

**PUBLIC SERVICE AUTHORITY
OF CARROLL COUNTY, VIRGINIA
(A COMPONENT UNIT OF CARROLL COUNTY)**

FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2009

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FINANCIAL SECTION

ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

Independent Auditors' Report

To The Members of the
Carroll County Public Service Authority
Hillsville, Virginia

We have audited the accompanying statement of net assets of the Carroll County Public Service Authority, a component unit of the County of Carroll, Virginia, as of June 30, 2009 and the related statements of revenues, expenses and changes in net assets, and cash flows for the year then ended, which collectively comprise the entity's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Carroll County Public Service Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Authorities, Boards and Commissions*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards 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 Carroll County Public Service Authority as of June 30, 2009, and the changes in financial position, and cash flows, thereof for the year 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 January 5, 2010 on our consideration of the Carroll County Public Service Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

The Authority has elected to omit present the Management's Discussion and Analysis which is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America.

Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the Carroll County Public Service Authority basic financial statements. 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 basic financial statements of the Carroll County Public Service Authority. The schedule of expenditures of federal awards has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements, taken as a whole.

Robinson, Farmer, Cox Associates

Christiansburg, Virginia
January 5, 2010

BASIC FINANCIAL STATEMENTS

PUBLIC SERVICE AUTHORITY OF CARROLL COUNTY, VIRGINIA
(A COMPONENT UNIT OF CARROLL COUNTY)
Statement of Net Assets
As of June 30, 2009

ASSETS	
Unrestricted Current Assets:	
Cash and cash equivalents	\$ 1,007,185
Receivables (Net of allowance for uncollectibles):	
Water and sewer billings	174,619
Prepaid expenses	22,597
Total unrestricted current assets	<u>1,204,401</u>
Restricted Current Assets:	
Investments	366,269
Total current assets	<u>1,570,670</u>
Noncurrent Assets:	
Capital Assets:	
Plant and equipment	24,078,789
Land	205,337
Construction in progress	1,347,375
Less accumulated depreciation	<u>(5,921,295)</u>
Total capital assets	<u>19,710,206</u>
Bond issuance costs (deferred)	19,450
Total noncurrent assets	<u>19,729,656</u>
Total assets	<u>21,300,326</u>
LIABILITIES AND EQUITY	
Liabilities:	
Current liabilities:	
Accounts payable - operations	137,041
Accounts payable - construction	240,382
Accrued interest payable	101,320
Amounts held for others	32,150
Compensated absences - current portion	36,091
Due to County of Carroll - current portion	7,822
Bonds and notes payable - current portion	<u>147,254</u>
Total current liabilities	<u>702,060</u>
Noncurrent liabilities:	
Bond anticipation notes payable	140,350
Compensated absences - net of current portion	12,030
Due to Carroll County - net of current portion	22,814
Bonds and notes payable - net of current portion	<u>9,649,817</u>
Total noncurrent liabilities	<u>9,825,011</u>
Total liabilities	<u>10,527,071</u>
Net Assets:	
Invested in capital assets, net of related debt	9,742,149
Restricted - debt service	366,269
Unrestricted	<u>664,837</u>
Total net assets	<u>\$ 10,773,255</u>

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

PUBLIC SERVICE AUTHORITY OF CARROLL COUNTY, VIRGINIA
(A COMPONENT UNIT OF CARROLL COUNTY)
Statement of Revenues, Expenses, and Changes in Net Assets
June 30, 2009

Operating Revenues:	
Water and sewer charges	\$ 1,741,747
Penalties and interest	36,765
State fees	4,393
Fire service	18,299
Miscellaneous	31,271
	1,832,475
Total operating income	1,832,475
Operating Expenses:	
Salaries and fringes	596,720
Professional services	49,521
Repairs and maintenance	25,859
Operating materials and supplies	59,936
Vehicle supplies and fuel	28,324
Utilities	127,409
Office and insurance expenses	132,832
Miscellaneous	24,954
Water and sewage treatment purchases	482,166
Depreciation expense	534,694
	2,062,415
Total operating expenses	2,062,415
Operating income (loss)	(229,940)
Nonoperating Revenues (Expenses):	
Connection fees	50,720
Interest income	31,548
Interest expense	(205,794)
Construction contributions	3,344,741
Contributions/Transfers from county	353,250
	3,574,465
Total nonoperating income (expenses)	3,574,465
Change in net assets	3,344,525
Net assets, beginning of year	7,428,730
Net assets, end of year	\$ 10,773,255

