop the depreciable lives in determining that it is reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 31, 2011.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

We have issued a separate letter to management regarding other matters noted during our audit. That letter should be read in conjunction with this report.

This information is intended solely for the use of the Board of Directors and management of Halifax County Service Authority and is not intended to be and should not be used by anyone other than these specified parties.

Robinson, Farmer, Cox Associates

Charlottesville, Virginia
October 31, 2011

ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

DATE: October 31, 2011

MEMORANDUM TO: Halifax County Service Authority

FROM: Robinson, Farmer, Cox Associates

REGARDING: FY 2011 Audit

In planning and performing our fieldwork as part of the audit of the financial statements of the Halifax County Service Authority ("Authority") for the year ended June 30, 2011, we considered the Authority's internal control structure to plan our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we noted certain matters involving the internal control structure and other operational matters that are presented for your consideration. This letter does not affect our report dated October 31, 2011 on the financial statements of the Authority. Our comments and recommendations are intended to improve the internal control structure or result in other amounts that are normally operating efficiencies. We will be pleased to discuss these comments in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Delinquent Accounts Receivable

As of June 30, 2011 the Authority reported a material amount of delinquent accounts receivable. Many of the delinquent accounts are older than one year and considered uncollectible. A significant amount of delinquent accounts were received from the participating localities upon formation of the Authority. We recommend Management and the Board investigate the delinquent accounts reported by the Authority and make a determination of the possibility for collection. All accounts deemed uncollectible should be written-off.

Fixed Assets - Clover

During fiscal year 2011, it was noted by Management that fixed assets (Clover plant and lines) received by the Authority from the County of Halifax upon formation of the Authority were not included in the original documents and lists of assets prepared by the Authority's consulting engineering firm. Therefore, the value of the assets, less accumulated depreciation, is not recorded in the financial statements. We recommend the Authority compile a detailed list of the Clover assets, assign a value to assets as of the Authority's date of formation and compute depreciation through the close of the most recent fiscal year.

HALIFAX COUNTY SERVICE AUTHORITY
HALIFAX, VIRGINIA
FINANCIAL REPORT
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

HALIFAX COUNTY SERVICE AUTHORITY
FINANCIAL REPORT
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

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- Introductory Section -

HALIFAX COUNTY SERVICE AUTHORITY

MEMBERS

Douglas V. Bowman, Chairman

Dexter T. Gilliam, Vice-Chairman

James Debiec

D. Coleman Speece

Stewart R. Nelson

Thomas Walton

Frank G. Wray

OFFICIALS

William Jones, Executive Director

Stephanie Jackson, Director of Finance, Fiscal Agent

- Financial Section -

ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

Independent Auditors' Report

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

We have audited the accompanying financial statements of the business-type activities of Halifax County Service Authority as of and for the year ended June 30, 2011 and 2010, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Authorities, Boards, and Commissions*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of Halifax County Service Authority, as of June 30, 2011 and 2010, and the changes in financial position and cash flows, thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2011, on our consideration of the Halifax County Service Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and schedule of funding progress for the defined benefit pension plan 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 management's discussion and analysis and the schedule of funding progress for the defined benefit pension plan 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 management's discussion and analysis and the schedule of funding progress for the defined benefit pension plan because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Robinson, Farmer, Cox Associates

Charlottesville, Virginia
October 31, 2011

To the Board of Members Halifax County Service Authority

As management of the Halifax County Service Authority ("HCSA" or "the Authority"), we offer readers of our financial statements this narrative, overview, and analysis of the financial activities of the Authority for the years ended June 30, 2011 and 2010.

Overview of the Financial Statements

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

Enterprise fund financial statements

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

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

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

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

Notes to Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The Notes to the Financial Statements can be found on pages 11 through 22 of this report. Note 5 presents certain required supplementary information concerning the Authority's progress in funding its obligation to provide pension benefits to its employees.

Financial Highlights

- The assets of the Authority exceeded its liabilities at the close of the most recent fiscal year by \$24,476,456 (net assets). Of this amount, \$726,127 (unrestricted net assets) may be used to meet the Authority's ongoing obligations to customers and creditors.

