

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

FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2012

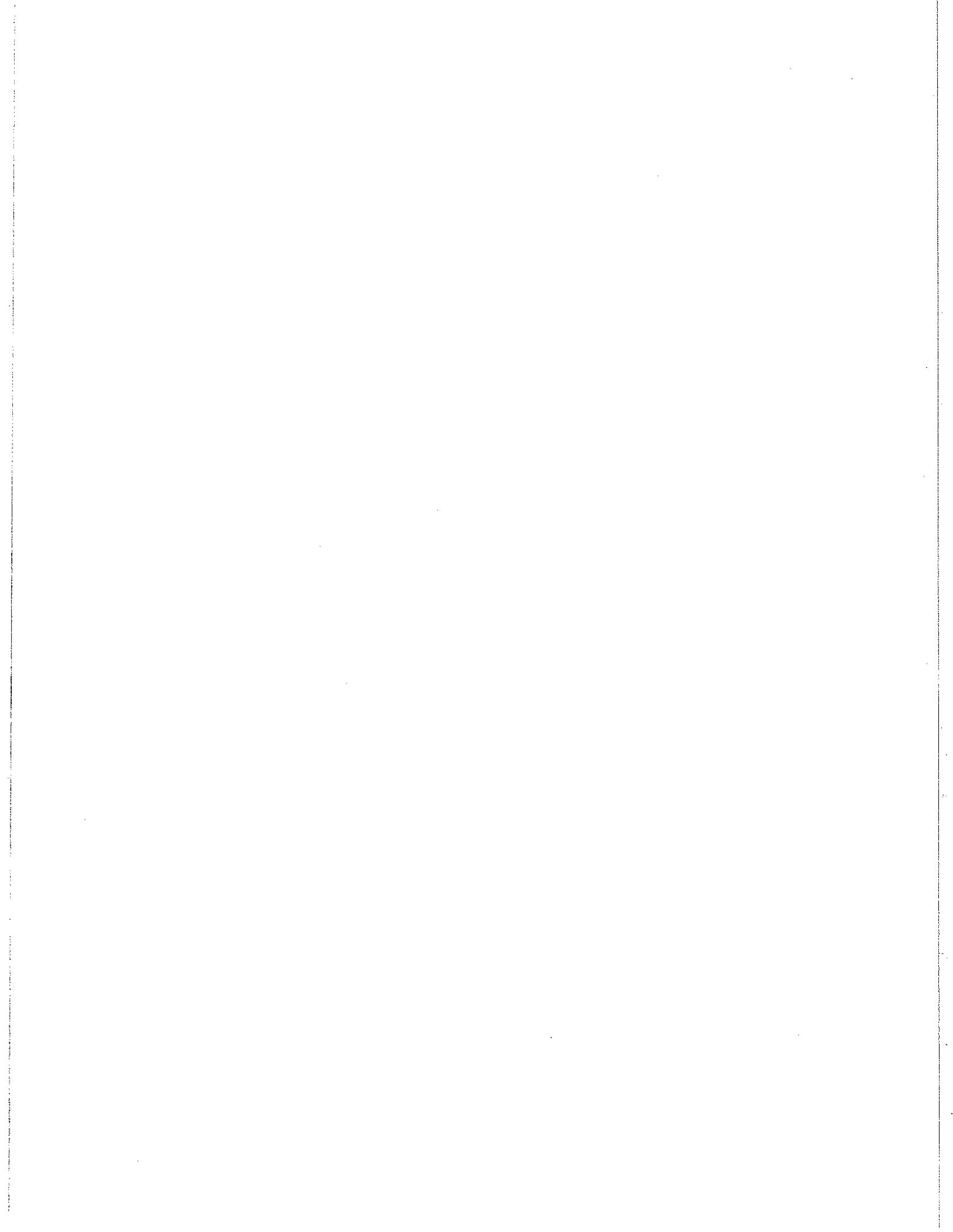


TABLE OF CONTENTS

FINANCIAL SECTION

Page

Independent Auditors' Report 1-2

Basic Financial Statements:

