

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

FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2005

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INDEPENDENT AUDITORS' REPORT

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, 2005, 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, 2005, 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 December 7, 2005, 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
December 7, 2005

COMBINED FINANCIAL STATEMENTS

Statement of Net Assets
As of June 30, 2005

ASSETS	
Unrestricted Current Assets:	
Cash and cash equivalents	\$ 165,800
Receivable (Net of allowance for uncollectibles):	
Water and sewer billings	124,452
Total unrestricted current assets	\$ 290,252
Restricted Current Assets:	
Cash & cash equivalents	\$ 831,272
Total current assets	\$ 1,121,524
Noncurrent Assets:	
Capital Assets:	
Plant and equipment	\$ 14,319,540
Land	180,337
Less allowance for depreciation	(3,016,678)
Total capital assets	\$ 11,483,199
Total noncurrent assets	\$ 11,483,199
Total assets	\$ 12,604,723
LIABILITIES AND EQUITY	
Liabilities:	
Current liabilities:	
Accounts payable - operations	\$ 43,092
Accounts payable - construction	134,141
Accrued interest payable	1,312
Amounts held for others	12,649
Due to County of Carroll	61,924
Bonds payable - current portion	144,598
Total current liabilities	\$ 397,716
Noncurrent liabilities:	
Bonds payable - net of current portion	4,873,863
Total liabilities	\$ 5,271,579
Net Assets:	
Invested in capital assets, net of related debt	\$ 6,464,738
Restricted - construction	622,507
Restricted - debt service	208,763
Unrestricted	45,960
Total net assets	\$ 7,333,144

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

Statement of Revenues, Expenses, and Changes in Net Assets
As of June 30, 2005

Operating Revenues:	
Water charges	\$ 948,210
Sewer charges	302,736
Penalties and interest	17,396
State fees	3,566
Connection Fees	42,040
Miscellaneous	2,689
 Total operating income	 \$ 1,316,637
Operating Expenses:	
Salaries and fringes	\$ 412,689
Professional services	4,400
Repairs and maintenance	51,208
Materials and supplies	139,762
Utilities	69,081
Office and insurance expenses	26,362
Miscellaneous	8,701
Water and sewage treatment purchases	379,415
Depreciation expense	328,324
 Total operating expenses	 \$ 1,419,942
Operating income (loss)	\$ (103,305)
Nonoperating Revenues (Expenses):	
Interest income	18,516
Interest expense	(214,876)
 Total nonoperating income (expenses)	 \$ (196,360)
 Income before contributions	 \$ (299,665)
Capital contributions and construction grants:	
Gladeville/Cranberry fund contribution	4,457
Construction contribution	208,489
 Total capital contributions and construction grants	 \$ 212,946
Change in net assets	\$ (86,719)
Net assets, beginning of year - as restated	\$ 7,419,863
Net assets, end of year	\$ 7,333,144

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

Statement of Cash Flows
As of June 30, 2005

Operating activities:	
Receipts from customers	\$ 1,332,825
Payments to employees for services	(412,689)
Payments to suppliers for goods and services	<u>(691,693)</u>
Net cash provided by operating activities	<u>\$ 228,443</u>
Capital and related financing activities:	
Acquisition of capital assets	\$ (666,990)
Contributions in aid of construction	5,400
Proceeds from indebtedness	481,222
Principal payments on indebtedness	(123,097)
Interest payments on indebtedness	<u>(180,341)</u>
Net cash provided by (used in) capital and related financing activities	<u>\$ (483,806)</u>
Investing activities:	
Interest received	<u>\$ 18,516</u>
Net cash provided by (used in) investing activities	<u>\$ 18,516</u>
Increase (decrease) in cash and cash equivalents	\$ (236,847)
Cash and cash equivalents at beginning of year	<u>\$ 1,233,919</u>
Cash and cash equivalents at end of year (including \$831,272 reported in restricted accounts)	<u><u>\$ 997,072</u></u>
Reconciliation of operating income to net cash provided (used by operating activities):	
Operating income	\$ (103,305)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization	328,324
Changes in operating assets and liabilities:	
(Increase) decrease in accounts receivable	7,364
Increase (decrease) in operating payables	(12,764)
Increase (decrease) in customer deposits	<u>8,824</u>
Net cash provided by operating activities	<u><u>\$ 228,443</u></u>
Supplemental disclosure required:	
Interest paid during the year on indebtedness	<u>\$ 180,341</u>

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

Statement of Fiduciary Net Assets
As of June 30, 2005

	Agency Fund Gladeville/ Cranberry Fund
ASSETS	
Unrestricted Current Assets:	
Cash and cash equivalents	150,736
Receivable (Net of allowance for uncollectibles):	
Accounts	27,742
Total unrestricted current assets	<u>\$ 178,478</u>
 Total current assets	 <u>\$ 178,478</u>
Noncurrent Assets:	
Capital Assets:	
Property, plant and equipment	\$ 5,422,305
Less allowance for depreciation	(835,631)
 Total capital assets	 <u>\$ 4,586,674</u>
 Total noncurrent assets	 <u>\$ 4,586,674</u>
 Total assets	 <u>\$ 4,765,152</u>
LIABILITIES AND EQUITY	
Liabilities:	
Current liabilities:	
Accounts payable	\$ 1,911
Accrued interest payable	438
Amounts held for Carroll County	3,474,946
Bonds payable - current portion	18,733
 Total current liabilities	 <u>\$ 3,496,028</u>
Noncurrent liabilities:	
Bonds payable - net of current portion	\$ 1,269,124
 Total noncurrent liabilities	 <u>\$ 1,269,124</u>
 Total liabilities	 <u>\$ 4,765,152</u>

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, 2005

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, 2005.

