

PULASKI COUNTY PUBLIC SERVICE AUTHORITY

OF PULASKI COUNTY, VIRGINIA

(A COMPONENT UNIT OF PULASKI COUNTY, VIRGINIA)

**FINANCIAL REPORT
YEAR ENDED JUNE 30, 2013**

**Pulaski County Public Service Authority
(A Component Unit of Pulaski County, Virginia)
Annual Financial Report
Fiscal Year Ended June 30, 2013**

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FINANCIAL SECTION

ROBINSON, FARMER, COX ASSOCIATES

A PROFESSIONAL LIMITED LIABILITY COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report

To the Honorable Members of the Board of
Pulaski County Public Service Authority
Pulaski, Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Pulaski County Public Service Authority, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Authorities, Boards, and Commissions*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Authority, as of June 30, 2013, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 1 to the financial statements, in 2013, the Authority adopted new accounting guidance, GASB Statement Nos. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4-9 and schedule of OPEB funding progress be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The supporting schedule is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

The supporting schedule and the schedule of expenditures of federal awards are the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supporting schedule and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 25, 2014, on our consideration of the Pulaski County Public Service Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Pulaski County Public Service Authority's internal control over financial reporting and compliance.

Robinson, Farmer, Cox Associates

Blacksburg, Virginia
February 25, 2014

**PULASKI COUNTY PUBLIC SERVICE AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)**

Year Ended June 30, 2013

As management of Pulaski County Public Service Authority, (the Authority), we offer readers of our financial statements this narrative overview and analysis of the financial activities of the Authority for the fiscal year ended June 30, 2013. We encourage readers to consider the information presented here in conjunction with additional information contained in the audit report.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. Since the Authority is engaged only in business-type activities, its basic financial statements are comprised of the following:

1. Enterprise fund financial statements;
2. Notes to financial statements.

This report also contains other supplementary information in addition to the basic financial statements.

Enterprise Fund Financial Statements. The enterprise fund financial statements are designed to provide readers with a broad overview of the Authority's finances in a manner similar to a private-sector business.

The statement of net position presents information on the Authority's assets and deferred outflows of resources, and liabilities and deferred inflows of resources, with the difference reported as net position (see Exhibit 1). Over time, increases or decreases in net position serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

The statement of revenues, expenses and changes in net position (Exhibit 2) presents information showing how the Authority's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods, (e.g. earned but unused vacation leave or long-term debt).

The basic enterprise fund financial statements can be found in Exhibits 1-3 of this report.

Notes to financial statements. The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements.

Financial Highlights

- As noted in Exhibit 1, the assets of the Authority exceeded its liabilities by \$17,621,981 (net position) as of June 30, 2013. Of this amount \$4,174,958 (unrestricted net position) may be used to meet the Authority's ongoing obligations to customers and creditors. Of the remaining net position, \$198,247 is restricted for debt service and \$13,248,776 is in the form of capital assets including installed facilities and equipment such as the water treatment plant, utility lines and vehicles.
- As reported in Exhibit 2, the total net position of the Authority increased by \$1,120,381 from \$16,501,600 in FY 12 to \$17,621,981 in FY 13.
- From the cash perspective (described in Exhibit 3), the Authority's cash flows provided by operations were \$804,815, cash flows from noncapital financing activities were \$186,484, cash flows used for capital and related financing activities were \$851,985, and cash flows from for investing activities was \$10,194. Those combined for an overall net increase of \$149,509 in cash.

**PULASKI COUNTY PUBLIC SERVICE AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)**

Year Ended June 30, 2013

Financial Highlights: (continued)

- As part of the above cash transactions of the Authority, the Authority's net increase in debt was \$20,880.
- Total depreciation expense for the Authority was \$1,310,012 or approximately 16% of the total operating expenses. It should be noted that depreciation for water and sewer is an estimate and should be taken into consideration when analyzing the profitability of both the water and sewer services.

Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of the Authority's financial position. The net position of the Authority exceeded liabilities by \$17,621,981 on June 30, 2013. A year earlier on June 30, 2012, the net position of the Authority was \$16,501,600, resulting in a net increase in net position of the Authority in the amount of \$1,120,381 during FY 12-13.

The Authority's net position reflected in its investment in capital assets net of related outstanding debt used to acquire those assets (such as utility lines, pump stations and trucks) was \$13,248,776 or 75% of total net position. Since the Authority uses these capital assets to provide services to its customers, these assets are not available for future spending. Although the Authority's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Statement of Net Position

	<u>2013</u>	<u>2012</u>
Assets:		
Current and Other Assets	\$ 5,428,948	\$ 3,333,003
Capital Assets	25,005,950	26,036,893
Total Assets	<u>\$ 30,434,898</u>	<u>\$ 29,369,896</u>
Liabilities:		
Current Liabilities	\$ 1,392,560	\$ 1,442,295
Noncurrent Liabilities	11,420,357	11,426,001
Total Liabilities	<u>\$ 12,812,917</u>	<u>\$ 12,868,296</u>
Net Position:		
Net Investment in Capital Assets	\$ 13,248,776	\$ 7,184,514
Restricted	198,247	165,480
Unrestricted	4,174,958	9,151,606
Total Net Position	<u>\$ 17,621,981</u>	<u>\$ 16,501,600</u>

As of June 30, 2013, the Authority maintains positive balances in all categories of net position. The same situation held true for the prior fiscal year.

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**PULASKI COUNTY PUBLIC SERVICE AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)**

Year Ended June 30, 2013

Financial Analysis: (continued)

Change in Net Position	<u>2013</u>	<u>2012</u>
Revenues:		
Operating revenues	\$ 8,131,253	\$ 6,946,974
Investment income	10,194	22,808
Other income	1,512,981	2,044,544
Contribution	123,189	134,388
Total Revenues	<u>\$ 9,777,617</u>	<u>\$ 9,148,714</u>
Expenses:		
Operating expenses (excluding depreciation)	\$ 6,926,012	\$ 6,347,988
Depreciation expense	1,310,012	1,206,008
Interest expense	421,212	399,576
Total Expenses	<u>\$ 8,657,236</u>	<u>\$ 7,953,572</u>
Increase (decrease) in Net Position	\$ 1,120,381	\$ 1,195,142
Beginning Net Position	16,501,600	15,306,458
Ending Net Position	<u>\$ 17,621,981</u>	<u>\$ 16,501,600</u>

As shown in the above table, the Authority's net position increased by \$1,120,381 during the 2012-13 fiscal year. Operating revenues increased by \$1,184,279, due in part to increases in Water and Sewer service rates, while operating expenses also increased by \$578,024 from FY 2012 levels. Key elements of these changes are explained in greater detail under the Review of Operations section below.

