

**PUBLIC SERVICE AUTHORITY
OF CARROLL COUNTY, VIRGINIA**

FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2006

TABLE OF CONTENTS

FINANCIAL SECTION

	<u>Page</u>
Independent Auditors' Report	1
Combined Financial Statements:	
Exhibit 1 - Statement of Net Assets	2
Exhibit 2 - Statement of Revenues, Expenses and Changes in Net Assets	3
Exhibit 3 - Statement of Cash Flows and Reconciliation of Operating Income to Net Cash Provided by Operating Activities	4
Exhibit 4 - Statement of Fiduciary Net Assets	5
Notes to Financial Statements	6-12

COMPLIANCE SECTION

Compliance:

Report on Compliance on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	13
--	----

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 Carroll County Public Service Authority, a component unit of the County of Carroll, Virginia, as of and for the year ended June 30, 2006, which collectively comprise the entity's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Carroll County Public Service Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the *Specifications for Audits of Authorities, Boards and Commissions* issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements.

An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Carroll County Public Service Authority as of June 30, 2006, 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.

The Authority has elected to omit Management's Discussion and Analysis which is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 10, 2006, on our consideration of the Carroll County Public Service Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreement 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.

Robinson, Farmer, Cox Associates

Christiansburg, Virginia
August 10, 2006

Combined Financial Statements

PUBLIC SERVICE AUTHORITY OF CARROLL COUNTY, VIRGINIA

Exhibit 1

Statement of Net Assets
As of June 30, 2006

ASSETS	
Unrestricted Current Assets:	
Cash and cash equivalents	\$ 206,388
Receivable (Net of allowance for uncollectibles):	
Water and sewer billings	<u>168,567</u>
Total unrestricted current assets	<u>\$ 374,955</u>
Restricted Current Assets:	
Cash & cash equivalents	\$ 426,176
Total restricted current assets	<u>\$ 426,176</u>
Total current assets	<u>\$ 801,131</u>
Noncurrent Assets:	
Capital Assets:	
Plant and equipment	\$ 14,765,005
Land	180,337
Less allowance for depreciation	<u>(3,390,436)</u>
Sub-total	<u>\$ 11,554,906</u>
Total noncurrent assets	<u>\$ 11,554,906</u>
Total assets	<u>\$ 12,356,037</u>
LIABILITIES AND EQUITY	
Liabilities:	
Current liabilities:	
Accounts payable - operations	\$ 65,147
Accrued interest payable	4,727
Amounts held for others	21,855
Due to County of Carroll	54,102
Bonds payable - current portion	<u>94,239</u>
Total current liabilities	<u>\$ 240,070</u>
Noncurrent liabilities:	
Bonds payable - net of current portion	<u>\$4,905,013</u>
Total noncurrent liabilities	<u>\$ 4,905,013</u>
Total liabilities	<u>\$ 5,145,083</u>
Net Assets:	
Invested in capital assets, net of related debt	\$ 6,494,774
Restricted - construction	179,249
Restricted - debt service	246,937
Unrestricted	<u>289,994</u>
Total net assets	<u>\$ 7,210,954</u>

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

PUBLIC SERVICE AUTHORITY OF CARROLL COUNTY, VIRGINIA

Exhibit 2

Statement of Revenues, Expenses, and Changes in Net Assets
As of June 30, 2006

Operating Revenues:	
Water charges	\$ 1,193,024
Sewer charges	399,849
Penalties and interest	19,257
State fees	3,702
Connection Fees	53,957
Miscellaneous	9,584
	<hr/>
Total operating income	\$ 1,679,373
Operating Expenses:	
Salaries and fringes	\$ 363,052
Professional services	4,650
Repairs and maintenance	70,541
Materials and supplies	168,144
Utilities	78,354
Office and insurance expenses	26,293
Miscellaneous	11,531
Water and sewage treatment purchases	447,934
Depreciation expense	373,758
	<hr/>
Total operating expenses	\$ 1,544,257
Operating income (loss)	\$ 135,116
Nonoperating Revenues (Expenses):	
Interest income	21,926
Interest expense	(208,916)
Gladeville/Cranberry fund contribution	(70,316)
	<hr/>
Total nonoperating income (expenses)	\$ (257,306)
	<hr/>
Income before contributions	\$ (122,190)
Change in net assets	\$ (122,190)
Net assets, beginning of year	\$ 7,333,144
	<hr/>
Net assets, end of year	\$ 7,210,954
	<hr/> <hr/>