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

PUBLIC SERVICE AUTHORITY OF CARROLL COUNTY, VIRGINIA
(A COMPONENT UNIT OF CARROLL COUNTY)
Statement of Cash Flows
For the Year Ended June 30, 2009

Operating activities:	
Receipts from customers	\$ 1,858,027
Payments to employees for services	(619,733)
Payments to suppliers for goods and services	<u>(1,007,095)</u>
Net cash provided by operating activities	<u>231,199</u>
Noncapital financing activities:	
Transfer from Gladeville/Cranberry Sewer System	<u>165,285</u>
Net cash provided by (used in) Noncapital financing activities	<u>165,285</u>
Capital and related financing activities:	
Connection charges	50,720
Acquisition of capital assets	(1,508,170)
Contributions in aid of construction	568,995
Proceeds from indebtedness	1,473,414
Principal payments on indebtedness	(187,665)
Interest payments on indebtedness	<u>(351,704)</u>
Net cash provided by (used in) capital and related financing activities	<u>45,590</u>
Investing activities:	
Interest received	<u>31,548</u>
Increase (decrease) in cash and cash equivalents	473,622
Cash and cash equivalents at beginning of year (including restricted cash of \$331,665)	<u>899,832</u>
Cash and cash equivalents at end of year (including restricted cash of \$366,269)	<u><u>1,373,454</u></u>
Reconciliation of operating income to net cash provided (used by operating activities):	
Operating income	(229,940)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization	534,694
Changes in operating assets and liabilities:	
(Increase) decrease in accounts receivable	21,427
(Increase) decrease in prepaid expenses	9,558
Increase (decrease) in operating payables	(85,652)
Increase (decrease) in customer deposits	4,125
Increase (decrease) in accrued leave	<u>(23,013)</u>
Net cash provided by operating activities	<u>\$ 231,199</u>

Supplemental disclosure required:

Interest paid during the year on indebtedness - including capitalized interest of \$212,771

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

PUBLIC SERVICE AUTHORITY OF CARROLL COUNTY, VIRGINIA
(A COMPONENT UNIT OF CARROLL COUNTY)

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The financial statements of the Authority conform to generally accepted accounting principles (GAAP) applicable to government units promulgated by the Governmental Accounting Standards Board (GASB).
The following is a summary of the more significant policies:

A. The Financial Reporting Entity:

The Authority is a discretely presented component unit of the County of Carroll, Virginia and is presented as such in the County's financial report for the fiscal year ended June 30, 2009.

B. Basis of Accounting:

Proprietary Funds - The accrual basis of accounting is used for the Authority. Under the accrual method, revenues are recognized when earned and expenses are recognized when incurred. Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the enterprise fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance. Proprietary funds distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Authority's enterprise fund are charges to customers for sales and services. The Authority also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expense, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

C. Capital Assets:

Capital Assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, 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 costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not to be 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. Interest capitalized during the fiscal year totaled \$212,771. Interest capitalized in the prior year was \$38,754.

PUBLIC SERVICE AUTHORITY OF CARROLL COUNTY, VIRGINIA
(A COMPONENT UNIT OF CARROLL COUNTY)

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

C. Capital Assets: (Continued)

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

<u>Assets</u>	<u>Years</u>
Water & Sewer System	5-50
Equipment	3-10
Buildings	30-50

D. Allowance for Uncollectible Accounts:

The Authority calculates its allowance for uncollectible accounts using historical collection data. At June 30, 2009, the allowance amounted to approximately \$86,395.

E. Cash, Cash Equivalents and Investments:

For the purposes of the Statement of Cash Flows, cash and cash equivalents are defined as short-term highly liquid investments that are both readily convertible to known amounts of cash and investments with maturities of 90 days or less. Certificates of deposits are reported in the accompanying financial statements as cash and cash equivalents.

