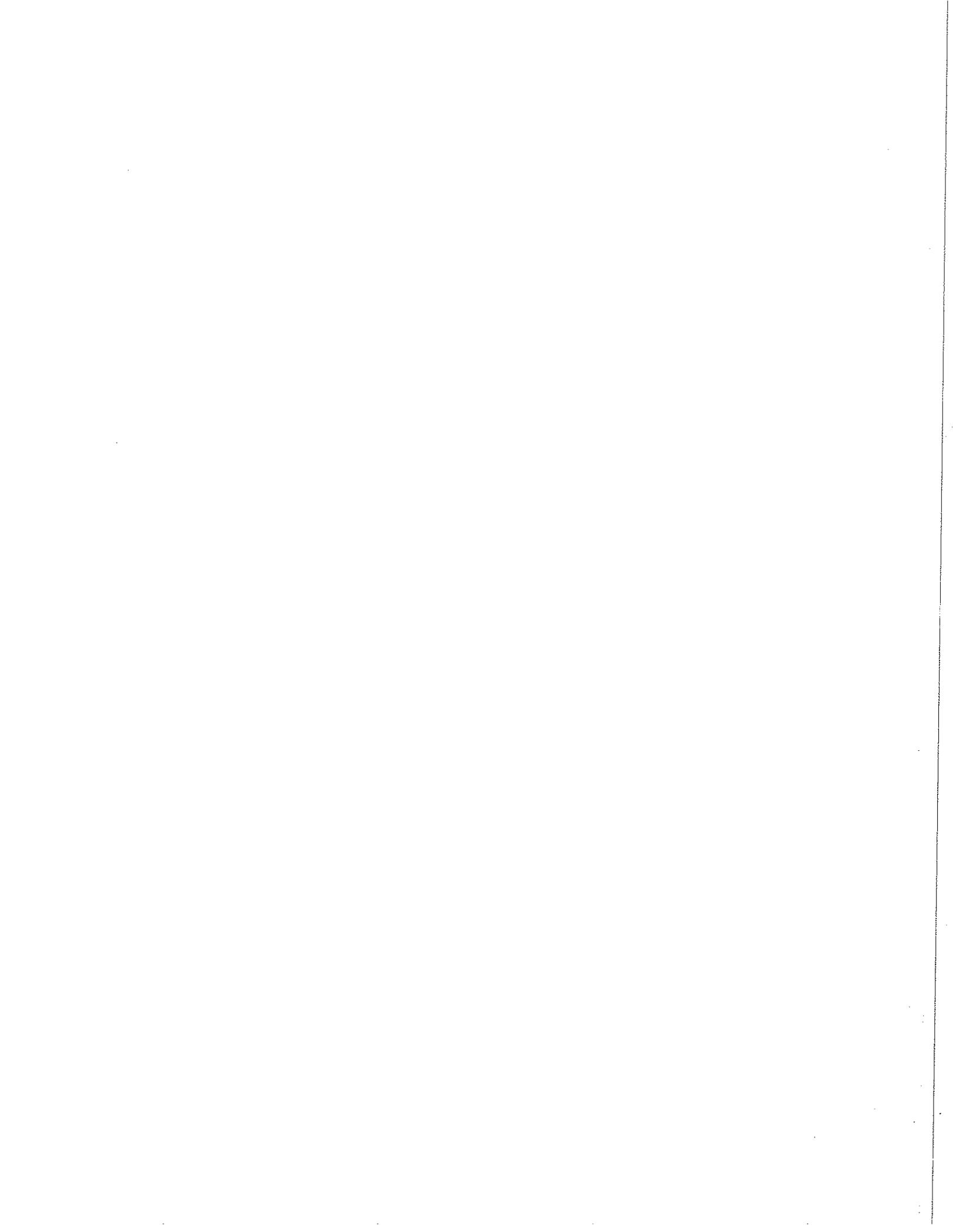


**PUBLIC SERVICE AUTHORITY  
OF CARROLL COUNTY, VIRGINIA  
(A COMPONENT UNIT OF CARROLL COUNTY)**

**FINANCIAL REPORT**

**FOR THE YEAR ENDED JUNE 30, 2010**

---



**TABLE OF CONTENTS**

---

**FINANCIAL SECTION**

---

Page

Independent Auditors' Report ..... 1-2

**Basic Financial Statements:**

Exhibit 1 – Statement of Net Assets ..... 3

Exhibit 2 - Statement of Revenues, Expenses and Changes in Net Assets ..... 4

Exhibit 3 - Statement of Cash Flows ..... 5

Notes to Financial Statements ..... 6-12

---

**COMPLIANCE SECTION**

---

**Compliance:**

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

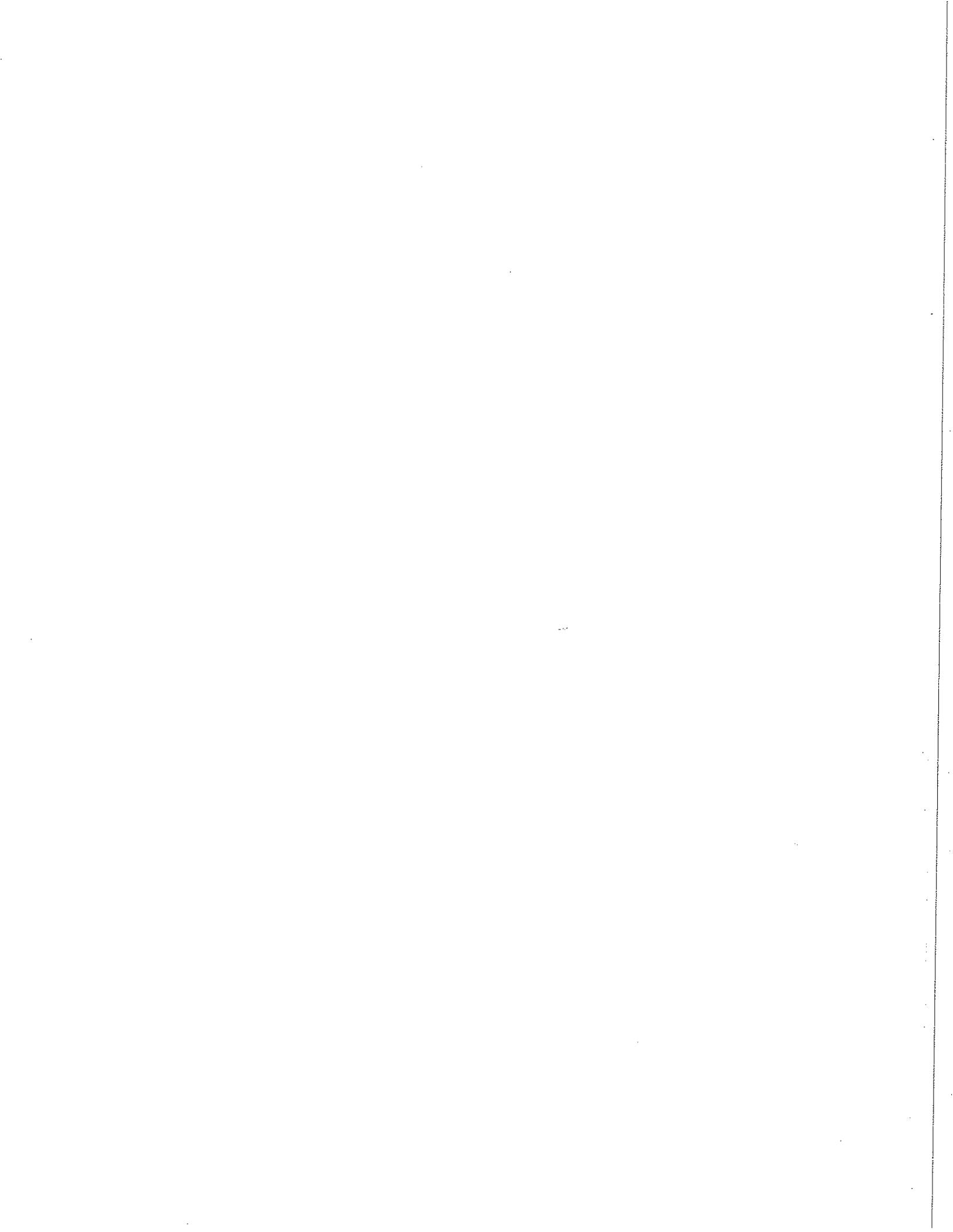
Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major  
Program and on Internal Control over Compliance in Accordance with OMB Circular A-133 ..... 15-16

Schedule of Expenditures of Federal Awards ..... 17

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



## **FINANCIAL SECTION**



# ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

---

## 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, 2010, 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 *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. 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, 2010, and the respective changes in financial position and cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 7, 2011, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the Carroll County Public Service Authority's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements of the Carroll County Public Service Authority. The schedule of expenditures of federal awards has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements, taken as a whole.

