

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

**FINANCIAL REPORT**

**FOR THE YEAR ENDED JUNE 30, 2007**

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**FINANCIAL SECTION**

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**FINANCIAL SECTION**

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# ROBINSON, FARMER, COX ASSOCIATES

Certified Public Accountants

A Professional limited Liability company

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## Independent Auditors' Report

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

We have audited the accompanying statement of net assets of the Carroll County Public Service Authority, a component unit of the County of Carroll, Virginia, as of June 30, 2007 and the related statements of revenues, expenses and changes in net assets, and cash flows for the year then ended, 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 Carroll County Public Service Authority as of June 30, 2007, 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 28, 2008 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 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 that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements.

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Christiansburg, Virginia  
January 28, 2008

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**BASIC FINANCIAL STATEMENTS**

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PUBLIC SERVICE AUTHORITY OF CARROLL COUNTY, VIRGINIA  
 (A COMPONENT UNIT OF CARROLL COUNTY)  
 Statement of Net Assets  
 As of June 30, 2007

ASSETS	
Unrestricted Current Assets:	
Cash and cash equivalents	695,964
Receivable (Net of allowance for uncollectibles):	
Water and sewer billings	141,548
Prepaid expenses	29,457
Total unrestricted current assets	866,969
Restricted Current Assets:	
Cash & cash equivalents	289,781
Total restricted current assets	289,781
Total current assets	1,156,750
Noncurrent Assets:	
Capital Assets:	
Plant and equipment	1,477,158
Land	180,337
Construction in progress	2,402,484
Less accumulated depreciation	(3,765,176)
Sub-total	13,596,803
Total noncurrent assets	13,596,803
Total assets	14,753,553
LIABILITIES AND EQUITY	
Liabilities:	
Current liabilities:	
Accounts payable - operations	49,105
Accounts payable - construction	367,033
Accrued interest payable	20,335
Amounts held for others	27,455
Compensated absences - current portion	41,363
Due to County of Carroll	7,822
Bonds payable - current portion	1,733,725
Total current liabilities	2,246,838
Noncurrent liabilities:	
Compensated absences	13,788
Due to County of Carroll	38,458
Bonds payable - net of current portion	4,798,789
Total noncurrent liabilities	4,851,035
Total liabilities	7,097,873
Net Assets:	
Invested in capital assets, net of related debt	7,018,009
Restricted - debt service	289,781
Unrestricted	347,890
Total net assets	\$ 7,655,680

The accompanying notes to 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, 2007

Operating Revenues:		
Water charges	\$	1,146,167
Sewer charges		370,540
Penalties and interest		13,798
State fees		4,166
Connection fees		58,088
Miscellaneous		10,312
		<hr/>
Total operating income		1,603,071
		<hr/>
Operating Expenses:		
Salaries and fringes		467,982
Professional services		4,583
Repairs and maintenance		27,604
Materials and supplies		155,424
Utilities		97,603
Office and insurance expenses		16,197
Miscellaneous		32,162
Water and sewage treatment purchases		441,210
Depreciation expense		374,740
		<hr/>
Total operating expenses		1,617,505
		<hr/>
Operating income (loss)		(14,434)
		<hr/>
Nonoperating Revenues (Expenses):		
Interest income		25,461
Interest expense		(224,740)
Construction contributions		428,570
Contributions/Transfers from county		11,545
Gladeville/Cranberry fund contribution		218,324
		<hr/>
Total nonoperating income (expenses)		459,160
		<hr/>
Change in net assets		444,726
		<hr/>
Net assets, beginning of year		7,210,954
		<hr/>
Net assets, end of year	\$	7,655,680
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The accompanying notes to 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, 2007

Operating activities:	
Receipts from customers	1,635,690
Payments to employees for services	(412,831)
Payments to suppliers for goods and services	(820,282)
	402,577
Net cash provided by operating activities	
Noncapital financing activities:	
Transfer from Gladeville/Cranberry Sewer System	218,324
Contribution from Carroll County	11,545
	229,869
Net cash provided by (used in) Noncapital financing activities	
Capital and related financing activities:	
Connection charges	
Acquisition of capital assets	(2,049,604)
Contributions in aid of construction	428,570
Proceeds from indebtedness	1,631,413
Principal payments on indebtedness	(159,872)
Interest payments on indebtedness	(155,233)
	(304,726)
Net cash provided by (used in) capital and related financing activities	
Investing activities:	
Interest received	25,461
Increase (decrease) in cash and cash equivalents	
	353,181
Cash and cash equivalents at beginning of year	
	632,564
Cash and cash equivalents at end of year (including \$289,781 reported in restricted accounts)	
	985,745
Reconciliation of operating income to net cash provided (used by operating activities):	
Operating income	(14,434)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization	374,740
Changes in operating assets and liabilities:	
(Increase) decrease in accounts receivable	27,019
(Increase) decrease in prepaid expenses	(29,457)
Increase (decrease) in operating payables	(16,042)
Increase (decrease) in customer deposits	5,600
Increase (decrease) in accrued leave	55,151
	\$ 402,577
Net cash provided by operating activities	
Supplemental disclosure required:	
Interest paid during the year on indebtedness - including capitalized interest of \$19,194	\$ 174,427