F. Estimates:

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

G. Restricted Assets:

Included in restricted cash and cash equivalents are amounts held in debt service reserve accounts in the amounts of \$366,269. When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then unrestricted resources as they are needed.

H. Net Assets:

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

I. Compensated Absences:

Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a liability on the statement of net assets. In accordance with the provisions of Government Accounting Standards No. 16, Accounting for Compensated Absences, no liability is recorded for non-vesting accumulating rights to receive sick pay benefits. However, a liability is recognized for that portion of accumulating sick leave benefits that it is estimated will be taken as "terminal leave" prior to retirement. The Authority accrues salary-related payments associated with the payment of compensated absences. All vacation pay is accrued when incurred.

PUBLIC SERVICE AUTHORITY OF CARROLL COUNTY, VIRGINIA
(A COMPONENT UNIT OF CARROLL COUNTY)

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 2 – CASH AND INVESTMENTS:

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

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

Credit Risk of Debt Securities:

The Authority has not adopted an investment policy for credit risk. The Authority's rated debt investments as of June 30, 2009 were rated by Standard and Poor's and the ratings are presented below using the Standard and Poor's rating scale.

Authority's Rated Debt Investments' Values

Rated Debt Investments	Fair Quality Ratings			
	AAA	AAAm	AAm	Unrated
LGIP	\$ -	\$ 366,269	\$ -	\$ -

The fair value of the positions in the external investment pool (Local Government Investment Pool (LGIP) is the same as the value of the pool shares. As this pool is not SEC registered, regulatory oversight of the pools rests with the Virginia State Treasury. LGIP maintains a policy to operate in a manner consistent with SEC Rule 2a-7.

NOTE 3 – CAPITAL ASSETS AND DEPRECIATION:

A summary of changes in capital assets for the year follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Land, land improvements				
land rights	\$ 205,337	\$ -	\$ -	\$ 205,337
Motor vehicles and equipment	190,630	89,108	-	279,738
Other equipment	6,092	-	-	6,092
Water and sewer systems	14,667,078	9,125,880	-	23,792,958
Construction in progress	3,283,100	1,767,851	(3,703,576)	1,347,375
	<u>\$ (4,141,737)</u>	<u>\$ (1,779,558)</u>	<u>\$ -</u>	<u>\$ (5,921,295)</u>
Less: accumulated depreciation				
Capital assets, net	<u>\$ 14,210,500</u>	<u>\$ 9,203,281</u>	<u>\$ (3,703,576)</u>	<u>\$ 19,710,205</u>

During the year ended June 30, 2009, assets of the Gladeville/Cranberry Sewer System were transferred to the Authority totaling \$5,453,913 together with accumulated depreciation of \$1,244,864.

PUBLIC SERVICE AUTHORITY OF CARROLL COUNTY, VIRGINIA
(A COMPONENT UNIT OF CARROLL COUNTY)

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 4 - PROPRIETARY DEBT:

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

Year Ending June 30,	Water and Sewer Revenue Bonds		VRA Loans		Notes Payable	
	Principal	Interest	Principal	Interest	Principal	Interest
2010	\$ 107,276	\$ 438,197	\$ 32,888	\$ 54,028	\$ 10,146	\$ 8,371
2011	199,577	382,139	34,343	52,573	145,931	20,577
2012	281,352	350,772	35,865	51,051	16,036	8,183
2013	294,202	337,922	37,456	49,460	11,510	7,008
2014	307,579	324,545	39,119	47,797	12,004	6,514
2015-2019	1,161,577	1,439,645	223,332	211,248	68,204	25,384
2020-2024	1,043,556	1,218,984	275,409	156,612	79,977	8,447
2025-2029	1,300,784	961,756	291,287	92,336	-	-
2030-2034	1,588,543	641,093	221,445	20,494	-	-
2035-2039	982,362	345,035	-	-	-	-
2040-2044	644,509	181,211	-	-	-	-
2045-2049	491,152	35,686	-	-	-	-
Totals	\$ 8,402,469	\$ 6,656,985	\$ 1,191,144	\$ 735,599	\$ 343,808	\$ 84,484

Changes in Long-Term Debt:

The following is a summary of changes in long-term obligations of the Authority for the fiscal year ended June 30, 2009:

	Balance July 1, 2008	Issuances	Retirements	Balance June 30, 2009
Revenue bonds	\$ 5,930,025	\$ 2,559,414	\$ (86,970)	\$ 8,402,469
Virginia Resource Authority Loan	1,980,445	-	(83,144)	1,897,301
Promissory Note	213,187	-	(9,729)	203,458
Interim Airport Rd. Loan	-	140,350	-	140,350
Compensated absences	71,134	30,338	(53,351)	48,121
Due Carroll County	38,458	-	(7,822)	30,636
Adjustments:				
Imputed interest on interest free loans	(757,816)	-	51,659	(706,157)
Total	\$ 7,475,433	\$ 2,730,102	\$ (189,357)	\$ 10,016,178

PUBLIC SERVICE AUTHORITY OF CARROLL COUNTY, VIRGINIA
(A COMPONENT UNIT OF CARROLL COUNTY)

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 4 – PROPRIETARY DEBT: (CONTINUED)

Details of Long-Term Indebtedness:

	Total Amount	Amount Due Within One Year
Rural Development Bonds		
\$1,250,000 revenue bond, issued August 5, 1998, bearing interest at 4.5%, due in monthly principal and interest installments of \$5,738 through August 5, 2040.	\$ 1,105,814	\$ 19,662
\$818,700 revenue bond, issued October 20, 1994, bearing interest at 4.5%, due in monthly principal and interest installments of \$3,759 through August 20, 2034.	677,694	14,959
\$500,300 revenue bond, issued August 25, 1994, with interest accruing at 4.5%, due in monthly principal and interest installments of \$2,297 through June 6, 2034.	412,416	9,207
\$1,345,400 revenue bond, issued April 28, 1994, bearing interest at 4.5%, due in monthly principal and interest installments of \$6,176 through January 28, 2034.	1,100,855	25,103
\$977,000 Sewer Revenue Bond issued July 10, 1998 bearing interest at 4.50%. Principal and interest payments of \$4,485 are due monthly through 2038	862,073	15,446
\$389,300 Sewer Revenue Bond issued December 2, 1999 bearing interest at 3.25%. Principal and interest payments of \$1,492 are due monthly through 2040	342,972	6,889
\$469,000 Revenue Bond issued December 17, 2007 bearing interest at 4.5%. Principal and interest payments of \$2,153 are due monthly through 2047	469,000	2,398
\$3,261,000 Revenue Bond issued December 17, 2008 bearing interest at 4.5%. Principal and interest payments of \$14,968 are due monthly through 2048	857,645	-
\$2,567,581 revenue bond, issued December 17, 2007, bearing interest at 4.375%, due in monthly principal and interest installments of \$11,609 through 2040.	2,574,000	13,612
Total Rural Development revenue bonds	\$ 8,402,469	\$ 107,276

PUBLIC SERVICE AUTHORITY OF CARROLL COUNTY, VIRGINIA
(A COMPONENT UNIT OF CARROLL COUNTY)

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 4 – PROPRIETARY DEBT: (CONTINUED)

Details of Long-Term Indebtedness: (Continued)

	Total Amount	Amount Due Within One Year
Compensated absences	\$ 48,121	\$ 36,091
Total Long-term Obligations	\$ 10,016,178	\$ 191,167

NOTE 5 – GLADEVILLE/CRANBERRY SEWER SYSTEM:

The County of Carroll transferred all assets and liabilities of the Gladeville/Cranberry sewer system to the Authority during the 2008/2009 fiscal year. Assets totaling \$4,408,930 and liabilities totaling \$1,279,934 were transferred effective July 1, 2008.

NOTE 6 – DEFINED BENEFIT PENSION PLAN:

Through the County of Carroll, Virginia, the Authority contributes to the Virginia Retirement System (VRS), an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for political subdivisions in the Commonwealth of Virginia. Actuarial information, trend information and the funding status and progress of the plan are included in the annual financial report for the County of Carroll, Virginia.