*Robinson, Farmer, Cox Associates*

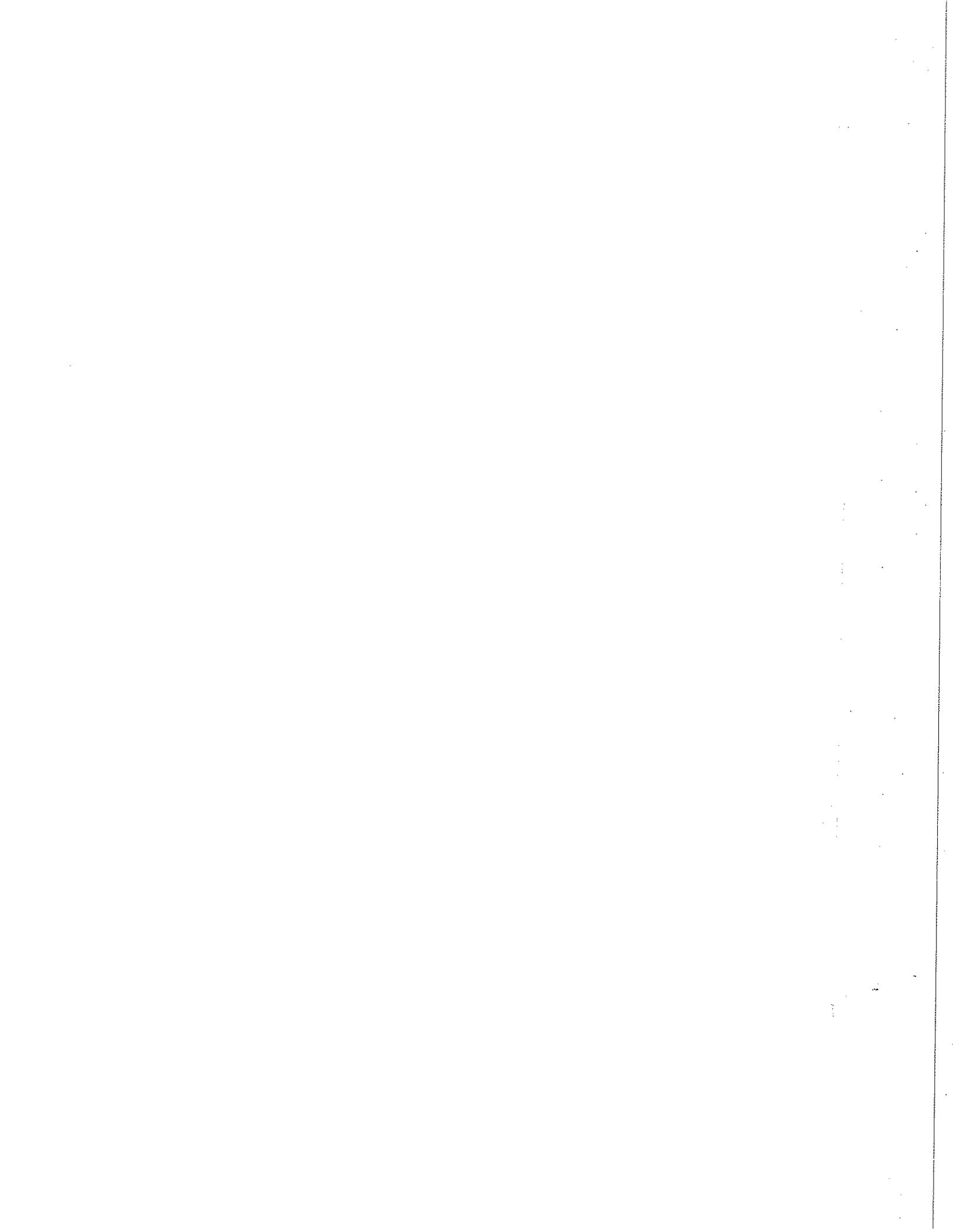
Christiansburg, Virginia

January 7, 2011

---

## **Basic Financial Statements**

---



PUBLIC SERVICE AUTHORITY OF CARROLL COUNTY, VIRGINIA  
(A COMPONENT UNIT OF CARROLL COUNTY)  
Statement of Net Assets  
As of June 30, 2010