Exhibit 1 – Statement of Net Assets 3-4

Exhibit 2 - Statement of Revenues, Expenses and Changes in Net Assets 5

Exhibit 3 - Statement of Cash Flows 6

Notes to Financial Statements 7-12

COMPLIANCE SECTION

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* 13-14

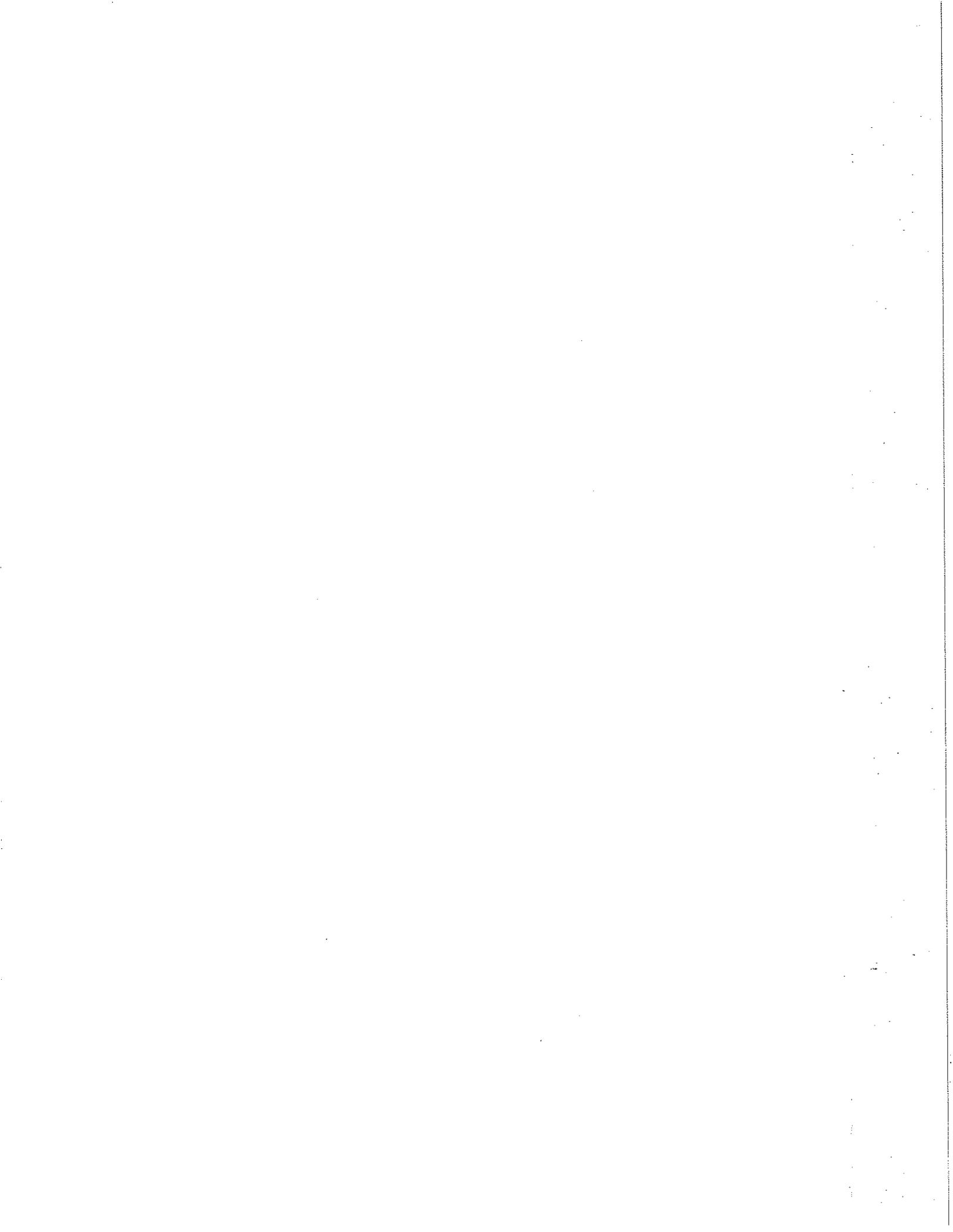
Independent Auditors' Report on Compliance with Requirements That Could Have a
Direct and Material Effect on Each Major Program and on Internal Control over
Compliance in Accordance with OMB Circular A-133..... 15-16

Schedule of Expenditures of Federal Awards 17

Schedule of Findings and Questioned Costs..... 18-19



FINANCIAL SECTION



Independent Auditors' Report

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

We have audited the accompanying financial statements of the business-type activities of the Carroll County Public Service Authority, a component unit of the County of Carroll, Virginia, as of and for the year ended June 30, 2012, which collectively comprise the Authority'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 business-type activities of the Carroll County Public Service Authority, as of June 30, 2012, 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 November 28, 2012, on our consideration of the Carroll County Public Service Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by the missing information.