Capital Asset and Debt Administration

Capital Assets – As summarized below, the Authority's investment in capital assets as of June 30, 2013 totaled \$25,005,950 (net of accumulated depreciation). The net investment in capital assets decreased by 3%, or \$862,109, less than the prior year. Below is a listing of capital assets as of June 30, 2013 with a comparison to the prior fiscal year.

	<u>2013</u>	<u>2012</u>
Land and improvements	\$ 127,700	\$ 127,700
Construction in progress	269,978	6,947,251
Vehicles and other equipment	3,939,568	3,903,927
Water and sewer system (infrastructure)	43,588,030	36,532,816
Accumulated depreciation	(22,919,326)	(21,643,635)
Total capital assets	<u>\$ 25,005,950</u>	<u>\$ 25,868,059</u>

More detailed information on the Authority's capital assets is presented in Note 3 of the notes to the financial statements.

The Authority has several bond issues outstanding, funded through Rural Development and the Virginia Resource Authority. As noted in Note 4, the Authority retired \$416,301 in long-term debt during the 2012-2013 fiscal year. In addition, long-term obligations were increased by \$455,923 due to the issuance of revenue bonds through Rural Development and increases in the both compensated absences and the net OPEB obligation. Additional information related to the OPEB obligation can be found in Note 8 – Other Post-Employment Benefits.

**PULASKI COUNTY PUBLIC SERVICE AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)**

Year Ended June 30, 2013

Review of Operations

Operating Revenues – As shown in Schedule 1, operating revenues increased by \$1,184,279, or 17%, from \$6,946,974 to \$8,131,253 during the 2012-2013 fiscal year. Garbage and sewer services saw increasing revenues during FY 2013 due in part to an increase in consumption by commercial users and additional sewer residential customers added to the system related to line construction projects. However, in order to better understand the operating revenues, it is helpful to further divide all PSA financial transactions operations into specific cost centers based on actual services provided to the citizens of the County.

Operating Expenses – As further described in Schedule 1, operating expenses increased by \$682,088, or 9%, from \$7,553,936 in the 2012 fiscal year to \$8,236,024 in the 2013 fiscal year. The increase in revenues was not enough to offset the increase in expenses during the FY 2013 year resulting in an operating loss of \$104,771 to the Authority.

Change in Net position by Service Based Cost Centers – Pulaski County Public Service Authority provides four basic types of service: water, sewer, refuse and streetlights. Since each of these functional areas had a different customer base, it is helpful to view PSA revenues and expenses from the perspective of these four services since an excessive financial imbalance in any of the four services result in one customer base subsidizing another.

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**PULASKI COUNTY PUBLIC SERVICE AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)**

Year Ended June 30, 2013

Review of Operations: (continued)

The following table provides a breakdown of PSA revenues and expenses based on the provision of each specific service. Thus, otherwise unclassified revenues and expenses, such as revenue from penalty and interest, billing and administrative expenses and all non-operating expenses have been classified into the four operational cost centers as noted beside each item.

For Fiscal Year Ended June 30, 2013						
	Unclassified	Water	Sewer	Refuse	Streetlights	Total
Operating revenues	\$ -	\$ 2,204,328	\$ 747,048	\$ 4,861,466	\$ 11,439	\$ 7,824,281
Reconnection fees	5,570	5,570	-	-	-	5,570
Penalty and interest (1)	219,090	61,724	20,918	136,127	320	219,090
Miscellaneous income (1)	82,312	23,190	7,859	51,143	120	82,312
Subtotal categorized operating revenue	\$ 306,972	\$ 2,294,812	\$ 775,826	\$ 5,048,736	\$ 11,879	\$ 8,131,253
Operating expenses	\$ -	\$ 2,087,088	\$ 1,414,655	\$ 4,293,369	\$ 15,074	\$ 7,810,186
Billing expenses (1)	176,345	47,124	31,941	96,939	340	176,345
Administrative expenses (2)	249,493	66,671	45,191	137,150	482	249,493
Subtotal categorized operating expenses	\$ 425,838	\$ 2,200,883	\$ 1,491,787	\$ 4,527,458	\$ 15,896	\$ 8,236,024
Net Operating Income (Loss)	\$ (118,866)	\$ 93,930	\$ (715,962)	\$ 521,277	\$ (4,016)	\$ (104,771)
Nonoperating revenues (expenses):						
Interest earned (1)	\$ 10,194	\$ 2,872	\$ 973	\$ 6,333	\$ 16	\$ 10,194
County transfer (3)	123,189	61,595	61,595	-	-	123,189
Grants	-	63,295	-	-	-	63,295
Contribution from Virginia's First RIFA	-	1,413,190	-	-	-	1,413,190
Interest expense	(421,212)	(318,438)	(102,774)	-	-	(421,212)
Bond Issuance Costs	-	-	-	-	-	-
Connection fees	36,496	27,996	8,500	-	-	36,496
Subtotal net non-operating items	\$ (251,333)	\$ 1,250,508	\$ (31,707)	\$ 6,333	\$ 16	\$ 1,225,152
Net income (loss)	\$ (370,199)	\$ 1,344,438	\$ (747,668)	\$ 527,611	\$ (4,001)	\$ 1,120,381

For the Fiscal Year Ended June 30, 2012						
	Unclassified	Water	Sewer	Refuse	Streetlights	Total
Operating revenues	\$ -	\$ 1,745,563	\$ 631,628	\$ 4,283,660	\$ 11,271	\$ 6,672,122
Reconnection fees	25,382	25,382	-	-	-	25,382
Penalty and interest (1)	186,085	48,684	17,616	119,471	314	186,085
Miscellaneous income (1)	63,385	16,583	6,000	40,695	107	63,385
Subtotal categorized operating revenue	\$ 274,852	\$ 1,836,212	\$ 655,245	\$ 4,443,826	\$ 11,691	\$ 6,946,974
Operating expenses	\$ -	\$ 1,824,946	\$ 1,226,547	\$ 4,119,394	\$ 12,714	\$ 7,183,601
Billing expenses (1)	184,059	46,759	31,426	105,548	326	184,059
Administrative expenses (2)	186,336	47,337	31,816	106,853	330	186,336
Subtotal categorized operating expenses	\$ 370,395	\$ 1,919,042	\$ 1,289,789	\$ 4,331,795	\$ 13,370	\$ 7,553,996
Net Operating Income	\$ (95,543)	\$ (82,829)	\$ (634,545)	\$ 112,030	\$ (1,678)	\$ (607,022)
Nonoperating revenues (expenses):						
Interest earned (1)	\$ 22,808	\$ 5,967	\$ 2,159	\$ 14,642	\$ 40	\$ 22,808
County transfer (3)	134,388	67,194	67,194	-	-	134,388
Grants	-	1,275,994	719,206	-	-	1,995,200
Interest expense	(398,925)	(221,128)	(177,797)	-	-	(398,925)
Bond Issuance Costs	(651)	(651)	-	-	-	(651)
Connection fees	49,344	14,350	34,994	-	-	49,344
Subtotal net non-operating items	\$ (193,036)	\$ 1,141,725	\$ 645,755	\$ 14,642	\$ 40	\$ 1,802,162
Net income (loss)	\$ (288,579)	\$ 1,058,896	\$ 11,211	\$ 126,673	\$ (1,639)	\$ 1,195,140
Change from FY12 to FY13 Increase(decrease)		\$ 285,542	\$ (758,879)	\$ 400,938	\$ (2,363)	\$ (74,759)