Financial Analysis

Net assets invested in capital assets

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

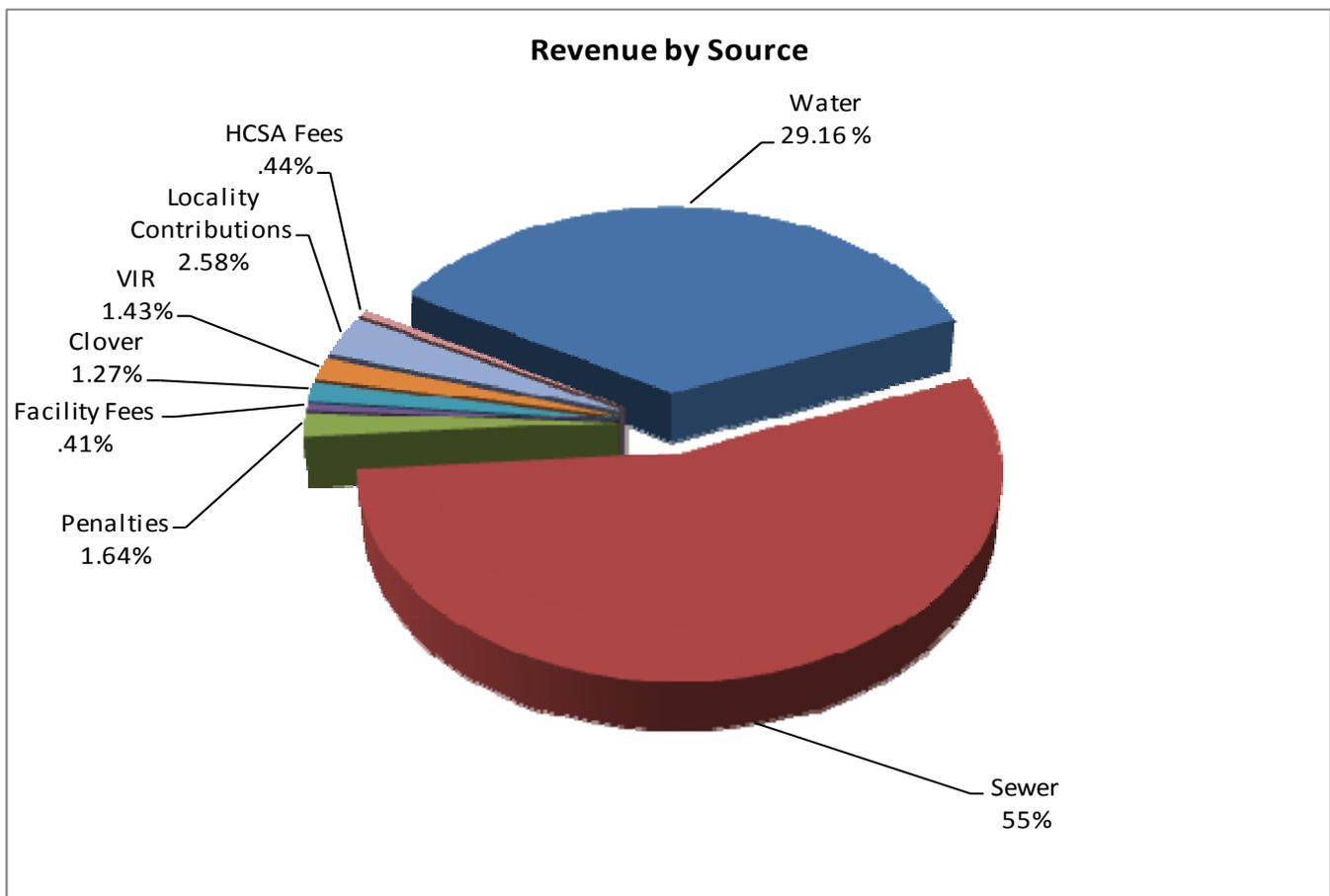
Unrestricted net assets

Unrestricted net assets are used by the Authority to finance day-to-day operations without restrictions established by debt covenants or other requirements. Unrestricted cash and investments consist of government securities, bank deposits, and other cash-equivalents.

Changes in Revenues, Expenses & Net Assets

While the Statements of Net Assets reflect the change in the Authority's financial position, the Statements of Revenues, Expenses, and Changes in Net Assets provide insight as to the nature and source of those changes.

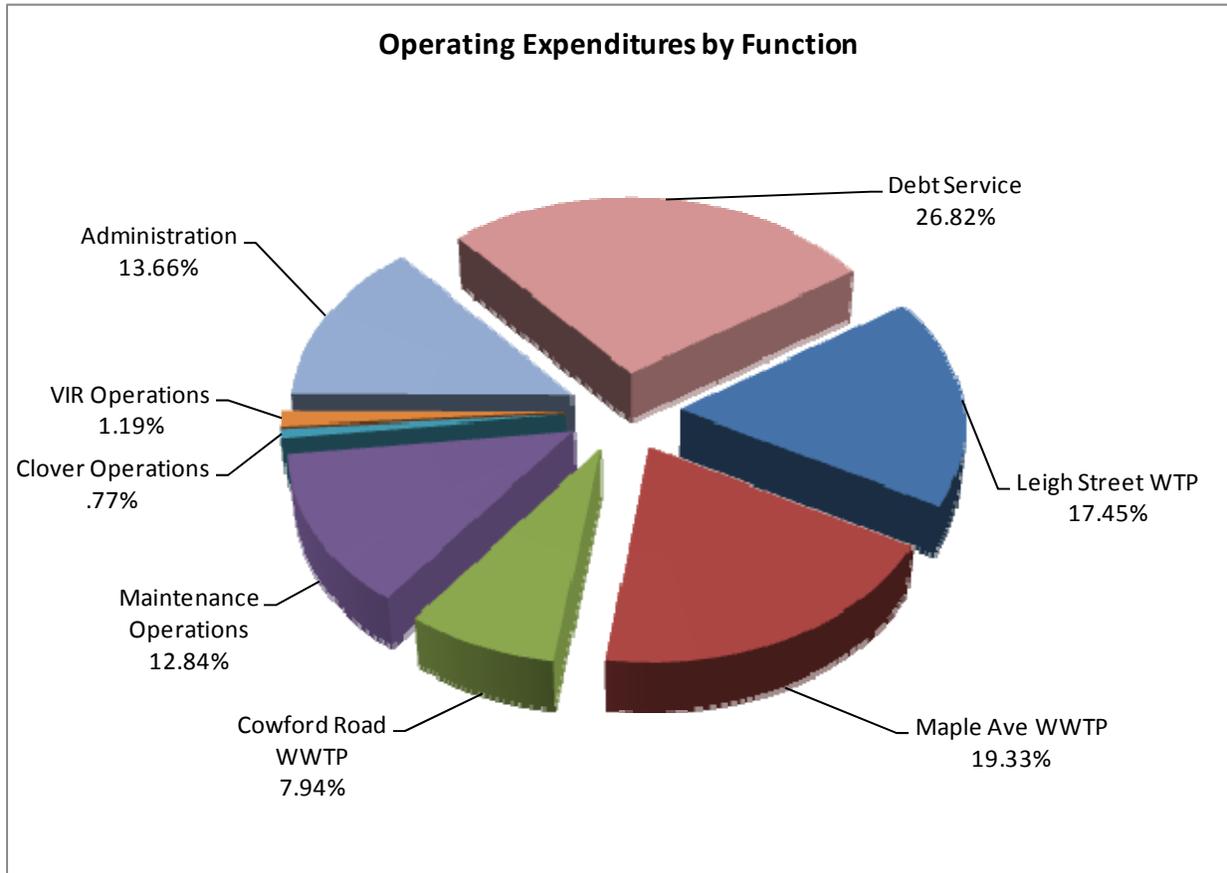
The following chart summarizes revenue for FY2011.



