PULASKI COUNTY PUBLIC SERVICE AUTHORITY

OF PULASKI COUNTY, VIRGINIA

(A COMPONENT UNIT OF PULASKI COUNTY, VIRGINIA)

FINANCIAL REPORT
YEAR ENDED JUNE 30, 2014

Pulaski County Public Service Authority
(A Component Unit of Pulaski County, Virginia)
Annual Financial Report
Year Ended June 30, 2014

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FINANCIAL SECTION

Independent Auditors' Report

To the 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, 2014, 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 Pulaski County Public Service Authority, as of June 30, 2014, 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.

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 on page 23 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 supporting schedule is the responsibility of management and was derived from and relates 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 is 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 November 7, 2014 on our consideration of 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 Pulaski County Public Service Authority's internal control over financial reporting and compliance.

Robinson, Farmer, Cox Associates

Blacksburg, Virginia
November 7, 2014

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, 2014. 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 two components:

1. Enterprise fund financial statements as described in several exhibits;
2. Notes to financial statements.

This report also contains required and other supplementary information in addition to the basic financial statement themselves.

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 liabilities, with the difference between the two 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 $17,955,178 (net position) as of June 30, 2014. Of this amount $3,813,993 (unrestricted net position) may be used to meet the Authority's ongoing obligations to customers and creditors. Of the remaining net position, $990,225 is restricted for debt service and $13,150,960 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 assets of the Authority increased by $333,197 from $16,501,600 in FY 13 to $16,208,792 in FY 14.
- From the cash perspective (described in Exhibit 3), Authority cash flows provided from operations were $804,816, cash flows from noncapital financing activities were $131,497, cash flows used for capital and related financing activities were $1,655,413, and cash flows from for investing activities was $86,735. Those combined for an overall net decrease of $19,836 in cash.
- As part of the above cash transactions of the Authority, the Authority's total debt decreased by $112,302 after refinancing activities in the 2013-14 fiscal year.

- Total depreciation expense for the Authority was $1,268,147 or approximately 15% 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 $17,955,178 on June 30, 2014. A year earlier on June 30, 2013, the net position of the Authority was $17,621,981, resulting in a net increase in net position of the Authority in the amount of $333,197 during FY 13-14.

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 $13,150,960 or 73% 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

	2014	2013
Assets:		
Current and Other Assets	$ 5,774,299	$ 5,428,948
Capital Assets	24,793,555	25,005,950
Total Assets	$ 30,567,854	$ 30,434,898
Liabilities:		
Current Liabilites	$ 1,141,675	$ 1,392,560
Noncurrent Liabilities	11,471,001	11,420,357
Total Liabilities	$ 12,612,676	$ 12,812,917
Net Position:		
Net Investment in Capital Assets	$ 13,150,960	$ 13,248,776
Restricted	990,225	198,247
Unrestricted	3,813,993	4,174,958
Total Net Position	$ 17,955,178	$ 17,621,981

As of June 30, 2014, 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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Change in Net Position

		2014		2013
Revenues:				
Operating revenues	$	9,069,856	$	8,131,253
Investment income		40,195		10,194
Other income		165,998		1,636,170
Transfer		-		-
Total Revenues	$	9,276,049	$	9,777,617
Expenses:				
Operating expenses (excluding depreciation)	$	7,173,832	$	6,926,012
Depreciation expense		1,268,147		1,310,012
Interest expense		500,873		421,212
Total Expenses	$	8,942,852	$	8,657,236
Increase (decrease) in Net Position	$	333,197	$	1,120,381
Beginning Net Position		17,621,981		16,501,600
Ending Net Position	$	17,955,178	$	17,621,981

As shown in the above table, the Authority's net position increased by $333,197 during the 2013-14 fiscal year. Operating revenues increased by $938,603, due in part to increases in the number of customers in sewer service connections along with a significant increase in Commercial Refuse, while operating expenses also increased by $247,820 from FY 2013. 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, 2014 totaled $24,793,555 (net of accumulated depreciation). The net investment in capital assets decreased by 1%, or $212,395, less than the prior year. Below is a listing of capital assets as of June 30, 2014 with a comparison to the prior fiscal year.

