

PULASKI COUNTY  
PUBLIC SERVICE AUTHORITY

FINANCIAL REPORT

For the Year Ended June 30, 2006

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**FINANCIAL SECTION**

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# ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

## INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF THE BOARD  
PULASKI COUNTY PUBLIC SERVICE AUTHORITY  
PULASKI, VIRGINIA

We have audited the accompanying statement of net assets of the Pulaski County Public Service Authority, a discretely presented component of the County of Pulaski, Virginia, as of and for the year ended June 30, 2006, and the related statements of revenues, expenses and changes in net assets, and cash flows for the year then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Authorities, Boards and Commissions*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. These standards require that we plan and perform

**PULASKI COUNTY PUBLIC SERVICE AUTHORITY  
MANAGEMENT DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2006**

As management of the 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, 2006. 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 four sections:

1. Enterprise fund financial statements as described in several exhibits;
2. Notes to the financial statements;
3. Supporting schedules;
4. Compliance statements describing the overall findings by the auditor.

**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 assets presents information on the Authority's gross assets and liabilities, with the difference between the two reported as net assets. (See Exhibit 14) Operating income is reported as net income.

	<b>Change in Net Assets</b>	
	<b>2005</b>	<b>2006</b>
Revenues:		
Operating revenues	\$ 5,243,965	\$ 5,790,140
Investment income	47,124	55,906
Other revenue	73,340	67,337
<b>Total revenues</b>	<b>\$ 5,364,429</b>	<b>\$ 5,913,383</b>
Expenses:		
Operating expenses (excluding depreciation)	\$ 4,720,779	\$ 5,454,007
Depreciation expense	902,283	873,893
Interest expense	331,901	309,701
Other	-	-
<b>Total expenses</b>	<b>\$ 5,954,963</b>	<b>\$ 6,637,601</b>
Increase (Decrease) in net assets	\$ (590,534)	\$ (724,218)
Transfers from County	134,388	134,388
Net assets—July 1	12,009,564	11,553,418
Net assets—June 30	11,553,418	10,963,588
<b>Change in Net Assets</b>	<b>\$ (456,146)</b>	<b>\$ (589,830)</b>

As shown in the above table, the Authority's net assets declined by \$589,830 during the 2005-06 fiscal year. Operating revenues increased by \$546,175 while operating expenses and depreciation increased by \$704,838 from FY 2005 levels. These changes, combined with a slightly better non-operating loss resulted in the loss in net assets \$589,830 as compared with the 2004-05 fiscal year. Key elements of these changes are explained in greater detail under the Review of Operations section.

### **Capital Asset and Debt Administration**

**Capital Assets** – As summarized below, the Authority's investment in capital assets as of June 30, 2006 totaled \$15,596,491 (net of accumulated depreciation). Investment in capital assets declined by \$748,202 or approximately 4% during the year. This decline was primarily due to depreciation expense. Below is a comparison of the items that make up capital assets as of June 30, 2005 with that of June 30, 2006.

	<b>2005</b>	<b>2006</b>
Land and improvements	\$ 127,700	\$ 127,700
Vehicles and other equipment	2,386,632	2,651,765
Water and sewer plant	28,994,063	28,994,599
Accumulated depreciation	(15,303,679)	(16,177,573)
<b>Total capital assets</b>	<b>\$ 16,204,716</b>	<b>\$ 15,596,491</b>

