

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 of Halifax County Service Authority for the year ended June 30, 2012. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards*, and OMB Circular A-133, 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 August 17, 2012. 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 2012. We noted no transactions entered into by the entity 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.

The financial statement disclosures are neutral, consistent, and clear.

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, a disagreement with management is 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 December 18, 2012.

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 entity'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 entity's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

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
December 18, 2012

HALIFAX COUNTY SERVICE AUTHORITY

SOUTH BOSTON, VIRGINIA

FINANCIAL REPORT

FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

HALIFAX COUNTY SERVICE AUTHORITY
HALIFAX, VIRGINIA

FINANCIAL REPORT
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

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- Introductory Section -

HALIFAX COUNTY SERVICE AUTHORITY

MEMBERS

Dexter T. Gilliam, Chairman

D. Coleman Speece, Vice-Chairman

James Debiec

Joe Barkley

Stewart R. Nelson

Thomas Walton

Frank G. Wray

OFFICIALS

William Jones, Executive Director

- Financial Section -

ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

Independent Auditors' Report

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

We have audited the accompanying financial statements of the business-type activities of Halifax County Service Authority, as of and for the years ended June 30, 2012 and 2011, which 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 the 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, 2012 and 2011, 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 December 18, 2012, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* 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 schedule of funding progress 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 schedule of funding progress because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the financial statements that comprise the Authority's financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Robinson, Farmer, Cox Associates

Charlottesville, Virginia
December 18, 2012

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, 2012 and 2011.

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 10 through 21 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 \$26,640,698 (net assets). Of this amount, \$896,610 (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.