ASSETS	
Unrestricted Current Assets:	
Cash and cash equivalents	\$ 1,400,764
Receivables (Net of allowance for uncollectibles):	
Water and sewer billings	256,320
Grants receivable	63,585
Prepaid expenses	24,822
Total unrestricted current assets	<u>1,745,491</u>
Restricted Current Assets:	
Cash & cash equivalents	<u>407,889</u>
Total current assets	<u>2,153,380</u>
Noncurrent Assets:	
Capital Assets:	
Plant and equipment	24,098,806
Land	215,337
Construction in progress	9,928,752
Less accumulated depreciation	<u>(6,547,708)</u>
Total capital assets	<u>27,695,187</u>
Bond issuance costs (deferred)	<u>19,450</u>
Total noncurrent assets	<u>27,714,637</u>
Total assets	<u>29,868,017</u>
LIABILITIES AND EQUITY	
Liabilities:	
Current liabilities:	
Accounts payable - operations	158,066
Accounts payable - construction	1,264,562
Accrued interest payable	117,183
Amounts held for others	39,287
Compensated absences - current portion	43,390
Bonds and notes payable - current portion	<u>238,481</u>
Total current liabilities	<u>1,860,969</u>
Noncurrent liabilities:	
Bond anticipation notes payable	745,033
Compensated absences - net of current portion	14,463
Bonds and notes payable - net of current portion	<u>15,635,880</u>
Total noncurrent liabilities	<u>16,395,376</u>
Total liabilities	<u>18,256,345</u>
Net Assets:	
Invested in capital assets, net of related debt	11,075,793
Restricted	407,889
Unrestricted	<u>127,990</u>
Total net assets	<u>\$ 11,611,672</u>

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

PUBLIC SERVICE AUTHORITY OF CARROLL COUNTY, VIRGINIA  
(A COMPONENT UNIT OF CARROLL COUNTY)  
Statement of Revenues, Expenses, and Changes in Net Assets  
For the Year Ended June 30, 2010

Operating Revenues:	
Water and sewer charges	\$ 1,935,783
Penalties and interest	25,357
State fees	5,007
Fire service	21,520
Miscellaneous	28,541
	<hr/>
Total operating income	2,016,208
	<hr/>
Operating Expenses:	
Salaries and fringes	721,053
Professional services	51,724
Repairs and maintenance	46,899
Operating materials and supplies	62,365
Vehicle supplies and fuel	34,091
Utilities	149,610
Office and insurance expenses	137,099
Miscellaneous	36,661
Water and sewage treatment purchases	562,964
Depreciation expense	626,413
	<hr/>
Total operating expenses	2,428,879
	<hr/>
Operating income (loss)	(412,671)
	<hr/>
Nonoperating Revenues (Expenses):	
Connection fees	17,536
Interest income	38,095
Interest expense	(349,366)
Construction contributions	1,250,981
Contributions/Transfers from county	1,000,000
	<hr/>
Total nonoperating income (expenses)	1,957,246
	<hr/>
Change in net assets	1,544,575
	<hr/>
Net assets, beginning of year, as restated	10,067,097
	<hr/>
Net assets, end of year	\$ 11,611,672
	<hr/> <hr/>

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, 2010

Operating activities:	
Receipts from customers	\$ 1,941,644
Payments to employees for services	(711,321)
Payments to suppliers for goods and services	<u>(1,062,613)</u>
Net cash provided (used) by operating activities	<u>167,710</u>
Capital and related financing activities:	
Connection charges	17,536
Acquisition of capital assets	(7,448,083)
Contributions in aid of construction	2,187,396
Proceeds from indebtedness	7,188,417
Principal payments on indebtedness	(1,243,237)
Interest payments on indebtedness	<u>(472,635)</u>
Net cash provided (used) by capital and related financing activities	<u>229,394</u>
Investing activities:	
Interest received	<u>38,095</u>
Net cash provided (used) by investing activities	<u>38,095</u>
Increase (decrease) in cash and cash equivalents	435,199
Cash and cash equivalents at beginning of year (including restricted cash of \$366,269)	<u>1,373,454</u>
Cash and cash equivalents at end of year (including restricted cash of \$407,889)	<u><u>1,808,653</u></u>
Reconciliation of operating income (loss) to net cash provided	
(used) by operating activities:	
Operating income (loss)	\$ (412,671)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation	626,413
Changes in operating assets and liabilities:	
(Increase) decrease in accounts receivable	(81,701)
(Increase) decrease in prepaid expenses	(2,225)
Increase (decrease) in operating payables	21,025
Increase (decrease) in customer deposits	7,137
Increase (decrease) in accrued leave	<u>9,732</u>
Net cash provided (used) by operating activities	<u>\$ 167,710</u>