- (1) Distributed proportionally based on operating revenue
- (2) Distributed proportionally based on operating expenses
- (3) Distributed 50% to water 50% to sewer

Both fiscal years 2013 and 2012 are presented for comparative purposes. As noted in the above FY 13 table, net income for FY 13 decreased by \$74,759. The Water and Refuse services had net operating incomes in 2013 as shown in the table above while Sewer and Street Lighting services continues to show a net operating loss. When factoring in nonoperating revenues and expenses, water and street lighting services have slight operating losses, while Sewer services continues to have a significant overall net loss. The PSA Board of Directors continues to analyze the impact of rate changes on both Water and Sewer services. The allocation of depreciation between water and sewer is an estimate and should be considered when analyzing profitability on both water and sewer services. Depreciation expense on infrastructure has a large impact on profitability.

**PULASKI COUNTY PUBLIC SERVICE AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)**

Year Ended June 30, 2013

Long-term Trends

Capital Plan – During FY 2013, the Pulaski County Public Service Authority finished the significant expansion of water service capacity to the Fairlawn area and the Commerce Park of Pulaski County when it finished construction of the connection to the City of Radford Water Treatment Plant. Interconnection of these two systems will provide greater system reliability while providing an increased volume of water to the County and a backup water source. This project was funded by a grant from Economic Development Administration in the amount \$3,003,401 and two loans from Rural Development in the amount of \$4,741,000 for a total project cost of \$7,744,401. The Authority continues to evaluate the need for sewer service in Skyview Subdivision and water and sewer services to various smaller areas in the County. In addition, the Authority's Water Treatment Plant is evaluating the water intake options. The Authority is also installing radio read water meters throughout the County to improve the accuracy of the water readings and in turn increase water and sewer service revenues. The PSA continues to evaluate utility rate changes to better balance departmental revenues with operational costs and the need for capital improvements to aging utility lines. As a result of several years of operating losses in the Water and Sewer departments, the PSA did institute a change in the rate structure for water and sewer services during the FY 12-13 fiscal year. The Authority has invested in the repair and replacement of its fixed assets and will need to continue to do so as equipment and utility lines continue to age.

Long-term Debt – Additional long-term debt will be considered as the Public Service Authority continues to invest in expanding water and sewer service to additional areas in the County. Current plans are to evaluate restructuring the Authority's long-term debt during the FY 13-14 fiscal year.

Cash and Reserves – As noted in Exhibit 1, the Authority had an unrestricted cash balance of \$2,803,418 as of June 30, 2013. The balance represents approximately 4 months of operational expenses. In comparison with the prior year report, the cash balance has increased by \$116,742. While total net position increased by \$1,120,381, unrestricted net position increased by \$1,970,603 during FY 13.

Requests for Information

This financial report is designed to provide a general overview of the Authority's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Peter Huber, Executive Director, Pulaski County Public Service Authority, 143 Third Street, NW, Suite 1, Pulaski, Virginia 24301.

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Financial Statements

PULASKI COUNTY PUBLIC SERVICE AUTHORITY
(A COMPONENT UNIT OF PULASKI COUNTY, VIRGINIA)
Proprietary Fund Type
Statement of Net Position

Assets:	
<i>Current Assets:</i>	
Cash	\$ 2,803,418
Receivables (Net of allowance for uncollectibles)	<u>1,011,276</u>
<i>Noncurrent Assets:</i>	
Restricted cash	\$ 198,247
Loan receivable from Virginia's First IFA, long-term portion	1,366,650
<i>Capital Assets</i>	
Land	127,700
Proprietary capital assets (Net of accumulated depreciation)	24,608,272
Construction in Progress	<u>269,978</u>
Total Capital Assets	\$ <u>25,005,950</u>
<i>Intangible Assets</i>	
Organization expense (Net of amortization)	\$ <u>2,817</u>
Total Noncurrent Assets	\$ <u>26,573,664</u>
Total Assets	\$ <u>30,434,898</u>
Liabilities:	
<i>Current Liabilities:</i>	
Accounts payable	\$ 734,173
Interest payable	37,173
Amounts held for others	116,910
Total Current Liabilities	\$ <u>1,392,560</u>
<i>Noncurrent Liabilities:</i>	
Compensated absences	\$ 124,387
Net OPEB obligation	43,100
Proprietary debt-long-term portion	<u>11,252,870</u>
Total Noncurrent Liabilities	\$ <u>11,420,357</u>
Total Liabilities	\$ <u>12,812,917</u>
Net Position:	
Net investment in capital assets	\$ 13,248,776
Restricted for debt service	198,247
Unrestricted	<u>4,174,958</u>
Total Net Position	\$ <u><u>17,621,981</u></u>

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

PULASKI COUNTY PUBLIC SERVICE AUTHORITY
(A COMPONENT UNIT OF PULASKI COUNTY, VIRGINIA)
Proprietary Fund Type
Statement of Revenues, Expenses and Changes in Net Position
Year Ended June 30, 2013

Operating Revenues:

Garbage service	\$	4,861,466
Water service		2,204,328
Sewer service		747,048
Street lights		11,439
Reconnection fees		5,570
Penalties and interest on delinquent accounts		219,090
Miscellaneous		<u>82,312</u>
Total operating revenues	\$	<u>8,131,253</u>

Operating Expenses:

Water Distribution:

Salaries	\$	160,167
Fringes		61,499
Professional Services		15,464
County central services		36,750
Other		71,677
Repair and maintenance		160,062
Depreciation		<u>667,914</u>
Total Water Distribution	\$	<u>1,174,024</u>