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

in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

Robinson, Famer, Cox Associates

Blacksburg, Virginia
November 28, 2012

Basic Financial Statements



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

Statement of Net Assets

As of June 30, 2012

ASSETS	
Unrestricted Current Assets:	
Cash and cash equivalents	\$ 1,964,504
Receivables (net of allowance for uncollectibles):	
Water and sewer billings	233,918
Note receivable	397,063
Grants receivable	431,031
Prepaid expenses	33,353
Total unrestricted current assets	\$ 3,059,869
Restricted Current Assets:	
Cash and cash equivalents	\$ 555,988
Total current assets	\$ 3,615,857
Noncurrent Assets:	
Capital Assets:	
Plant and equipment	\$ 39,726,301
Land	264,837
Construction in progress	4,989,219
Less accumulated depreciation	(8,037,020)
Total capital assets	\$ 36,943,337
Total assets	\$ 40,559,194
LIABILITIES AND EQUITY	
Liabilities:	
Current liabilities:	
Accounts payable - operations	\$ 134,133
Accounts payable - construction	661,713
Accrued interest payable	39,292
Amounts held for others	70,677
Bond anticipation notes payable	789,533
Compensated absences - current portion	52,803
Due to County of Carroll, Virginia	32,502
Bonds and notes payable - current portion	390,207
Total current liabilities	\$ 2,170,860

PUBLIC SERVICE AUTHORITY OF CARROLL COUNTY, VIRGINIA
 (A COMPONENT UNIT OF CARROLL COUNTY)
 Statement of Net Assets (Continued)
 As of June 30, 2012

 Liabilities: (Continued)

Noncurrent liabilities:

Compensated absences - net of current portion	\$ 17,601
Bonds and notes payable - net of current portion	<u>21,187,592</u>

Total noncurrent liabilities	\$ <u>21,205,193</u>
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Total liabilities	\$ <u>23,376,053</u>
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Net Assets:

Invested in capital assets, net of related debt	\$ 14,968,475
Restricted	555,988
Unrestricted	<u>1,658,678</u>

Total net assets	\$ <u><u>17,183,141</u></u>
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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
For the Year Ended June 30, 2012

Operating Revenues:	
Water and sewer charges	\$ 2,219,567
Penalties and interest	59,410
Miscellaneous	<u>38,896</u>
Total operating revenues	\$ <u>2,317,873</u>
Operating Expenses:	
Salaries and fringes	\$ 900,526
Professional services	73,082
Repairs and maintenance	68,916
Operating materials and supplies	147,580
Vehicle supplies and fuel	44,213
Utilities	155,121
Office and insurance expenses	56,975
Miscellaneous	15,601
Water and sewage treatment purchases	591,154
Contingency	26,990
Depreciation expense	<u>846,974</u>
Total operating expenses	\$ <u>2,927,132</u>
Operating income (loss)	\$ <u>(609,259)</u>
Nonoperating Revenues (Expenses):	
Interest income	\$ 54,704
Contribution to Wythe County, Virginia	273,086
Interest expense	(464,445)
Contribution to New River Regional Water Authority	(354,022)
Contributions/Transfers from Primary Government	<u>1,702,019</u>
Total nonoperating revenues (expenses)	\$ <u>1,211,342</u>
Income (loss) before capital contributions	\$ <u>602,083</u>
Capital contributions and construction grants:	
Construction contributions	\$ <u>2,588,613</u>
Change in net assets	\$ <u>3,190,696</u>
Net assets, beginning of year	\$ <u>13,992,445</u>
Net assets, end of year	\$ <u><u>17,183,141</u></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 Cash Flows
For the Year Ended June 30, 2012