## Supplemental disclosure required:

Interest paid during the year on indebtedness included capitalized interest of \$139,132

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

**THIS PAGE LEFT BLANK INTENTIONALLY**

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

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010

---

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

The financial statements of the Authority conform to generally accepted accounting principles (GAAP) applicable to government units promulgated by the Governmental Accounting Standards Board (GASB).

The following is a summary of the more significant policies:

A. The Financial Reporting Entity:

The Authority is a discretely presented component unit of the County of Carroll, Virginia and is presented as such in the County's financial report for the fiscal year ended June 30, 2010.

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 \$139,132. Interest capitalized in the prior year was \$212,771.

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

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010

---

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

C. Capital Assets: (Continued)

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

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

D. Allowance for Uncollectible Accounts:

The Authority calculates its allowance for uncollectible accounts using historical collection data. At June 30, 2010, the allowance amounted to approximately \$164,149.

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 \$407,889. When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then unrestricted resources as they are needed.

H. Net Assets:

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

I. Compensated Absences:

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

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

**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

**NOTE 2 – CASH AND INVESTMENTS:**

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

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

Credit Risk of Debt Securities:

The Authority has not adopted an investment policy for credit risk. The Authority's rated debt investments as of June 30, 2010 were rated by Standard and Poor's and the ratings are presented below using the Standard and Poor's rating scale.

**Authority's Rated Debt Investments' Values**

Rated Debt Investments	Fair Quality Ratings
	AAAm
LGIP	\$ 407,889

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

**NOTE 3 – CAPITAL ASSETS AND DEPRECIATION:**

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

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 205,337	\$ 10,000	\$ -	\$ 215,337
Construction in progress	1,347,375	8,584,984	(3,607)	9,928,752
Total capital assets no being depreciated	\$ 1,552,712	\$ 8,594,984	\$ (3,607)	\$ 10,144,089
Capital assets, being depreciated:				
Plant and equipment	\$ 24,078,788	\$ 20,018	\$ -	\$ 24,098,806
Less: accumulated depreciation for:				
Plant and equipment	\$ (5,921,295)	\$ (626,413)	\$ -	\$ (6,547,708)
Total capital assets being depreciated, net	\$ 18,157,493	\$ (606,395)	\$ -	\$ 17,551,098
Capital assets, net	\$ 19,710,205	\$ 7,988,589	\$ (3,607)	\$ 27,695,187

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

**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

**NOTE 4 – PROPRIETARY DEBT:**

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

Year Ending June 30,	Water and Sewer Revenue Bonds		VRA Loans		Notes Payable	
	Principal	Interest	Principal	Interest	Principal	Interest
2011	\$ 144,355	\$ 607,787	\$ 83,548	\$ 3,368	\$ 10,578	\$ 7,940
2012	179,730	559,153	83,755	3,161	756,065	90,602
2013	223,733	531,158	83,967	2,949	11,505	7,012
2014	232,814	522,077	84,186	2,730	11,999	6,519
2015	242,282	512,609	84,412	2,504	12,514	6,004
2016-2020	1,368,192	2,406,264	425,686	8,893	71,104	21,485
2021-2025	1,673,601	2,100,854	419,561	2,268	64,676	5,392
2026-2030	2,050,644	1,723,811	383,623			
2031-2035	2,335,608	1,262,495	165,224			
2036-2040	1,883,032	832,023				
2041-2045	1,853,147	484,488				
2046-2050	1,469,616	123,395				
2051-2052	210,237	4,606				
<b>Totals</b>	<b>\$ 13,866,991</b>	<b>\$ 11,670,720</b>	<b>\$ 1,813,962</b>	<b>\$ 25,873</b>	<b>\$ 938,441</b>	<b>\$ 144,954</b>