		2014		2013
Land and improvements	$	127,700	$	127,700
Construction in progress		905,529		269,978
Vehicles and other equipment		4,217,449		3,939,568
Water and sewer system (infrastructure)		43,669,424		43,588,030
Accumulated depreciation		(24,126,547)		(22,919,326)
Total capital assets	$	24,793,555	$	25,005,950

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

The Authority has several bond issues outstanding, funded through Rural Development and the Virginia Resource Authority, and local banks. As noted in Note 4, the Authority retired $4,395,618 in long-term debt during the 2013-2014 fiscal year due to refinancing of the VRA Loan and Rural Development loans during fiscal year 2014. In addition, long-term debt was increased by $4,283,316 due to the issuance of revenue bonds through local banks 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.

Review of Operations

Operational Revenues – As shown in Schedule 1, operating revenues increased by $938,603, or 12%, from $8,131,253 to $9,069,856 during the 2013-2014 fiscal year. Garbage, water and sewer services saw increasing revenues during FY 2014 due in part to an increase in refuse generation by commercial users and additional sewer residential customers added to the customer base from sewer 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.

Operational Expenses – As further described in Schedule 1, operational expenses increased by $205,955, or 3%, from $8,231,024 in the 2013 fiscal year to $8,441,979 in the 2014 fiscal year. The increase in expenses was due to increases in salaries and benefits while other operating expenses were cut through efficiencies.

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.

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.

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Year Ended June 30, 2014

	Unclassified	Water	Sewer	Refuse	Streetlights	Total
Operating revenues	$ -	$ 2,549,788	$ 857,967	$ 5,333,719	$ 12,014	$ 8,753,488
Reconnection fees	7,100	7,100	-	-	-	7,100
Penalty and interest (1)	171,189	49,865	16,779	104,310	235	171,189
Miscellaneous income (1)	138,079	40,221	13,534	84,135	190	138,079
Subtotal categorized operatin	$ 316,368	$ 2,646,974	$ 888,281	$ 5,522,164	$ 12,437	$ 9,069,856
Operating expenses	$ -	$ 2,232,122	$ 1,364,597	$ 4,359,160	$ 12,490	$ 7,968,369
Billing expenses (1)	187,091	52,408	32,040	102,350	293	187,091
Administrative expenses (2)	286,519	80,261	49,067	156,743	449	286,519
Subtotal categorized operatin	$ 473,610	$ 2,364,791	$ 1,445,704	$ 4,618,252	$ 13,232	$ 8,441,979
Net Operating Income	$ (157,242)	$ 282,184	$ (557,424)	$ 903,911	$ (794)	$ 627,877
Non-operating revenues (expenses):						
Interest earned (1)	$ 40,195	$ 11,708	$ 3,940	$ 24,491	$ 56	$ 40,195
County transfer (3)	131,497	65,749	65,749	-	-	131,497
Grants	-	-	-	-	-	-
Interest expense	(500,873)	(398,099)	(102,774)	-	-	(500,873)
Bond Issuaance Costs	-	-	-	-	-	-
Connection fees	34,501	31,501	3,000	-	-	34,501
Subtotal net non-operating ite	$ (294,680)	$ (289,142)	$ (30,087)	$ 24,491	$ 56	$ (294,680)
Net income (loss)	$ (451,922)	$ (6,958)	$ (587,510)	$ 928,402	$ (739)	$ 333,197