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

PUBLIC SERVICE AUTHORITY OF CARROLL COUNTY, VIRGINIA  
(A COMPONENT UNIT OF CARROLL COUNTY)  
Statement of Fiduciary Net Assets  
As of June 30, 2007

	Agency Fund Gladeville/ Cranberry Fund
<b>ASSETS</b>	
Unrestricted Current Assets:	
Cash and cash equivalents	\$ 204,011
Receivable (Net of allowance for uncollectibles):	
Accounts	63,278
Prepaid <i>expenses</i>	1,672
Total unrestricted current assets	268,961
Total current assets	268,961
Noncurrent Assets:	
Capital Assets:	
Property, plant and equipment	5,430,839
Less allowance for depreciation	(1,107,599)
Total capital assets	4,323,240
Total noncurrent assets	4,323,240
Total assets	4,592,201
<b>LIABILITIES AND EQUITY</b>	
Liabilities:	
Current liabilities:	
Accounts payable	7,028
Accrued interest payable	3,021
Amounts held for Carroll County	3,335,354
Bonds payable - current portion	20,332
Total current liabilities	3,365,735
Noncurrent liabilities:	
Bonds payable - net of current portion	1,226,466
Total noncurrent liabilities	1,226,466
Total liabilities	\$ 4,592,201

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

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

**NOTES TO FINANCIAL STATEMENTS**  
**As OF JUNE 30, 2007**

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**NOTE I - 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, 2007.

**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 *nonoperating* 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. Interest capitalized during the current

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

**NOTES TO FINANCIAL STATEMENTS  
AS OF JUNE 30, 2007**

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**NOTE I - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)**

fiscal year totaled \$19,194. No interest was capitalized during the prior year.

**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 and 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, 2007, the allowance amounted to approximately \$90,403.

**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 \$289,781. 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.

**K. 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  
(A COMPONENT UNIT OF CARROLL COUNTY)**

**NOTES TO FINANCIAL STATEMENTS  
As OF JUNE 30, 2007**

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

1. Compensated Absences:

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

**NOTE 2 - 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 (LG IP).

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, 2007 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	\$	\$ 289,781	\$	\$

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

**NOTES TO FINANCIAL STATEMENTS  
As OF JUNE 30, 2007**

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**NOTE 2 - CASH AND INVESTMENTS: (CONTINUED)**

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.

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

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

	Beginning Balance	Increases	Decreases	Ending Balance
Land, land improvements				
land rights	\$ 180,337	\$	\$	\$ 180,337
Motor vehicles and equipment	91,835	14,153		105,988
Other equipment	6,092			6,092
Water and sewer systems	14,667,078			14,667,078
Construction in progress		2,402,484		2,402,484
<u>Less: accumulated depreciation</u>	<u>\$ (3,390,436)</u>	<u>\$ (374,740)</u>	<u>\$</u>	<u>\$ (3,765,176)</u>
<u>Capital assets, net</u>	<u>\$ 11,554,906</u>	<u>\$2,041,897</u>	<u>\$</u>	<u>\$ 13,596,803</u>

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

**NOTES TO FINANCIAL STATEMENTS  
As OF JUNE 30, 2007**

**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
2008	\$ 62,600	\$ 153,040	\$ 30,403	\$ 56,755	\$ 1,648,544	\$ 9,209
2009	65,476	150,164	31,743	55,416	17,530	8,809
2010	68,484	147,156	33,142	54,017	17,947	8,393
2011	71,630	144,010	34,605	52,553	18,381	7,958
2012	74,920	140,720	36,135	51,024	18,835	7,505
2013-2017	429,503	648,697	206,169	229,626	69,743	30,016
2018-2022	537,650	540,550	256,331	179,463	77,205	15,383
2023-2027	673,028	405,172	278,181	118,654	32,484	1,321
2028-2032	842,492	235,708	315,624	48,434		
2033-2037	552,430	57,864	30,565	764		
2038	47,014	921				
<b>Totals</b>	<b>\$ 3,425,227</b>	<b>\$ 2,624,002</b>	<b>\$ 1,252,898</b>	<b>\$ 846,706</b>	<b>\$ 1,900,669</b>	<b>\$ 88,594</b>

**Changes in Lone-Term Debt:**

The following is a summary of changes in long-term obligations of the Authority for the fiscal year ended June 30, 2007:

	Balance July 1, 2006		Issuances	Retirements	Balance June 30, 2007	
Revenue bonds	\$	3,485,544	\$	\$ (60,317)	\$	3,425,227
Virginia Resource						
Authority Loan		2,146,316		(82,799)		2,063,517
Promissory Note		231,901		(8,925)		222,976
Amount due Carroll County		54,102		(7,822)		46,280
Interim Airport Rd. Loan			1,631,413			1,631,413
Compensated absences			55,151			55,151
Adjustments:						
Imputed interest on interest free loans		(864,509)		53,890		(810,619)
<b>Total</b>	<b>\$</b>	<b>5,053,354</b>	<b>\$ 1,686,564</b>	<b>\$ (105,973)</b>	<b>\$</b>	<b>6,633,945</b>



