

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

FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2013



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FINANCIAL SECTION



INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the business-type activities of Carroll County Public Service Authority, a component unit of Carroll County, Virginia, as of and for the year ended June 30, 2013, 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 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 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 respective financial position of the business-type activities of the Carroll County Public Service Authority, a component unit of Carroll County, Virginia, as of June 30, 2013, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 1 to the financial statements, in 2013, the Carroll County Public Service 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

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 this missing information.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Carroll County Public Service Authority's basic financial statements. The combining financial statements are presented for purposes of additional analysis and are 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 combining financial statements and schedule of expenditures of federal awards are the responsibility of management and were 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 combining financial statements and schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 17, 2013, 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, 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 the Carroll County Public Service Authority's internal control over financial reporting and compliance.

Robinson, Jamer, Co. Associates

Blacksburg, Virginia
November 17, 2013

Basic Financial Statements

PUBLIC SERVICE AUTHORITY OF CARROLL COUNTY, VIRGINIA
(A COMPONENT UNIT OF CARROLL COUNTY)
Statement of Net Position
As of June 30, 2013

ASSETS	
Unrestricted Current Assets:	
Cash and cash equivalents	\$ 379,226
Receivables (net of allowance for uncollectibles):	
Water and sewer billings	232,379
Note receivable	390,445
Grants receivable	236,459
Prepaid items	<u>34,559</u>
Total unrestricted current assets	\$ <u>1,273,068</u>
Restricted Current Assets:	
Cash and cash equivalents	\$ <u>781,639</u>
Total current assets	\$ <u>2,054,707</u>
Noncurrent Assets:	
Capital Assets:	
Land	\$ 264,837
Construction in progress	4,598,772
Machinery and equipment	497,597
Plant and lines	42,906,099
Less accumulated depreciation	<u>(9,073,593)</u>
Total capital assets	\$ <u>39,193,712</u>
Total assets	\$ <u>41,248,419</u>
LIABILITIES AND NET POSITION	
Liabilities:	
Current liabilities:	
Accounts payable - operations	\$ 141,865
Accounts payable - construction	256,977
Accrued interest payable	96,318
Amounts held for others	80,546
Compensated absences - current portion	74,922
Due to County of Carroll, Virginia	33,378
Bonds and notes payable - current portion	<u>1,219,634</u>
Total current liabilities	\$ <u>1,903,640</u>
Noncurrent liabilities:	
Compensated absences - net of current portion	\$ 24,973
Bonds and notes payable - net of current portion	<u>21,301,475</u>
Total noncurrent liabilities	\$ <u>21,326,448</u>
Total liabilities	\$ <u>23,230,088</u>
Net Position:	
Net investment in capital assets	\$ 16,282,158
Restricted	781,639
Unrestricted	<u>954,534</u>
Total net position	\$ <u>18,018,331</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 Position
For the Year Ended June 30, 2013

Operating Revenues:	
Water and sewer charges	\$ 2,107,069
Penalties and interest	80,950
State fees	8,592
Fire service	21,041
Miscellaneous	<u>55,045</u>
Total operating revenues	\$ <u>2,272,697</u>
Operating Expenses:	
Salaries and fringes	\$ 866,828
Professional services	64,183
Repairs and maintenance	119,843
Operating materials and supplies	153,267
Vehicle supplies and fuel	44,264
Utilities	175,481
Office and insurance expenses	58,832
Miscellaneous	17,526
Water and sewage treatment purchases	533,181
Depreciation expense	<u>1,036,573</u>
Total operating expenses	\$ <u>3,069,978</u>
Operating income (loss)	\$ <u>(797,281)</u>
Nonoperating Revenues (Expenses):	
Connection fees	\$ 34,980
Interest income	61,445
Interest expense	(661,701)
Contribution to New River Regional Water Authority	(384,862)
Contributions/Transfers from Primary Government	<u>206,463</u>
Total nonoperating revenues (expenses)	\$ <u>(743,675)</u>
Income (loss) before capital contributions	\$ <u>(1,540,956)</u>
Capital contributions and construction grants:	
Construction contributions	\$ <u>2,419,606</u>
Change in net position	\$ <u>878,650</u>
Net position, beginning of year, as restated	\$ <u>17,139,681</u>
Net position, end of year	\$ <u>18,018,331</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, 2013