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	82,312	23,190	7,859	51,143	120	82,312
Subtotal categorized operatin	$ 306,972	$ 2,294,812	$ 775,826	$ 5,048,736	$ 11,878	$ 8,131,253
Operating expenses	$ -	$ 2,087,087	$ 1,414,655	$ 4,293,369	$ 15,074	$ 7,810,185
Billing expenses (1)	176,344	47,124	31,941	96,939	340	176,344
Administrative expenses (2)	249,494	66,671	45,191	137,150	482	249,494
Subtotal categorized operatin	$ 425,838	$ 2,200,882	$ 1,491,787	$ 4,527,458	$ 15,896	$ 8,236,023
Net Operating Income	$ (118,866)	$ 93,930	$ (715,962)	$ 521,277	$ (4,016)	$ (104,769)
Non-operating 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 VFRIFA	-	1,413,190	-	-	-	1,413,190
Interest expense	(421,212)	(318,438)	(102,774)	-	-	(421,212)
Bond Issuaance Costs	-	-	-	-	-	-
Connection fees	36,496	27,996	8,500	-	-	36,496
Subtotal net non-operating ite	$ (251,333)	$ 1,250,509	$ (31,708)	$ 6,333	$ 16	$ 1,225,152
Net income (loss)	$ (370,199)	$ 1,344,438	$ (747,668)	$ 527,611	$ (4,001)	$ 1,120,381
Change from FY13 to FY14 Increase(dec)		$ (1,351,396)	$ 160,159	$ 400,791	$ 3,262	$ (787,184)

(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 2014 and 2013 are presented for comparative purposes. As noted in the above FY 14 table, net income for FY 14 decreased by $787,184. The Water and Refuse services had net operating incomes in 2014 as shown in the table above while Sewer and Street Lighting services continue to show a net operating loss. When factoring in Non-operating Revenues and Expenses, Water had an overall net income due to a significant contribution from Virginia's First Regional Industrial Facility Authority. Street Lighting Services have a slight net loss, 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.

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. 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 continuing to evaluating water intake options. The Authority is also installing radio read water meters throughout parts of 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, while at the same time exploring options for reducing costs long term, and the need for capital improvements due to aging utility lines. The Authority is investing 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 –During FY 2014 an evaluation of restructuring the Authority's long-term debt resulted in Rural Development and VRA loans being refinanced through local banks at lower interest rates. The Authority will continue to evaluate debt options and borrowings as new projects arise.

Cash and Reserves – As noted in Exhibit 1, the Authority had an unrestricted cash balance of $1,991,604 as of June 30, 2014. The balance represents approximately 3 months of operational expenses (excluding depreciation). In comparison with the prior year report, the cash balance has decreased by $811,814 as capital improvements were made. While total net position increased by $333,197, unrestricted net position decreased by $360,965 during FY 14.

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
Statement of Net Position
Year Ended June 30, 2014

Assets:		
Current Assets:		
Cash	$	1,991,604
Receivables (Net of allowance for uncollectibles)		1,423,540
Loan receivable from Virginia's First IFA, current portion		22,542
Total Current Assets	$	3,437,686
Noncurrent Assets:		
Restricted cash	$	990,225
Loan receivable from Virginia's First IFA, long-term portion		1,344,108
Capital Assets		
Land		127,700
Proprietary capital assets (Net of accumulated depreciation)		23,760,326
Construction in progress		905,529
Total Capital Assets	$	24,793,555
Intangible Assets		
Organization expense (Net of amortization)	$	2,280
Total Noncurrent Assets	$	27,130,168
Total Assets	$	30,567,854
Liabilities:		
Current Liabilities:		
Accounts payable	$	652,936
Interest payable		18,463
Amounts held for others		120,341
Proprietary debt-current portion		617,131
Total Current Liabilities	$	1,408,871
Noncurrent Liabilities:		
Compensated absences	$	126,941
Net OPEB obligation		51,400
Proprietary debt-long-term portion		11,025,464
Total Noncurrent Liabilities	$	11,203,805
Total Liabilities	$	12,612,676
Net Position:		
Net investment in capital assets	$	13,150,960
Restricted for debt service		990,225
Unrestricted		3,813,993
Total Net Position	$	17,955,178

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
Statement of Revenues, Expenses and Changes in Net Position
Year Ended June 30, 2014