Cash flows from operating activities:	
Receipts from customers	\$ 2,317,740
Payments to employees for services	(920,457)
Payments to suppliers for goods and services	<u>(1,146,264)</u>
Net cash provided by (used for) operating activities	\$ <u>251,019</u>
Noncapital financing activities:	
Contribution from Carroll County	\$ <u>1,702,019</u>
Cash flows from capital and related financing activities:	
Acquisition of capital assets	\$ (5,864,867)
Contribution to NRRWA	(354,022)
Contributions in aid of construction	2,915,830
Payments from Wythe County on note receivable	1,132
Proceeds from indebtedness	2,779,678
Principal payments on indebtedness	(282,054)
Interest payments on indebtedness	<u>(770,931)</u>
Net cash provided by (used for) capital and related financing activities	\$ <u>(1,575,234)</u>
Cash flows from investing activities:	
Interest received	\$ <u>54,704</u>
Increase (decrease) in cash and cash equivalents	\$ 432,508
Cash and cash equivalents at beginning of year (including restricted cash equivalents of \$473,069)	\$ <u>2,087,984</u>
Cash and cash equivalents at end of year (including restricted cash equivalents of \$555,988)	\$ <u><u>2,520,492</u></u>
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:	
Operating income (loss)	\$ (609,259)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:	
Depreciation	846,974
Changes in operating assets and liabilities:	
(Increase) decrease in accounts receivable	(7,252)
(Increase) decrease in prepaid expenses	(1,502)
Increase (decrease) in operating payables	34,870
Increase (decrease) in amount due to Carroll County for payroll	(31,596)
Increase (decrease) in customer deposits	7,119
Increase (decrease) in accrued leave	<u>11,665</u>
Net cash provided by (used for) operating activities	\$ <u><u>251,019</u></u>

Supplemental disclosure required:

Interest paid during the year on indebtedness included capitalized interest of \$223,207.

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, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The financial statements of the Authority conform to generally accepted accounting principles (GAAP) applicable to governmental 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, 2012.

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 are generally 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 expenses, 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 the asset's life 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 \$223,207. Interest capitalized in the prior year was \$342,901.

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

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

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

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

D. Allowance for Uncollectible Accounts:

The Authority calculates its allowance for uncollectible accounts using historical collection data. At June 30, 2012, the allowance amounted to approximately \$168,533.

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 accounting principles generally accepted in the United States of America 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 \$555,988. 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.

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 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).

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

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 3 – CAPITAL ASSETS AND DEPRECIATION:

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land	\$ 264,837	\$ -	\$ -	\$ 264,837
Construction in progress	13,142,711	6,025,572	(14,179,064)	4,989,219
Total capital assets no being depreciated	<u>\$13,407,548</u>	<u>\$ 6,025,572</u>	<u>\$(14,179,064)</u>	<u>\$ 5,254,056</u>
Capital assets, being depreciated:				
Plant and equipment	<u>\$24,639,035</u>	<u>\$15,087,266</u>	<u>\$ -</u>	<u>\$39,726,301</u>
Less: accumulated depreciation for:				
Plant and equipment	<u>\$ (7,190,046)</u>	<u>\$ (846,974)</u>	<u>\$ -</u>	<u>\$ (8,037,020)</u>
Total capital assets being depreciated, net	<u>\$17,448,989</u>	<u>\$14,240,292</u>	<u>\$ -</u>	<u>\$31,689,281</u>
Capital assets, net	<u>\$30,856,537</u>	<u>\$20,265,864</u>	<u>\$(14,179,064)</u>	<u>\$36,943,337</u>

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

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 4 – LONG-TERM OBLIGATIONS:

Changes in Long-Term Obligations:

The following is a summary of changes in long-term obligations of the Authority for the fiscal year ended June 30, 2012:

	Balance July 1, 2011	Issuances	Retirements	Balance June 30, 2012
Revenue bonds	\$ 17,166,864	\$ 2,779,679	\$ (189,929)	\$ 19,756,614
Virginia Resource				
Authority Loans	1,731,731	-	(80,672)	1,651,059
Promissory Note	181,579	-	(11,453)	170,126
Interim Airport Rd. Loan	789,533	-	-	789,533
Compensated absences	58,739	55,719	(44,054)	70,404
	<u>\$ 16,677,247</u>	<u>\$ 2,835,398</u>	<u>\$ (326,108)</u>	<u>\$ 22,437,736</u>
Total	\$ 16,677,247	\$ 2,835,398	\$ (326,108)	\$ 22,437,736

