

HALIFAX COUNTY SERVICE AUTHORITY
SOUTH BOSTON, VIRGINIA
FINANCIAL REPORT
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

HALIFAX COUNTY SERVICE AUTHORITY
SOUTH BOSTON, VIRGINIA

FINANCIAL REPORT
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

Table of Contents

	<u>Page</u>
<u>Introductory Section</u>	
Authority Officials	i
<u>Financial Section</u>	
Independent Auditors' Report	1-3
Management's Discussion and Analysis	4-7
<u>Basic Financial Statements</u>	
Exhibit 1 Statement of Net Position	8
Exhibit 2 Statement of Revenues, Expenses, and Changes in Net Position	9
Exhibit 3 Statement of Cash Flows	10
Notes to Financial Statements	11-24
<u>Required Supplementary Information</u>	
Schedule of Funding Progress for the Defined Benefit Pension Plan	25
<u>Compliance Section</u>	
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	26-27
Independent Auditors' Report on Compliance for Each Major Program on Internal Control Over Compliance Required by OMB Circular A-133	28-29
Schedule of Expenditures of Federal Awards	30
Schedule of Findings and Questioned Costs	31

- **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

Report on the Financial Statements

We have audited the accompanying financial statements of the Halifax County Service Authority as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Halifax County Service Authority, as of June 30, 2013 and 2012, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 8 to the financial statements, in 2013, the Authority adopted new accounting guidance, GASB Statement Nos. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4-7 and schedule of pension funding progress be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 24, 2014, on our consideration of Halifax County Service Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Halifax County Service Authority's internal control over financial reporting and compliance.

Robinson, Farmer, Cox Associates
(Charlottesville, Virginia
March 24, 2014

Management's Discussion and Analysis

To the Board of Members Halifax County Service Authority

As management of Halifax County Service Authority ("HCSA" or "the Authority"), we offer readers of our financial statements this narrative, overview, and analysis of the financial activities of the Authority for the years ended June 30, 2013 and 2012.

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

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

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

Notes to Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The Notes to the Financial Statements can be found on pages 11 through 24 of this report. Note 5 presents certain required supplementary information concerning the Authority's progress in funding its obligation to provide pension benefits to its employees.

Financial Highlights

- The assets and deferred outflows of the Authority exceeded its liabilities at the close of the most recent fiscal year by \$32,825,879 (net position). Of this amount, \$1,152,600 (unrestricted net position) may be used to meet the Authority's ongoing obligations to customers and creditors.

Financial Analysis

Net investment in capital assets

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

Unrestricted net position

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

The following table provides a summary of the statement of net position. The Authority implemented GASB Statement No. 65, requiring restatement of beginning net position as of July 1, 2011. Reference Note 9 for additional information.

	Net Position		
	2013	2012	2011
Current and other assets	\$ 4,215,586	\$ 4,819,950	\$ 1,888,466
Capital assets	<u>42,261,496</u>	<u>36,340,943</u>	<u>34,762,991</u>
Total assets	<u>\$ 46,477,082</u>	<u>\$ 41,160,893</u>	<u>\$ 36,651,457</u>
Deferred charge on refunding	<u>\$ 80,223</u>	<u>\$ 84,922</u>	
Long-term liabilities	\$ 12,458,016	\$ 12,548,460	\$ 9,385,618
Other liabilities	<u>1,273,410</u>	<u>2,119,400</u>	<u>869,303</u>
Total liabilities	<u>\$ 13,731,426</u>	<u>\$ 14,667,860</u>	<u>\$ 10,254,921</u>
Net position:			
Net investment in capital assets	\$ 31,673,279	\$ 25,744,088	\$ 25,524,321
Unrestricted	<u>1,152,600</u>	<u>833,867</u>	<u>872,215</u>
Total net position	<u>\$ 32,825,879</u>	<u>\$ 26,577,955</u>	<u>\$ 26,396,536</u>

Financial Analysis: (Continued)