Restatement of Revenues, Expenditures and Changes in Net Assets by Service Type

	Unclassified by Audit	Water	Sewer	Refuse	Streetlights	Total
Operating Revenues		1,994,856	500,393	3,089,472	15,441	5,600,162
Reconnection fees	14,270	14,270	-	-	-	14,270
Penalty and Interest (divided proportionately to revenue)	149,287	53,178	13,339	82,358	412	149,287
Miscellaneous income (divided proportionately to revenue)	26,421	9,412	2,361	14,576	73	26,421
<b>Subtotal Categorized Operating Revenue</b>	<b>189,978</b>	<b>2,071,716</b>	<b>516,093</b>	<b>3,186,406</b>	<b>15,925</b>	<b>5,790,140</b>
Operating Expenses		1,724,468	1,091,734	3,114,222	14,698	5,945,122
Billing expenses (divided proportionately to revenue)	151,972	54,135	13,579	83,839	419	151,972
Administrative expenses (divided by expenses)	230,806	66,949	42,384	120,903	571	230,806
<b>Subtotal Categorized Operating Expenses</b>	<b>382,778</b>	<b>1,845,551</b>	<b>1,147,697</b>	<b>3,318,964</b>	<b>15,688</b>	<b>6,327,900</b>
<b>Net Operating Income (loss)</b>	<b>(192,800)</b>	<b>226,165</b>	<b>(631,604)</b>	<b>(132,558)</b>	<b>238</b>	<b>(537,760)</b>
Non-Operating Revenues (Expenses)						
Interest earned (divided proportionately to revenue)	55,906	19,914	4,995	30,842	154	55,906
County transfer (Cloyd's Mtn Sewer Extension)	134,388	-	134,388	-	-	134,388
Interest paid on debt (50% water 50% sewer)	(309,701)	(154,851)	(154,851)	-	-	(309,701)
Connection fees (50% water 50% sewer)	67,337	33,669	33,669	-	-	67,337
<b>Subtotal Net Non-Operating Items</b>	<b>(52,070)</b>	<b>(101,268)</b>	<b>18,201</b>	<b>30,842</b>	<b>154</b>	<b>(52,070)</b>
<b>Net income (loss)</b>	<b>(244,870)</b>	<b>124,897</b>	<b>(613,403)</b>	<b>(101,716)</b>	<b>392</b>	<b>(589,830)</b>

As noted in the above table, sewer system losses are primarily responsible for the reduction in the net assets. In the fiscal year 2004-05 audit report the MD&A mentioned a need for adjustments to sewer rates and/or a reduction in operating expenses. In fiscal year 2007 the Board approved an increase in the sewer rates, effective January 1, 2007, which should decrease the loss in future years. In addition, during fiscal year 2007-08, the Board began replacing many aging vehicles were replaced with new vehicles which should decrease repair and maintenance cost related to the refuse department but probably will not affect the increase in fuel central services charges.

### Long-Term Trends

Capital Plan – In addition to developer-funded expansions in Herons' Landing and Stone Ridge developments, the Authority is currently undertaking a significant expansion of sewer service to the Highland Park, Orchard Hills, Vista, and Rolling Hills subdivisions as well as the Polyester, Tiny Town, Mabry Court, and Hidden Valley mobile home parks. Water service extensions are also planned for the Polyester, Tiny Town, Mabry Court, Eagleview, and Hidden Valley mobile home parks.

The PSA is installing back-up generators at 5 sewer pump stations and rebuilding one of two pump stations serving the Route 100/I-81 interchange. These purchases do not bring in any additional revenue but must be done to prevent sewer spills due to equipment failure or power outages. In addition, the PSA is also purchasing several new garbage trucks, several additional compactors, dumpster and roll-off garbage containers. These were needed to upgrade the quality of service to the general public as well as in meeting the needs of James Hardie Building Products. Finally, the PSA is reviewing options for participation in a regional water authority for the purpose of interconnecting existing PSA water treatment and distribution facilities with those serving the Town of Pulaski and the City of Radford. Interconnection of systems will provide greater system reliability as is being required as part of the Homeland Security initiative while providing an increased volume of water to the Commerce Park.