Water Treatment Plant:

Salaries	\$	269,946
Fringes		133,013
Professional Services		159,811
Professional Services-Gov't		19,466
County central services		11,777
Other		185,542
Repair and maintenance		7,636
Depreciation		<u>12,337</u>
Total Water Treatment Plant	\$	<u>913,063</u>

PULASKI COUNTY PUBLIC SERVICE AUTHORITY
(A COMPONENT UNIT OF PULASKI COUNTY, VIRGINIA)
Proprietary Fund Type
Statement of Revenues, Expenses and Changes in Net Position
Year Ended June 30, 2013

Operating Expenses: (Continued)	
<i>Sewer Collection and Treatment:</i>	
Salaries	\$ 129,772
Fringes	58,847
Professional Services	32,885
Professional Services-Gov't	536,756
County central services	63,043
Other	70,565
Supplies	14,277
Repair and maintenance	37,620
Depreciation	<u>470,890</u>
 Total Sewer Collection and Treatment	 \$ <u>1,414,655</u>
 <i>Refuse Collection and Disposal:</i>	
Fringes	522,593
Professional Services	-
Professional Services-Gov't	2,075,959
County central services	481,161
Other	52,341
Dumpsters/containers	30,944
Repair and maintenance	
Depreciation	<u>155,386</u>
 Total Refuse Collection and Disposal	 \$ <u>4,293,369</u>
 <i>Administration:</i>	
Salaries	\$ 61,200
Fringes	31,767
OPEB expense	9,500
Professional Services	87,475
County central services	5,025
Other	52,725
Amortization expense	537
Repair and maintenance	-
Depreciation/amortization	<u>-</u>
 Total Administration	 \$ <u>249,493</u>
 <i>Street Lighting:</i>	
Electricity	\$ <u>15,074</u>
 Total Street Lighting	 \$ <u>15,074</u>

PULASKI COUNTY PUBLIC SERVICE AUTHORITY
(A COMPONENT UNIT OF PULASKI COUNTY, VIRGINIA)
Proprietary Fund Type
Statement of Revenues, Expenses and Changes in Net Position
Year Ended June 30, 2013

Operating Expenses: (Continued)	
<i>Billing:</i>	
Salaries	\$ 58,068
Fringes	25,102
Professional Services	22,127
County central services	23,884
Other	39,924
Supplies	3,756
Depreciation	<u>3,485</u>
Total Billing	\$ <u>176,346</u>
Total operating expenses	\$ <u>8,236,024</u>
Operating income (loss)	\$ <u>(104,771)</u>
Nonoperating Revenues (Expenses):	
Interest income	\$ 10,194
Contributions from Primary Government	123,189
Connection fees	36,496
Grants	63,295
Contribution from Virginia's First IFA	1,413,190
Interest expense	<u>(421,212)</u>
Total nonoperating revenues (expenses)	\$ <u>1,225,152</u>
Increase (decrease) in Net Position	\$ <u>1,120,381</u>
Net Position, Beginning of Year	\$ <u>16,501,600</u>
Net Position, End of Year	\$ <u><u>17,621,981</u></u>

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

PULASKI COUNTY PUBLIC SERVICE AUTHORITY
(A COMPONENT UNIT OF PULASKI COUNTY, VIRGINIA)
Proprietary Fund Type
Statement of Cash Flows
Year Ended June 30, 2013

Cash flows from operating activities:	
Cash received from customers	\$ 7,757,325
Cash paid to suppliers for goods and services	(4,477,425)
Cash paid to employees for services	<u>(2,475,085)</u>
Net cash provided by (used for) operating activities	\$ <u>804,815</u>
Cash flows from noncapital financing activities:	
Debt service contribution	\$ 123,189
Grants received	<u>63,295</u>
Net cash provided by (used for) noncapital financing activities	\$ <u>186,484</u>
Cash flows from capital and related financing activities:	
Connection charges	\$ 36,496
Acquisition of capital assets	(447,903)
Proceeds from issuance of debt	437,181
Retirement of debt	(416,301)
Interest and loan cost paid on debt	<u>(461,457)</u>
Net cash provided by (used for) capital and related financing activities	\$ <u>(851,984)</u>
Cash flows from investing activities:	
Interest income	\$ <u>10,194</u>
Net cash provided by (used for) investing activities	\$ <u>10,194</u>
Net increase (decrease) in cash	\$ <u>149,509</u>
Cash at beginning of year (including restricted cash of \$165,480)	\$ <u>2,852,156</u>
Cash at end of year (including restricted cash of \$198,247)	\$ <u><u>3,001,665</u></u>

Reconciliation of Operating Income to Net Cash Provided by (used for) Operating Activities

Operating income (loss)	\$ <u>(104,771)</u>
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:	
Depreciation/Amortization	\$ 1,310,549
(Increase) decrease in receivables	(364,949)
Increase (decrease) in operating accounts payable	(45,777)
Increase (decrease) in compensated absences	9,242
Increase (decrease) in net OPEB obligation	9,500
Increase (decrease) in customer deposits	<u>(8,979)</u>
Net cash provided by (used for) operating activities	\$ <u><u>804,815</u></u>

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

**PULASKI COUNTY PUBLIC SERVICE AUTHORITY
(A COMPONENT UNIT OF PULASKI COUNTY)
NOTES TO FINANCIAL STATEMENTS
AS OF JUNE 30, 2013**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The financial statements of the Authority conform to generally accepted accounting principles (GAAP) applicable to governmental units promulgated by the 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 Pulaski, Virginia and is presented as such in the County's financial report for the fiscal year ended June 30, 2013.

B. Basis of Accounting:

Proprietary Funds- The accrual basis of accounting is used for the Authority. Under the accrual method, revenues are recognized when earned and expenses are recognized when incurred.

The Authority distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Authority's principal ongoing operations. The principal operating revenues of the Authority are charges to customers for sales and services. Operating expenses 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 nonoperating revenues and expenses.