Changes in Revenues, Expenses & Net Position

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

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

	Change in Net Position		
	2013	2012	2011
Revenues:			
Operating revenues	\$ 4,603,514	\$ 4,562,042	\$ 4,196,125
Contribution from participating governments	122,181	149,665	160,430
Other nonoperating revenue	15,710	20,499	15,785
Investment income	3,311	369	391
Capital contributions	6,922,951	970,267	936,056
Total revenues	\$ 11,667,667	\$ 5,702,842	\$ 5,308,787
Expenses:			
Operating expenses (excluding depreciation)	\$ 3,128,703	\$ 3,190,524	\$ 2,970,853
Depreciation expense	1,952,835	1,938,755	1,900,645
Interest expense	338,205	329,401	344,896
Total expenses	\$ 5,419,743	\$ 5,458,680	\$ 5,216,394
Increase (decrease) in net position	\$ 6,247,924	\$ 244,162	\$ 92,393
Net position-July 1, as restated	26,577,955	26,333,793	26,304,143
Net position-June 30	\$ 32,825,879	\$ 26,577,955	\$ 26,396,536

Operating & nonoperating expenses

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

Capital Assets

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

The following table summarizes the Authority's capital assets, net of accumulated depreciation as of June 30, 2013 and 2012.

	<u>June 30, 2013</u>	<u>June 30, 2012</u>	<u>June 30, 2011</u>
Capital assets not being depreciated			
Land	\$ 133,500	\$ 133,500	\$ 43,500
Construction in progress	11,813,396	4,004,853	2,096,552
Total capital assets not being depreciated	<u>\$ 11,946,896</u>	<u>\$ 4,138,353</u>	<u>\$ 2,140,052</u>
Capital assets being depreciated			
Utility plant lines and accessories	\$ 40,678,910	\$ 40,678,910	\$ 37,121,697
Vehicles and equipment	710,931	646,087	627,059
Total assets being depreciated	<u>\$ 41,389,841</u>	<u>\$ 41,324,997</u>	<u>\$ 37,748,756</u>
Less: Accumulated depreciation	<u>(11,075,241)</u>	<u>(9,122,407)</u>	<u>(6,899,809)</u>
Capital assets being depreciated, net	<u>\$ 30,314,600</u>	<u>\$ 32,202,590</u>	<u>\$ 30,848,947</u>
Net capital assets	<u><u>\$ 42,261,496</u></u>	<u><u>\$ 36,340,943</u></u>	<u><u>\$ 32,988,999</u></u>

Debt Administration

Long-term Obligations

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

At the end of the current fiscal year, the Authority had \$12,322,435 in bonds and notes outstanding. The Authority also had \$135,581 in compensated absences.

Requests for Information

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

- Basic Financial Statements -

Statement of Net Position
At June 30, 2013 and 2012

	At June 30,	
	2013	2012
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 782,994	\$ 410,772
Restricted cash & cash equivalents	1,734,218	1,653,385
Accounts receivable (net of allowance for uncollectible accounts)	831,597	847,654
Due from other governments - grants receivable	444,794	1,503,704
Inventory of materials and supplies, at cost	154,323	162,315
Prepaid items	15,460	14,751
Total current assets	<u>\$ 3,963,386</u>	<u>\$ 4,592,581</u>
Noncurrent assets:		
Restricted assets:		
Cash & cash equivalents	\$ 252,200	\$ 227,369
Capital assets:		
Utility plant, lines and accessories	\$ 40,678,910	\$ 40,678,910
Vehicles and equipment	710,931	646,087
Less accumulated depreciation	<u>(11,075,241)</u>	<u>(9,122,407)</u>
Sub-total net capital assets	\$ 30,314,600	\$ 32,202,590
Land	133,500	133,500
Construction in progress	11,813,396	4,004,853
Total net capital assets	<u>\$ 42,261,496</u>	<u>\$ 36,340,943</u>
Total noncurrent assets	<u>\$ 42,513,696</u>	<u>\$ 36,568,312</u>
Total assets	<u>\$ 46,477,082</u>	<u>\$ 41,160,893</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred charge on refunding	\$ 80,223	\$ 84,922
LIABILITIES		
Current liabilities:		
Accounts payable	\$ 998,559	\$ 1,731,406
Accrued interest payable	76,860	104,644
Customers' deposits	197,991	184,768
Line of credit payable	-	98,582
Compensated absences - current portion	13,558	15,056
Bonds and notes payable - current portion	697,904	573,489
Total current liabilities	<u>\$ 1,984,872</u>	<u>\$ 2,707,945</u>
Noncurrent liabilities:		
Compensated absences - noncurrent portion	\$ 122,023	\$ 135,499
Bonds and notes payable - noncurrent portion	11,624,531	11,824,416
Total noncurrent liabilities	<u>\$ 11,746,554</u>	<u>\$ 11,959,915</u>
Total liabilities	<u>\$ 13,731,426</u>	<u>\$ 14,667,860</u>
NET POSITION:		
Net investment in capital assets	\$ 31,673,279	\$ 25,744,088
Unrestricted	1,152,600	833,867
Total net position	<u>\$ 32,825,879</u>	<u>\$ 26,577,955</u>

