

# **PULASKI COUNTY PUBLIC SERVICE AUTHORITY**

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(A COMPONENT UNIT OF PULASKI COUNTY, VIRGINIA)

**FINANCIAL REPORT  
YEAR ENDED JUNE 30, 2019**

Pulaski County Public Service Authority  
(A Component Unit of Pulaski County, Virginia)  
Annual Financial Report  
Year Ended June 30, 2019

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**FINANCIAL SECTION**

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Independent Auditors' Report

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To the Honorable Members 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 (the Authority), a component unit of the County of Pulaski, Virginia, as of and for the year ended June 30, 2019, 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, 2019, 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.

## *Change in Accounting Principle*

As described in Note 15 to the financial statements, in 2019, the Authority adopted new accounting guidance, GASB Statement No. 88 *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*. 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 and schedules related to pension and OPEB funding on pages 4-9 and 40-48 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.

### *Supplementary and Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Pulaski County Public Service Authority's basic financial statements. The supporting schedule and statistical section are presented for purposes of additional analysis and are 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 Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statement

The supporting schedule and the schedule of expenditures of federal awards 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 schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

The statistical section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

## Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 24, 2019, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Pulaski County Public Service Authority's 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, James, Cox Associates*

Blacksburg, Virginia  
November 24, 2019

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

Year Ended June 30, 2019

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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, 2019. 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 financial statements are comprised of four sections:

1. Enterprise fund financial statements as described in several exhibits;
2. Notes to financial statements;
3. Required supplementary information;
4. Supporting schedules;
5. 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 position presents information on the Authority's gross assets and deferred outflows of resources and liabilities and deferred inflows of resources, 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 and deferred outflows of resources of the Authority exceeded its liabilities and deferred inflows of resources by \$20,305,781 (net position) as of June 30, 2019. Of this amount, \$3,287,376 (unrestricted net position) may be used to meet the Authority's ongoing obligations to customers and creditors. Of the remaining net position, \$281,481 is restricted for debt service and \$16,736,924 is in the form of capital assets including installed facilities and equipment such as the water treatment plant, utility lines and distribution system and vehicles.
- As reported in Exhibit 2, the total net position of the Authority increased by \$180,368 from \$20,125,413 in FY 18 to \$20,305,781 in FY 19.
- From the cash perspective (described in Exhibit 3), Authority cash flows provided from operations were \$2,109,435, cash flows from non-capital financing activities were \$133,718, cash flows used for capital and related financing activities were \$(3,170,780), and cash flows from investing activities were \$85,562. Those combined for an overall net decrease of \$842,065 in cash.
- As part of the above cash transactions of the Authority, the Authority's total long term obligations decreased by a net of \$373,465 during FY 2019.

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

Year Ended June 30, 2019

**Financial Highlights** – (continued)

- Total depreciation expense for the Authority was \$1,441,820 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 totaled \$20,305,781 on June 30, 2019. A year earlier on June 30, 2018, the net position of the Authority was \$20,125,413, resulting in a net increase in net position of the Authority in the amount of \$180,368 during FY 18-19.

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) totaled \$16,736,924, or approximately 82%, 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**

	<b>2019</b>	<b>2018</b>
Assets:		
Current and Other Assets	\$ 5,449,208	\$ 6,558,777
Capital Assets	26,109,464	24,997,059
Total Assets	\$ 31,558,672	\$ 31,555,836
Deferred Outflows of Resources	\$ 161,427	\$ 156,935
Liabilities:		
Current Liabilities	\$ 1,347,812	\$ 1,028,149
Non-Current Liabilities	9,894,773	10,389,805
Total Liabilities	\$ 11,242,585	\$ 11,417,954
Deferred Inflows of Resources	\$ 171,733	\$ 169,404
Net Position:		
Invested in Capital Assets, net of related debt	\$ 16,736,924	\$ 15,248,777
Restricted	281,481	257,785
Unrestricted	3,287,376	4,618,851
Total Net Position	\$ 20,305,781	\$ 20,125,413

As of June 30, 2019, the Authority maintains a positive balance in net position.