NOTE 7 – PAYROLL EXPENSES:

All full-time employees of the Public Service Authority are paid through the County of Carroll, Virginia. Part-time employees are paid by the Public Service Authority along with any overtime pay that the Public Service Authority Board approves.

NOTE 8 – COMMITMENTS AND CONTINGENCIES:

Purchase Agreement:

The Authority has an agreement with the Town of Hillsville which provides for the Authority to obtain water and sewage treatment at current cost plus twenty percent (20%).

Construction Commitments:

At June 30, 2009, the following construction commitments were outstanding:

	Contract Amount	Amount Outstanding at Year End
Project:		
Woodlawn sewer project	\$ 3,946,478	\$ 3,237,579
Exit 19 sewer project	1,152,739	1,108,069
Total	\$ 5,099,217	\$ 4,345,648

PUBLIC SERVICE AUTHORITY OF CARROLL COUNTY, VIRGINIA
(A COMPONENT UNIT OF CARROLL COUNTY)

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 4 – PROPRIETARY DEBT: (CONTINUED)

Details of Long-Term Indebtedness: (Continued)

\$1,173,928 revenue bond issued through the Virginia Resource Authority on January 1, 2002, due in semi-annual principal installments of \$19,565 through January 1, 2032. This is a zero interest loan, however for financial reporting purposes, interest has been imputed at 4.5%.

Less: Imputed interest at 4.5%
Net amount

	Total Amount	Amount Due Within One Year
\$	879,533	
	(330,027)	
\$	549,506	\$ 14,524

\$1,129,000 revenue bond issued through the Virginia Resource Authority on June 30, 2004, due in semi-annual principal installments of \$18,817 through June 1, 2035. This is a zero interest loan, however for financial reporting purposes, interest has been imputed at 5%.

Less: Imputed interest at 5%
Net Amount

\$	896,897	
	(376,130)	
\$	520,767	\$ 11,740

\$153,200 revenue bond issued through the Virginia Resource Authority on June 30, 2004, due in semi-annual principal installments of \$5,212 through December 1, 2024. Interest is calculated at 3.00% annually with an interest only payment due June 1, 2005.

\$	120,871	\$ 3,568
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\$250,000 promissory note issued on April 28, 2004, due in monthly installments of \$1,543 through April 28, 2024. Interest is calculated at 4.210% annually.

\$	203,458	\$ 10,146
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\$2,706,850 note issued March 20, 2009 bearing interest at 4.67%. Principal and interest is due in a single installment on March 20, 2011. The amount drawn to date is

\$	135,350	\$ -
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\$926,000 note issued June 26, 2009 bearing interest at 4.67%. Principal and interest is due in a single installment on June 26, 2012. The amount drawn to date is

\$	5,000	\$ -
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\$100,000 loan from Carroll County issued August 2000 bearing no interest and due in monthly installments of \$652.

\$	30,636	\$ 7,822
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Total revenue bonds and notes

\$	9,968,057	\$ 155,076
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PUBLIC SERVICE AUTHORITY OF CARROLL COUNTY, VIRGINIA
(A COMPONENT UNIT OF CARROLL COUNTY)

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 9 – RISK MANAGEMENT:

The Authority participates with entities in a public entity risk pool for their coverage of general liability, auto, property, equipment and machinery, and crime insurance with the Virginia Association of Counties. Each member of the risk pool jointly and severally agrees to assume, pay and discharge any liability. The Authority pays the Virginia Association of Counties contributions and assessments into a designated cash reserve fund out of which expenses of the pool, claims and awards are to be paid. In the event of a loss, deficit, or depletion of all available resources, the pool may assess all members in the proportion to which the premium of each bears to the total premiums of all members in the year in which such deficit occurs. The Authority continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past four fiscal years.

NOTE 10 – SUBSEQUENT EVENTS:

Subsequent to year end, the Board authorized the issuance and sale of \$1,900,000 in sewer revenue bonds. The Board further authorized the issuance of a revenue bond anticipation note in an amount not to exceed \$926,000.