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

Statement of Revenues, Expenses, and Changes in Net Position
For the Years Ended June 30, 2013 and 2012

	For the Year Ended June 30,	
	2013	2012
Operating revenues:		
Water and sewer charges	\$ 4,441,950	\$ 4,416,672
Facility fees	25,900	14,000
Other revenues	135,664	131,370
Total operating revenues	\$ 4,603,514	\$ 4,562,042
Operating expenses:		
Operations and maintenance	\$ 2,592,043	\$ 2,538,602
Administrative	536,661	651,922
Depreciation	1,952,834	1,938,755
Total operating expenses	\$ 5,081,538	\$ 5,129,279
Operating income (loss)	\$ (478,024)	\$ (567,237)
Nonoperating revenues (expenses):		
Investment earnings	\$ 3,311	\$ 369
Tower rent	13,800	14,281
Contribution from participating governments	122,181	149,665
Other nonoperating revenues	1,910	6,218
Interest expense	(338,205)	(329,401)
Total nonoperating revenues (expenses)	\$ (197,003)	\$ (158,868)
Income before contributions and grants	\$ (675,027)	\$ (726,105)
Capital grants	6,922,951	970,267
Change in net position	\$ 6,247,924	\$ 244,162
Net position, beginning of year - restated	26,577,955	26,333,793
Net position, end of year	\$ 32,825,879	\$ 26,577,955

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

Statement of Cash Flows
For the Years Ended June 30, 2013 and 2012

	For the Year Ended June 30,	
	2013	2012
Cash flows from operating activities:		
Receipts from customers and users	\$ 4,619,571	\$ 4,602,852
Payments to suppliers and vendors	(2,163,918)	(300,165)
Payments to and on behalf of employees	(1,676,391)	(1,593,924)
Net cash provided by (used for) operating activities	\$ 779,262	\$ 2,708,763
Cash flows from noncapital financing activities:		
Contribution from participating governments	\$ 122,181	\$ 149,665
Net cash provided by (used for) noncapital financing activities	\$ 122,181	\$ 149,665
Cash flows from capital and related financing activities:		
Additions to capital assets	\$ (7,836,476)	\$ (3,516,707)
Principal payments	(854,965)	(3,876,429)
Proceeds from indebtedness	715,670	6,899,430
Bond issuance costs	-	(62,743)
Capital grants	7,981,861	(253,823)
Interest payments	(432,958)	(315,848)
Net cash provided by (used for) capital and related financing activities	\$ (426,868)	\$ (1,126,120)
Cash flows from investing activities:		
Interest received	\$ 3,311	\$ 369
Net cash provided by (used for) investing activities	\$ 3,311	\$ 369
Increase (decrease) in cash and cash equivalents	\$ 477,886	\$ 1,732,677
Cash and cash equivalents at beginning of year	2,291,526	558,849
Cash and cash equivalents at end of year, including restricted cash	\$ 2,769,412	\$ 2,291,526
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:		
Operating income (loss)	\$ (478,024)	\$ (567,237)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:		
Depreciation	1,952,834	1,938,755
Tower rent	13,800	14,281
Other nonoperating revenues	1,910	6,218
Changes in operating assets and liabilities:		
(Increase) decrease in receivables	16,057	40,810
(Increase) decrease in inventory	7,992	(16,227)
(Increase) decrease in prepaid items	(709)	700
Increase (decrease) in customer deposits	13,223	32,526
Increase (decrease) in payables and accrued expenses	(747,821)	1,258,937
Net cash provided by (used for) operating activities	\$ 779,262	\$ 2,708,763