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

Year Ended June 30, 2019

**Financial Analysis:** (continued)

Change in Net Position	2019	2018
Revenues:		
Operating Revenues	\$ 9,269,645	\$ 9,773,113
Investment Income	38,934	34,252
Other Income	78,400	36,900
Contribution	135,930	132,862
Total Revenues	\$ 9,522,909	\$ 9,977,127
Expenses:		
Operating Expenses	\$ 7,591,315	\$ 7,391,335
Depreciation Expense	1,441,820	1,540,558
Interest Expense	309,406	314,150
Total Expenses	\$ 9,342,541	\$ 9,246,043
Increase (Decrease) in Net Position	\$ 180,368	\$ 731,084
Beginning Net Position	20,125,413	19,394,329
Ending Net Position	\$ 20,305,781	\$ 20,125,413

As shown in the above table, the Authority's net position increased by \$180,368 during the 2018-19 fiscal year. Operating revenues decreased by \$503,468 due to reductions in roll off refuse income. Overall operating expenses increased by \$199,980 during FY 2019. 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, 2019 totaled \$26,109,464 (net of accumulated depreciation). The net investment in capital assets increased by 4%, or \$1,112,405, over the prior year. Below is a listing of capital assets as of June 30, 2019 with a comparison to the prior fiscal year.

	<u>2019</u>	<u>2018</u>
Land and improvements	\$ 225,354	\$ 225,354
Construction in progress	2,109,040	269,878
Buildings and improvements	503,384	503,384
Vehicles and other equipment	5,834,957	5,457,756
Water and sewer system (infrastructure)	47,959,635	47,629,722
Accumulated depreciation	(30,522,906)	(29,089,035)
Total capital assets	<u>\$ 26,109,464</u>	<u>\$ 24,997,059</u>

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

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

Year Ended June 30, 2019

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**Capital Asset and Debt Administration:** (continued)

The Authority has several bond issues outstanding, funded through Rural Development, the Virginia Resource Authority, and local banks. As noted in Note 4, the Authority retired \$1,241,062 in long-term obligations during the 2018-2019 fiscal year. In addition, long term obligations were increased by \$754,514 due to increases in both the net pension liability, compensated absences, and the net OPEB liabilities. Additional information related to the pension liability can be found in Note 7 of the financial statements. Additional information related to the compensated absences can be found in Note 6 while additional information on the OPEB liabilities can be found in Note 8 – Group Life Insurance (GLI) Program (OPEB Plan) and Note 9 – Other Postemployment Benefits – Health Insurance.

**Review of Operations**

Operational Revenues – As shown in Schedule 1, operating revenues decreased by \$503,468, or 5%, from \$9,773,113 to \$9,269,645 during the 2018-2019 fiscal year. Garbage services reported the majority of the overall decrease in operational revenues resulting from a reduction in roll off refuse revenue while water and sewer revenues increased due to utility rate increases. 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. The chart below breaks down cost centers for water, sewer, refuse, and street lighting.

Operational Expenses – As further described in Schedule 1, operational expenses increased by \$101,242 or 1%, from \$8,931,893 in the 2018 fiscal year to \$9,033,135 in the 2019 fiscal year. The refuse, water and street lighting departments experienced a decrease in operating expenses while the sewer department saw an increase in operating expenses. The Public Service Authority Board of Directors and staff continue to search for expenditure reductions that have a long-term impact.

Change in Net Position by Service Based Cost Centers – The 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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**PULASKI COUNTY PUBLIC SERVICE AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)**