Operating Revenues:		
Garbage service	$	5,333,719
Water service		2,549,788
Sewer service		857,967
Street lights		12,014
Reconnection fees		7,100
Penalties and interest on delinquent accounts		171,189
Miscellaneous		138,079
Total operating revenues	$	9,069,856
Operating Expenses:		
Water Distribution:		
Salaries	$	155,139
Fringes		70,992
Professional Services		29,717
County central services		32,346
Other		64,111
Supplies		103
Repair and maintenance		115,668
Depreciation		671,002
Total Water Distribution	$	1,139,078
Water Treatment Plant:		
Salaries	$	282,043
Fringes		156,411
Professional Services		315,735
County central services		11,413
Other		184,574
Supplies		122,452
Repair and maintenance		5,348
Depreciation		15,068
Total Water Treatment Plant	$	1,093,044

PULASKI COUNTY PUBLIC SERVICE AUTHORITY
(A COMPONENT UNIT OF PULASKI COUNTY, VIRGINIA)
Proprietary Fund
Statement of Revenues, Expenses and Changes in Net Position
Year Ended June 30, 2014

Operating Expenses: (Continued)		
Sewer Collection and Treatment:		
Salaries	$	152,129
Fringes		66,965
Professional Services		14,040
Professional Services-Gov't		545,036
Other		69,334
Supplies		17,018
Repair and maintenance		33,377
Depreciation		466,698
Total Sewer Collection and Treatment	$	1,364,597
Refuse Collection and Disposal:		
Salaries	$	975,938
Fringes		534,979
Professional Services-Gov't		2,078,961
County central services		557,931
Other		49,145
Supplies		440
Dumpsters/containers		49,872
Depreciation		111,894
Total Refuse Collection and Disposal	$	4,359,160
Administration:		
Salaries	$	83,028
Fringes		42,487
OPEB expense		8,300
Professional Services		91,612
County central services		2,149
Other		46,360
Amortization expense		537
Supplies		6,130
Computer equipment		5,916
Total Administration	$	286,519
Street Lighting:		
Electricity	$	12,490
Total Street Lighting	$	12,490

PULASKI COUNTY PUBLIC SERVICE AUTHORITY
(A COMPONENT UNIT OF PULASKI COUNTY, VIRGINIA)
Proprietary Fund
Statement of Revenues, Expenses and Changes in Net Position
Year Ended June 30, 2014

Operating Expenses: (Continued)		
Billing:		
Salaries	$	75,350
Fringes		33,915
Professional Services		27,519
County central services		8,186
Other		34,018
Supplies		4,618
Depreciation		3,485
Total Billing	$	187,091
Total operating expenses	$	8,441,979
Operating income (loss)	$	627,877
Nonoperating Revenues (Expenses):		
Interest income	$	40,195
Contributions from Primary Government		131,497
Connection fees		34,501
Interest expense		(500,873)
Total nonoperating revenues (expenses)	$	(294,680)
Increase (decrease) in Net Position	$	333,197
Net Position, Beginning of Year		17,621,981
Net Position, End of Year	$	17,955,178

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
Statement of Cash Flows
Year Ended June 30, 2014

Cash flows from operating activities:		
Cash received from customers	$	8,661,023
Cash paid to suppliers for goods and services		(4,616,856)
Cash paid to employees for services		(2,626,822)
Net cash provided by (used for) operating activities	$	1,417,345
Cash flows from noncapital financing activities:		
Debt service contribution	$	131,497
Net cash provided by (used for) noncapital financing activities	$	131,497
Cash flows from capital and related financing activities:		
Connection charges	$	34,501
Acquisition of capital assets		(1,055,752)
Proceeds from issuance of debt		4,283,316
Retirement of debt		(4,395,618)
Interest and loan cost paid on debt		(521,860)
Net cash provided by (used for) capital and related financing activities	$	(1,655,413)
Cash flows from investing activities:		
Interest income	$	40,195
Payments from loan receivable		46,540
Net cash provided by (used for) investing activities	$	86,735
Net increase (decrease) in cash	$	(19,836)
Cash at beginning of year (including restricted cash of $198,247)		3,001,665
Cash at end of year (including restricted cash of $990,225)	$	2,981,829