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, 2013 and 2012

Note 1 - Summary of Significant Accounting Policies:

A. Formation of the Authority:

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, 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 accompanying financial statements are prepared in accordance with pronouncements issued by the Governmental Accounting Standards Board. The principles prescribed by GASB represent generally accepted accounting principles applicable to governmental units.

HALIFAX COUNTY SERVICE AUTHORITY

Notes to Financial Statements
As of June 30, 2013 and 2012 (Continued)

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

C. Basis of Accounting: (Continued)

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

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 \$75,260 and \$0 at June 30, 2013 and 2012.

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 Position
 - Statement of Revenues, Expenses, and Changes in Net Position
 - 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, 2013 and 2012 (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. \$36,911 in 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 nonoperating 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 Position 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. Premiums/Discount on Bonds Held for Investment:

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

K. Unamortized Deferred Charge on Refunding:

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

HALIFAX COUNTY SERVICE AUTHORITY

Notes to Financial Statements
As of June 30, 2013 and 2012 (Continued)

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

L. Budgets and Budgetary Accounting:

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

M. Inventory:

Inventories of material and supplies are recorded at cost, using the first-in, first-out method of valuation. Inventory was valued at \$154,323 and \$162,315 at June 30, 2013 and 2012.

N. Use of Estimates:

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

O. Net Position:

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

P. Deferred Outflows/Inflows of Resources:

In addition to assets, the statement of financial position, when applicable, will report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The Authority only has one item that qualifies for reporting in this category. It is the deferred charge on refunding reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the statement of financial position, when applicable, will report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Authority does not have any deferred inflows of resources as of June 30, 2013.

HALIFAX COUNTY SERVICE AUTHORITY

Notes to Financial Statements
As of June 30, 2013 and 2012 (Continued)

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

Q. Net Position Flow Assumption:

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

R. Long-term Obligations:

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

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

S. Compensated Absences:

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

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).

HALIFAX COUNTY SERVICE AUTHORITY

Notes to Financial Statements
As of June 30, 2013 and 2012 (Continued)

Note 2 - Deposits and Investments: (Continued)

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, 2013 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, 2013 were rated by Standard and Poor's and the ratings are presented below using the Standard and Poor's rating scale.

<u>Authority's Rated Debt Investments' Values</u>	
	<u>Fair Quality Ratings</u>
	<u>AAAm</u>
State Non-Arbitrage Pool	\$ 1,202,427

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	\$ 1,202,427	\$ 1,202,427

External Investment Pool:

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. The State Non-Arbitrage Pool (SNAP) is an open-end managers investment company registered with the Securities and Exchange Commission (SEC).

HALIFAX COUNTY SERVICE AUTHORITY

Notes to Financial Statements
As of June 30, 2013 and 2012 (Continued)

Note 3 - Capital Assets:

Capital asset activity for the year ended June 30, 2013 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land	\$ 133,500	\$ -	\$ -	\$ 133,500
Construction in progress	4,004,853	7,808,543	-	11,813,396
Total capital assets, not being depreciated	<u>\$ 4,138,353</u>	<u>\$ 7,808,543</u>	<u>\$ -</u>	<u>\$ 11,946,896</u>
Capital assets, being depreciated:				
Utility plant, lines and accessories	\$ 40,678,910	\$ -	\$ -	\$ 40,678,910
Machinery and equipment	646,087	64,844	-	710,931
Total capital assets, being depreciated	<u>\$ 41,324,997</u>	<u>\$ 64,844</u>	<u>\$ -</u>	<u>\$ 41,389,841</u>
Less accumulated depreciation for:				
Utility plant, lines and accessories	\$ (8,777,212)	\$ (1,921,932)	\$ -	\$ (10,699,144)
Machinery and equipment	(345,195)	(30,902)	-	(376,097)
Total accumulated depreciation	<u>\$ (9,122,407)</u>	<u>\$ (1,952,834)</u>	<u>\$ -</u>	<u>\$ (11,075,241)</u>
Total capital assets, being depreciated, net	<u>\$ 32,202,590</u>	<u>\$ (1,887,990)</u>	<u>\$ -</u>	<u>\$ 30,314,600</u>
Capital assets, net	<u>\$ 36,340,943</u>	<u>\$ 5,920,553</u>	<u>\$ -</u>	<u>\$ 42,261,496</u>

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
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>\$ 34,762,991</u>	<u>\$ 3,075,165</u>	<u>\$ 1,497,213</u>	<u>\$ 36,340,943</u>

HALIFAX COUNTY SERVICE AUTHORITY

Notes to Financial Statements
As of June 30, 2013 and 2012 (Continued)

Note 4 - Long-term Obligations:

Changes in long-term indebtedness for the year ended June 30, 2013 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	\$ 10,533,128	\$ 715,670	\$ 668,264	\$ 10,580,534	\$ 572,863
Premium on bond issue	333,347	-	34,757	298,590	34,503
Notes payable	1,531,430	-	88,119	1,443,311	90,538
Total bonds and notes	<u>\$ 12,397,905</u>	<u>\$ 715,670</u>	<u>\$ 791,140</u>	<u>\$ 12,322,435</u>	<u>\$ 697,904</u>
Line of Credit	98,582	-	98,582	-	-
Compensated absences	<u>150,555</u>	<u>-</u>	<u>14,974</u>	<u>135,581</u>	<u>13,558</u>
Total	<u>\$ 12,647,042</u>	<u>\$ 715,670</u>	<u>\$ 904,696</u>	<u>\$ 12,458,016</u>	<u>\$ 711,462</u>

Changes in long-term indebtedness for the year ended June 30, 2012 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	\$ 7,235,731	\$ 6,404,330	\$ 3,106,933	\$ 10,533,128	\$ 449,409
Premium on bond issue	-	333,347	-	333,347	34,757
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	<u>\$ 9,238,670</u>	<u>\$ 6,984,352</u>	<u>\$ 3,825,117</u>	<u>\$ 12,397,905</u>	<u>\$ 573,489</u>
Line of Credit	149,894	-	51,312	98,582	98,582
Compensated absences	<u>146,948</u>	<u>3,607</u>	<u>-</u>	<u>150,555</u>	<u>15,056</u>
Total	<u>\$ 9,535,512</u>	<u>\$ 6,987,959</u>	<u>\$ 3,876,429</u>	<u>\$ 12,647,042</u>	<u>\$ 687,127</u>

HALIFAX COUNTY SERVICE AUTHORITY

Notes to Financial Statements
As of June 30, 2013 and 2012 (Continued)

Note 4 - Long-term Obligations: (Continued)

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

Year Ending June 30	Bonds Payable		Notes Payable	
	Principal	Interest	Principal	Interest
2014	\$ 572,863	\$ 360,078	\$ 90,538	\$ 19,257
2015	605,164	343,873	91,798	17,996
2016	635,140	317,216	93,106	16,688
2017	660,163	289,614	94,463	15,331
2018	685,235	260,758	95,872	13,923
2019-2023	2,374,161	922,443	502,417	46,553
2024-2028	1,210,803	922,336	417,395	7,344
2029-2033	925,200	451,544	57,722	-
2034-2038	1,088,139	295,295	-	-
2039-2043	820,350	160,650	-	-
2044-2048	917,934	63,066	-	-
2049	85,382	496	-	-
Total	\$ 10,580,534	\$ 4,387,369	\$ 1,443,311	\$ 137,092