## PULASKI COUNTY PUBLIC SERVICE AUTHORITY

Proprietary Fund Type  
Statement of Net Assets  
At June 30, 2006

<b>ASSETS</b>	
<b>Unrestricted current assets:</b>	
Cash	\$ 2,047,309
Receivables (Net of Allowances for for Uncollectibles)	<u>1,067,219</u>
Total unrestricted current assets	\$ <u>3,114,528</u>
<b>Restricted current assets:</b>	
Restricted cash for Rural Development Debt Reserves	\$ <u>349,044</u>
Total current assets	\$ <u>3,463,572</u>
<b>Non Current Assets:</b>	
Proprietary fixed assets (net of accumulated depreciation)	\$ 15,596,491
Organization expense (net of amortization)	<u>6,577</u>
Total noncurrent assets	\$ <u>15,603,068</u>
Total Assets	\$ <u>19,066,640</u>
<b>LIABILITIES</b>	
<b>Current liabilities:</b>	
Accounts payable	\$ 395,900
Interest payable	51,393
Amounts held for others	84,085
Proprietary debt - current portion	302,660
Due to the County - current portion	<u>22,546</u>
Total current liabilities	\$ <u>856,584</u>
<b>Noncurrent liabilities:</b>	
Compensated absences	\$ 105,944
Proprietary debt - long-term portion	6,849,341
Due to the County - long-term portion	<u>291,183</u>
Total noncurrent liabilities	\$ <u>7,246,468</u>
Total Liabilities	\$ <u>8,103,052</u>
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	\$ 8,444,490
Restricted for Rural Development Debt Reserves	349,044
Unrestricted	<u>2,170,054</u>
Total Net Assets	\$ <u>10,963,588</u>

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

PULASKI COUNTY PUBLIC SERVICE AUTHORITY

Proprietary Fund Type  
Statement of Revenues, Expenses and Changes In Net Assets  
Years Ended June 30, 2006

<i>Refuse collection and disposal:</i>	
Salaries	\$ 801,048
Fringes	304,326
Professional services	45,960
Professional services-Gov't	1,374,303
County central services	394,067
Other expenses	70,984
Supplies	614
Repairs and maintenance	2,758
Depreciation	<u>120,162</u>
Total refuse collection and disposal	\$ <u>3,114,222</u>
<i>Administration:</i>	
Salaries	\$ 69,895
Fringes	23,217
Professional services	93,964
County central services	21,545
Other expenses	5,482
Supplies	2,488
Depreciation/amortization	<u>14,215</u>
Total administration	\$ <u>230,806</u>
<i>Street Lighting:</i>	
Lighting	\$ <u>14,698</u>
Total street lighting	\$ <u>14,698</u>
<i>Billing:</i>	
Salaries	\$ 41,804
Fringes	17,810
Professional services	21,405
County central services	14,889
Other expenses	43,198
Supplies	<u>12,866</u>
Total billing	\$ <u>151,972</u>
Total operating expenses	\$ <u>6,327,900</u>
Operating income (loss)	\$ <u>(537,760)</u>

## PULASKI COUNTY PUBLIC SERVICE AUTHORITY

Proprietary Fund Type  
Statement of Cash Flows  
Years Ended June 30, 2006

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<b><i>Cash flows from operating activities:</i></b>	
Cash received from customers	\$ 5,617,226
Cash payments to suppliers for goods and services	(3,336,486)
Cash payments to employees for services	<u>(1,920,756)</u>
Net cash provided by operating activities	<u>\$ 359,984</u>
<b><i>Cash flows from noncapital financing activities</i></b>	<u>\$ 134,388</u>
<b><i>Cash flows from capital and related financing activities:</i></b>	
Connection charges	\$ 67,337
Acquisition of capital assets	(265,133)
Retirement of debt	(283,385)
Retirement of advance from County	(22,547)
Interest and loan cost paid on debt	<u>(310,367)</u>
Net cash used by capital and related financing activities	<u>\$ (814,095)</u>
<b><i>Cash flows from investing activities:</i></b>	
Interest income	<u>\$ 55,906</u>
Net decrease in cash	<u>\$ (263,817)</u>
<b><i>Cash at beginning of year (including restricted cash of \$337,970)</i></b>	<u>\$ 2,660,170</u>
<b><i>Cash at end of year (including restricted cash of \$349,044)</i></b>	<u><u>\$ 2,396,353</u></u>