Financial Analysis: (Continued)

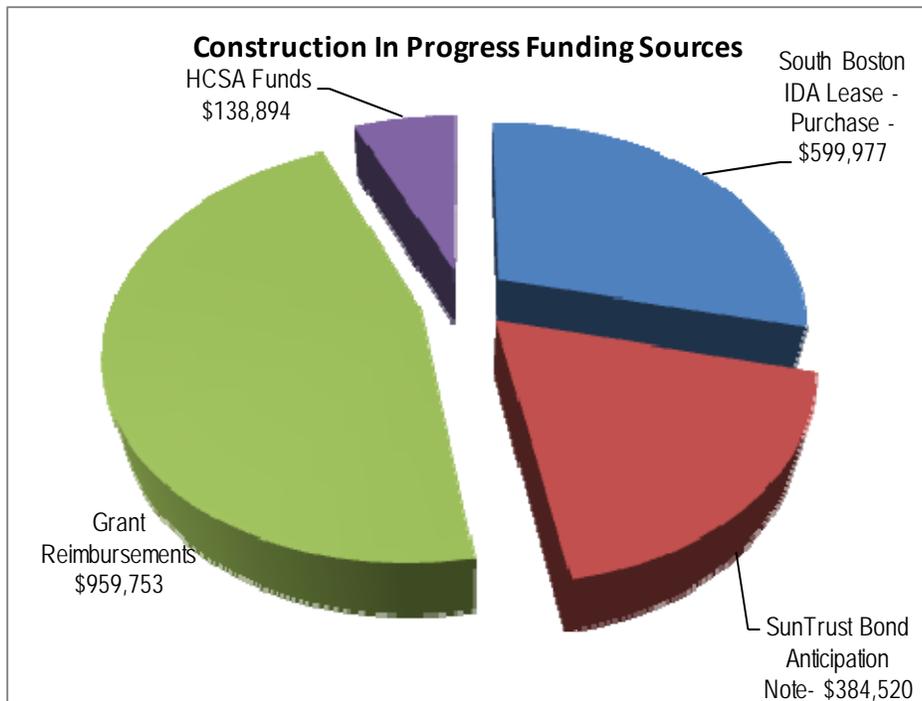
Operating & non-operating expenses

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



The Authority completed and began several large construction projects during the year. Funding was provided from several different sources. It should be noted that the Authority was awarded several grant and loan awards during the year totaling in excess of \$17,000,000. These monies were and will continue to be used to construct additions and improvements to the Authority’s water and sewer facilities. The following chart shows the sources of the funding for the construction work completed during the fiscal year.

Financial Analysis: (Continued)



It should be noted here that the Authority has completed design of a major expansion to its wastewater treatment plant at Maple Avenue. The majority of the loans and grant awarded will be used for the construction of that project during FY 2011-2013.

Capital assets

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

The following table summarizes the Authority’s capital assets, net of accumulated depreciation as of June 30, 2011 and 2010.

	June 30, 2011	June 30, 2010
Capital assets, not being depreciated:		
Land	\$ 43,500	\$ -
Construction in progress	2,096,552	13,408
Total capital assets, not being depreciated	\$ 2,140,052	\$ 13,408
Capital assets, being depreciated:		
Utility plant, lines and accessories	\$ 37,121,697	\$ 37,091,667
Machinery and equipment	627,059	597,664
Total capital assets, being depreciated	\$ 37,748,756	\$ 37,689,331
Less accumulated depreciation for:		
Utility plant, lines and accessories	\$ (6,572,514)	\$ (4,799,247)
Machinery and equipment	(327,295)	(281,015)
Total accumulated depreciation	\$ (6,899,809)	\$ (5,080,262)
Total capital assets, being depreciated, net	\$ 30,848,947	\$ 32,609,069
Capital assets, net	\$ 32,988,999	\$ 32,622,477

Capital Assets and Debt Administration:

Long-Term Debt

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

At the end of the current fiscal year, the Authority had \$9,388,564 in bonds, notes outstanding and line of credit.