**Changes in Long-Term Debt:**

The following is a summary of changes in long-term obligations of the Authority for the fiscal year ended June 30, 2010:

	Balance July 1, 2009	Issuances	Retirements	Balance June 30, 2010
Revenue bonds	\$ 8,402,469	\$ 5,571,499	\$ (106,977)	\$ 13,866,991
Virginia Resource Authority Loan	1,897,301	-	(83,339)	1,813,962
Promissory Note	203,458	-	(10,050)	193,408
Interim Airport Rd. Loan	140,350	1,616,918	(1,012,235)	745,033
Compensated absences	48,121	45,823	(36,091)	57,853
Due to Carroll County	30,636	-	(30,636)	-
<b>Total</b>	<b>\$ 10,016,178</b>	<b>\$ 7,234,240</b>	<b>\$ (1,279,328)</b>	<b>\$ 16,677,247</b>

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

**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

**NOTE 4 – PROPRIETARY DEBT: (CONTINUED)**

Details of Long-Term Indebtedness:

	<u>Total Amount</u>	<u>Amount Due Within One Year</u>
Rural Development Bonds:		
\$1,250,000 revenue bond, issued August 5, 1998, bearing interest at 4.5%, due in monthly principal and interest installments of \$6,176 through December 31, 2033.	\$ 1,075,771	\$ 26,239
\$818,700 revenue bond, issued October 20, 1994, bearing interest at 4.5%, due in monthly principal and interest installments of \$3,759 through August 20, 2034.	662,778	15,602
\$500,300 revenue bond, issued August 25, 1994, bearing interest at 4.5%, due in monthly principal and interest installments of \$2,297 through April 25, 2034.	403,224	9,616
\$1,345,400 revenue bond, issued April 28, 1994, bearing interest at 4.5%, due in monthly principal and interest installments of \$5,738 through December 5, 2037.	1,086,325	20,388
\$977,000 sewer revenue bond, issued July 10, 1998, bearing interest at 4.50%. Principal and interest payments of \$4,485 are due monthly through October 10, 2037.	846,734	16,045
\$389,300 sewer revenue bond, issued December 2, 1999, bearing interest at 3.25%. Principal and interest payments of \$1,492 are due monthly through June 2, 2039.	336,114	7,085
\$469,000 revenue bond, issued December 17, 2007, bearing interest at 4.5%. Principal and interest payments of \$2,153 are due monthly through September 17, 2010.	466,574	4,941
\$3,261,000 revenue bond, issued December 17, 2008, bearing interest at 4.5%. Principal and interest payments of \$14,968 are due monthly through September 17, 2048.	3,261,000	16,590
\$2,567,581 revenue bond, issued December 17, 2007, bearing interest at 4.375%, due in monthly principal and interest installments of \$11,609 through June 17, 2049.	2,560,327	27,849
\$1,307,464 revenue bond, issued March 25, 2010, bearing interest at 2.375%, due in monthly principal and interest installments of \$40,202 through March 25, 2052.	1,037,464	-
\$2,130,680 revenue bond, issued March 31, 2010, bearing interest at 2.375%, due in monthly principal and interest installments of \$82,565 through March 28, 2052.	2,130,680	-
	<u>2,130,680</u>	<u>-</u>
Total Rural Development Revenue Bonds	<u>\$ 13,866,991</u>	<u>\$ 144,355</u>

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

**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

**NOTE 4 – PROPRIETARY DEBT: (CONTINUED)**

Details of Long-Term Indebtedness: (Continued)

	Amount	Within One Year
<b>VRA Bonds:</b>		
\$1,173,928 revenue bond, issued through the Virginia Resource Authority on January 1, 2002, due in semi-annual principal installments of \$19,565 through January 1, 2032. This is a zero interest loan.	\$ 840,442	\$ 39,091
\$1,129,000 revenue bond, issued through the Virginia Resource Authority on June 30, 2004, due in semi-annual principal installments of \$18,817 through June 1, 2035. This is a zero interest loan.	859,264	37,633
\$153,200 revenue bond, issued through the Virginia Resource Authority on June 30, 2004, due in semi-annual principal installments of \$5,212 through December 1, 2024. Interest is calculated at 3.00% annually with an interest only payment due June 1, 2005.	114,256	6,824
<b>Total VRA Bonds</b>	\$ 1,813,962	\$ 83,548
<b>Notes Payable:</b>		
\$250,000 promissory note, issued on April 28, 2004, due in monthly installments of \$1,543 through February 16, 2024. Interest is calculated at 4.210% annually.	\$ 193,408	\$ 10,578
\$926,000 note, issued June 26, 2009, bearing interest at 4.67%. Principal and interest is due in a single installment on June 26, 2012.	745,033	-
<b>Total Notes Payable</b>	\$ 938,441	\$ 10,578
<b>Total Revenue Bonds and Notes</b>	\$ 16,619,394	\$ 238,481
Compensated absences	\$ 57,853	\$ 43,390
<b>Total Long-term Obligations</b>	\$ 16,677,247	\$ 281,871