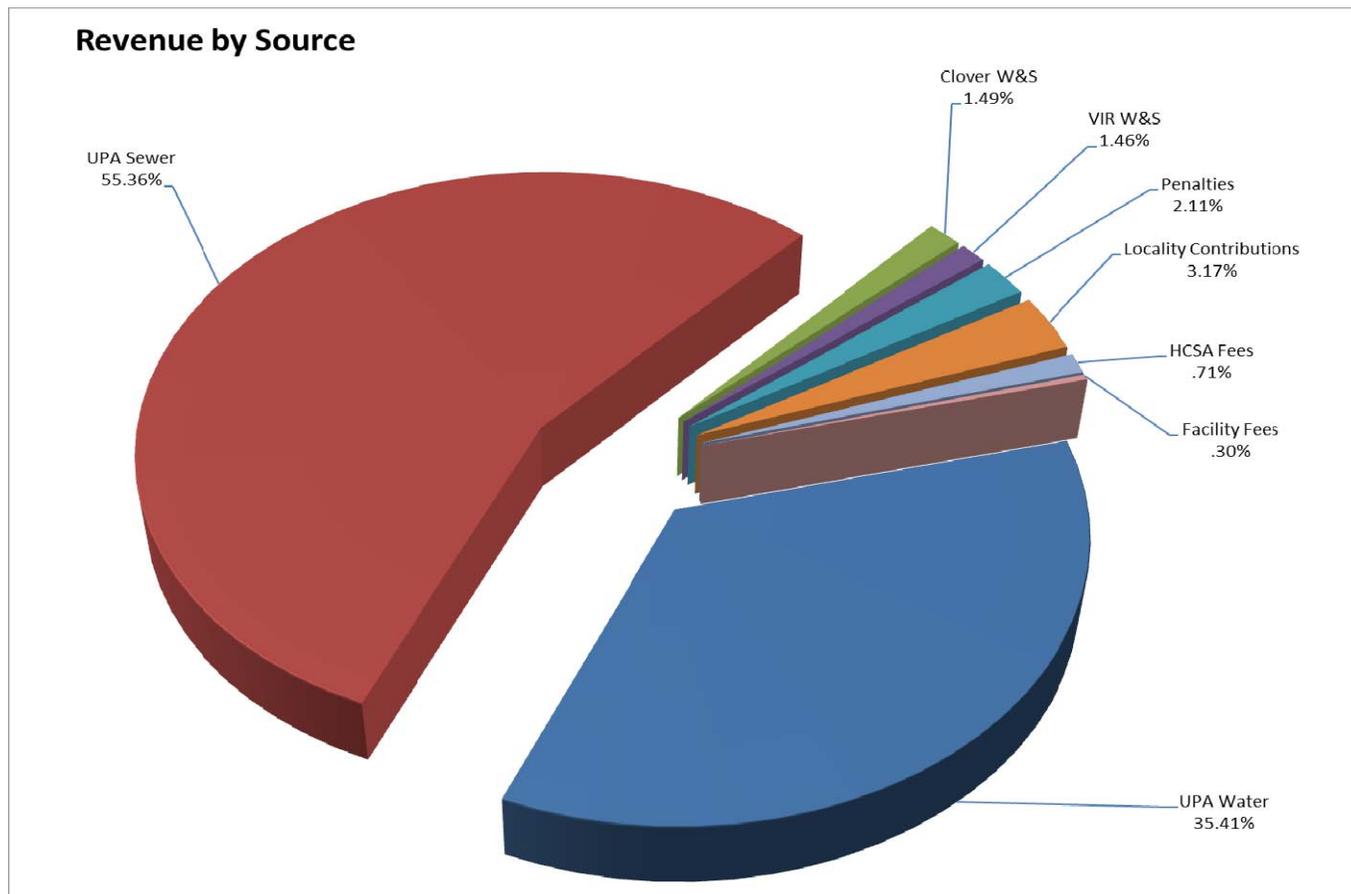
Unrestricted net assets

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. The restricted assets are accounts and funds that are held for special purpose uses, such as refunding deposits or debt service reserves. The Authority established several new reserve accounts to accumulated funds in compliance with its Rural Development bond covenants.

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.

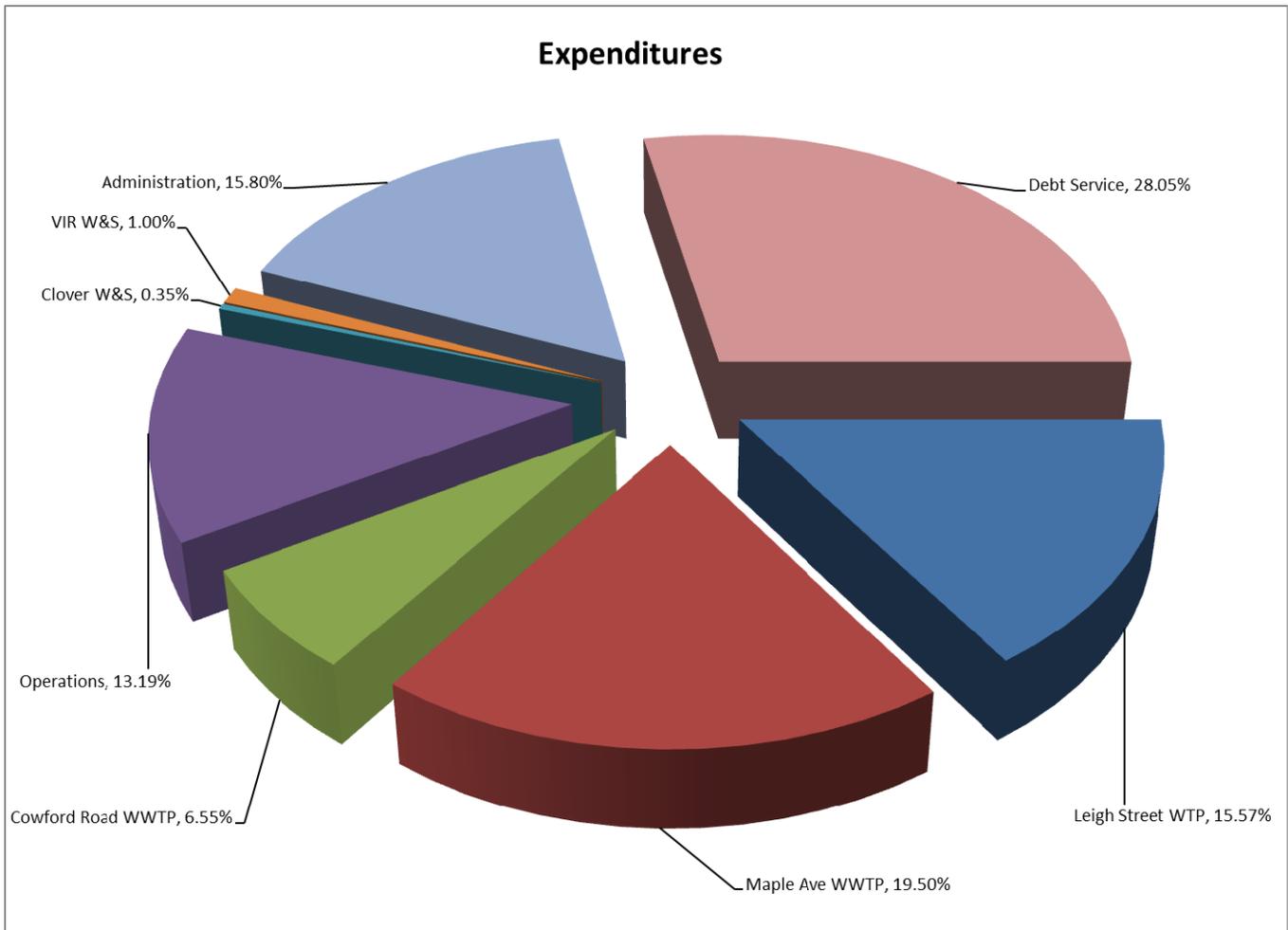
The following chart summarizes revenue for FY2012.