	Total
Cash flows from operating activities:	
Receipts from customers	\$ 2,284,105
Payments to employees for services	(836,461)
Payments to suppliers for goods and services	(1,160,051)
Net cash provided by (used for) operating activities	\$ 287,593
Noncapital financing activities:	
Contribution from Carroll County	\$ 206,463
Cash flows from capital and related financing activities:	
Connection charges	\$ 34,980
Acquisition of capital assets	(3,621,346)
Contribution to NRRWA	(384,862)
Contributions in aid of construction	2,570,718
Payments from Wythe County on note receivable	6,618
Proceeds from indebtedness	546,475
Principal payments on indebtedness	(392,698)
Interest payments on indebtedness	(675,013)
Net cash provided by (used for) capital and related financing activities	\$ (1,915,128)
Cash flows from investing activities:	
Interest received	\$ 61,445
Increase (decrease) in cash and cash equivalents	\$ (1,359,627)
Cash and cash equivalents at beginning of year (including restricted cash equivalents of \$555,988)	\$ 2,520,492
Cash and cash equivalents at end of year (including restricted cash equivalents of \$781,639)	\$ 1,160,865
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:	
Operating income (loss)	\$ (797,281)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:	
Depreciation	1,036,573
Changes in operating assets and liabilities:	
(Increase) decrease in accounts receivable	1,539
(Increase) decrease in prepaid expenses	(1,206)
Increase (decrease) in operating payables	7,732
Increase (decrease) in amount due to Carroll County for payroll	876
Increase (decrease) in customer deposits	9,869
Increase (decrease) in accrued leave	29,491
Net cash provided by (used for) operating activities	\$ 287,593

Supplemental disclosure required:

Interest paid during the year on indebtedness included capitalized interest of \$70,338.

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

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

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

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 accounting 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, 2013.

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. 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. 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 \$70,338. Interest capitalized in the prior year was \$223,207.

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, 2013

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, 2013, the allowance amounted to approximately \$112,559.

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. Use of 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 amount of \$781,639. 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. Compensated Absences:

Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources is reported as an expense and a liability on the statement of net position. 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.

I. Prepaid Items:

Certain payments to vendors represent costs applicable to future accounting periods and are recorded as prepaid items in the financial statements. The cost of prepaid items is recorded as expenses when consumed rather than when purchased.

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

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

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

J. Deferred Outflows/Inflows of Resources:

In addition to assets, the statement of financial position will sometimes 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 does not have any deferred outflows of resources as of June 30, 2013.

In addition to liabilities, the statement of financial position will sometimes 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.

K. 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.

L. Net Position Flow Assumption:

Sometimes the Authority will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted - net position and unrestricted - net position in the proprietary fund financial statements, 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.

M. 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.

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

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

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

N. 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 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.

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). The Carroll County Public Service Authority did not have any investments at June 30, 2013.

NOTE 3 - 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, 2013, the Public Service Authority owes the County of Carroll, Virginia \$33,378 for prior payroll services.

NOTE 4 - 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, 2013

NOTE 5 - CAPITAL ASSETS AND DEPRECIATION:

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

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 264,837	\$ -	\$ -	\$ 264,837
Construction in progress	4,989,219	3,229,185	(3,619,632)	4,598,772
Total capital assets not being depreciated	<u>\$ 5,254,056</u>	<u>\$ 3,229,185</u>	<u>\$ (3,619,632)</u>	<u>\$ 4,863,609</u>
Capital assets, being depreciated:				
Plant and equipment	<u>\$ 39,726,301</u>	<u>\$ 3,677,395</u>	<u>\$ -</u>	<u>\$ 43,403,696</u>
Accumulated depreciation:				
Plant and equipment	<u>\$ (8,037,020)</u>	<u>\$ (1,036,573)</u>	<u>\$ -</u>	<u>\$ (9,073,593)</u>
Total capital assets being depreciated, net	<u>\$ 31,689,281</u>	<u>\$ 2,640,822</u>	<u>\$ -</u>	<u>\$ 34,330,103</u>
Capital assets, net	<u>\$ 36,943,337</u>	<u>\$ 5,870,007</u>	<u>\$ (3,619,632)</u>	<u>\$ 39,193,712</u>

NOTE 6 - 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, 2013:

	Balance July 1, 2012	Increases Issuances	Decreases Retirements	Balance June 30, 2013
Revenue bonds	\$ 19,756,614	\$ 517,475	\$ (298,736)	\$ 19,975,353
Virginia Resource				
Authority Loans	1,651,059	-	(80,870)	1,570,189
Promissory Notes	170,126	29,000	(13,092)	186,034
Interim Financing Note	789,533	-	-	789,533
Compensated absences	<u>70,404</u>	<u>82,294</u>	<u>(52,803)</u>	<u>99,895</u>
Total	<u>\$ 22,437,736</u>	<u>\$ 628,769</u>	<u>\$ (445,501)</u>	<u>\$ 22,621,004</u>

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

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 6 - LONG-TERM OBLIGATIONS: (CONTINUED)

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
2014	\$ 334,518	\$ 711,574	\$ 81,116	\$ 2,772	\$ 804,000	\$ 44,480
2015	370,509	663,231	81,326	2,561	15,089	6,993
2016	383,394	650,346	81,543	2,344	15,738	6,345
2017	396,771	636,969	81,766	2,121	16,414	5,668
2018	410,660	623,080	81,996	1,891	17,120	4,963
2019-2023	2,281,102	2,887,598	413,687	5,748	96,771	13,120
2024-2028	2,718,446	2,450,254	384,927	427	10,435	174
2029-2033	3,248,539	1,920,161	311,300	-	-	-
2034-2038	3,151,682	1,337,730	52,528	-	-	-
2039-2043	2,906,252	843,922	-	-	-	-
2044-2048	2,991,447	342,588	-	-	-	-
2049-2053	782,033	51,671	-	-	-	-
Totals	<u>\$ 19,975,353</u>	<u>\$ 13,119,124</u>	<u>\$ 1,570,189</u>	<u>\$ 17,864</u>	<u>\$ 975,567</u>	<u>\$ 81,743</u>

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

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 6 - LONG-TERM OBLIGATIONS: (CONTINUED)

Details of Long-Term Obligations:

	Interest Rates	Date Issued	Final Maturity Date	Amount of Original Issue	Payment Installments*	Balance Business-type Activities	Amount Due Within One Year
<u>Rural Development Bonds</u>							
Sewer Revenue Bond	4.50%	7/10/1998	10/10/1937	\$ 977,000	\$53,820/m	\$ 796,359	\$ 18,360
Sewer Revenue Bond	3.25%	12/2/1999	6/2/2039	389,300	17,904/m	314,151	7,810
Sewer Revenue Bond	4.50%	12/17/2008	9/17/2048	3,261,000	179,616/m	3,173,981	37,545
Sewer Revenue Bond	2.38%	3/25/2010	3/25/2052	1,436,974	76,152/m	1,689,342	36,425
Sewer Revenue Bond	2.25%	12/13/2011	7/13/2039	2,000,000	78,480/m	1,998,890	16,831
Water Revenue Bond	4.50%	8/25/1994	4/25/2034	500,300	\$27,564/m	373,035	11,002
Water Revenue Bond	4.50%	4/28/1994	12/5/2037	1,345,400	68,856/m	1,022,314	23,330
Water Revenue Bond	4.50%	10/20/1994	8/20/2034	650,000	38,676/m	526,355	15,303
Water Revenue Bond	4.50%	10/20/1994	8/20/2034	168,700	6,432/m	87,438	2,549
Water Revenue Bond	4.50%	8/5/1998	12/31/2033	1,250,000	74,112/m	993,390	30,024
Water Revenue Bond	4.50%	12/17/2007	9/17/2037	469,000	25,836/m	451,062	5,654
Water Revenue Bond	4.38%	12/17/2007	6/17/2049	2,567,581	139,308/m	2,473,016	31,746
Water Revenue Bond	2.38%	3/31/2010	3/31/2052	5,000,000	200,400/m	4,896,593	85,028
Water Revenue Bond	2.38%	8/3/2010	5/3/2050	183,000	7,344/m	180,475	3,091
Water Revenue Bond	2.25%	11/16/2011	9/16/2051	1,000,000	39,240/m	998,952	9,820
Total Rural Development Bonds						\$ 19,975,353	\$ 334,518
<u>Virginia Resource Authority (VRA) Bonds</u>							
Water Revenue Bond	0.00%	1/1/2002	1/1/2032	\$ 1,173,928	\$19,565/sa	\$ 723,171	\$ 39,131
Water Revenue Bond	0.00%	6/30/2004	6/1/2035	1,129,000	17,509/sa	752,900	35,019
Water Revenue Bond	3.00%	6/30/2004	12/1/2024	153,200	4,869/sa	94,118	6,966
Total VRA Bonds						\$ 1,570,189	\$ 81,116
<u>Notes Payable</u>							
Promissory Note - Sewer	4.21%	4/28/2004	2/16/2024	\$ 250,000	\$1,543/m	\$ 157,376	\$ 12,074
Promissory Note - Water	4.25%	4/1/2013	4/15/2023	29,000	297/m	28,658	2,393
Interim Financing Note**	4.67%	6/26/2009	10/31/2013	926,000	lump sum	789,533	789,533
Total Notes Payable						\$ 975,567	\$ 804,000
<u>Other Long Term Obligations</u>							
Compensated absences						\$ 99,895	\$ 74,922
Total Long-Term Obligations						\$ 22,621,004	\$ 1,294,556