Details of the Authority's outstanding long-term indebtedness at June 30, 2013 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	\$ 2,600,000
\$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	1,159,389
\$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	905,000
Premium on Series 2011B VRA Refunding Bond	111,569
\$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 2012A VRA Refunding Bond	187,021
\$5,000,000 Series 2011B USDA Rural Development Revenue Bond issued December 20, 2011, payable through 2044	4,781,145
Total Bonds	\$ 10,879,124

HALIFAX COUNTY SERVICE AUTHORITY

Notes to Financial Statements
As of June 30, 2013 and 2012 (Continued)

Note 4 - Long-term Obligations: (Continued)

Details of the Authority's outstanding long-term indebtedness at June 30, 2013: (Continued)

	<u>Amount Due</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%	\$ 871,323
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%	534,288
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%	<u>37,700</u>
Total Notes Payable	\$ <u>1,443,311</u>
Compensated absences payable	\$ <u>135,581</u>
Total Long-term Obligations	\$ <u><u>12,458,016</u></u>

Line of Credit:

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

Note 5 - Defined Benefit Pension Plan:

A. Plan Description:

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

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 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 service credit in their plan.

HALIFAX COUNTY SERVICE AUTHORITY

Notes to Financial Statements
As of June 30, 2013 and 2012 (Continued)

Note 5 - Defined Benefit Pension Plan: (Continued)

A. Plan Description: (Continued)

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

- Members hired before July 1, 2010 and who were vested as of January 1, 2013 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 five years of service credit or age 50 with at least ten years of service credit.
- Members hired or rehired on or after July 1, 2010 and Plan 1 members who were not vested on January 1, 2013 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.
- Eligible hazardous duty members in Plan 1 and Plan 2 are eligible for an unreduced benefit beginning at age 60 with at least 5 years of service credit or age 50 with at least 25 years of service credit. These members include sheriffs, deputy sheriffs and hazardous duty employees of political subdivisions that have elected to provide enhanced coverage for hazardous duty service. They may retire with a reduced benefit as early as age 50 with at least five years of service credit. All other provisions of the member's plan apply.

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. The multiplier for Plan 2 members was reduced to 1.65% effective January 1, 2013 unless they are hazardous duty employees and their employer has elected the enhanced retirement multiplier. 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 3.00%. 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 VRS. A copy of the most recent report may be obtained from the VRS website at <http://www.varetire.org/PDF/Publications/2012-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, 2013 and 2012 (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. Beginning July 1, 2012 new employees were required to pay the 5% member contribution. In addition, for existing employees, employers were required to begin making the employee pay the 5% member contribution. This could be phased in over a period of up to 5 years and the employer is required to provide a salary increase equal to the amount of the increase in the employee-paid member contribution. 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, 2013 was 13.16% of the annual covered payroll.

C. Annual Pension Cost:

For the fiscal year ended June 30, 2013, the Authority's annual pension cost of \$151,916 was equal to the 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, 2013	\$ 151,916	100%	\$ -
June 30, 2012	136,215	100%	-
June 30, 2011	134,458	100%	-

*Includes employer costs only.

The fiscal year 2013 required contribution was determined as part of the June 30, 2011 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions at June 30, 2011 included (a) an investment rate of return (net of administrative expenses) of 7.00%, (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 for Plan 1 employees and 2.25% for Plan 2 employees. 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 payrolls on an open basis. The remaining amortization period at June 30, 2011 for the Unfunded Actuarial Accrued Liability (UAAL) was 30 years.

HALIFAX COUNTY SERVICE AUTHORITY

Notes to Financial Statements
As of June 30, 2013 and 2012 (Continued)

Note 5 - Defined Benefit Pension Plan: (Continued)

D. Funded Status and Funding Progress:

As of June 30, 2012, the most recent actuarial valuation date, the plan was 122.04% funded. The actuarial accrued liability for benefits was \$701,588, and the actuarial value of assets was \$856,253, resulting in a funded actuarial accrued liability (UAAL) of (\$154,665). The covered payroll (annual payroll of active employees covered by the plan) was \$1,087,993 and the ratio of the UAAL to the covered payroll was (14.22%).