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.



Debt and loan related activities: (see Note 4 for details on current Authority debt)

Fiscal year 2011-2012 saw three major bond issues completed by the Authority:

- The first VRA 2011B allowed the Authority to refund the 2001VRA Bond that was used to pay for water and waste water facilities constructed at Virginia International Raceway. This refunding will save the approximately \$10,000 annually in debt service payments.
- 2011B USDA Rural Development Revenue Bond provided the funding that allowed the construction on the Maple Avenue Wastewater Treatment Plant to begin. Part of the proceeds from this loan enabled the Authority to refund or retire 10 outstanding debt instruments assumed by the Authority at its formation.
- 2012A VRA Revenue Bond is providing funding for the improvements to the Leigh Street Water Treatment Plant.

Financial Analysis: (Continued)

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, 2012 and 2011.

	<u>June 30, 2012</u>	<u>June 30, 2011</u>
Capital assets not being depreciated		
Land	\$ 133,500	\$ 133,500
Construction in progress	4,004,853	2,096,552
Total capital assets not being depreciated	<u>\$ 4,138,353</u>	<u>\$ 2,230,052</u>
Capital assets being depreciated		
Utility plant lines and accessories	\$ 40,678,910	\$ 39,089,532
Vehicles and equipment	646,087	627,059
Total assets being depreciated	<u>\$ 41,324,997</u>	<u>\$ 39,716,591</u>
Less: Accumulated depreciation	<u>(9,122,407)</u>	<u>(7,183,652)</u>
Capital assets being depreciated, net	<u>\$ 32,202,590</u>	<u>\$ 32,532,939</u>
Net capital assets	<u>\$ 36,340,943</u>	<u>\$ 34,762,991</u>

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 \$12,411,565 in bonds, notes, and lines of credit outstanding.

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 Halifax County Service Authority, 2529 Houghton Avenue, South Boston, Virginia 24592.