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

C. Capital Assets:

Capital Assets, which include property, plant and equipment, 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. There was no interest capitalized during 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

**PULASKI COUNTY PUBLIC SERVICE AUTHORITY
(A COMPONENT UNIT OF PULASKI COUNTY)
NOTES TO FINANCIAL STATEMENTS (Continued)
AS OF JUNE 30, 2013**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

- D. Allowance for Uncollectible Accounts:
The Authority calculates its allowance for uncollectible accounts using historical collection data. At June 30, 2013, the allowance amounted to approximately \$1,027,413.
- 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 original maturities of 90 days or less. Certificates of deposit are reported in the accompanying financial statements as cash and cash equivalents.
- F. Use of 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 \$198,247.
- H. 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 fund liability of the governmental fund that will pay it. Amounts of vested or accumulated vacation leave that are not expected to be liquidated with expendable available financial resources are reported as an expense in the statement of activities and a long-term obligation in the Statement of Net Position. In accordance with the provisions of Governmental Accounting Standards No. 16, *Accounting for Compensated Absences*, no liability is recorded for nonvesting 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.
- I. Deferred Outflows/Inflows of Resources:
In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The Authority does not have any deferred outflows of resources as of June 30, 2013.
- In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Authority does not have any deferred inflows or outflows of resources as of June 30, 2013.
- J. Net Position:
Net position is the difference between a) assets and deferred outflows of resources and b) liabilities and deferred inflows of resources. Net investment in capital assets represents capital assets, less accumulated depreciation, less any outstanding debt related to the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are also included in this component of net position.

**PULASKI COUNTY PUBLIC SERVICE AUTHORITY
(A COMPONENT UNIT OF PULASKI COUNTY)
NOTES TO FINANCIAL STATEMENTS (Continued)
AS OF JUNE 30, 2013**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

K. Net Position Flow Assumption:

Sometimes the Authority will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Authority's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

L. Upcoming Pronouncements:

The Governmental Accounting Standards Board has issued Statement No. 68, Accounting and Financial Reporting for Pensions; an amendment of GASB Statement No. 27. This Statement replaces the requirements of Statements No. 27 and No. 50 related to pension plans that are administered through trusts or equivalent arrangements. The requirements of Statements No. 27 and No. 50 remain applicable for pensions that are not administered as trusts or equivalent arrangements. The requirements of this Statement are effective for financial statements for fiscal years beginning after June 15, 2014. The Authority has not determined the impact of this pronouncement on its financial statements.

M. Adoption of Accounting Policies:

Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position, Statement No. 63 of the Governmental Accounting Standards Board: The Authority implemented the financial reporting provisions of the above Statement for the fiscal year ended June 30, 2013. This Statement provides guidance for reporting deferred inflows and deferred outflows of resources. The requirements of this Statement will improve financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources and their effects on an entity's net position. With the implementation of this Statement, certain terminology has changed and financial statement descriptions have changed from "net assets" to "net position." The net equity reported in the financial statements was not changed as a result of implementing this Statement and no restatement of prior balances is required.

Items Previously Reported as Assets and Liabilities, Statement No. 65 of the Governmental Accounting Standards Board: The Authority implemented the financial reporting provisions of the above Statement for the fiscal year ended June 30, 2013. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The net equity reported in the financial statements was not changed as a result of implementing this Statement and no restatement of prior balances is required.

NOTE 2 – DEPOSITS AND INVESTMENTS:

Deposits:

Deposits with banks are covered by the Federal Deposit Insurance Corporation (FDIC) and collateralized in accordance with the Virginia Security for Public Deposits Act (the "Act") Section 2.2-4400 et. seq. of the Code of Virginia. Under the Act, banks and savings institutions holding public deposits in excess of the amount insured by the FDIC must pledge collateral to the Commonwealth of Virginia Treasury Board. Financial Institutions may choose between two collateralization methodologies and depending upon that choice, will pledge collateral that ranges in the amounts from 50% to 130% of excess deposits. Accordingly, all deposits are considered fully collateralized.

PULASKI COUNTY PUBLIC SERVICE AUTHORITY
(A COMPONENT UNIT OF PULASKI COUNTY)
NOTES TO FINANCIAL STATEMENTS (Continued)
AS OF JUNE 30, 2013

NOTE 2 – DEPOSITS AND INVESTMENTS: (continued)

Investments:

Statutes authorize the Authority 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 Bank, the African Development Bank, "prime quality" commercial paper and certain corporate notes, banker's acceptances, repurchase agreements and the State Treasurer's Local Government Investment Pool (LGIP). The Authority had no investments at June 30, 2013.

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	\$ 127,700	\$ -	\$ -	\$ 127,700
Construction in progress	6,947,251	253,861	(6,931,134)	269,978
Total capital assets not being depreciated	<u>\$ 7,074,951</u>	<u>\$ 253,861</u>	<u>\$ (6,931,134)</u>	<u>\$ 397,678</u>
Capital assets, being depreciated				
Infrastructure	\$ 36,532,816	\$ 7,055,214	\$ -	\$ 43,588,030
Machinery and equipment	3,903,927	69,962	(34,321)	3,939,568
Total capital assets being depreciated	<u>\$ 40,436,743</u>	<u>\$ 7,125,176</u>	<u>\$ (34,321)</u>	<u>\$ 47,527,598</u>
Accumulated depreciation for:				
Infrastructure	\$ (18,975,627)	\$ (1,310,012)	\$ -	\$ (20,285,639)
Machinery and equipment	(2,668,008)	-	34,321	(2,633,687)
Total accumulated depreciation	<u>\$ (21,643,635)</u>	<u>\$ (1,310,012)</u>	<u>\$ 34,321</u>	<u>\$ (22,919,326)</u>
Total capital assets being depreciated, net	<u>\$ 18,793,108</u>	<u>\$ 5,815,164</u>	<u>\$ -</u>	<u>\$ 24,608,272</u>
Capital assets, net	<u>\$ 25,868,059</u>	<u>\$ 6,069,025</u>	<u>\$ (6,931,134)</u>	<u>\$ 25,005,950</u>

NOTE 4 – LONG-TERM OBLIGATIONS:

Changes in Long-term Obligations:

The following is a summary of changes in long-term obligations of the Authority for the fiscal year ended June 30, 2013:

	Balance July 1, 2012	Issuances	Retirements	Balance June 30, 2013
Revenue bonds	\$ 11,690,747	\$ 437,181	\$ (414,025)	\$ 11,713,903
Unamortized bond premiums	45,547	-	(2,276)	43,271
Net OPEB obligation	33,600	9,500	-	43,100
Compensated absences	115,145	9,242	-	124,387
Total	<u>\$ 11,885,039</u>	<u>\$ 455,923</u>	<u>\$ (416,301)</u>	<u>\$ 11,924,661</u>

**PULASKI COUNTY PUBLIC SERVICE AUTHORITY
(A COMPONENT UNIT OF PULASKI COUNTY)
NOTES TO FINANCIAL STATEMENTS (Continued)
AS OF JUNE 30, 2013**

NOTE 4 – LONG-TERM OBLIGATIONS: (continued)