***Reconciliation of Operating Income to  
Net Cash Provided by Operating Activities***

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<b><i>Operating income (loss)</i></b>	<u>\$ (537,760)</u>
<b><i>Adjustments to reconcile operating income to net cash provided by operating activities:</i></b>	
Depreciation/Amortization	\$ 873,893
Decrease (increase) in receivables	(181,056)
Increase (decrease) in accounts payable	202,278
Increase (decrease) in compensated absences	(5,513)
Increase (decrease) in customer deposits	<u>8,142</u>
<b><i>Net cash provided by operating activities</i></b>	<u><u>\$ 359,984</u></u>

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

PULASKI COUNTY PUBLIC SERVICE AUTHORITY

NOTES TO FINANCIAL STATEMENTS  
AS OF JUNE 30, 2006

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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

The financial statements of the Authority conform to generally accepted accounting principles (GAAP) applicable to government units promulgated by the Government Accounting Standards Board (GASB).

The following is a summary of the more significant policies:

A. The Financial Reporting Entity:

The Authority is a discretely presented component unit of the County of Pulaski, Virginia and is presented as such in the County's financial report for the fiscal year ended June 30, 2006.

B. Basis of Accounting:

*Proprietary Funds* - The accrual basis of accounting is used for the Authority. Under the accrual method, revenues are recognized when earned and expenses are recognized when incurred. The Proprietary Funds apply all applicable Governmental Accounting Standards Board (GASB) pronouncements and all Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions and Accounting Research Bulletins (ARB) issued on or before November 30, 1989, unless they conflict with or contradict GASB pronouncements.

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 assets' lives are not to be capitalized.

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

NOTES TO FINANCIAL STATEMENTS  
AS OF JUNE 30, 2006

**NOTE 2 – CASH 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 Development Bank, the African Development Bank, "prime quality" commercial paper and certain corporate notes; banker's acceptances, repurchase agreements and the State Treasurer's Local Government Investment Pool (LGIP). At fiscal year-end, the Authority had no investments.

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

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Land, land improvements and land rights	\$ 127,700	\$ -	\$ -	\$ 127,700
Vehicles and other equipment	2,386,632	265,133	-	2,651,765
Water and sewer plant	<u>28,994,599</u>	<u>-</u>	<u>-</u>	<u>28,994,599</u>
Total fixed assets	\$ 31,508,931	\$ 265,133	\$ -	\$ 31,774,064
Less: Accumulated depreciation	<u>(15,303,679)</u>	<u>(873,894)</u>	<u>-</u>	<u>(16,177,573)</u>
Net fixed assets	<u>\$ 16,205,252</u>	<u>\$ (608,761)</u>	<u>\$ -</u>	<u>\$ 15,596,491</u>

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PULASKI COUNTY PUBLIC SERVICE AUTHORITY

NOTES TO FINANCIAL STATEMENTS  
AS OF JUNE 30, 2006

NOTE 4 – PROPRIETARY DEBT: (Continued)

Details of Long-Term Indebtedness:

	<u>Total Amount</u>	<u>Amount Due Within One Year</u>
Rural Development (RD) Water and Sewer Revenue Bonds:		
\$212,600 revenue bond, issued February 19, 1992, for the New River sewer project, with combined principal and interest payments totaling \$1,044 monthly through September 2030, interest payable at 5%.	\$ 175,344	\$ 4,135
\$98,860 revenue bond, issued April 19, 1994, for the Stigger Hill project, with combined principal and interest payments totaling \$449 monthly through April, 2034, interest payable at 4.5%.	84,121	1,770
\$402,500 revenue bond, issued March 13, 1995, for the Claytor Lake state park project, with combined principal and interest payments totaling \$1,848 per month through March 13, 2035 interest payable at 4.5%	351,605	7,274
\$498,500 revenue bond, issued March 13, 1995, for the Claytor Lake state park project, with combined principal and interest payments totaling \$2,289 monthly through March 13, 2035, interest payable at 4.5%	426,662	9,396
\$2,242,042 revenue bond, issued October 15, 1996, for the Landfill Sewer Line extension line project, with combined principal and interest payments totaling \$11,199 monthly through October 15, 2036, interest payable 4.5%	<u>2,138,903</u>	<u>43,170</u>
Total RD Water and Sewer Revenue Bonds	\$ <u>3,176,635</u>	\$ <u>65,745</u>