- Basic Financial Statements -

Statement of Net Assets
At June 30, 2012 and 2011

	At June 30,	
	2012	2011
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 410,772	\$ 558,849
Restricted cash & cash equivalents	1,653,385	-
Accounts receivable (net of allowance for uncollectible accounts)	847,654	888,464
Due from other governments - grants receivable	1,503,704	279,614
Inventory of materials and supplies, at cost	162,315	146,088
Prepaid expenses	14,751	15,451
Total current assets	\$ 4,592,581	\$ 1,888,466
Noncurrent assets:		
Restricted assets:		
Cash & cash equivalents	\$ 227,369	\$ -
Other assets:		
Unamortized bond issue costs	\$ 62,743	\$ -
Capital assets:		
Utility plant, lines and accessories	\$ 40,678,910	\$ 39,089,532
Vehicles and equipment	646,087	627,059
Less accumulated depreciation	(9,122,407)	(7,183,652)
Sub-total	\$ 32,202,590	\$ 32,532,939
Land	133,500	133,500
Construction in progress	4,004,853	2,096,552
Total capital assets	\$ 36,340,943	\$ 34,762,991
Total noncurrent assets	\$ 36,631,055	\$ 34,762,991
Total assets	\$ 41,223,636	\$ 36,651,457
LIABILITIES AND NET ASSETS		
Liabilities:		
Current liabilities:		
Accounts payable	\$ 1,731,406	\$ 476,076
Accrued interest payable	104,644	91,091
Customers' deposits	184,768	152,242
Line of credit payable	98,582	149,894
Accrued vacation leave payable - current portion	15,056	14,695
Bonds and notes payable - current portion	568,790	1,150,137
Total current liabilities	\$ 2,703,246	\$ 2,034,135
Noncurrent liabilities:		
Accrued vacation leave payable - noncurrent portion	\$ 135,499	\$ 132,253
Bonds and notes payable - noncurrent portion	11,744,193	8,088,533
Total noncurrent liabilities	\$ 11,879,692	\$ 8,220,786
Total liabilities	\$ 14,582,938	\$ 10,254,921
Net assets:		
Invested in capital assets, net of related debt	\$ 25,744,088	\$ 25,524,321
Unrestricted	896,610	872,215
Total net assets	\$ 26,640,698	\$ 26,396,536

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, 2012 and 2011

	For the Year Ended June 30,	
	2012	2011
Operating revenues:		
Water and sewer charges	\$ 4,416,672	\$ 4,055,816
Facility fees	14,000	21,951
Other revenues	131,370	118,358
Total operating income	\$ 4,562,042	\$ 4,196,125
Operating expenses:		
Operations and maintenance	\$ 2,538,602	\$ 2,406,152
Administrative	651,922	564,701
Depreciation	1,938,755	1,900,645
Total operating expenses	\$ 5,129,279	\$ 4,871,498
Operating income (loss)	\$ (567,237)	\$ (675,373)
Nonoperating revenues (expenses):		
Investment earnings	\$ 369	\$ 391
Tower rent	14,281	15,000
Contribution from participating governments	149,665	160,430
Other nonoperating revenues	6,218	785
Interest expense	(329,401)	(344,896)
Total nonoperating income (expenses)	\$ (158,868)	\$ (168,290)
Income before contributions and grants	\$ (726,105)	\$ (843,663)
Capital grants	970,267	936,056
Change in net assets	\$ 244,162	\$ 92,393
Net assets, beginning of year - restated	26,396,536	26,304,143
Net assets, end of year	\$ 26,640,698	\$ 26,396,536

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

Statement of Cash Flows
For the Years Ended June 30, 2012 and 2011

	For the Year Ended June 30,	
	2012	2011
Operating activities:		
Receipts from customers and users	\$ 4,602,852	\$ 4,161,598
Payments to suppliers and vendors	(300,165)	(1,114,430)
Payments to and on behalf of employees	(1,593,924)	(1,565,453)
Net cash provided by (used for) operating activities	\$ 2,708,763	\$ 1,481,715
Noncapital financing activities:		
Contribution from participating governments	\$ 149,665	\$ 160,430
Net cash provided by (used for) noncapital financing activities	\$ 149,665	\$ 160,430
Capital and related financing activities:		
Additions to capital assets	\$ (3,516,707)	\$ (2,186,069)
Principal payments	(3,876,429)	(766,336)
Proceeds from indebtedness	6,899,430	1,027,997
Bond issuance costs	(62,743)	-
Capital grants	(253,823)	656,442
Interest payments	(315,848)	(353,747)
Net cash provided by (used for) capital and related financing activities	\$ (1,126,120)	\$ (1,621,713)
Investing activities:		
Interest received	\$ 369	\$ 391
Net cash provided by (used for) investing activities	\$ 369	\$ 391
Increase (decrease) in cash and cash equivalents	\$ 1,732,677	\$ 20,823
Cash and cash equivalents at beginning of year	558,849	538,026
Cash and cash equivalents at end of year, including restricted cash	\$ 2,291,526	\$ 558,849
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:		
Operating income (loss)	\$ (567,237)	\$ (675,373)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:		
Depreciation	1,938,755	1,900,645
Tower rent	14,281	15,000
Other nonoperating revenues	6,218	785
Changes in operating assets and liabilities:		
(Increase) decrease in receivables	40,810	(34,527)
(Increase) decrease in inventory	(16,227)	(69,574)
(Increase) decrease in prepaid expenses	700	(15,451)
Increase (decrease) in customer deposits	32,526	27,895
Increase (decrease) in payables and accrued expenses	1,258,937	332,315
Net cash provided by (used for) operating activities	\$ 2,708,763	\$ 1,481,715