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

Year Ending June 30,	Water/Sewer Revenue Bonds		VRA Loans		Notes Payable	
	Principal	Interest	Principal	Interest	Principal	Interest
2013	\$ 297,719	\$ 673,632	\$ 80,911	\$ 2,976	\$ 801,110	\$ 43,362
2014	341,083	693,902	81,115	2,772	12,074	6,444
2015	382,630	651,110	81,326	2,561	12,592	5,925
2016	395,792	637,948	81,543	2,344	13,133	5,385
2017	409,452	624,288	81,766	2,121	13,696	4,821
2018-2022	2,271,089	2,897,611	412,427	7,008	77,821	14,767
2023-2027	2,700,171	2,468,529	394,034	1,058	29,232	1,067
2028-2032	3,219,267	1,949,433	350,391			
2033-2037	3,344,128	1,354,662	87,546			
2038-2042	2,761,920	838,274				
2043-2047	2,675,976	383,849				
2048-2052	957,387	150,997				
	<u>\$ 19,756,614</u>	<u>\$ 13,324,235</u>	<u>\$ 1,651,059</u>	<u>\$ 20,840</u>	<u>\$ 959,659</u>	<u>\$ 81,771</u>
Totals	\$ 19,756,614	\$ 13,324,235	\$ 1,651,059	\$ 20,840	\$ 959,659	\$ 81,771

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

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 4 – LONG-TERM OBLIGATIONS: (CONTINUED)

Details of Long-Term Obligations:

	<u>Interest</u> <u>Rates</u>	<u>Date</u> <u>Issued</u>	<u>Final</u> <u>Maturity</u> <u>Date</u>	<u>Amount of</u> <u>Original</u> <u>Issue</u>	<u>Balance</u> <u>Business-type</u> <u>Activities</u>	<u>Amount</u> <u>Due Within</u> <u>One Year</u>
<u>Rural Development Bonds</u>						
Water Revenue Bond	4.50%	8/5/1998	12/31/2033	\$ 1,250,000	\$ 1,022,093	\$ 28,705
Water Revenue Bond	4.50%	10/20/1994	8/20/2034	650,000	540,984	14,631
Water Revenue Bond	4.50%	10/20/1994	8/20/2034	168,700	89,875	2,438
Sewer Revenue Bond	4.50%	8/25/1994	4/25/2034	500,300	383,553	10,519
Water Revenue Bond	4.50%	4/28/1994	12/5/2037	1,345,400	1,044,616	22,305
Sewer Revenue Bond	4.50%	7/10/1998	10/10/2037	977,000	813,910	17,553
Sewer Revenue Bond	3.25%	12/2/1999	6/2/2039	389,300	321,711	7,560
Water Revenue Bond	4.50%	12/17/2007	9/17/2037	469,000	456,466	5,406
Sewer Revenue Bond	4.50%	12/17/2008	9/17/2048	3,261,000	3,209,881	35,896
Water Revenue Bond	4.38%	12/17/2007	6/17/2049	2,567,581	2,503,400	30,390
Sewer Revenue Bond	2.38%	3/25/2010	3/25/2052	1,436,974	1,681,623	36,610
Water Revenue Bond	2.38%	3/31/2010	3/31/2052	5,000,000	4,979,623	83,185
Water Revenue Bond	2.38%	8/3/2010	5/3/2050	183,000	182,893	2,521
Water Revenue Bond	2.25%	11/16/2011	9/16/2051	1,000,000	1,000,000	-
Sewer Revenue Bond	2.25%	12/13/2011	7/13/2039	1,525,986	1,525,986	-
Total Rural Development Bonds					<u>\$ 19,756,614</u>	<u>\$ 297,719</u>
<u>Virginia Resource Authority (VRA) Bonds</u>						
Water Revenue Bond	0.00%	1/1/2002	1/1/2032	\$ 1,173,928	\$ 762,262	\$ 39,131
Water Revenue Bond	0.00%	6/30/2004	6/1/2035	1,129,000	787,919	35,019
Water Revenue Bond	3.00%	6/30/2004	12/1/2024	153,200	100,878	6,761
Total VRA Bonds					<u>\$ 1,651,059</u>	<u>\$ 80,911</u>
<u>Notes Payable</u>						
Promissory Note	4.21%	4/28/2004	2/16/2024	\$ 250,000	\$ 170,126	\$ 11,577
Interim Financing Note	4.67%	6/26/2009	6/26/2013	926,000	789,533	789,533
Total Notes Payable					<u>\$ 959,659</u>	<u>\$ 801,110</u>
<u>Other Long Term Obligations</u>						
Compensated absences					<u>\$ 70,404</u>	<u>\$ 52,803</u>
Total Long-Term Obligations					<u>\$ 22,437,736</u>	<u>\$ 1,232,543</u>

NOTE 5 – 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.