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

Operating income (loss)	$	627,877
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:		
Depreciation/Amortization	$	1,268,684
(Increase) decrease in receivables		(412,264)
Increase (decrease) in operating accounts payable		(81,237)
Increase (decrease) in compensated absences		2,554
Increase (decrease) in net OPEB obligation		8,300
Increase (decrease) in customer deposits		3,431
Net cash provided by (used for) operating activities	$	1,417,345

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

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 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 County of Pulaski, Virginia and is presented as such in the County's financial report for the fiscal year ended June 30, 2014.

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:

Assets	Years
Water & Sewer System	5-50
Equipment	3-10
Buildings	30-50

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, 2014, the allowance amounted to approximately $1,130,265.

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 amount of $990,225.

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, 2014.

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, 2014.

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.

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.

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.

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, 2014.

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	269,978	640,551	(5,000)	905,529
Total capital assets not being depreciated	$ 397,678	$ 640,551	$ (5,000)	$ 1,033,229
Capital assets, being depreciated				
Infrastructure	$ 43,588,030	$ 81,394	$ -	$ 43,669,424
Machinery and equipment	3,939,568	339,975	(62,094)	4,217,449
Total capital assets being depreciated	$ 47,527,598	$ 421,369	$ (62,094)	$ 47,886,873
Accumulated depreciation for:				
Infrastructure	$ (20,285,639)	$ (1,268,147)	$ -	$ (21,553,786)
Machinery and equipment	(2,633,687)	-	60,926	(2,572,761)
Total accumulated depreciation	$ (22,919,326)	$ (1,268,147)	$ 60,926	$ (24,126,547)
Total capital assets being depreciated, net	$ 24,608,272	$ (846,778)	$ (1,168)	$ 23,760,326
Capital assets, net	$ 25,005,950	$ (206,227)	$ (6,168)	$ 24,793,555

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, 2014:

	Balance July 1, 2013	Issuances	Retirements	Balance June 30, 2014
Revenue bonds	$ 11,713,903	$ 4,283,316	$ (4,395,618)	$ 11,601,601
Unamortized bond premiums	43,271	-	(2,277)	40,994
Net OPEB obligation	43,100	8,300	-	51,400
Compensated absences	124,387	2,554	-	126,941
Total	$ 11,924,661	$ 4,294,170	$ (4,397,895)	$ 11,820,936

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
2015	$ 614,854	$ 413,915
2016	569,702	333,314
2017	546,684	317,310
2018	528,210	301,848
2019	381,087	288,478
2020-2024	1,672,198	1,285,550
2025-2029	1,513,735	1,046,688
2030-2034	1,728,854	786,284
2035-2039	1,152,285	562,035
2040-2044	1,348,376	365,944
2045-2049	1,472,211	134,776
2050-2054	73,405	1,209
Totals	$ 11,601,601	$ 5,837,351

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:						
Central Utilites	4.50%	5/11/2009	2049	865,900	$ 834,269	$ 12,451
Highland Park Sewer	4.25%	11/19/2009	2050	601,783	1,152,229	16,046
Dublin Subdivisions Sewer	4.25%	11/19/2009	2050	804,400	780,886	11,510
Commerce Park Initial	2.375%	2/17/2011	2051	3,812,000	3,679,942	66,114
Commerce Park Subsequent	2.375%	2/17/2011	2051	867,312	850,195	18,224
Claytor Lake #1 and #2	3.300%	3/5/2014	2034	2,490,038	2,452,937	89,678
Total RD Revenue Bonds					$ 9,750,458	$ 267,196
Virginia Resource Authority (VRA) Water and Sewer Revenue Bonds:						
Shrader Hill	0.00%	12/1/1993	2035	$ 130,000	$ 44,055	$ 4,638
Refunding Bond	2.96-5.13%	6/30/2004	2032	4,300,000	315,000	315,000
Premium	n/a	6/30/2004	2032	63,764	40,994	2,277
Claytor Lake #1 and #2		3/5/2014	2034	1,515,489	1,492,088	28,020
Total VRA Revenue Bonds					$ 1,892,137	$ 349,935
Other Obligations:						
Net OPEB obligation	n/a	n/a	n/a	n/a	$ 51,400	$ -
Compensated absences	n/a	n/a	n/a	n/a	126,941	-
Total Other Obligations					$ 178,341	$ -
Totals					$ 11,820,936	$ 617,131