Year Ended June 30, 2019

	Fiscal Year Ending June 30, 2019					
	Unclassified	Water	Sewer	Refuse	Streetlights	Total
Operating revenues	\$ -	\$ 3,109,730	\$ 1,359,528	\$ 4,401,887	\$ 14,337	\$ 8,885,482
Reconnection fees	-	12,830	-	-	-	12,830
Penalty and interest (1)	255,094	89,277	39,031	126,374	412	255,094
Miscellaneous income (1)	116,239	40,681	17,785	57,585	188	116,239
Subtotal categorized operating revenue	\$ 371,333	\$ 3,252,519	\$ 1,416,344	\$ 4,585,846	\$ 14,935	\$ 9,269,645
Operating expenses	\$ -	\$ 2,478,662	1,625,900	4,147,257	14,027	8,265,846
Billing expenses (1)	182,001	54,576	35,800	91,316	309	182,001
Administrative expenses (2)	585,288	175,509	115,127	293,659	993	585,288
Subtotal categorized operating expenses	\$ 767,289	\$ 2,708,747	\$ 1,776,826	\$ 4,532,231	\$ 15,330	\$ 9,033,135
Net Operating Income	\$ (395,956)	\$ 543,772	(360,483)	53,614	(394)	236,510
Non-operating revenues (expenses):						
Interest earned (1)	\$ 38,934	\$ 13,626	5,957	19,287	64	38,934
County transfer	135,930	-	135,930	-	-	135,930
Grants	9,000	9,000	-	-	-	9,000
Interest expense	(309,406)	(136,971)	(172,435)	-	-	(309,406)
Connection fees	-	28,900	40,500	-	-	69,400
Subtotal net non-operating items	\$ (125,542)	\$ (85,446)	9,951	19,287	64	(56,142)
Net income (loss)	\$ (521,498)	\$ 458,326	\$ (350,531)	\$ 72,902	\$ (331)	\$ 180,368
	Fiscal Year Ending June 30, 2018					
	Unclassified	Water	Sewer	Refuse	Streetlights	Total
Operating revenues	\$ -	\$ 3,094,363	\$ 1,165,487	\$ 5,112,091	\$ 14,022	\$ 9,385,963
Reconnection fees	11,950	11,950	-	-	-	11,950
Penalty and interest (1)	263,529	86,880	32,723	143,532	394	263,529
Miscellaneous income (1)	111,671	40,480	15,247	66,876	183	122,786
Subtotal categorized operating revenue	\$ 387,150	\$ 3,233,673	\$ 1,213,457	\$ 5,322,499	\$ 14,598	\$ 9,784,228
Operating expenses	\$ -	\$ 2,578,109	1,351,111	4,295,460	16,209	8,240,889
Billing expenses (1)	172,840	56,766	29,749	94,579	357	181,451
Administrative expenses (2)	518,164	182,551	95,669	304,153	1,148	583,521
Subtotal categorized operating expenses	\$ 691,004	\$ 2,817,426	\$ 1,476,530	\$ 4,694,191	\$ 17,715	\$ 9,005,861
Net Operating Income	\$ (303,854)	\$ 416,249	\$ (263,074)	628,306	(3,115)	778,367
Non-operating revenues (expenses):						
Interest earned (1)	\$ 34,252	\$ 13,559	5,107	22,399	62	41,127
County transfer	132,862	-	132,862	-	-	132,862
Grants	-	-	-	-	-	-
Interest expense	(314,150)	(238,421)	(75,729)	-	-	(314,150)
Connection fees	36,900	26,400	10,500	-	-	36,900
Subtotal net non-operating items	\$ (110,136)	\$ (198,463)	72,739	22,399	62	(103,261)
Net income (loss)	\$ (413,990)	\$ 217,785	\$ (190,334)	\$ 650,706	\$ (3,054)	\$ 675,106
Change from FY18 to FY19 Increase(dec)		\$ 240,541	\$ (160,198)	\$ (577,804)	\$ 2,723	\$ (494,738)

- (1) Distributed proportionally based on operating revenue  
(2) Distributed proportionally based on operating expenses

Both fiscal years 2019 and 2018 are presented for comparative purposes. As noted in the above table, FY 19 had overall net income of \$180,368. The Water and Refuse departments had net operating incomes in FY 2019 while the Sewer department continued to show a net operating loss due mainly to increases in sewerage disposal costs. The Street Lights departments also shows a slight net operating loss. When factoring in Non-operating Revenues and Expenses, the Refuse and Water departments had overall net income. The Sewer and Street Lights departments had an overall net loss during FY 19. The PSA Board of Directors continues to analyze the impact of rate changes on both Water, Sewer and Refuse services in order to meet not only operating expenses, but also fund future capital improvement needs without relying solely on outside funding for water and sewer line construction. 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 net operating income/loss and profitability.

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

Year Ended June 30, 2019

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**Long-Term Trends**

Capital Plan – The PSA Board of Directors continues to review 5 year capital plans and evaluate the need for capital improvements on aging water and sewer utility lines while also evaluating the current utility rates to provide funding for capital improvements. In addition, requirements of current Rural Development funding require that the PSA raise water and sewer rates for the new few years. The PSA will have water and sewer master plans completed during FY 2020 which will assist in determining where additional growth may be necessary in water and sewer infrastructure.