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

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 6 – 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. As of June 30, 2012, the Public Service Authority owes the County of Carroll, Virginia \$32,502 for prior payroll services.

NOTE 7 – 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, 2012, the following construction commitments were outstanding:

Project:	<u>Total Due</u>	<u>Retainage</u>	<u>Net Due</u>
Woodlawn sewer project	\$ 27,820	\$ 27,820	\$ -
Fancy Gap water project	324,368	125,621	198,747
Fancy Gap sewer project	309,525	88,546	220,979
Total	\$ <u>661,713</u>	\$ <u>241,987</u>	\$ <u>419,726</u>

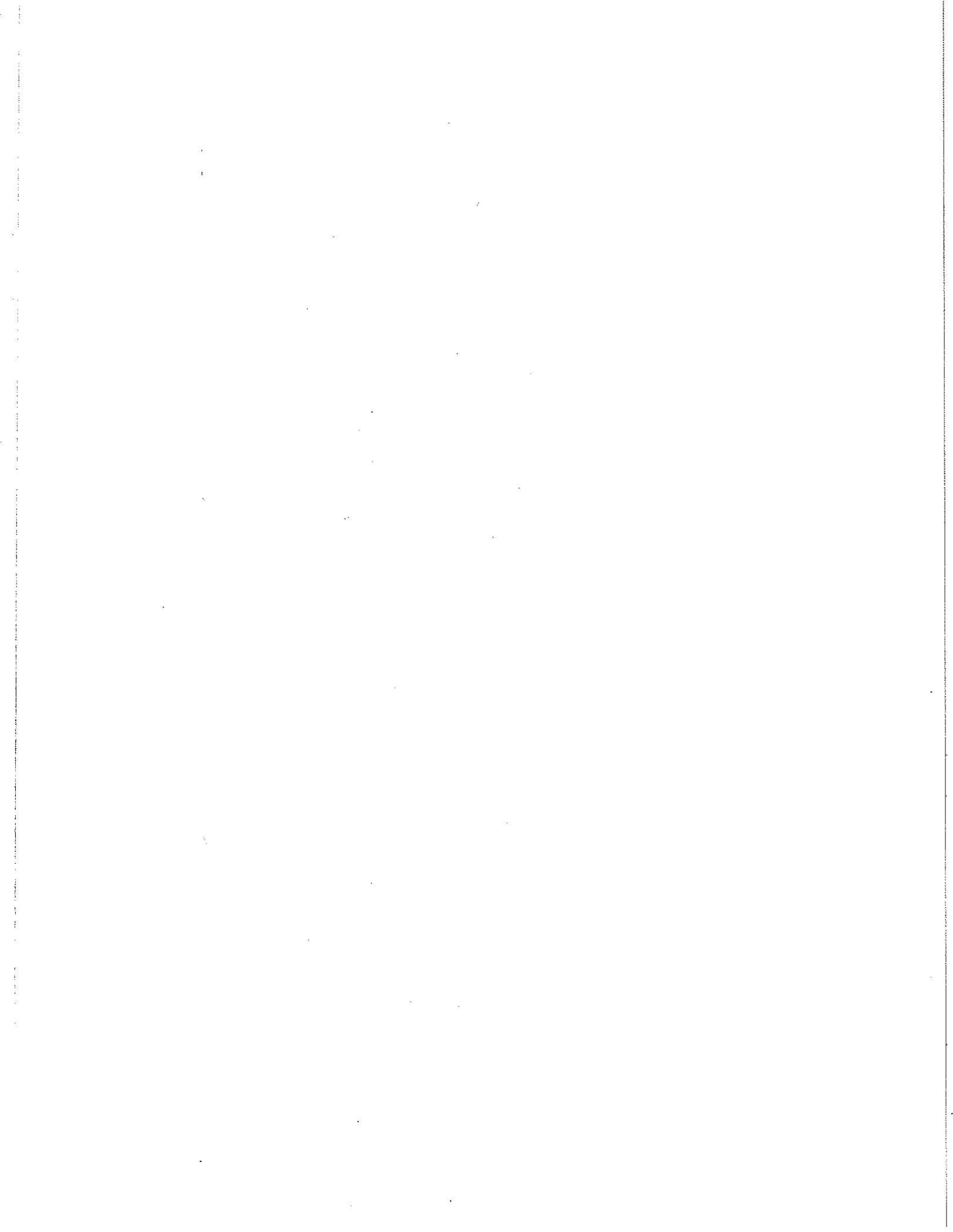
NOTE 8 – RISK MANAGEMENT:

The Authority participates with entities in a public entity risk pool for its 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 three fiscal years.