* m = monthly, sa = semiannually

** Split 77% water/23% sewer funds

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

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

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%).

Contingent Liabilities:

Federal programs in which the Authority participates were audited in accordance with the provisions of U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Pursuant to the provisions of this circular all major programs and certain other programs were tested for compliance with applicable grant requirements. While no matters of noncompliance were disclosed by audit, the Federal Government may subject grant programs to additional compliance tests, which may result in disallowed expenditures. In the opinion of management, any future disallowances of current grant program expenditures, if any, would be immaterial.

Construction Commitments:

At June 30, 2013, the following construction commitments were outstanding:

Project:	Total	Amount of	Accounts	Retainage
	Total Contract	Contract Outstanding	Payable	Payable
Oak Grove water project	\$ 329,646	\$ 20,518	\$ 20,518	\$ -
Fancy Gap water project	473,700	23,821	23,821	-
Fancy Gap sewer project	2,512,276	421,342	101,482	111,156
Total	<u>\$ 3,315,622</u>	<u>\$ 465,681</u>	<u>\$ 145,821</u>	<u>\$ 111,156</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.

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

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

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, 2013, Wythe County owed the Authority \$390,445.

NOTE 10 - LITIGATION:

As of June 30, 2013, there were no matters of litigation involving the Authority which would materially affect the Authority's financial position should a court decision on pending matters not be favorable.

NOTE 11 - RESTATEMENT:

As of June 30, 2012, the Authority accrued a grants receivable in the amount of \$43,460 that should not have been accrued as the expenses were funded with debt proceeds. Therefore, the Authority has restated the net position as demonstrated below.

Net position as previously reported 6/30/12	\$ 17,183,141
Grants receivable recorded in error	(43,460)
Net position restated 6/30/12	<u>\$ 17,139,681</u>

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Other Supplementary Information



PUBLIC SERVICE AUTHORITY OF CARROLL COUNTY, VIRGINIA
(A COMPONENT UNIT OF CARROLL COUNTY)
Combining Statement of Net Position
As of June 30, 2013