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, 2014 is $1,366,650.

NOTE 6 – COMPENSATED ABSENCES:

In accordance with GASB Statement No. 16 "Accounting for Compensated Absences," the Authority has an accrued liability arising from outstanding 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 $126,941.

NOTE 7 – PENSION PLAN:

Through 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 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 2014, the Authority contributed $7,500 in total for current premiums.

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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:

Medical and Dental Pre-Medicare Coverage	Key Care 200	Lumenos	Delta Dental
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)	$ 15,900
Interest on OPEB Obligation	1,700
Adjustment to ARC	(1,800)
Annual OPEB Cost	$ 15,800
Estimated Contributions Made During FY14	$ (7,500)
Increase in Net OPEB Obligation	$ 8,300
Net OPEB Obligation - beginning of year	43,100
Net OPEB Obligation - end of year	$ 51,400

The Authority's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2014 and the preceding two years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Annual OPEB Cost Contributed	OPEB Obligation
6/30/2012	$ 19,000	101.05%	$ 33,600
6/30/2013	15,200	37.50%	43,100
6/30/2014	15,800	47.47%	51,400

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)	$	158,100
Actuarial value of plan assets		-
Unfunded actuarial accrued liability (UAAL)	$	158,100
Funded ratio (actuarial value of plan assets/AAL)		0.00%
Covered payroll (active plan members)		1,365,883
UAAL as a percentage of covered payroll		11.57%

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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NOTE 9 – OTHER NONCURRENT ASSETS:

As of June 30, 2014, the Authority had the following intangible assets:

	Beginning Balance	Increases	Decreases	Ending Balance
Intangible assets:				
Organization expense	$ 21,480	$ -	$ -	$ 21,480
Accumulated amortization for:				
Organization expense	$ (18,663)	$ (537)	$ -	$ (19,200)
Intangible assets, net	$ 2,817	$ (537)	$ -	$ 2,280

NOTE 10 – LITIGATION:

At June 30, 2014, 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

Exhibit 4

PULASKI COUNTY PUBLIC SERVICE AUTHORITY

Schedule of OPEB Funding Progress

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	-	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, 2013 and June 30, 2014 are included in the July 1, 2012 actuarial valuation. Valuations are performed every two years, and the July 1, 2010 valuation was the initial one.

Supporting Schedules

PULASKI COUNTY PUBLIC SERVICE AUTHORITY
(A COMPONENT UNIT OF PULASKI COUNTY, VIRGINIA)
Proprietary Fund
Comparative Statement of Revenues, Expenses and Changes in Net Position
Year Ended June 30, 2014

		2014		2013
Operating Revenues:				
Garbage service	$	5,333,719	$	4,861,466
Water service		2,549,788		2,204,328
Sewer service		857,967		747,048
Street lights		12,014		11,439
Reconnection fees		7,100		5,570
Penalties and interest on delinquent accounts		171,189		219,090
Miscellaneous		138,079		82,312
Total operating revenues	$	9,069,856	$	8,131,253
Operating Expenses:				
Water Distribution:				
Salaries	$	155,139	$	160,167
Fringes		70,992		61,499
Professional Services		29,717		15,464
County central services		32,346		36,750
Other		64,111		71,677
Supplies		103		491
Repair and maintenance		115,668		160,062
Depreciation		671,002		667,914
Total Water Distribution	$	1,139,078	$	1,174,024
Water Treatment Plant:				
Salaries	$	282,043	$	269,946
Fringes		156,411		133,013
Professional Services		315,735		159,811
Professional Services-Gov't		-		19,466
County central services		11,413		11,777
Other		184,574		185,542
Supplies		122,452		113,535
Repair and maintenance		5,348		7,636
Depreciation		15,068		12,337
Total Water Treatment Plant	$	1,093,044	$	913,063