NOTE 9 – NOTE RECEIVABLE:

On February 26, 2009, the County of Wythe, Virginia and the Public Service Authority agreed to a cost sharing agreement related to the Pump Station and Water Transmission Main (Long Range) project. Carroll County Public Service Authority financed the project and provided oversight for the construction. The agreement states that the County of Wythe, Virginia will pay twenty two percent of the debt service and annual operation and maintenance costs of the Pump Station and Water Transmission Main. Each entity has agreed to own the corresponding percentage of the infrastructure. Thus, the County of Wythe, Virginia received an asset in the amount of \$580,453. Of this amount, \$398,663 represents a receivable from Wythe County and a grant in the amount of \$181,790. As of June 30, 2012, Wythe County owed the Authority \$397,063.

COMPLIANCE SECTION



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 Board
Carroll County Public Service Authority
Hillsville, Virginia

We have audited the financial statements of the business-type activities of the Carroll County Public Service Authority as of and for the year ended June 30, 2012, and have issued our report thereon dated November 28, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the *Specifications for Audits of Authorities, Boards, and Commissions*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia; and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Carroll County Public Service Authority is responsible for establishing and maintaining effective 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 preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be a material weakness.

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. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a material weakness (reference 2012-1).

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 other matters that we reported to management of the Carroll County Public Service Authority in a separate letter dated November 28, 2012.

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

Robinson, Farmer, Cox Associates

Blacksburg, Virginia
November 28, 2012

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

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

Compliance

We have audited the Carroll County Public 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 the Carroll County Public Service Authority's major federal programs for the year ended June 30, 2012. 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 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 the Carroll County Public Service Authority's management. Our responsibility is to express an opinion on the 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 compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

Internal Control Over Compliance

Management of 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 to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Carroll County Public Service Authority's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such

that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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

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

Robinson, Fawcett, Cox Associates

Blacksburg, Virginia
November 28, 2012

Carroll County Public Service Authority

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

Federal Grantor/ State Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
DEPARTMENT OF AGRICULTURE:			
Pass through payments:			
Rural Development			
Water and Waste Program Cluster:			
Water and Waste Disposal Systems for Rural Communities	10.760	Not applicable	\$ 587,431
ARRA - Water and Waste Disposal Systems for Rural Communities	10.781	Not applicable	<u>4,632,161</u>
Total Expenditures of Federal Awards			<u>\$ 5,219,592</u>

NOTE 1--BASIS OF PRESENTATION:

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

NOTE 2--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

- (1) 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 State, Local and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.
- (2) Pass-through entity identifying numbers are presented where available.

NOTE 3--RELATIONSHIP TO FINANCIAL STATEMENTS:

Federal expenditures, revenues and capital contributions are reported in the Authority's financial statements as follows:

Intergovernmental federal revenues:	\$ 2,439,913
Federal loan proceeds:	<u>2,779,679</u>
Total federal expenditures per the Schedule of Expenditures of Federal Awards	<u>\$ 5,219,592</u>

Carroll County Public Service Authority

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

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	Unqualified
Internal control over financial reporting: Material weakness(es) identified?	Yes
Significant deficiency(ies) identified?	None reported
Noncompliance material to financial statements noted?	No

Federal Awards

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

Identification of major programs:

<u>CFDA #</u>	<u>Name of Federal Program or Cluster</u>
10.760/10.781	Water and Waste Program Cluster

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

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

Section II - Financial Statement Findings

Criteria: Per Statement on Auditing Standards 115, 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.

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 significant to the financial statements.

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

Cause of Condition: Over the past three fiscal years the Authority has had numerous capital projects in the works. As a result, the complexity of the financials has made it difficult to make sure that all entries have been made prior to the audit.

Recommendation: Management should continue working with the consultant so the consultant can become more familiar with the Authority's books.

Management's Response: As the consultant becomes more familiar with the Authority's books and as the construction projects get scaled back, the consultant will reduce adjustments to an amount not considered significant.

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.

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