ASSETS	Water Fund	Sewer Fund	Total
Unrestricted Current Assets:			
Cash and cash equivalents	\$ 39,122	\$ 340,104	\$ 379,226
Receivables (net of allowance for uncollectibles):			
Water and sewer billings	158,772	73,607	232,379
Note receivable	390,445	-	390,445
Grants receivable	23,821	212,638	236,459
Prepaid items	29,307	5,252	34,559
Total unrestricted current assets	\$ 641,467	\$ 631,601	\$ 1,273,068
Restricted Current Assets:			
Cash and cash equivalents	\$ 515,882	\$ 265,757	\$ 781,639
Total current assets	\$ 1,157,349	\$ 897,358	\$ 2,054,707
Noncurrent Assets:			
Capital Assets:			
Land	\$ 254,837	\$ 10,000	\$ 264,837
Construction in progress	662,198	3,936,574	4,598,772
Machinery and equipment	356,799	140,798	497,597
Plant and lines	28,795,418	14,110,681	42,906,099
Less accumulated depreciation	(6,211,744)	(2,861,849)	(9,073,593)
Total capital assets	\$ 23,857,508	\$ 15,336,204	\$ 39,193,712
Total assets	\$ 25,014,857	\$ 16,233,562	\$ 41,248,419
LIABILITIES AND NET POSITION			
Liabilities:			
Current liabilities:			
Accounts payable - operations	\$ 72,364	\$ 69,501	\$ 141,865
Accounts payable - construction	44,339	212,638	256,977
Accrued interest payable	53,708	42,610	96,318
Amounts held for others	53,160	27,386	80,546
Compensated absences - current portion	52,441	22,481	74,922
Due to County of Carroll, Virginia	26,445	6,933	33,378
Bonds and notes payable - current portion	908,996	310,638	1,219,634
Total current liabilities	\$ 1,211,453	\$ 692,187	\$ 1,903,640
Noncurrent liabilities:			
Compensated absences - net of current portion	\$ 17,480	\$ 7,493	\$ 24,973
Bonds and notes payable - net of current portion	13,300,421	8,001,054	21,301,475
Total noncurrent liabilities	\$ 13,317,901	\$ 8,008,547	\$ 21,326,448
Total liabilities	\$ 14,529,354	\$ 8,700,734	\$ 23,230,088
Net Position:			
Net investment in capital assets	\$ 9,257,646	\$ 7,024,512	\$ 16,282,158
Restricted	515,882	265,757	781,639
Unrestricted	711,975	242,559	954,534
Total net position	\$ 10,485,503	\$ 7,532,828	\$ 18,018,331

PUBLIC SERVICE AUTHORITY OF CARROLL COUNTY, VIRGINIA
(A COMPONENT UNIT OF CARROLL COUNTY)
Combining Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended June 30, 2013

	Water Fund	Sewer Fund	Total
Operating Revenues:			
Water and sewer charges	\$ 1,434,695	\$ 672,374	\$ 2,107,069
Penalties and interest	53,427	27,523	80,950
State fees	8,592	-	8,592
Fire service	21,041	-	21,041
Miscellaneous	53,906	1,139	55,045
Total operating revenues	\$ 1,571,661	\$ 701,036	\$ 2,272,697
Operating Expenses:			
Salaries and fringes	\$ 662,492	\$ 204,336	\$ 866,828
Professional services	47,089	17,094	64,183
Repairs and maintenance	94,534	25,309	119,843
Operating materials and supplies	91,870	61,397	153,267
Vehicle supplies and fuel	24,789	19,475	44,264
Utilities	127,417	48,064	175,481
Office and insurance expenses	49,187	9,645	58,832
Miscellaneous	15,680	1,846	17,526
Water and sewage treatment purchases	201,956	331,225	533,181
Depreciation expense	667,189	369,384	1,036,573
Total operating expenses	\$ 1,982,203	\$ 1,087,775	\$ 3,069,978
Operating income (loss)	\$ (410,542)	\$ (386,739)	\$ (797,281)
Nonoperating Revenues (Expenses):			
Connection fees	\$ 29,480	\$ 5,500	\$ 34,980
Interest income	39,070	22,375	61,445
Interest expense	(415,499)	(246,202)	(661,701)
Contribution to New River Regional Water Authority	(384,862)	-	(384,862)
Contributions from Carroll County, Virginia	206,463	-	206,463
Total nonoperating revenues (expenses)	\$ (525,348)	\$ (218,327)	\$ (743,675)
Income (loss) before capital contributions	\$ (935,890)	\$ (605,066)	\$ (1,540,956)
Capital contributions and construction grants:			
Construction contributions	\$ 657,733	\$ 1,761,873	\$ 2,419,606
Change in net position	\$ (278,157)	\$ 1,156,807	\$ 878,650
Net position, beginning of year, as restated	\$ 10,763,660	\$ 6,376,021	\$ 17,139,681
Net position, end of year	\$ 10,485,503	\$ 7,532,828	\$ 18,018,331

PUBLIC SERVICE AUTHORITY OF CARROLL COUNTY, VIRGINIA
(A COMPONENT UNIT OF CARROLL COUNTY)
Combining Statement of Cash Flows
For the Year Ended June 30, 2013