Requests for Information:

This financial report is designed to meet reporting standards and to provide a general overview of the Authority's financial operations. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Director of Finance at 134 South Main Street, Halifax, Virginia 24558.

- Basic Financial Statements -

Statement of Net Assets
At June 30, 2011 and 2010

	At June 30,	
	2011	2010
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 558,849	\$ 538,026
Accounts receivable (net of allowance for uncollectible accounts)	888,464	853,937
Due from other governments - grants receivable	279,614	-
Prepaid expenses	15,451	-
Total current assets	<u>\$ 1,742,378</u>	<u>\$ 1,391,963</u>
Noncurrent assets:		
Capital assets:		
Land	\$ 43,500	\$ -
Utility plant, lines and accessories	37,121,697	37,091,667
Vehicles and equipment	627,059	597,664
Less accumulated depreciation	(6,899,809)	(5,080,262)
Sub-total	<u>\$ 30,892,447</u>	<u>\$ 32,609,069</u>
Construction in progress	2,096,552	13,408
Total capital assets	<u>\$ 32,988,999</u>	<u>\$ 32,622,477</u>
Total noncurrent assets	<u>\$ 32,988,999</u>	<u>\$ 32,622,477</u>
Total assets	<u>\$ 34,731,377</u>	<u>\$ 34,014,440</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Current liabilities:		
Accounts payable	\$ 476,076	\$ 146,695
Accrued interest payable	91,091	99,942
Customers' deposits	152,242	124,347
Accrued vacation leave payable - current portion	14,695	14,401
Line of credit payable - current portion	149,894	195,833
Bonds and notes payable - current portion	1,150,137	718,738
Total current liabilities	<u>\$ 2,034,135</u>	<u>\$ 1,299,956</u>
Noncurrent liabilities:		
Accrued vacation leave payable - noncurrent portion	\$ 132,253	\$ 129,613
Bonds and notes payable - noncurrent portion	8,088,533	8,212,332
Total noncurrent liabilities	<u>\$ 8,220,786</u>	<u>\$ 8,341,945</u>
Total liabilities	<u>\$ 10,254,921</u>	<u>\$ 9,641,901</u>
Net assets:		
Invested in capital assets, net of related debt	\$ 23,750,329	\$ 23,691,407
Unrestricted	726,127	681,132
Total net assets	<u>\$ 24,476,456</u>	<u>\$ 24,372,539</u>

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

Statement of Revenues, Expenses, and Changes in Net Assets
For the Years Ended June 30, 2011 and 2010

	For the Year Ended June 30,	
	2011	2010
Operating revenues:		
Water and sewer charges	\$ 4,055,816	\$ 3,917,873
Facility fees	21,951	22,550
Other revenues	118,358	122,867
Total operating income	\$ 4,196,125	\$ 4,063,290
Operating expenses:		
Operations and maintenance	\$ 2,475,726	\$ 2,322,790
Administrative	564,701	483,392
Depreciation	1,819,547	1,841,225
Total operating expenses	\$ 4,859,974	\$ 4,647,407
Operating income (loss)	\$ (663,849)	\$ (584,117)
Nonoperating revenues (expenses):		
Investment earnings	\$ 391	\$ 289
Sludge contract payment	-	100,000
Tower rent	15,000	15,000
Contribution from participating governments	160,430	106,178
Other nonoperating revenues	785	1,471
Interest expense	(344,896)	(372,146)
Total nonoperating income (expenses)	\$ (168,290)	\$ (149,208)
Income before contributions and grants	\$ (832,139)	\$ (733,325)
Capital grants	936,056	51,245
Change in net assets	\$ 103,917	\$ (682,080)
Net assets, beginning of year - adjusted	24,372,539	25,054,619
Net assets, end of year	\$ 24,476,456	\$ 24,372,539

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

Statement of Cash Flows
For the Years Ended June 30, 2011 and 2010

	For the Year Ended June 30,	
	2011	2010
Operating activities:		
Receipts from customers and users	\$ 4,161,598	\$ 3,913,706
Payments to suppliers and vendors	(1,114,430)	(1,229,272)
Payments to and on behalf of employees	(1,565,453)	(1,505,962)
Net cash provided by (used in) operating activities	\$ 1,481,715	\$ 1,178,472
Noncapital financing activities:		
Contribution from participating governments	\$ 160,430	\$ 106,178
Net cash provided by (used in) noncapital financing activities	\$ 160,430	\$ 106,178
Capital and related financing activities:		
Additions to capital assets	\$ (2,186,069)	\$ (274,013)
Principal payments	(766,336)	(722,144)
Proceeds from indebtedness, net of issue costs	1,027,997	158,543
Capital grants	656,442	51,245
Interest payments	(353,747)	(380,437)
Net cash provided by (used in) capital and related financing activities	\$ (1,621,713)	\$ (1,166,806)
Investing activities:		
Interest received	\$ 391	\$ 289
Net cash provided by (used in) investing activities	\$ 391	\$ 289
Increase (decrease) in cash and cash equivalents	\$ 20,823	\$ 118,133
Cash and cash equivalents at beginning of year	538,026	419,893
Cash and cash equivalents at end of year	\$ 558,849	\$ 538,026
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:		
Operating income (loss)	\$ (663,849)	\$ (584,117)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:		
Depreciation	1,819,547	1,841,225
Tower rent	15,000	15,000
Sludge contract payment	-	100,000
Other nonoperating revenues	785	1,471
Changes in operating assets and liabilities:		
(Increase) decrease in receivables	(34,527)	(149,584)
(Increase) decrease in due/to from Halifax County	-	82,683
(Increase) decrease prepaid expenses	(15,451)	
Increase (decrease) in customer deposits	27,895	18,533
Increase (decrease) in payables and accrued expenses	332,315	(146,740)
Net cash provided by (used in) operating activities	\$ 1,481,715	\$ 1,178,471