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

**NOTES TO FINANCIAL STATEMENTS  
As OF JUNE 30, 2007**

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

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.	\$ 1,142,266	\$ 17,669
\$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.	705,587	13,603
\$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.	429,607	8,396
\$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.	1,147,767	22,931

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

**NOTES TO FINANCIAL STATEMENTS  
AS OF JUNE 30, 2007**

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

Details	of	Long-Term	Indebtedness:	(Continued)
			Total Amount	Amount Due Within One Year
<p>\$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% . \$ 9 5 7 , 7 1 4</p> <p>Less: Imputed interest at 4.5% Net amount</p>			<p style="text-align: center;">(381,032)</p> <p style="text-align: center;">\$ 576,682</p>	<p style="text-align: center;">\$ 13,287</p>
<p>\$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, however for financial reporting purposes, interest has been imputed at 5% . \$ 9 7 2 , 1 6 4</p> <p>Less: Imputed interest at 5% Net Amount</p>			<p style="text-align: center;">(429,587)</p> <p style="text-align: center;">\$ 542,577</p>	<p style="text-align: center;">\$ 10,636</p>
<p>\$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.</p>			<p style="text-align: center;">\$ 133,639</p>	<p style="text-align: center;">\$ 6,481</p>
<p>\$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.</p>			<p style="text-align: center;">\$ 222,976</p>	<p style="text-align: center;">\$ 9,309</p>
<p>\$100,000 loan from Carroll County issued August 2000 bearing no interest and due in monthly installments of \$652.</p>			<p style="text-align: center;">\$ 46,280</p>	<p style="text-align: center;">\$ 7,822</p>

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

**NOTES TO FINANCIAL STATEMENTS  
AS OF JUNE 30, 2007**

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

**Details of Lone-Term Indebtedness: (Continued)**

	Total Amount	Amount Due Within One Year
\$3,391,000 promissory note (time of credit) issued on October 18, 2006 due in full by October 17, 2007. As of June 30, 2007 \$1,631,413 had been drawn down from the principal. Interest is calculated at 3.94% annually.	\$ 1,631,413	\$ 1,631,413
Total loans and bonds	\$ 6,578,794	\$ 1,741,547
Other obligations:		
Compensated Absences	\$ 55,151	\$ 41,363
Total Long-term Obligations	\$ 6,633,945	\$ 1,782,910

**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.

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

**NOTES TO FINANCIAL STATEMENTS  
As OF JUNE 30, 2007**

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**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%).

Construction Commitments:

Project:	<u>Contract Amount</u>	<u>Amount Outstanding at Year End</u>
Regional Water Project	425,400 \$	307,000
Airport Road Project	<u>2,761,455</u>	<u>798,563</u>
Total	<u>3,186,855 \$</u>	<u>1,105,563</u>

**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.

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**COMPLIANCE SECTION**

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# ROBINSON FARMER COX ASSOCIATES

Certified Public Accountants

A Professional

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 Carroll County Public Service Authority, a component unit of the County of Carroll, Virginia as of and for the year ended June 30, 2007, and have issued our report thereon dated January 28, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed in the schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Authority's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Authority's financial statements that is more than inconsequential will not be prevented or detected by the Authority's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs (references 2007-1 and 2007-2) to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Authority's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiencies (items 2007-1 and 2007-2) described above to be material weaknesses.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the 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*,

The Carroll County Public Service Authority's response to the findings identified in our audit are described in the schedule of findings and responses. We did not audit the Authority's responses and, accordingly, we express no opinion on them.

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

Robinson, Farmer, Cox Associates  
January 28, 2008



**Carroll County Public Service Authority**

Schedule of Findings and Questioned Costs  
Year Ended June 30, 2007

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

**Financial Statements**

Type of auditor's report issued:	Unqualified
Internal control over financial reporting: Material weaknesses identified?	Yes
Significant deficiencies identified not considered to be material weaknesses?	No
Noncompliance material to financial statements noted?	No

**Section II - Financial Statement Findings**

2007-1

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 material to the financial statements.

Criteria: Per Statement on Auditing Standards 112, 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.

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

Managements

Response: The Authority hired a consultant to assist in dosing the books at year-end and as the consultant becomes more familiar with the Authority's financial records it is anticipated that the number of audit adjustments will decrease and therefore this finding will be addressed.

**Carroll County Public Service Authority**

Schedule of Findings and Questioned Costs  
Year Ended June 30, 2007

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**Section II - Financial Statement Findings (continued)**

2007-2

**Condition:** Currently the Authority lacks a proper segregation of duties over billing and collection functions, as there are only two employees performing these tasks.

**Criteria:** A key concept of internal controls is the segregation of duties. No one employee should have access to the billing function and also take in collections.

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

**Managements**

**Response:** Management acknowledges that internal controls over the billing and collection function as well as the accounts payable and payroll functions lack proper segregation of duties, however to alleviate same would require additional staff. Due to cost constraints, the Authority has decided not to address the aforementioned internal control deficiencies.