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 - Adoption of Accounting Principles:

Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position, Statement No. 63 of the Governmental Accounting Standards Board:

The Authority implemented the financial reporting provisions of the above Statement for the fiscal year ended June 30, 2013. This Statement provides guidance for reporting deferred inflows and deferred outflows of resources. The requirements of this Statement will improve financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources and their effects on an entity's net position. With the implementation of this Statement, certain terminology has changed and financial statement descriptions have changed from "net assets" to "net position." The net equity reported in the financial statements was not changed as a result of implementing this Statement and no restatement of prior balances is required.

HALIFAX COUNTY SERVICE AUTHORITY

Notes to Financial Statements
As of June 30, 2013 and 2012 (Continued)

Note 8 - Adoption of Accounting Principles: (Continued)

Items Previously Reported as Assets and Liabilities, Statement No. 65 of the Governmental Accounting Standards Board:

The Authority implemented the financial reporting provisions of the above Statement for the fiscal year ended June 30, 2013. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The implementation of this Statement resulted in the following restatement of net position:

	<u>Amount</u>
Beginning net position, July 1, 2012 as previously reported	\$ 26,640,698
Adjustment to write-off bond issue costs	<u>(62,743)</u>
Beginning net position July 1, 2012, as restated	<u><u>\$ 26,577,955</u></u>

Note 9 - Pending GASB Statements:

In June 2012, GASB issued Statement No. 68, Accounting and Financial Reporting for Pensions. The objective of this statement is to improve accounting and financial reporting by state and local governments for pensions and to better report pension expense and pension liabilities. This statement is effective for periods beginning after June 15, 2014.

- 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)
6/30/2012	\$ 856,253	\$ 701,588	\$ (154,665)	122.04%	\$ 1,087,993	(14.22%)
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%)

- Compliance Section -

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Authorities, Boards, and Commissions*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the business-type activities of Halifax County Service Authority as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Halifax County Service Authority's basic financial statements and have issued our report thereon dated March 24, 2014.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Robinson, Farmer, Cox Associates
Charlottesville, Virginia
March 24, 2014

Independent Auditors' Report on Compliance For Each Major Program and on Internal Control Over Compliance Required by OMB Circular A-133

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

Report on Compliance for Each Major Federal Program

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, 2013. Halifax County Service Authority's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Halifax County Service Authority's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; 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 on compliance for each major federal program. However, our audit does not provide a legal determination of Halifax County Service Authority's compliance.

Opinion on Each Major Federal Program

In our opinion, Halifax County Service Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Report on Internal Control Over Compliance

Management of Halifax County Service Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Halifax County Service Authority's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with 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.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Robinson, Farmer Cox Associates
(Charlottesville, Virginia
March 24, 2014

HALIFAX COUNTY SERVICE AUTHORITY

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2013

Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
<u>Department of Agriculture - Rural Development</u>			
Direct Payments:			
ARRA - Water and Waste Disposal Systems for Rural Communities	10.781	N/A	\$ <u>715,670</u>
Water and Waste Disposal Systems for Rural Communities	10.760	N/A	\$ <u>6,860,321</u>
Total Department of Agriculture - Rural Development			\$ <u>7,575,991</u>
Total expenditures of federal awards			\$ <u><u>7,575,991</u></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, 2013. 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 position, 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	\$ 6,922,951
Less: State and local capital grant revenues	(62,630)
Add: USDA Loan	<u>715,670</u>
Total federal revenues per the basic financial statements	\$ <u>7,575,991</u>
Total federal expenditures per the Schedule of Expenditures of Federal Awards	\$ <u><u>7,575,991</u></u>

HALIFAX COUNTY SERVICE AUTHORITY

Schedule of Findings and Questioned Costs
Year Ended June 30, 2013

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

 Material weakness(es) identified? No

 Significant deficiency(ies) identified? None reported

Noncompliance material to financial statements noted? No

Federal Awards

Internal control over major programs:

 Material weakness(es) identified? No

 Significant deficiency(ies) identified? None reported

Type of auditors' report issued on compliance for major programs: Unmodified

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
10.760	Water and Waste Disposal Systems for Rural Communities

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.