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

HALIFAX COUNTY SERVICE AUTHORITY

Notes to Financial Statements
As of June 30, 2011 and 2010

Note 1 - Summary of Significant Accounting Policies:

A. Formation of the Authority

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

B. Determination of the Reporting Entity

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

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

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

C. Basis of Accounting

The Halifax County Service Authority operates as an enterprise activity, and its accounts are maintained on the accrual basis of accounting. Under this method, revenues are recognized when earned, and expenses are recorded as liabilities when incurred, without regard to receipt or payment of cash. The Authority accrues revenue for services rendered but not yet billed at the end of the fiscal year. The Authority follows all applicable GASB pronouncements and Financial Accounting Standards Board pronouncements issued before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

HALIFAX COUNTY SERVICE AUTHORITY

Notes to Financial Statements
As of June 30, 2011 and 2010 (Continued)

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

C. Basis of Accounting: (Continued)

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

D. Allowance for Doubtful Accounts

Accounts receivable are stated at book value net of the allowance for uncollectible accounts. The allowance for uncollectible accounts amounted to \$0 at June 30, 2011 and 2010.

E. Basic Financial Statements

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

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

- Management's Discussion and Analysis
- Enterprise fund financial statements
 - Statement of Net Assets
 - Statement of Revenues, Expenses, and Changes in Net Assets
 - Statement of Cash Flows
 - Notes to Financial Statements
- Required Supplementary Information
 - Schedule of Funding Progress for the Defined Benefit Pension Plan

F. Capital Assets

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

HALIFAX COUNTY SERVICE AUTHORITY

Notes to Financial Statements
As of June 30, 2011 and 2010 (Continued)

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

F. Capital Assets: (Continued)

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

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

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

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

G. Interest on Indebtedness

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

H. Cash and Cash Equivalents

The Authority's cash and cash equivalents consist of demand deposits.

I. Investments

Investments are stated at fair value.

J. Budgets and Budgetary Accounting

A budget is prepared for information, fiscal planning purposes, and to provide the basis for setting user rates. None of the participating entities are required to approve the budget. The budget is adopted as a planning document and is not a legal control on expenses.

K. Inventory

Inventories of material and supplies are recorded at cost, using the first-in, first-out method of valuation. At June 30, 2011 and 2010 inventory amounts were immaterial.

HALIFAX COUNTY SERVICE AUTHORITY

Notes to Financial Statements
As of June 30, 2011 and 2010 (Continued)

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

L. Use of Estimates

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

M. Net Assets

Net assets are the difference between assets and liabilities. Net assets invested in capital assets represent capital assets, reduced by accumulated depreciation and by any outstanding debt related to the acquisition, construction or improvement of those assets. Restricted net assets represent restricted assets reduced by any related outstanding debt. Net assets are reported as restricted when there are limitations imposed on their use through enabling legislation adopted by the Authority or through external restrictions imposed by creditors, grantors, laws or regulations of other governments. The Authority applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

N. Long-Term Obligations

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

Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds, as applicable. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

O. Compensated Absences

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

HALIFAX COUNTY SERVICE AUTHORITY

Notes to Financial Statements
As of June 30, 2011 and 2010 (Continued)

Note 2 - Deposits and Investments:

Deposits

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

Investments

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

At June 30, 2011 the Authority held no investments.

Note 3 - Capital Assets:

Capital asset activity for the year ended June 30, 2011 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land	\$ -	\$ 43,500	\$ -	\$ 43,500
Construction in progress	13,408	2,083,144	-	2,096,552
Total capital assets, not being depreciated	<u>\$ 13,408</u>	<u>\$ 2,126,644</u>	<u>\$ -</u>	<u>\$ 2,140,052</u>
Capital assets, being depreciated:				
Utility plant, lines and accessories	\$ 37,091,667	\$ 30,030	\$ -	\$ 37,121,697
Machinery and equipment	597,664	29,395	-	627,059
Total capital assets, being depreciated	<u>\$ 37,689,331</u>	<u>\$ 59,425</u>	<u>\$ -</u>	<u>\$ 37,748,756</u>
Less accumulated depreciation for:				
Utility plant, lines and accessories	\$ (4,799,247)	\$ (1,773,267)	\$ -	\$ (6,572,514)
Machinery and equipment	(281,015)	(46,280)	-	(327,295)
Total accumulated depreciation	<u>\$ (5,080,262)</u>	<u>\$ (1,819,547)</u>	<u>\$ -</u>	<u>\$ (6,899,809)</u>
Total capital assets, being depreciated, net	<u>\$ 32,609,069</u>	<u>\$ (1,760,122)</u>	<u>\$ -</u>	<u>\$ 30,848,947</u>
Capital assets, net	<u><u>\$ 32,622,477</u></u>	<u><u>\$ 366,522</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 32,988,999</u></u>