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, 2012 and 2011

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, 2012 and 2011 (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.

When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, then unrestricted resources as needed.

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, 2012 and 2011.

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, 2012 and 2011 (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 or previous 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. Proceeds from bonds issued are classified as restricted assets on the Statement of Net Assets because their use is limited to future capital outlay. These funds are maintained in a separate bank account under the care of a trustee.

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. Inventory was valued at \$162,315 and \$146,088 at June 30, 2012 and 2011.

HALIFAX COUNTY SERVICE AUTHORITY

Notes to Financial Statements
As of June 30, 2012 and 2011 (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.

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.

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.

HALIFAX COUNTY SERVICE AUTHORITY

Notes to Financial Statements
As of June 30, 2012 and 2011 (Continued)

Note 2 - Deposits and Investments: (Continued)

Investments:

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

Custodial Credit Risk (Investments):

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

The Authority's investments at June 30, 2012 were held by the Authority or in the Authority's name by the Authority's custodial banks.

Credit Risk of Debt Securities:

The Authority's rated debt investments as of June 30, 2012 were rated by Standard and Poor's and the ratings are presented below using the Standard and Poor's rating scale.

<u>Authority's Rated Debt Investments' Values</u>	
	<u>Fair Quality Ratings</u>
	AAAm
State Non-Arbitrage Pool	\$ 1,301,875

Interest Rate Risk:

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

<u>Investment Maturities (in years)</u>		
<u>Investment Type</u>	<u>Fair Value</u>	<u>1-5 Years</u>
State Non-Arbitrage Pool	\$ 1,301,875	\$ 1,301,875

External Investment Pools:

The fair value of the positions in the external investment pool (State Non-Arbitrage Pool) are the same as the value of the pool shares. As this pool is not SEC registered, regulatory oversight of the pool rest with the Virginia State Treasury.

HALIFAX COUNTY SERVICE AUTHORITY

Notes to Financial Statements
As of June 30, 2012 and 2011 (Continued)

Note 3 - Capital Assets:

Capital asset activity for the year ended June 30, 2012 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 133,500	\$ -	\$ -	\$ 133,500
Construction in progress	2,096,552	3,405,514	1,497,213	4,004,853
Total capital assets, not being depreciated	<u>\$ 2,230,052</u>	<u>\$ 3,405,514</u>	<u>\$ 1,497,213</u>	<u>\$ 4,138,353</u>
Capital assets, being depreciated:				
Utility plant, lines and accessories	\$ 39,089,532	\$ 1,589,378	\$ -	\$ 40,678,910
Machinery and equipment	627,059	19,028	-	646,087
Total capital assets, being depreciated	<u>\$ 39,716,591</u>	<u>\$ 1,608,406</u>	<u>\$ -</u>	<u>\$ 41,324,997</u>
Less accumulated depreciation for:				
Utility plant, lines and accessories	\$ (6,856,357)	\$ (1,920,855)	\$ -	\$ (8,777,212)
Machinery and equipment	(327,295)	(17,900)	-	(345,195)
Total accumulated depreciation	<u>\$ (7,183,652)</u>	<u>\$ (1,938,755)</u>	<u>\$ -</u>	<u>\$ (9,122,407)</u>
Total capital assets, being depreciated, net	<u>\$ 32,532,939</u>	<u>\$ (330,349)</u>	<u>\$ -</u>	<u>\$ 32,202,590</u>
Capital assets, net	<u><u>\$ 34,762,991</u></u>	<u><u>\$ 3,075,165</u></u>	<u><u>\$ 1,497,213</u></u>	<u><u>\$ 36,340,943</u></u>