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## PULASKI COUNTY PUBLIC SERVICE AUTHORITY

Proprietary Fund Type  
 Comparative Statement of Revenues, Expenses and Changes In Net Assets  
 Two Years Ended June 30, 2006

	FY 2006	FY 2005
<b>Operating revenues:</b>		
Garbage service	\$ 3,089,472	\$ 2,931,485
Water service	1,994,856	1,695,846
Sewer service	500,393	476,810
Street lights	15,441	14,620
Reconnection fees	14,270	14,000
Penalties and interest on delinquent accounts	149,287	102,246
Miscellaneous	26,421	8,958
	<u>5,790,140</u>	<u>5,243,965</u>
<b>Operating expenses:</b>		
<i>Water:</i>		
Salaries	\$ 170,676	\$ 182,517
Fringes	56,429	50,778
Professional services	14,992	12,280
County central services	30,927	24,090
Other expenses	53,245	55,039
Supplies	459	43,843
Repairs and maintenance	408,382	110,574
Depreciation	369,758	376,890
	<u>1,104,868</u>	<u>856,011</u>
<i>Water treatment plant:</i>		
Salaries	\$ 264,223	\$ 241,974
Fringes	94,317	80,754
Professional services	2,326	8,454
Professional services-Gov't	21,713	18,151
County central services	6,549	5,921
Other expenses	117,329	109,400
Supplies	80,888	107,864
Repairs and maintenance	32,255	22,346
	<u>619,600</u>	<u>594,864</u>
<i>Sewer collection and treatment:</i>		
Salaries	\$ 54,331	\$ 59,983
Fringes	17,167	18,256
Professional services	1,365	4,890
Professional services-Gov't	308,822	286,056
County central services	9,611	6,991
Other expenses	22,264	20,637
Supplies	6,326	51,152
Repairs and maintenance	302,090	160,548
Depreciation	369,758	376,890
	<u>1,091,734</u>	<u>985,403</u>

PULASKI COUNTY PUBLIC SERVICE AUTHORITY

Proprietary Fund Type  
Comparative Statement of Revenues, Expenses and Changes In Net Assets  
Two Years Ended June 30, 2006

	FY 2006	FY 2005
<i>Non-operating revenues and (expenses):</i>		
Interest earned	\$ 55,906	\$ 47,124
Non-operating transfer from the County	134,388	134,388
Interest paid on debt	(309,701)	(331,901)
Connection fees	67,337	73,340
Total non-operating revenues (expenses)	\$ (52,070)	\$ (77,049)
Net income (loss)	\$ (589,830)	\$ (456,146)
Income (Decrease) in net assets	\$ (589,830)	\$ (456,146)

<i>Net assets, beginning of year</i>	\$ 11,553,418	\$ 12,009,564
<i>Net assets, end of year</i>	\$ 10,963,588	\$ 11,553,418

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**COMPLIANCE SECTION**

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# ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

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## 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

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### PULASKI COUNTY PUBLIC SERVICE AUTHORITY PULASKI, VIRGINIA

We have audited the financial statements of the Pulaski County Public Service Authority, as of and for the year ended June 30, 2006, which collectively comprise the Pulaski County Public Service Authority's basic financial statements and have issued our report thereon dated August 25, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, *Specifications for Audits of Authorities, Boards and Commissions*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

#### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Pulaski County Public Service Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses.

#### **Compliance and Other Matters**

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