HALIFAX COUNTY SERVICE AUTHORITY

Notes to Financial Statements
As of June 30, 2011 and 2010 (Continued)

Note 3 - Capital Assets: (Continued)

Capital asset activity for the year ended June 30, 2010 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Construction in progress	\$ 424,793	\$ 220,273	\$ 631,658	\$ 13,408
Total capital assets, not being depreciated	\$ 424,793	\$ 220,273	\$ 631,658	\$ 13,408
Capital assets, being depreciated:				
Utility plant, lines and accessories	\$ 36,460,009	\$ 631,658	\$ -	\$ 37,091,667
Machinery and equipment	543,926	53,738	-	597,664
Total capital assets, being depreciated	\$ 37,003,935	\$ 685,396	\$ -	\$ 37,689,331
Less accumulated depreciation for:				
Utility plant, lines and accessories	\$ (3,035,580)	\$ (1,763,667)	\$ -	\$ (4,799,247)
Machinery and equipment	(203,457)	(77,558)	-	(281,015)
Total accumulated depreciation	\$ (3,239,037)	\$ (1,841,225)	\$ -	\$ (5,080,262)
Total capital assets, being depreciated, net	\$ 33,764,898	\$ (1,155,829)	\$ -	\$ 32,609,069
Capital assets, net	\$ 34,189,691	\$ (935,556)	\$ 631,658	\$ 32,622,477

Note 4 - Long-Term Debt:

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

Year Ending June 30	Bonds Payable		Bond Anticipation Note		Notes Payable	
	Principal	Interest	Principal	Interest	Principal	Interest
2012	\$ 677,464	\$ 307,371	\$ 384,520	\$ 3,240	\$ 88,153	\$ 21,641
2013	699,120	278,509	-	-	89,323	20,471
2014	732,363	248,187	-	-	90,538	19,257
2015	688,674	217,552	-	-	91,798	17,996
2016	606,884	189,798	-	-	93,106	16,688
2017-2021	2,970,543	523,074	-	-	486,942	62,029
2022-2026	750,370	103,088	-	-	514,685	21,122
2026-2029	110,313	2,753	-	-	163,874	-
Total	\$ 7,235,731	\$ 1,870,332	\$ 384,520	\$ 3,240	\$ 1,618,419	\$ 179,204

HALIFAX COUNTY SERVICE AUTHORITY

Notes to Financial Statements
As of June 30, 2011 and 2010 (Continued)

Note 4 - Long-Term Debt: (Continued)

Changes in long-term indebtedness for the year ended June 30, 2011 are as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bonds payable	\$ 7,900,519	\$ -	\$ 664,788	\$ 7,235,731	\$ 677,464
Bond anticipation note	-	384,520	-	384,520	384,520
Notes payable	1,030,551	643,477	55,609	1,618,419	88,153
Total bonds and notes	\$ 8,931,070	\$ 1,027,997	\$ 720,397	\$ 9,238,670	\$ 1,150,137
Line of Credit	195,833	-	45,939	149,894	149,894
Compensated absences	144,014	2,934	-	146,948	14,695
Total	<u>\$ 9,270,917</u>	<u>\$ 1,030,931</u>	<u>\$ 766,336</u>	<u>\$ 9,535,512</u>	<u>\$ 1,314,726</u>

Changes in long-term indebtedness for the year ended June 30, 2010 are as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bonds payable	\$ 8,537,536	\$ -	\$ 637,017	\$ 7,900,519	\$ 664,498
Town of South Boston note payable	902,969	158,543	30,961	1,030,551	54,240
Total bonds and notes	\$ 9,440,505	\$ 158,543	\$ 667,978	\$ 8,931,070	\$ 718,738
Line of Credit	250,000	-	54,167	195,833	195,833
Compensated absences	138,402	5,612	-	144,014	14,401
Total	<u>\$ 9,828,907</u>	<u>\$ 164,155</u>	<u>\$ 722,145</u>	<u>\$ 9,270,917</u>	<u>\$ 928,972</u>

HALIFAX COUNTY SERVICE AUTHORITY

Notes to Financial Statements
As of June 30, 2011 and 2010 (Continued)

Note 4 - Long-Term Debt: (Continued)

Details of the Authority's outstanding long-term indebtedness at June 30, 2011 are as follows:

Bonds payable:	<u>Amount Due</u>
\$452,886 Series 1999 General Obligation Refunding Bond payable with principal due in annual installments ranging from \$34,814 to \$44,964 and interest payable semi-annually at 4.92%, maturing March 1, 2014	\$ 125,125
\$173,000 2001A VRA Loan due in semi-annual installments of \$5,891 through March 1, 2022, payments include interest at 3%	109,704
\$917,732 2001B VRA Loan due in semi-annual installments of \$31,253 through March 1, 2022, payments include interest at 3%	581,957
\$1,650,000 Series 2002 Revenue Bond payable with principal due in annual installments ranging from \$75,000 to \$130,000 and interest payable semi-annually ranging from 2.35% to 5.1%, maturing April 1, 2022	1,140,000
\$224,600 USDA Farmers Home Administration, issued 1981, due in monthly installments of \$1,103 through 2021, payments include interest at 5%	94,936
\$109,000 USDA Rural Development issued June 26, 1973, due in annual installments of \$6,462 each January 1, through 2013 including interest at 5%	2,813
\$51,000 USDA Rural Development issued August 22, 1978, due in monthly installments of \$248 through July 2018, including interest at 5%	17,676
\$310,000 USDA Rural Development issued January 31, 1986, due in monthly installments of \$1,523 through January 2026, including interest at 5%	186,328
\$3,305,000 Series 2006C Revenue Bond payable with principal due in annual installments ranging from \$25,000 to \$425,000 and interest payable semi-annually ranging from 3.8% to 4.74% , maturing October 1, 2019	3,205,000
\$1,215,778 Series 2003 General Obligation Refunding Bond payable with principal due in annual installments ranging from \$97,612 to \$117,907 and interest payable semi-annually at 3.17%, maturing August 1, 2015	440,921
\$1,479,429 Series 2006 General Obligation Bond payable with principal due in annual installments ranging from \$50,715 to \$110,124 and interest payable semi-annually ranging from 3.75% to 5%, maturing August 1, 2026	1,275,308
\$220,000 Series 1995 Revenue Bond due in annual installments of \$14,952 through June 30, 2015, payments include interest at 3%	<u>55,963</u>
Total Bonds	\$ <u>7,235,731</u>

HALIFAX COUNTY SERVICE AUTHORITY

Notes to Financial Statements
As of June 30, 2011 and 2010 (Continued)

Note 4 - Long-Term Debt: (Continued)

Details of the Authority's outstanding long-term indebtedness at June 30, 2011 are as follows:
(Continued)

Notes payable:

Note payable to the Town of South Boston due in annual installments of \$42,998 with a final payment for the outstanding balance due February 1, 2028, interest at 0%.	\$ 977,475
Note payable to the Town of South Boston IDA issued April 2011 for the construction of the Authority's administrative building due in monthly installments of \$4,388 with a final payment due April 2026, interest at 3.71%.	597,444
Note payable to the Town of South Boston IDA issued April 2011 for the land purchase for the Authority's administrative building due in annual installments of \$2,900 with a final payment due April 2026, interest at 0%.	43,500
Bond anticipation note payable in the amount of \$384,520 issued March 2011 in anticipation of Series 2011 Sewer Facility Revenue Bonds. Outstanding balance is due December 2011, interest at equal to LIBOR plus 2%.	<u>384,520</u>
Total Notes Payable	\$ <u>2,002,939</u>
Line of credit	149,894
Compensated absences payable	<u>146,948</u>
Total Long-Term Obligations	<u><u>\$ 9,535,512</u></u>

Line of Credit

During fiscal year 2008, the Authority obtained a \$500,000 line of credit for short term operating needs. Interest on the line of credit is a variable rate of interest. Interest only payments are due quarterly and the entire principal is due January 2, 2012. The line of credit renews annually on January 2.

Note 5 - Defined Benefit Pension Plan:

A. Plan Description

Name of Plan: Virginia Retirement System (VRS)
Identification of Plan: Agent Multiple-Employer Defined Benefit Pension Plan
Administering Entity: Virginia Retirement System (System)

HALIFAX COUNTY SERVICE AUTHORITY

Notes to Financial Statements
As of June 30, 2011 and 2010 (Continued)

Note 5 - Defined Benefit Pension Plan: (Continued)

A. Plan Description (Continued)

All full-time, salaried permanent employees of participating employers are automatically covered by VRS upon employment. Benefits vest after five years of service credit. Members earn one month service credit for each month they are employed and their employer is paying into the VRS. Members are eligible to purchase prior public service, active duty military service, certain periods of leave and previously refunded VRS service as credit in their plan.

VRS administers two defined benefit plans for local government employees - Plan 1 and Plan 2:

- Members hired before July 1, 2010 and who have service credits before July 1, 2010 are covered under Plan 1. Non-hazardous duty members are eligible for an unreduced retirement benefit beginning at age 65 with at least five years of service credit or age 50 with at least 30 years of service credit. They may retire with a reduced benefit as early as age 55 with at least 10 years of service credit or age 50 with at least five years of service credit.
- Members hired or rehired on or after July 1, 2010 and who have no service credits before July 1, 2010 are covered under Plan 2. Non-hazardous duty members are eligible for an unreduced benefit beginning at their normal Social Security retirement age with at least five years of service credit or when the sum of their age and service equals 90. They may retire with a reduced benefit as early as age 60 with at least five years of service credit.

The VRS Basic Benefit is a lifetime monthly benefit based on a retirement multiplier as a percentage of the member's average final compensation multiplied by the member's total service credit. Under Plan 1, average final compensation is the average of the member's 36 consecutive months of highest compensation. Under Plan 2, average final compensation is the average of the member's 60 consecutive months of highest compensation. The retirement multiplier for non-hazardous duty members is 1.70%. The retirement multiplier for sheriffs and regional jail superintendents is 1.85%. The retirement multiplier for eligible political subdivision hazardous duty employees other than sheriffs and jail superintendents is 1.70% or 1.85% as elected by the employer. At retirement, members can elect the Basic Benefit, the Survivor Option, a Partial Lump-Sum Option Payment (PLOP) or the Advance Pension Option. A retirement reduction factor is applied to the Basic Benefit amount for members electing the Survivor Option, PLOP or Advance Pension Option or those retiring with a reduced benefit.