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

	Beginning Balance, as restated	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 90,000	\$ 43,500	\$ -	\$ 133,500
Construction in progress	13,408	2,083,144	-	2,096,552
Total capital assets, not being depreciated	<u>\$ 103,408</u>	<u>\$ 2,126,644</u>	<u>\$ -</u>	<u>\$ 2,230,052</u>
Capital assets, being depreciated:				
Utility plant, lines and accessories	\$ 39,059,502	\$ 30,030	\$ -	\$ 39,089,532
Machinery and equipment	597,664	29,395	-	627,059
Total capital assets, being depreciated	<u>\$ 39,657,166</u>	<u>\$ 59,425</u>	<u>\$ -</u>	<u>\$ 39,716,591</u>
Less accumulated depreciation for:				
Utility plant, lines and accessories	\$ (5,001,992)	\$ (1,854,365)	\$ -	\$ (6,856,357)
Machinery and equipment	(281,015)	(46,280)	-	(327,295)
Total accumulated depreciation	<u>\$ (5,283,007)</u>	<u>\$ (1,900,645)</u>	<u>\$ -</u>	<u>\$ (7,183,652)</u>
Total capital assets, being depreciated, net	<u>\$ 34,374,159</u>	<u>\$ (1,841,220)</u>	<u>\$ -</u>	<u>\$ 32,532,939</u>
Capital assets, net	<u><u>\$ 34,477,567</u></u>	<u><u>\$ 285,424</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 34,762,991</u></u>

HALIFAX COUNTY SERVICE AUTHORITY

Notes to Financial Statements
As of June 30, 2012 and 2011 (Continued)

Note 4 - Long-Term Obligations:

Changes in long-term indebtedness for the year ended June 30, 2012 are as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable	\$ 7,235,731	\$ 6,404,330	\$ 3,106,933	\$ 10,533,128	\$ 449,409
Premium on bond issue	-	333,347	-	333,347	34,757
Deferred amount on refunding	-	(84,922)	-	(84,922)	(4,699)
Bond anticipation note	384,520	246,675	631,195	-	-
Notes payable	1,618,419	-	86,989	1,531,430	89,323
Total bonds and notes	\$ 9,238,670	\$ 6,899,430	\$ 3,825,117	\$ 12,312,983	\$ 568,790
Line of Credit	149,894	-	51,312	98,582	98,582
Compensated absences	146,948	3,607	-	150,555	15,056
Total	\$ 9,535,512	\$ 6,903,037	\$ 3,876,429	\$ 12,562,120	\$ 682,428

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

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
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	\$ 9,270,917	\$ 1,030,931	\$ 766,336	\$ 9,535,512	\$ 1,314,726

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

Year Ending June 30	Bonds Payable		Notes Payable	
	Principal	Interest	Principal	Interest
2013	\$ 449,409	\$ 349,107	\$ 89,323	\$ 20,471
2014	538,323	410,266	90,538	19,257
2015	615,673	333,364	91,798	17,996
2016	645,888	306,468	93,106	16,688
2017	671,156	278,621	94,463	15,331
2018-2022	2,882,518	972,275	494,536	54,434
2023-2027	1,344,897	602,161	466,867	13,386
2028-2032	969,290	405,607	110,799	-
2033-2037	1,134,258	246,658	-	-
2038-2042	974,333	88,717	-	-
2043-2044	307,383	5,840	-	-
Total	\$ 10,533,128	\$ 3,999,084	\$ 1,531,430	\$ 157,563

HALIFAX COUNTY SERVICE AUTHORITY

Notes to Financial Statements
As of June 30, 2012 and 2011 (Continued)

Note 4 - Long-Term Obligations: (Continued)

Details of the Authority's outstanding long-term indebtedness at June 30, 2012 are as follows:

Bonds payable:	<u>Amount Due</u>
\$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	\$ 2,910,000
\$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	1,218,798
\$985,000 Series 2011B VRA Refunding Bond payable with principal due in annual installments ranging from \$80,000 to \$120,000 and interest payable semi-annually ranging from 2.12% to 5.12%, maturing October 1, 2021	985,000
Premium on Series 2011B VRA Refunding Bond	135,495
Deferred amount on refunding Series 2011B VRA Refunding Bond	(33,906)
\$1,135,000 Series 2012A VRA Revenue Bond payable with principal due in annual installments ranging from \$25,000 to \$80,000 and interest payable semi-annually ranging from 3.52% to 5.12%, maturing October 1, 2037	1,135,000
Premium on Series 2011B VRA Refunding Bond	197,852
\$5,000,000 Series 2011B USDA Rural Development Revenue Bond issued December 20, 2011, payable through 2044	4,284,330
Deferred amount on refunding Series 2011B USDA Revenue Bond	(51,016)
Total Bonds	<u>\$ 10,781,553</u>
Notes payable:	
Note payable to the Town of South Boston due in annual installments of \$42,998 with a final payment for the outstanding balance due February 1, 2028, interest at 0%.	\$ 924,399
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%.	566,431
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%.	40,600
Total Notes Payable	<u>\$ 1,531,430</u>
Line of credit	98,582
Compensated absences payable	150,555
Total Long-Term Obligations	<u><u>\$ 12,562,120</u></u>

HALIFAX COUNTY SERVICE AUTHORITY

Notes to Financial Statements
As of June 30, 2012 and 2011 (Continued)

Note 4 - Long-Term Obligations: (Continued)

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, 2013. 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)

All full-time, salaried permanent (professional) employees of public school divisions and employees of participating employers are automatically covered by VRS upon employment. Benefits vest after five years of service credit. Members earn one month of 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 early at age 55 with at least 5 years of service credit or age 50 with at least 10 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%. 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.

HALIFAX COUNTY SERVICE AUTHORITY

Notes to Financial Statements
As of June 30, 2012 and 2011 (Continued)

Note 5 - Defined Benefit Pension Plan: (Continued)

A. Plan Description: (Continued)

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. A copy of the most recent report may be obtained from the VRS Web site at <http://www.varetire.org/Pdf/Publications/2011-annual-report.pdf> or by writing to the System’s Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

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 5.00% 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, 2012 was 12.74% of the annual covered payroll.

C. Annual Pension Cost:

For the fiscal year ended June 30, 2012, the Authority’s annual pension cost of \$136,215 was equal to the Authority’s required and actual contributions.

**Three-Year Trend Information for
Halifax County Service Authority**

Fiscal Year Ending	Annual Pension Cost* (APC)	Percentage Of APC Contributed	Net Pension Obligation
June 30, 2012	\$ 136,215	100%	\$ -
June 30, 2011	134,458	100%	-
June 30, 2010	91,554	100%	-

*Includes employer costs only.

The FY2012 required contribution was determined as part of the June 30, 2009 actuarial valuation using the entry age 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 5.60% 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

HALIFAX COUNTY SERVICE AUTHORITY

Notes to Financial Statements

As of June 30, 2012 and 2011 (Continued)

Note 5 - Defined Benefit Pension Plan: (Continued)

C. Annual Pension Cost: (Continued)

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 payrolls on an open basis.

D. Funded Status and Funding Progress:

As of June 30, 2011, the most recent actuarial valuation date, the plan was 124.94% funded. The actuarial accrued liability for benefits was \$522,289, and the actuarial value of assets was \$652,568, resulting in an unfunded actuarial accrued liability (UAAL) of (\$130,279). The covered payroll (annual payroll of active employees covered by the plan) was \$1,084,525 and the ratio of the UAAL to the covered payroll was -12.01%.

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) 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.