**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.

**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.

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

**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

**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, 2010, the following construction commitments were outstanding:

Project:	<u>Total Due</u>	<u>Retainage</u>	<u>Net Due</u>
Woodlawn sewer project	\$ 256,276	\$ 204,561	\$ 51,715
Exit 1 project	36,682	36,682	-
Long range water project	846,879	138,220	708,659
Exit 19 project	124,725	52,064	72,661
Total	\$ <u>1,264,562</u>	\$ <u>431,527</u>	\$ <u>833,035</u>

**NOTE 8 – RISK MANAGEMENT:**

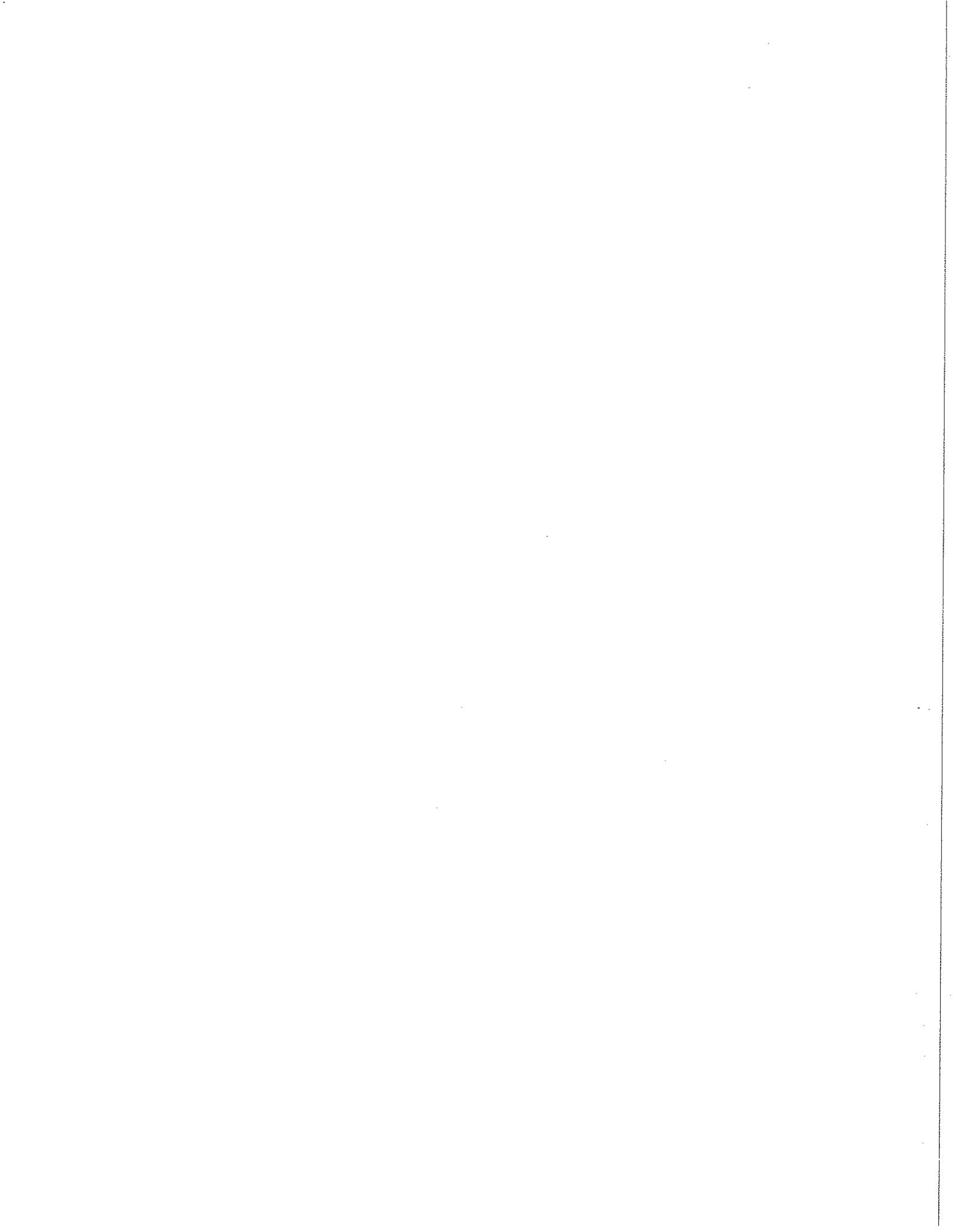
The Authority participates with entities in a public entity risk pool for its coverage of general liability, auto, property, equipment and machinery, and crime insurance with the Virginia Association of Counties. Each member of the risk pool jointly and severally agrees to assume, pay and discharge any 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 four fiscal years.