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, 2005

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, 2005, the allowance amounted to approximately \$75,427.

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 \$208,763. In addition amounts restricted for construction projects totaled \$622,509.

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, 2005

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, 2005 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

<u>Rated Debt Investments</u>	<u>Fair Quality Ratings</u>			
	<u>AAA</u>	<u>AAAm</u>	<u>AAm</u>	<u>Unrated</u>
LGIP	\$ -	\$ 208,763	\$ -	\$ -

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, 2005**

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	85,541	9,294	(3,000)	91,835
Other equipment	6,092	-	-	6,092
Water and sewer systems	13,582,573	630,202	-	14,212,775
Construction in progress	-	8,838	-	8,838
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Less: accumulated depreciation	\$ (2,691,353)	\$ (328,325)	\$ 3,000	\$ (3,016,678)
Capital assets, net	<u>\$ 11,163,190</u>	<u>\$ 320,009</u>	<u>\$ -</u>	<u>\$ 11,483,199</u>

NOTE 4 - PROPRIETARY DEBT:

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

Year Ending June 30, 2005	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>
2006	\$ 57,222	\$ 158,418	\$ 78,818	\$ 3,677	\$ 8,558	\$ 9,959
2007	59,850	155,790	79,022	3,473	8,925	9,592
2008	62,600	153,040	79,233	3,262	9,309	9,209
2009	65,476	150,164	79,450	3,045	9,708	8,809
2010	68,484	147,156	79,673	2,822	10,215	8,393
2011-2015	392,602	685,598	401,958	10,516	57,527	35,059
2016-2020	491,458	586,742	406,989	3,776	70,981	21,608
2021-2025	615,205	462,995	360,303	-	65,324	5,516
2026-2030	770,111	308,090	360,303	-		
2031-2035	786,003	118,726	206,999	-		
2036-2040	177,413	11,491				
2041-2045	-	-	-	-	-	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Totals	<u>\$ 3,546,424</u>	<u>\$ 2,938,210</u>	<u>\$ 2,132,748</u>	<u>\$ 30,571</u>	<u>\$ 240,547</u>	<u>\$ 108,145</u>

PUBLIC SERVICE AUTHORITY OF CARROLL COUNTY, VIRGINIA

**NOTES TO FINANCIAL STATEMENTS
AS OF JUNE 30, 2005**

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, 2005:

	Balance July 1, 2004	Issuances	Retirements	Balance June 30, 2005
Revenue bonds	\$ 3,595,586	\$ -	\$ (49,162)	\$ 3,546,424
Virginia Resource Authority Loan	1,709,432	481,222	(57,906)	2,132,748
Promissory Note	248,665	-	(8,206)	240,459
Amount due Carroll County	69,747		(7,823)	61,924
Adjustments:				
Imputed interest on interest free loans	(733,937)	(207,548)	40,315	(901,170)
 Total	 \$ 4,889,493	 \$ 273,674	 \$ (82,782)	 \$ 5,080,385

Details of Long-Term Indebtedness:

	Total Amount	Amount Due Within One Year
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.	\$ 1,178,568	\$ 16,151
 \$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	 731,729	 12,435
 \$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.	 445,471	 7,675
 \$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.	 1,190,656	 20,961

PUBLIC SERVICE AUTHORITY OF CARROLL COUNTY, VIRGINIA

**NOTES TO FINANCIAL STATEMENTS
AS OF JUNE 30, 2005**

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%.	\$ 1,035,918	
Less: Imputed interest at 4.5%	(434,346)	
Net amount	<u>\$ 601,572</u>	<u>\$ 39,091</u>
Virginia Resource Authority Loan:		
\$545,870 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%.	\$ 972,595	
Less: Imputed interest at 5%	\$ (466,824)	
Net Amount	<u>\$ 505,771</u>	<u>\$ 32,969</u>
Virginia Resource Authority Loan:		
\$88,555 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>\$ 124,235</u>	<u>\$ 6,758</u>
Promissory Note:		
\$250,000 promissory note issued on April 28, 2004, due in monthly installments of \$18,518 through April 28, 2024. Interest is calculated at 4.210% annually.	<u>\$ 240,459</u>	<u>\$ 8,558</u>
Total loans	<u>\$ 1,472,037</u>	<u>\$ 87,376</u>
Total Long-term Obligations	<u>5,018,461</u>	<u>144,598</u>

PUBLIC SERVICE AUTHORITY OF CARROLL COUNTY, VIRGINIA

**NOTES TO FINANCIAL STATEMENTS
AS OF JUNE 30, 2005**

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

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, 2005, which collectively comprise the Carroll County Public Service Authority's basic financial statements and have issued our report thereon dated December 7, 2005. 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*.

However, we noted certain matters that we reported to management of the Carroll County Public Service Authority in a separate letter.

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
December 7, 2005