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

PUBLIC SERVICE AUTHORITY OF CARROLL COUNTY, VIRGINIA

Exhibit 3

Statement of Cash Flows
As of June 30, 2006

Operating activities:	
Receipts from customers	\$ 1,644,464
Payments to employees for services	(363,052)
Payments to suppliers for goods and services	<u>(785,392)</u>
Net cash provided by operating activities	<u>\$ 496,020</u>
Noncapital financing activities:	
Transfer from Gladeville/Cranberry Sewer System	<u>\$ (70,316)</u>
Capital and related financing activities:	
Connection charges	
Acquisition of capital assets	\$ (579,606)
Operating transfers out	
Proceeds from indebtedness	96,314
Principal payments on indebtedness	(160,007)
Interest payments on indebtedness	<u>(168,839)</u>
Net cash provided by (used in) capital and related financing activities	<u>\$ (812,138)</u>
Investing activities:	
Interest received	<u>\$ 21,926</u>
Increase (decrease) in cash and cash equivalents	\$ (364,508)
Cash and cash equivalents at beginning of year	<u>\$ 997,072</u>
Cash and cash equivalents at end of year (including \$426,176 reported in restricted accounts)	<u>\$ 632,564</u>
Reconciliation of operating income to net cash provided (used by operating activities):	
Operating income	\$ 135,116
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization	373,758
Changes in operating assets and liabilities:	
(Increase) decrease in accounts receivable	(44,115)
Increase (decrease) in operating payables	22,055
Increase (decrease) in customer deposits	<u>9,206</u>
Net cash provided by operating activities	<u>\$ 496,020</u>
Supplemental disclosure required:	
Interest paid during the year on indebtedness	<u>\$ 168,839</u>

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

Statement of Fiduciary Net Assets
As of June 30, 2006

	Agency Fund Gladeville/ Cranberry Fund
ASSETS	
Unrestricted Current Assets:	
Cash and cash equivalents	\$ 335,738
Receivable (Net of allowance for uncollectibles):	
Accounts	27,893
Total unrestricted current assets	\$ 363,631
 Total current assets	 \$ 363,631
 Noncurrent Assets:	
Capital Assets:	
Property, plant and equipment	\$ 5,422,305
Less allowance for depreciation	(971,188)
 Total capital assets	 \$ 4,451,117
 Total noncurrent assets	 \$ 4,451,117
 Total assets	 \$ 4,814,748
LIABILITIES AND EQUITY	
Liabilities:	
Current liabilities:	
Accounts payable	\$ 4,551
Accrued interest payable	1,583
Amounts held for Carroll County	3,540,711
Bonds payable - current portion	18,296
 Total current liabilities	 \$ 3,565,141
 Noncurrent liabilities:	
Bonds payable - net of current portion	\$ 1,249,607
 Total noncurrent liabilities	 \$ 1,249,607
 Total liabilities	 \$ 4,814,748

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

PUBLIC SERVICE AUTHORITY OF CARROLL COUNTY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
AS OF JUNE 30, 2006

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 Government 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, 2006.

B. Basis of Accounting:

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

C. Capital Assets:

Capital Assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the financial statements. Capital assets are defined by the Authority as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not to be capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. There was no interest capitalized during

PUBLIC SERVICE AUTHORITY OF CARROLL COUNTY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
AS OF JUNE 30, 2006

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

C. Capital Assets: (Continued)

the current or previous fiscal year.

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

<u>Assets</u>	<u>Years</u>
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, 2006, the allowance amounted to approximately \$109,217.