The Board also awarded contracts for the following projects subsequent to year end:

Project:		<u>Contract Amount</u>
Austinville Connector	\$	1,679,055
Pump Stations		549,600
Water Tank		284,200
Route 620 Connector		1,097,905
Airport Road/Route 100		1,356,485
Total	\$	<u><u>4,967,244</u></u>

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 Members of the
Carroll County Public Service Authority
Hillsville, Virginia

We have audited the financial statements of the Carroll County Public Service Authority, as of and for the year ended June 30, 2009, and have issued our report thereon dated January 05, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Authorities, Boards, and Commissions*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered the Carroll County Public 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 Carroll County Public Service Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Carroll County Public Service Authority's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Carroll County Public Service Authority's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Carroll County Public Service Authority's financial statements that is more than inconsequential will not be prevented or detected by the Carroll County Public Service Authority's internal control. We consider the deficiency described in the accompanying schedule of findings, responses and questioned costs (reference 2009-1) to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Carroll County Public Service Authority's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider item 2009-1 to be material weaknesses.

COMPLIANCE AND OTHER MATTERS

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

required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Carroll County Public Service Authority in a separate letter dated January 5, 2010.

The Carroll County Public Service Authority's responses to the findings identified in our audit are described in the accompanying schedule of findings, responses, and questioned costs. We did not audit the Carroll County Public Service Authority's responses and, accordingly, we express no opinion on them.

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

Robinson, Turner, Cox Associates

Christiansburg, Virginia
January 5, 2010

ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133

To the Members of the
Carroll County Public Service Authority
Hillsville, Virginia

COMPLIANCE

We have audited the compliance of the Carroll County Public Service Authority with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2009. The Carroll County Public Service Authority's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings, responses 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 Carroll County Public Service Authority's management. Our responsibility is to express an opinion on Carroll County Public 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 the Carroll County Public Service Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Carroll County Public Service Authority's compliance with those requirements.

In our opinion, the Carroll County Public Service Authority complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009.

INTERNAL CONTROL OVER COMPLIANCE

The management of the Carroll County Public 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 the Carroll County Public Service Authority's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Carroll County Public Service Authority's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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 the Board of Supervisors, management, others within the organization, 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, Faure, Cox Associates

Christiansburg, Virginia
January 5, 2010

Carroll County Public Service Authority

Schedule of Expenditures of Federal Awards

June 30, 2009

Federal Grantor/ State Pass-Through Grantor/ Program Title/Pass Through Grantor's Number	Federal Catalogue Number	Federal Awards
DEPARTMENT OF AGRICULTURE:		
Direct Payments:		
Water and Waste Disposal Systems for Rural Communities	10.760	\$ 1,333,064
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT		
Pass through payments		
State Department of Housing and Community Development Community Development Block Grants/Entitlement Grants	14.228	108,213
Total Federal Financial Assistance		<u>\$ 1,441,277</u>

NOTE 1--BASIS OF PRESENTATION:

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Carroll County Public Service Authority and is presented on the modified accrual basis of accounting. 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. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Carroll County Public Service Authority

Schedule of Findings, Responses and Questioned Costs
Year Ended June 30, 2009

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	Unqualified
Internal control over financial reporting:	
Material weaknesses identified?	Yes
Significant deficiencies identified not considered to be material weaknesses?	No
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weaknesses identified?	No
Significant deficiencies identified not considered to be material weaknesses?	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>
10.760	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
Prior audit findings and questioned costs?	No

Carroll County Public Service Authority

Schedule of Findings, Responses and Questioned Costs
Year Ended June 30, 2009

Section II - Financial Statement Findings

2009-1

Condition: The financial statements, as presented for audit, did not contain all necessary adjustments to comply with generally accepted accounting principles (GAAP). As such, the auditor proposed adjustments that were material to the financial statements.

Criteria: Per Statement on Auditing Standards 112, an auditee should have sufficient controls in place to produce financial statements in accordance with applicable standards. Furthermore, reliance on the auditor to propose adjustments necessary to comply with reporting standards is not a component of such controls.

Effect: There is more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Authority's internal controls over financial reporting.

Managements

Response: The Authority will engage a consultant in future periods to assist in preparing the financial statements.

Section III - Federal Award Findings and Questioned Costs

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

Section IV - Status of Prior Audit Findings and Questioned Costs

There were no prior audit findings related to federal awards.