HALIFAX COUNTY SERVICE AUTHORITY

Notes to Financial Statements
As of June 30, 2012 and 2011 (Continued)

Note 8 - Restatement of Beginning Net Assets:

Net assets as of June 30, 2010 were restated to record capital assets and inventory excluded in prior years. Details of the restatement are as follows:

	<u>Amount</u>
Net assets, June 30, 2010 - previously reported	\$ 24,372,539
Capital assets, net of accumulated depreciation	1,855,090
Inventory	<u>76,514</u>
Net assets, June 30, 2010 - restated	<u><u>\$ 26,304,143</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) (a) / (b)	Annual Covered Payroll (e)	UAAL
			(Excess Funded) Actuarial Accrued Liability (UAAL) (c) (b) - (a)			as % of Covered Payroll (f) (c) / (e)
6/30/2011	\$ 652,568	\$ 522,289	\$ (130,279)	124.94%	\$ 1,084,525	-12.01%
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%

- 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
South Boston, Virginia

We have audited the financial statements of the business-type activities of Halifax County Service Authority as of and for the year ended June 30, 2012, which comprise the Authority's basic financial statements and have issued our report thereon dated December 18, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the *Specifications for Audits of Authorities, Boards, and Commissions*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia; and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of Halifax County Service Authority is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Halifax County Service Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the 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*.

Compliance and Other Matters (Continued)

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

Robinson, Farmer, Cox Associates

Charlottesville, Virginia
December 18, 2012

**Independent Auditors' Report on Compliance with Requirements That Could
Have a Direct and Material Effect on Each Major Program and on Internal
Control Over Compliance in Accordance with OMB Circular A-133**

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

Compliance

We have audited Halifax County Service Authority's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Halifax County Service Authority's major federal programs for the year ended June 30, 2012. Halifax County 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. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Halifax County Service Authority's management. Our responsibility is to express an opinion on Halifax County Service Authority's compliance based on our audit.

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; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 Halifax County 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. Our audit does not provide a legal determination of Halifax County Service Authority's compliance with those requirements.

In our opinion, Halifax County Service Authority complied, in all material respects, with the 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, 2012.

Internal Control Over Compliance

Management of Halifax County Service Authority is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Halifax County Service Authority's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 Halifax County Service Authority's internal control over compliance.

Internal Control Over Compliance (Continued)

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.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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

Robinson, Farmer, Cox Associates

Charlottesville, Virginia
December 18, 2012

HALIFAX COUNTY SERVICE AUTHORITY

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2012

Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
<u>Environmental Protection Agency</u>			
Pass-Through Payments:			
Virginia Department of Environmental Quality			
Congressionally Mandated Projects	66.202	N/A	\$ 479,566
ARRA - Leaking Underground Storage Tank			
Trust Fund Corrective Action Program	66.805	N/A	336,325
Total Environmental Protection Agency			<u>\$ 815,891</u>
<u>Department of Agriculture - Rural Development</u>			
Direct Payments:			
ARRA - Water and Waste Disposal Systems			
for Rural Communities	10.781	N/A	\$ 4,284,330
Total expenditures of federal awards			<u>\$ 5,100,221</u>

Note 1 - General

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of the Halifax County Service Authority under programs of the federal government for the year ended June 30, 2012. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of the Halifax County Service Authority, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Halifax County Service Authority.

Note 2 - Basis of Accounting

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for States, Local and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Pass-through entity identifying numbers are presented where available.

Note 3 - Relationship to Financial Statements

Capital grant revenues per Exhibit 2	\$ 970,267
Less: State and local capital grant revenues	(154,376)
Add: USDA Loan	4,284,330
Total federal revenues per the basic financial statements	<u>5,100,221</u>
Total federal expenditures per the Schedule of Expenditures of Federal Awards	<u>\$ 5,100,221</u>

HALIFAX COUNTY SERVICE AUTHORITY

Schedule of Findings and Questioned Costs
Year Ended June 30, 2012

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	Unqualified
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 programs:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified?	None reported
Type of auditor's report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510 (a)?	No

Identification of major programs:

<u>CFDA #</u>	<u>Name of Federal Program or Cluster</u>
10.781	ARRA - Water and Waste Disposal Systems for Rural Communities
66.202	Congressionally Mandated Projects
66.805	ARRA - Leaking Underground Storage Tank Trust Fund Corrective Action Program

Dollar threshold used to distinguish between Type A and Type B programs	\$300,000
Auditee qualified as low-risk auditee?	No

Section II - Financial Statement Findings

There are no financial statement findings to report.

Section III - Federal Award Findings and Questioned Costs

There are no federal award findings and questioned costs to report.

Section IV - Prior Year Federal Award Findings and Questioned Costs

There were no prior year federal award findings or questioned costs to report.