PULASKI COUNTY PUBLIC SERVICE AUTHORITY
(A COMPONENT UNIT OF PULASKI COUNTY, VIRGINIA)
Proprietary Fund
Comparative Statement of Revenues, Expenses and Changes in Net Position
Year Ended June 30, 2014

	2014	2013
Operating Expenses: (Continued)		
Sewer Collection and Treatment:		
Salaries	$ 152,129	$ 129,772
Fringes	66,965	58,847
Professional Services	14,040	32,885
Professional Services-Gov't	545,036	536,756
County central services	-	63,043
Other	69,334	70,565
Supplies	17,018	14,277
Repair and maintenance	33,377	37,620
Depreciation	466,698	470,890
Total Sewer Collection and Treatment	$ 1,364,597	$ 1,414,655
Refuse Collection and Disposal:		
Salaries	$ 975,938	$ 972,353
Fringes	534,979	522,593
Professional Services-Gov't	2,078,961	2,075,959
County central services	557,931	481,161
Other	49,145	52,341
Supplies	440	2,632
Dumpsters/containers	49,872	30,944
Depreciation	111,894	155,386
Total Refuse Collection and Disposal	$ 4,359,160	$ 4,293,369
Administration:		
Salaries	$ 83,028	$ 61,200
Fringes	42,487	31,767
OPEB expense	8,300	9,500
Professional Services	91,612	87,475
County central services	2,149	5,025
Other	46,360	52,725
Amortization expense	537	537
Supplies	6,130	182
Computer equipment	5,916	1,082
Total Administration	$ 286,519	$ 249,493
Street Lighting:		
Electricity	$ 12,490	$ 15,074
Total Street Lighting	$ 12,490	$ 15,074

PULASKI COUNTY PUBLIC SERVICE AUTHORITY
(A COMPONENT UNIT OF PULASKI COUNTY, VIRGINIA)
Proprietary Fund
Comparative Statement of Revenues, Expenses and Changes in Net Position
Year Ended June 30, 2014

	2014	2013
Operating Expenses: (Continued)		
Billing:		
Salaries	$ 75,350	$ 58,068
Fringes	33,915	25,102
Professional Services	27,519	22,127
County central services	8,186	23,884
Other	34,018	39,924
Supplies	4,618	3,756
Depreciation	3,485	3,485
Total Billing	$ 187,091	$ 176,346
Total operating expenses	$ 8,441,979	$ 8,236,024
Operating income (loss)	$ 627,877	$ (104,771)
Nonoperating Revenues (Expenses):		
Interest income	$ 40,195	$ 10,194
Nonoperating contribution from Pulaski County	131,497	123,189
Connection fees	34,501	36,496
Grants	-	63,295
Contribution from Virginia's First IFA	-	1,413,190
Interest expense	(500,873)	(421,212)
Total nonoperating revenues (expenses)	$ (294,680)	$ 1,225,152
Increase (decrease) in Net Position	$ 333,197	$ 1,120,381
Net Position, Beginning of Year	17,621,981	16,501,600
Net Position, End of Year	$ 17,955,178	$ 17,621,981

COMPLIANCE SECTION

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, 2014, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated November 7, 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 responses, 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 responses to be material weaknesses, [2014-1].

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 responses. 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
November 7, 2014

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

Section II - Financial Statement Findings

2014-1

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 recorded a material bond refunding transaction incorrectly.

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.