Retirees are eligible for an annual cost-of-living adjustment (COLA) effective July 1 of the second calendar year of retirement. Under Plan 1, the COLA cannot exceed 5.00%; under Plan 2, the COLA cannot exceed 6.00%. During years of no inflation or deflation, the COLA is 0.00%. The VRS also provides death and disability benefits. Title 51.1 of the Code of Virginia (1950), as amended, assigns the authority to establish and amend benefit provisions to the General Assembly of Virginia.

The System issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for the plans administered by VRS. A copy of the report may be obtained from the VRS website at <http://www.varetire.org/PDF/Publications/2010-Annual-Report.pdf> or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA 23218-2500.

HALIFAX COUNTY SERVICE AUTHORITY

Notes to Financial Statements
As of June 30, 2011 and 2010 (Continued)

Note 5 - Defined Benefit Pension Plan: (Continued)

B. Funding Policy

Plan members are required by Title 51.1 of the Code of Virginia (1950), as amended, to contribute 5.00% of their compensation toward their retirement. All or part of the 5% member contribution may be assumed by the employer. In addition, the Authority is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the Code of Virginia and approved by the VRS Board of Trustees. The Authority's contribution rate for the fiscal year ended June 30, 2011 was 12.74% of the annual covered payroll.

C. Annual Pension Cost

For the fiscal year ended June 30, 2011, the Authority's annual pension cost of \$134,458 for VRS (which does not include the employee share of \$52,770, assumed by the Authority) was equal to the required and actual contributions.

Fiscal Year Ending	Annual Pension Cost* (APC)	Percentage Of APC Contributed	Net Pension Obligation
June 30, 2011	\$ 134,458	\$ 100%	\$ -
June 30, 2010	91,554	100%	-
June 30, 2009	92,442	100%	-

Includes employer costs only.

The fiscal year 2011 required contribution was determined as part of the June 30, 2009 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions at June 30, 2009 included (a) an investment rate of return (net of administrative expenses) of 7.50%, (b) projected salary increases ranging from 3.75% to 5.6% per year, and (c) a cost-of-living adjustment of 2.50% per year. Both the investment rate of return and the projected salary increases include an inflation component of 2.50%. The actuarial value of the Authority's assets is equal to the modified market value of assets. This method uses techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period. The Authority's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2009 for the Unfunded Actuarial Accrued Liability (UAAL) was 20 years.

D. Funded Status and Funding Progress

As of June 30, 2010, the most recent actuarial valuation date, the plan was 121.33% funded. The actuarial accrued liability for benefits was \$361,004, and the actuarial value of assets was \$437,989, resulting in an unfunded actuarial accrued liability (UAAL) of (\$76,985). The covered payroll (annual payroll of active employees covered by the plan) was \$1,058,989 and the ratio of the UAAL to the covered payroll was (7.27%).

HALIFAX COUNTY SERVICE AUTHORITY

Notes to Financial Statements
As of June 30, 2011 and 2010 (Continued)

Note 5 - Defined Benefit Pension Plan: (Continued)

D. Funded Status and Funding Progress (Continued)

The schedule of funding progress, presented as Required Supplementary Information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability (AAL) for benefits.

Note 6 - Risk Management:

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

Note 7 - Commitments and Contingencies:

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

Note 8 - Restatement of Beginning Net Assets:

Net assets as of July 1, 2009 were restated to record capital assets contributed by the Town of South Boston upon creation of the Authority. The capital assets and related accumulated depreciation were erroneously omitted from the report prepared by the consulting engineer. Details of the restatement are as follows:

	<u>Amount</u>
Net assets, July 1, 2009 - previously reported	\$ 20,249,472
Capital assets, net of accumulated depreciation	<u>4,805,147</u>
Net assets, July 1, 2009 - restated	<u><u>\$ 25,054,619</u></u>

- Required Supplementary Information -

HALIFAX COUNTY SERVICE AUTHORITY

Schedule of Funding Progress for the Defined Benefit Pension Plan
Last Three Fiscal Years

Valuation Date	Actuarial Value of Assets (AVA) (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded	Funded Ratio (d)	Annual Covered Payroll (e)	UAAAL
			(Excess Funded) Actuarial Accrued Liability (UAAL) (c)			as % of Covered Payroll (f)
			(b) - (a)	(a) / (b)		(c) / (e)
6/30/2010 \$	437,989	\$ 361,004	\$ (76,985)	121.33%	\$ 1,058,989	-7.27%
6/30/2009	266,672	173,044	(93,628)	154.11%	1,073,819	-8.72%
6/30/2008	72,165	-	(72,165)	N/A	1,034,056	-6.98%

- Compliance Section -

ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

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

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

We have audited the financial statements of the business-type activities of the Halifax County Service Authority for the year ended June 30, 2011, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated October 31, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Halifax County Service Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on financial statements, but not for the purpose of expressing an opinion on the effectiveness of Halifax County Service Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Halifax County Service Authority's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Halifax County Service Authority's financial statements are free of 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*.

We noted certain matters that we reported to management of the Halifax County Service Authority in a separate letter dated October 31, 2011.

This report is intended solely for the information and use of management, Board of Directors, others within the entity and is not intended to be and should not be used by anyone other than these specified parties.

Robinson, Farmer, Cox Associates

Charlottesville, Virginia
October 31, 2011