E. Cash, Cash Equivalents and Investments:

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

F. Estimates:

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

G. Restricted Assets:

Included in restricted cash and cash equivalents are amounts held in debt service reserve accounts in the amounts of \$246,927. In addition amounts restricted for construction projects totaled \$179,249. 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.

PUBLIC SERVICE AUTHORITY OF CARROLL COUNTY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
AS OF JUNE 30, 2006

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 (a multiple financial institution collateral pool), Section 2.2-4400 et. seq. of the Code of Virginia or covered by federal depository insurance. Under the Act, banks holding public deposits in excess of the amounts insured by FDIC must pledge collateral in the amount of 50% of excess deposits to a collateral pool in the name of the State Treasury Board. Savings and Loan institutions are required to collateralize 100% of deposits in excess of FDIC limits. Deposits covered by the Act are considered insured since the Treasury Board is authorized to make additional assessments.

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, 2006 were rated by Standard and Poor's and the ratings are presented below using the Standard and Poor's rating scale.

Authority's Rated Debt Investments' Values

Rated Debt Investments	Fair Quality Ratings			
	AAA	AAAm	AAm	Unrated
LGIP	\$ -	\$ 246,937	\$ -	\$ -

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

PUBLIC SERVICE AUTHORITY OF CARROLL COUNTY, VIRGINIA

**NOTES TO FINANCIAL STATEMENTS
AS OF JUNE 30, 2006**

NOTE 3 - CAPITAL ASSETS AND DEPRECIATION:

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Land, land improvements				
land rights	\$ 180,337	\$ -	\$ -	\$ 180,337
Motor vehicles and equipment	91,835	-	-	91,835
Other equipment	6,092	-	-	6,092
Water and sewer systems	14,212,775	454,303	-	14,667,078
Construction in progress	8,838	-	(8,838)	-
Less: accumulated depreciation	<u>\$ (3,016,678)</u>	<u>\$ (373,758)</u>	<u>\$ -</u>	<u>\$ (3,390,436)</u>
Capital assets, net	<u>\$ 11,483,199</u>	<u>\$ 80,545</u>	<u>\$ (8,838)</u>	<u>\$ 11,554,906</u>

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		Bank Note	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 56,191	\$ 159,449	\$ 29,123	\$ 58,036	8,925	9,592
2008	62,600	153,040	30,403	56,755	9,309	9,209
2009	65,476	150,164	31,743	55,416	9,708	8,809
2010	68,484	147,156	33,142	54,017	10,125	8,393
2011	71,630	144,010	34,605	52,553	10,559	7,958
2012-2016	410,638	667,562	197,412	238,383	59,998	32,590
2017-2021	514,035	564,165	245,383	190,412	74,028	18,561
2022-2026	643,467	434,733	275,657	131,378	49,249	3,074
2027-2031	805,489	272,711	319,863	63,760	-	-
2032-2036	672,262	85,682	84,476	4,033	-	-
2037-2041	115,272	4,779	-	-	-	-
Totals	<u>\$ 3,485,544</u>	<u>\$ 2,783,451</u>	<u>\$ 1,281,807</u>	<u>\$ 904,743</u>	<u>\$ 231,901</u>	<u>\$ 98,186</u>

PUBLIC SERVICE AUTHORITY OF CARROLL COUNTY, VIRGINIA

**NOTES TO FINANCIAL STATEMENTS
AS OF JUNE 30, 2006**

NOTE 4 - PROPRIETARY DEBT: (CONTINUED)

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, 2006:

	Balance July 1, 2005	Issuances	Retirements	Balance June 30, 2006
Revenue bonds	\$ 3,546,424	\$ -	\$ (60,880)	\$ 3,485,544
Virginia Resource				
Authority Loan	2,132,748	96,314	(82,746)	2,146,316
Promissory Note	240,459	-	(8,558)	231,901
Amount due Carroll County	61,924	-	(7,822)	54,102
Adjustments:				
Imputed interest on interest free loans	(901,170)	-	36,661	(864,509)
Total	\$ 5,080,385	\$ 96,314	\$ (123,345)	\$ 5,053,354

Details of Long-Term Indebtedness:

	<u>Total Amount</u>	<u>Amount Due Within One Year</u>
Water and Sewer Revenue Bonds:		
\$1,250,000 revenue bond, issued August 5, 1998, bearing interest at 4.5%, due in monthly principal and interest installments of \$5,738 through August 5, 2040.	\$ 1,161,201	\$ 16,893
\$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	718,540	13,005
\$500,300 revenue bond, issued August 25, 1994, with interest accruing at 4.5%, due in monthly principal and interest installments of \$2,297 through June 6, 2034.	437,336	8,027
\$1,345,400 revenue bond, issued April 28, 1994, bearing interest at 4.5%, due in monthly principal and interest installments of \$6,176 through January 28, 2034.	1,168,466	18,266

PUBLIC SERVICE AUTHORITY OF CARROLL COUNTY, VIRGINIA

**NOTES TO FINANCIAL STATEMENTS
AS OF JUNE 30, 2006**

NOTE 4 - PROPRIETARY DEBT: (CONTINUED)

Details of Long-Term Indebtedness: (Continued)

	<u>Total Amount</u>	<u>Amount Due Within One Year</u>
Virginia Resource Authority Loan:		
\$1,173,928 revenue bond issued through the Virginia Resource Authority on January 1, 2002, due in semi-annual principal installments of \$19,565 through January 1, 2032. This is a zero interest loan, however for financial reporting purposes, interest has been imputed at 4.5%.	\$ 996,826	
Less: Imputed interest at 4.5%	(407,411)	
Net amount	<u>\$ 589,415</u>	<u>\$ 12,709</u>
Virginia Resource Authority Loan:		
\$1,129,000 revenue bond issued through the Virginia Resource Authority on June 30, 2004, due in semi-annual principal installments of \$9,098 through June 1, 2035. This is a zero interest loan, however for financial reporting purposes, interest has been imputed at 5%.	\$ 1,009,797	
Less: Imputed interest at 5%	\$ (457,098)	
Net Amount	<u>\$ 552,699</u>	<u>\$ 10,123</u>
Virginia Resource Authority Loan:		
\$153,200 revenue bond issued through the Virginia Resource Authority on June 30, 2004, due in semi-annual principal installments of \$3,021 through December 1, 2024. Interest is calculated at 3.00% annually with an interest only payment due June 1, 2005.	<u>\$ 139,693</u>	<u>\$ 6,291</u>
Promissory Note:		
\$250,000 promissory note issued on April 28, 2004, due in monthly installments of \$1,543 through April 28, 2024. Interest is calculated at 4.210% annually.	<u>\$ 231,901</u>	<u>\$ 8,925</u>
Total loans	<u>\$ 1,513,708</u>	<u>\$ 38,048</u>
Total Long-term Obligations	<u>\$ 4,999,252</u>	<u>\$ 94,239</u>

PUBLIC SERVICE AUTHORITY OF CARROLL COUNTY, VIRGINIA

**NOTES TO FINANCIAL STATEMENTS
AS OF JUNE 30, 2006**

NOTE 5 - GLADEVILLE/CRANBERRY SEWER SYSTEM:

The County of Carroll owns the Gladeville/Cranberry Sewer system. The Authority has entered into an operating agreement, whereby, they will operate and maintain the system on behalf of the County. All assets, liabilities, revenue, expenses, and related items are presented in the financial report of the County of Carroll. The statement of fiduciary net assets shows the balance of assets and liabilities of the Gladeville/Cranberry Fund held on behalf of the County of Carroll.

NOTE 6 - DEFINED BENEFIT PENSION PLAN:

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

NOTE 7 - PAYROLL EXPENSES:

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

NOTE 8 - COMMITMENTS AND CONTINGENCIES:

Purchase Agreement:

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

NOTE 9 - RISK MANAGEMENT:

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

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, 2006, which collectively comprise the Carroll County Public Service Authority's basic financial statements and have issued our report thereon dated August 10, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, *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 in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

COMPLIANCE AND OTHER MATTERS

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

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

Robinson, Farmer, Cox Associates
Christiansburg, Virginia
August 10, 2006