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

Year Ending June 30,	Water and Sewer Revenue Bonds	
	Principal	Interest
2013	\$ 502,026	\$ 417,721
2014	521,730	399,930
2015	538,947	379,389
2016	521,446	357,712
2017	509,238	335,734
2018-2022	1,629,202	1,453,427
2023-2027	1,584,725	1,169,263
2028-2032	1,869,451	845,687
2033-2037	1,327,228	548,349
2038-2042	1,365,951	355,705
2043-2047	1,203,102	134,888
2048-2051	140,857	5,513
Totals	\$ 11,713,903	\$ 6,403,318

Details of Long-term Obligations:

	Interest Rate(s)	Issue Date	Final Maturity Date	Amount of Original Issue	Balance	Amount Due Within One Year
Rural Development (RD) Water and Sewer Revenue Bonds:						
Claytor Lake State Park	4.50%	3/13/1995	2034	402,500	\$ 297,971	\$ 9,617
Claytor Lake State Park	4.50%	3/13/1995	2033	498,500	358,787	11,624
Landfill Sewer Extension	4.50%	10/15/1996	2034	2,242,042	1,828,962	53,173
Central Utilites	4.50%	5/11/2009	2049	865,900	844,182	9,915
Highland Park Sewer	4.25%	11/19/2009	2050	601,783	1,166,080	15,465
Dublin Subdivisions Sewer	4.25%	11/19/2009	2050	804,400	790,248	9,363
Commerce Park Initial	2.375%	2/17/2011	2051	3,812,000	3,471,670	71,115
Commerce Park Subsequent	2.375%	2/17/2011	2051	867,312	867,310	17,116
Total RD Revenue Bonds					\$ 9,625,210	\$ 197,388
Virginia Resource Authority (VRA) Water and Sewer Revenue Bonds:						
Shrader Hill	0.00%	12/1/1993	2035	\$ 130,000	\$ 48,693	\$ 4,638
Refunding Bond	2.96-5.13%	6/30/2004	2032	4,300,000	2,040,000	300,000
Premium	n/a	6/30/2004	2032	63,764	43,271	2,277
Total VRA Revenue Bonds					\$ 2,131,964	\$ 306,915
Other Obligations:						
Net OPEB obligation	n/a	n/a	n/a	n/a	\$ 43,100	\$ -
Compensated absences	n/a	n/a	n/a	n/a	124,387	-
Total Other Obligations					\$ 167,487	\$ -
Totals					\$ 11,924,661	\$ 504,303

**PULASKI COUNTY PUBLIC SERVICE AUTHORITY
(A COMPONENT UNIT OF PULASKI COUNTY)
NOTES TO FINANCIAL STATEMENTS (Continued)
AS OF JUNE 30, 2013**

NOTE 5 – LOAN RECEIVABLE FROM VIRGINIA’S FIRST RIFA:

During 2013, the PSA entered into an agreement with Virginia’s First RIFA whereby the RIFA agreed to repay the PSA for a portion of the cost of the Commerce Park water and sewer expansion project. The agreement resulted in a \$2,145,000 loan payable, dated April 13, 2010, which is due to the PSA in annual installments of \$55,000. The loan became due and payable upon completion of the PSA Commerce Park water and sewer expansion project on June 30, 2013. The loan is non-interest bearing; however, interest has been imputed at a rate of 2.375% based upon market conditions. The discounted value of the loan at June 30, 2013 is \$1,413,190.

NOTE 6 – COMPENSATED ABSENCES:

In accordance with GASB Statement No. 16 “Accounting for Compensated Absences,” the Authority has an accrued liability arising from outstanding claims, judgments and compensated absences.

The Authority’s employees earn vacation leave at various rates. No benefit or pay is received for unused sick leave upon termination. Accumulated vacation is paid upon termination. The Authority has outstanding accrued vacation pay totaling \$124,387.

NOTE 7 – DEFINED BENEFIT PENSION PLAN:

Through the County of Pulaski, 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 Pulaski, Virginia.

NOTE 8 – OTHER POST-EMPLOYMENT BENEFITS:

Plan Description

The Authority’s Post-Retirement Medical Plan (the “Plan”) is a single-employer defined benefit healthcare plan administered by the County. The Plan provides health insurance benefits to eligible retirees and their spouses. To be eligible, employees must meet the age and service criteria for immediate retirement benefits under VRS, which requires that the employee be age 50 with 10 years of service or permanently, totally disabled and injured in the line of duty. Additionally, the employee must be of full-time status in VRS and must be covered by the active plan at the time of retirement or disability. The benefit provisions, including employer and employee contributions, are governed by the County and can be amended through Board action. The Plan does not issue a publicly available financial report.

Funding Policy

The Pulaski County Government establishes employer medical contribution rates for all medical plan participants as part of the budgetary process each year. The Authority determines how the plan will be funded each year, whether it will be partially funded or fully funded in the upcoming fiscal year. The annual required contribution is based on projected pay-as-you-go financing requirements, with an additional amount to prefund benefits as determined annually by the Authority. For fiscal year 2013, the Authority contributed \$5,700 in total for current premiums.

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**PULASKI COUNTY PUBLIC SERVICE AUTHORITY
(A COMPONENT UNIT OF PULASKI COUNTY)
NOTES TO FINANCIAL STATEMENTS (Continued)
AS OF JUNE 30, 2013**

NOTE 8 – OTHER POST-EMPLOYMENT BENEFITS: (continued)

Funding Policy (Continued)

For retirees of the Authority, 100 percent of premiums for both the employee and spouse are the responsibility of the retiree. Coverage under the plan ceases when the employee reaches age 65. The table below outlines premiums from the most recent actuarial valuation as of July 1, 2012:

<u>Medical and Dental Pre-Medicare Coverage</u>	<u>Key Care 200</u>	<u>Lumenos</u>	<u>Delta Dental</u>
Employee Only	\$ 604	\$ 442	\$ 27
Employee and Spouse	1,218	888	44
Employee and Child	1,183	862	51
Family	1,697	1,238	81

Annual OPEB Cost and Net OPEB Obligation

The Authority's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The following table shows the components of the Authority's annual OPEB cost for the year, the estimated contributions to the plan, and changes in the Authority's net OPEB obligation to the Plan:

Annual Required Contribution (ARC)	\$ 15,300
Interest on OPEB Obligation	1,300
Adjustment to ARC	<u>(1,400)</u>
Annual OPEB Cost	\$ 15,200
Estimated Contributions Made During FY13	<u>\$ (5,700)</u>
Increase in Net OPEB Obligation	\$ 9,500
Net OPEB Obligation - beginning of year	<u>33,600</u>
Net OPEB Obligation - end of year	<u>\$ 43,100</u>