**NOTE 9 – RESTATEMENT OF BEGINNING NET ASSETS:**

Net Assets, as previously reported	\$ 10,773,255
Adjustment for imputed interest	<u>(706,158)</u>
Net Assets, as restated	\$ <u>10,067,097</u>

**THIS PAGE LEFT BLANK INTENTIONALLY**

**COMPLIANCE SECTION**



# ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

## REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Members of the 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, 2010, and have issued our report thereon dated January 7, 2011. 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

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.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings, responses and questioned costs that we consider to be significant deficiencies in internal control over financial reporting [2010-1]. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

### Compliance and Other Matters

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

noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Carroll County Public Service Authority in a separate letter dated January 7, 2011.

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

This report is intended solely for the information and use of the Board of Directors, management, and others within the entity and it is not intended to be and should not be used by anyone other than these specified parties.

*Robinson, Faimer, Cox Associates*

Christiansburg, Virginia  
January 7, 2011

# ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

## 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 Independent Auditors' Report

---

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, 2010. Carroll County Public Service Authority's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings, responses and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of 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, 2010.

### 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, Famer, Co. Associates*

Christiansburg, Virginia  
January 7, 2011

Carroll County Public Service Authority

Schedule of Expenditures of Federal Awards  
For the Year Ended June 30, 2010

Federal Grantor/ State Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
<b>DEPARTMENT OF AGRICULTURE:</b>			
Pass through payments:			
Water and Waste Disposal Systems for Rural Communities	10.760	Not applicable	\$ 6,690,465
<b>DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</b>			
Pass through payments:			
State Department of Housing and Community Development Community Development Block Grants/Entitlement Grants	14.228	50798, 50799	<u>101,641</u>
Total Expenditure of Federal Awards			<u>\$ 6,792,106</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 and is presented on the modified accrual basis of accounting. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

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.

**Roll County Public Service Authority**

Schedule of Findings, Responses and Questioned Costs  
 for the Period Ended June 30, 2010

---

**Section I - Summary of Auditor's Results**

**Financial Statements**

Type of auditor's report issued: Unqualified  
 Internal control over financial reporting:  
 Material weakness(es) identified? No  
 Significant deficiency(ies) identified? Yes  
 Non-compliance material to financial statements noted? No

**Major Programs**

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  
 Audit findings disclosed that are required to be  
 reported in accordance with section 510(a) of OMB Circular A-133? No

Classification of major programs:

CFDA #	Name of Federal Program or Cluster
10.760	Water and Waste Disposal Systems for Rural Communities

Risk threshold used to distinguish between Type A  
 and Type B programs \$300,000

Is the auditee qualified as low-risk auditee? No

**Carroll County Public Service Authority**

Schedule of Findings, Responses and Questioned Costs  
Year Ended June 30, 2010

---

**Section II - Financial Statement Findings**

2010-1

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: The Authority has historically relied on the auditors for assistance in preparing the financial statements and related adjustments.

Recommendation: Management should work towards making all necessary entries and adjustments.

Management's Response: The Authority engaged a consultant during fiscal year 2010. As the consultant becomes more familiar with the Authority's books, 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.

**THIS PAGE LEFT BLANK INTENTIONALLY**