	Water Fund	Sewer Fund	Total
Cash flows from operating activities:			
Receipts from customers	\$ 1,506,237	\$ 777,868	\$ 2,284,105
Payments to employees for services	(634,044)	(202,417)	(836,461)
Payments to suppliers for goods and services	(653,859)	(506,192)	(1,160,051)
Net cash provided by (used for) operating activities	\$ 218,334	\$ 69,259	\$ 287,593
Noncapital financing activities:			
Contribution from Carroll County	\$ 206,463	\$ -	\$ 206,463
Cash flows from capital and related financing activities:			
Connection charges	\$ 29,480	\$ 5,500	\$ 34,980
Acquisition of capital assets	(1,584,260)	(2,037,086)	(3,621,346)
Contribution to NRRWA	(384,862)	-	(384,862)
Contributions in aid of construction	1,021,483	1,549,235	2,570,718
Payments from Wythe County on note receivable	6,618	-	6,618
Proceeds from indebtedness	29,000	517,475	546,475
Principal payments on indebtedness	(282,087)	(110,611)	(392,698)
Interest payments on indebtedness	(411,710)	(263,303)	(675,013)
Net cash provided by (used for) capital and related financing activities	\$ (1,576,338)	\$ (338,790)	\$ (1,915,128)
Cash flows from investing activities:			
Interest received	\$ 39,070	\$ 22,375	\$ 61,445
Increase (decrease) in cash and cash equivalents	\$ (1,112,471)	\$ (247,156)	\$ (1,359,627)
Cash and cash equivalents at beginning of year (including restricted cash equivalents of \$555,988)			
	\$ 1,667,475	\$ 853,017	\$ 2,520,492
Cash and cash equivalents at end of year (including restricted cash equivalents of \$781,639)			
	\$ 555,004	\$ 605,861	\$ 1,160,865
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:			
Operating income (loss)	\$ (410,542)	\$ (386,739)	\$ (797,281)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:			
Depreciation	667,189	369,384	1,036,573
Changes in operating assets and liabilities:			
(Increase) decrease in accounts receivable	(71,937)	73,476	1,539
(Increase) decrease in prepaid expenses	(7,294)	6,088	(1,206)
Increase (decrease) in operating payables	5,957	1,775	7,732
Increase (decrease) in amount due to Carroll County for payroll	4,994	(4,118)	876
Increase (decrease) in customer deposits	6,513	3,356	9,869
Increase (decrease) in accrued leave	23,454	6,037	29,491
Net cash provided by (used for) operating activities	\$ 218,334	\$ 69,259	\$ 287,593

Supplemental disclosure required:

Interest paid during the year on indebtedness included capitalized interest of \$70,338.

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COMPLIANCE SECTION



ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

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
Carroll County Public Service Authority
Hillsville, 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 Carroll County Public Service Authority, a component unit of Carroll County, Virginia, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Carroll County Public Service Authority's basic financial statements and have issued our report thereon dated November 17, 2013.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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 [2013-1].

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Carroll County Public 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*.

Carroll County Public Service Authority's Response to Findings

Carroll County Public Service Authority's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. Carroll County Public Service Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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, Faimer, Cox Associates

Blacksburg, Virginia
November 17, 2013

ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

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
Carroll County Public Service Authority
Hillsville, Virginia

Report on Compliance for Each Major Federal Program

We have audited 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 Carroll County Public Service Authority's major federal programs for the year ended June 30, 2013. Carroll County Public 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 Carroll County Public 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 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 on compliance for each major federal program. However, our audit does not provide a legal determination of Carroll County Public Service Authority's compliance.

Opinion on Each Major Federal Program

In our opinion, Carroll County Public 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 Carroll County Public 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 Carroll County Public 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 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. 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, Faimer, & Associates

Blacksburg, Virginia
November 17, 2013

Carroll County Public Service Authority

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

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	\$ 89,044
ARRA - Water and Waste Disposal Systems for Rural Communities	10.781	Not applicable	2,805,418
Southeast Rural Community Assistance Project, Inc. Intermediary Relending Program	10.767	Not applicable	<u>29,000</u>
Total Expenditures of Federal Awards			<u>\$ 2,923,462</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, 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 Carroll County Public Service Authority it is not intended to and does not present the financial position, changes in net position, 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:	\$ 2,376,987
Federal loan proceeds:	<u>546,475</u>
Total federal expenditures per the Schedule of Expenditures of Federal Awards	<u>\$ 2,923,462</u>

Carroll County Public 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?	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 auditors' report issued on compliance for major programs:	Unmodified
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
Auditee qualified as low-risk auditee?	No

Carroll County Public Service Authority

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

Section II - Financial Statement Findings

2013-1

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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