The Authority's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2013 and the preceding two years were as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Annual OPEB Cost Contributed</u>	<u>OPEB Obligation</u>
6/30/2011	\$ 18,600	89.25%	\$ 33,800
6/30/2012	19,000	101.05%	33,600
6/30/2013	15,200	37.50%	43,100

**PULASKI COUNTY PUBLIC SERVICE AUTHORITY
(A COMPONENT UNIT OF PULASKI COUNTY)
NOTES TO FINANCIAL STATEMENTS (Continued)
AS OF JUNE 30, 2013**

NOTE 8 – OTHER POST-EMPLOYMENT BENEFITS: (continued)

Funded Status and Funding Progress

The funded status of the Plan as of July 1, 2012, the most recent actuarial report date, was as follows:

Actuarial accrued liability (AAL)	\$	148,700
Actuarial value of plan assets		-
Unfunded actuarial accrued liability (UAAL)	\$	<u>148,700</u>
Funded ratio (actuarial value of plan assets/AAL)		0.00%
Covered payroll (active plan members)		1,365,833
UAAL as a percentage of covered payroll		10.89%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan as understood by the employer and plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2012, actuarial valuation, the entry age normal cost method was used. Under this method, the actuarial present value of projected benefits of every active participant as if the Plan's provisions had always been in effect, is determined as a level percentage of expected annual earnings for each future year of expected service. The actuarial assumptions included a 4 percent discount rate based on continuing with a pay-as-you-go funding method. An annual healthcare cost trend rate of 9 percent is utilized initially, and will be reduced by decrements of 0.5 percent until an ultimate rate of 4.5 percent is reached. Dental per capita costs, average costs, and premiums are expected to increase 4 percent initially, and will be reduced by decrements of 0.5 percent until an ultimate 3 percent increase is reached. The UAAL is being amortized as a level percentage of covered payroll over the remaining amortization period, which at July 1, 2012, was 30 years.

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**PULASKI COUNTY PUBLIC SERVICE AUTHORITY
(A COMPONENT UNIT OF PULASKI COUNTY)
NOTES TO FINANCIAL STATEMENTS (Continued)
AS OF JUNE 30, 2013**

NOTE 9 – OTHER NONCURRENT ASSETS:

As of June 30, 2013, the Authority had the following intangible assets:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Intangible assets:				
Organization expense	\$ 21,480	\$ -	\$ -	\$ 21,480
Accumulated amortization for:				
Organization expense	\$ (18,126)	\$ (537)	\$ -	\$ (18,663)
Intangible assets, net	<u>\$ 3,354</u>	<u>\$ (537)</u>	<u>\$ -</u>	<u>\$ 2,817</u>

NOTE 10 – COMMITMENTS AND CONTINGENCIES:

Construction Commitments:

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

Project:	<u>Total Due</u>	<u>Retainage</u>	<u>Net Due</u>
Pump Stations, Instrumentation & SCADA	\$ 294,253	\$ 58,210	\$ 236,043
Commerce Park Waterline Extension	19,510	-	19,510
NRV Commerce Park	11,970	-	11,970
Total	<u>\$ 325,733</u>	<u>\$ 58,210</u>	<u>\$ 267,523</u>

NOTE 11 – LITIGATION:

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

Required Supplementary Information

PULASKI COUNTY PUBLIC SERVICE AUTHORITY

Schedule of OPEB Funding Progress
For the Year Ended June 30, 2013

Valuation as of	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL) (3)-(2)	Funded Ratio Assets as % of AAL (2)/(3)	Annual Covered Payroll	UAAL as a % of Covered Payroll (4)/(6)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
July 1, 2010*	\$ -	\$ 185,200	\$ 185,200	0.00%	1,316,122	14.07%
July 1, 2010*	-	186,800	186,800	0.00%	1,316,122	14.19%
July 1, 2012	-	148,700	148,700	0.00%	1,365,833	10.89%

* Information for the years ended June 30, 2010 and June 30, 2012 are included in the July 1, 2010 actuarial valuation.

Supporting Schedules

PULASKI COUNTY PUBLIC SERVICE AUTHORITY
(A COMPONENT UNIT OF PULASKI COUNTY, VIRGINIA)
Proprietary Fund Type
Comparative Statement of Revenues, Expenses and Changes in Net Position
June 30, 2013

	2013	2012
Operating Revenues:		
Garbage service	\$ 4,861,466	\$ 4,283,660
Water service	2,204,328	1,745,563
Sewer service	747,048	631,628
Street lights	11,439	11,271
Reconnection fees	5,570	25,382
Penalties and interest on delinquent accounts	219,090	186,085
Miscellaneous	82,312	63,385
Total operating revenues	\$ 8,131,253	\$ 6,946,974
Operating Expenses:		
<i>Water Distribution:</i>		
Salaries	\$ 160,167	\$ 164,818
Fringes	61,499	64,625
Professional Services	15,464	13,469
County central services	36,750	41,039
Other	71,677	63,882
Supplies	491	270
Repair and maintenance	160,062	149,229
Depreciation	667,914	506,100
Total Water Distribution	\$ 1,174,024	\$ 1,003,432
<i>Water Treatment Plant:</i>		
Salaries	\$ 269,946	\$ 244,936
Fringes	133,013	121,232
Professional Services	159,811	9,654
Professional Services-Gov't	19,466	26,842
County central services	11,777	16,196
Other	185,542	190,939
Supplies	113,535	190,880
Repair and maintenance	7,636	11,069
Depreciation	12,337	9,766
Total Water Treatment Plant	\$ 913,063	\$ 821,514

PULASKI COUNTY PUBLIC SERVICE AUTHORITY
(A COMPONENT UNIT OF PULASKI COUNTY, VIRGINIA)
Proprietary Fund Type
Comparative Statement of Revenues, Expenses and Changes in Net Position
June 30, 2013

	2013	2012
Operating Expenses: (Continued)		
<i>Sewer Collection and Treatment:</i>		
Salaries	\$ 129,772	\$ 114,050
Fringes	58,847	49,271
Professional Services	32,885	10,886
Professional Services-Gov't	536,756	529,021
County central services	63,043	11,922
Other	70,565	43,876
Supplies	14,277	11,594
Repair and maintenance	37,620	52,195
Depreciation	470,890	403,732
Total Sewer Collection and Treatment	\$ 1,414,655	\$ 1,226,547
<i>Refuse Collection and Disposal:</i>		
Salaries	\$ 972,353	\$ 871,433
Fringes	522,593	460,931
Professional Services-Gov't	2,075,959	1,872,204
County central services	481,161	547,636
Other	52,341	51,221
Supplies	2,632	7,707
Dumpsters/containers	30,944	25,277
Depreciation	155,386	282,925
Total Refuse Collection and Disposal	\$ 4,293,369	\$ 4,119,334
<i>Administration:</i>		
Salaries	\$ 61,200	\$ 51,256
Fringes	31,767	29,350
OPEB expense	9,500	-
Professional Services	87,475	81,656
County central services	5,025	5,157
Other	52,725	18,046
Amortization expense	537	537
Supplies	182	334
Computer equipment	1,082	-
Total Administration	\$ 249,493	\$ 186,336
<i>Street Lighting:</i>		
Electricity	\$ 15,074	\$ 12,714
Total Street Lighting	\$ 15,074	\$ 12,714

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

Proprietary Fund Type

Comparative Statement of Revenues, Expenses and Changes in Net Position

June 30, 2013

	<u>2013</u>	<u>2012</u>
Operating Expenses: (Continued)		
<i>Billing:</i>		
Salaries	\$ 58,068	\$ 56,175
Fringes	25,102	24,087
Professional Services	22,127	20,553
County central services	23,884	22,988
Other	39,924	39,180
Supplies	3,756	17,591
Depreciation	<u>3,485</u>	<u>3,485</u>
Total Billing	\$ <u>176,346</u>	\$ <u>184,059</u>
Total operating expenses	\$ <u>8,236,024</u>	\$ <u>7,553,936</u>
Operating income (loss)	\$ <u>(104,771)</u>	\$ <u>(606,962)</u>
Nonoperating Revenues (Expenses):		
Interest income	\$ 10,194	\$ 22,808
Nonoperating contribution from Pulaski County	123,189	134,388
Connection fees	36,496	49,344
Grants	63,295	1,995,200
Bond issuance costs	-	(651)
Contribution from Virginia's First IFA	1,413,190	-
Interest expense	<u>(421,212)</u>	<u>(398,925)</u>
Total nonoperating revenues (expenses)	\$ <u>1,225,152</u>	\$ <u>1,802,164</u>
Increase (decrease) in Net Position	\$ <u>1,120,381</u>	\$ <u>1,195,202</u>
Net Position, Beginning of Year	\$ <u>16,501,600</u>	\$ <u>15,306,458</u>
Net Position, End of Year	\$ <u><u>17,621,981</u></u>	\$ <u><u>16,501,660</u></u>

COMPLIANCE SECTION

ROBINSON, FARMER, COX ASSOCIATES

A PROFESSIONAL LIMITED LIABILITY COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Honorable Members of the Board of
Pulaski County Public Service Authority
Pulaski, Virginia

We have audited, in accordance with the auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Authorities, Boards and Commissions*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the business-type activities of Pulaski County Service Authority as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated February 25, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be material weaknesses, [2013-1].

Compliance and Other Matters

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

Pulaski County Public Service Authority's Response to Findings

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Robinson, Farmer, Cox Associates

Blacksburg, Virginia
February 25, 2014

ROBINSON, FARMER, COX ASSOCIATES

A PROFESSIONAL LIMITED LIABILITY COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report on Compliance For Each Major Program and on Internal Control Over Compliance Required by OMB Circular A-133

To the Honorable Member of the Board of
Pulaski County Public Service Authority
Pulaski, Virginia

Report on Compliance for Each Major Federal Program

We have audited Pulaski 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 Authority's major federal programs for the year ended June 30, 2013. The Authority's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Authority's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Authority's compliance.

Opinion on Each Major Federal Program

In our opinion, the Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Report on Internal Control Over Compliance

Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Authority's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Robinson, Farmer, Cox Associates

Blacksburg, Virginia
February 25, 2014

Pulaski County Public Service Authority
 Schedule of Expenditures of Federal Awards
 For the Fiscal Year Ended June 30, 2013

Federal Grantor/State Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
Department of Agriculture:			
Direct Payments:			
Water and Waste Disposal Systems for Rural Communities	10.760	Not applicable	<u>\$ 437,181</u>
Department of Commerce:			
Direct Payments:			
Investments for Public Works and Economic Development Facilities	11.300	Not applicable	<u>\$ 63,295</u>
Total Expenditures of Federal Awards			<u>\$ 500,476</u>

Note 1 -- Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of the Pulaski County Public Service Authority, the "Authority," under programs of the federal government for the year ended June 30, 2013. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of the Authority, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Authority.

Note 2 -- Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB 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. Therefore, some amounts may differ from amounts reported in, or used in preparation of, the basic financial statements.

Note 3 -- Relationship to the Financial Statements:

Federal expenditures, revenues and capital contributions are reported in the Authority's basic financial statements as follows:

Grants	\$ 63,295
Loan Proceeds	<u>437,181</u>
Total federal expenditures per the Schedule of Expenditures of Federal Awards	<u>\$ 500,476</u>

Pulaski County Service Authority
 (A Component Unit of Pulaski County, Virginia)
 Schedule of Findings and Questioned Costs
 Year Ended June 30, 2013

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	Unmodified
Internal control over financial reporting: Material weakness(es) identified?	Yes
Significant deficiency(ies) identified?	None reported
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs: Material weakness(es) identified?	No
Significant deficiency(ies) identified?	None reported
Type of auditors' report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510 (a)?	No

Identification of major programs:

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

Dollar threshold used to distinguish between Type A and Type B programs:	\$300,000
Auditee qualified as low-risk auditee?	No

Section II - Financial Statement Findings

2013-1

Criteria:	Per Statement on Auditing Standards 115, an auditee should have sufficient controls in place to produce financial statements in accordance with applicable standards. Furthermore, reliance on the auditor to propose adjustments necessary to comply with reporting standards is not a component of such controls.
Condition:	The financial statements as presented for audit did not contain all necessary adjustments to comply with generally accepted accounting principles (GAAP). As such, the auditor proposed adjustments that were material to the financial statements.
Cause of Condition:	The Authority neglected to record a materially significant receivable that resulted from an intergovernmental agreement.
Effect of Condition:	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.
Management's Response:	Management is dedicated to complying with the concepts set forth by auditing standards and will make efforts in the future to eliminate material errors from its adjusted trial balance.

**Pulaski County Service Authority
(A Component Unit of Pulaski County, Virginia)
Schedule of Findings and Questioned Costs
Year Ended June 30, 2013**

Section III - Federal Award Findings and Questioned Costs

There are no federal award findings and questioned costs to report.

Section IV - Prior Year Findings and Questioned Costs

None