Long-Term Debt – The Authority continues to evaluate debt options on all future capital projects while also evaluating the market interest rates to potentially refinance current debt issues. No refinancing of existing debt occurred during the FY 2018-19 year.

Cash and Reserves – As noted in Exhibit 1, the Authority had an unrestricted cash balance of \$2,222,257 at the end of FY 19. The balance represents approximately 3 months of operational expenses (excluding depreciation). In comparison with the prior year report, the unrestricted cash balance has decreased by \$865,761 from FY 18 to FY 19 due to changes in Rural Development grant/loan funding whereby the Authority is now required to pay for all grant/loan project expenses before seeking reimbursement. The Authority was reimbursed for the Community Sewers project FY 20 while the majority of the expenses occurred in FY 18 and FY 19. In addition, the total net position increased by \$180,368 while the net investment in capital assets increased by \$1,488,147 during FY 19.

**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 Jared Linkous, 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)  
Statement of Net Position  
At June 30, 2019

<b>Assets:</b>	
<i>Current Assets:</i>	
Cash	\$ 2,222,257
Receivables (net of allowance for uncollectibles)	1,664,230
Prepaid expenses	12,460
Due from primary government	11,212
Loans receivable, current portion	<u>34,460</u>
Total Current Assets	\$ <u>3,944,619</u>
<i>Noncurrent Assets:</i>	
Restricted cash	\$ 281,481
Loans receivable, long-term portion	1,223,108
Capital assets	
Land	225,354
Proprietary capital assets (net of accumulated depreciation)	23,775,070
Construction in progress	<u>2,109,040</u>
Total Capital Assets	\$ <u>26,109,464</u>
Total Noncurrent Assets	\$ <u>27,614,053</u>
Total Assets	\$ <u>31,558,672</u>
<b>Deferred Outflows of Resources:</b>	
Pension related items	\$ 143,644
OPEB related items	<u>17,783</u>
Total Deferred Outflows of Resources	\$ <u>161,427</u>
<b>Liabilities:</b>	
<i>Current Liabilities:</i>	
Accounts payable	\$ 735,869
Interest payable	15,200
Customer deposits	155,828
Compensated absences, current portion	49,807
Proprietary debt, current portion	<u>391,108</u>
Total Current Liabilities	\$ <u>1,347,812</u>
<i>Noncurrent Liabilities:</i>	
Compensated absences, long-term portion	\$ 149,420
Net OPEB liabilities	309,270
Net pension liability	454,651
Proprietary debt, long-term portion	<u>8,981,432</u>
Total Noncurrent Liabilities	\$ <u>9,894,773</u>
Total Liabilities	\$ <u>11,242,585</u>
<b>Deferred Inflows of Resources:</b>	
Pension related items	\$ 137,752
OPEB related items	<u>33,981</u>
Total Deferred Inflows of Resources	\$ <u>171,733</u>
<b>Net Position:</b>	
Net investment in capital assets	\$ 16,736,924
Restricted for Debt Service	281,481
Unrestricted	<u>3,287,376</u>
Total Net Position	\$ <u><u>20,305,781</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)  
Statement of Revenues, Expenses, and Changes in Net Position  
Year Ended June 30, 2019

Operating Revenues:	
Garbage service	\$ 4,401,887
Water service	3,109,730
Sewer service	1,359,528
Street lights	14,337
Reconnection fees	12,830
Penalties and interest on delinquent accounts	255,094
Miscellaneous	116,239
Total operating revenues	<u>\$ 9,269,645</u>
Operating Expenses:	
Water Distribution	\$ 1,119,117
Water Treatment Plant	1,359,545
Sewer Collection and Treatment	1,625,900
Refuse Collection and Disposal	4,147,257
Administration	585,288
Street Lighting	14,027
Billing	182,001
Total operating expenses	<u>\$ 9,033,135</u>
Operating income (loss)	<u>\$ 236,510</u>
Nonoperating Revenues (Expenses):	
Interest income	\$ 38,934
Contributions from Pulaski County	135,930
Connection fees	69,400
Grants	9,000
Interest expense	(309,406)
Total nonoperating revenues (expenses)	<u>\$ (56,142)</u>
Increase (decrease) in Net Position	\$ 180,368
Net Position, Beginning of Year	<u>20,125,413</u>
Net Position, End of Year	<u><u>\$ 20,305,781</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)

Statement of Cash Flows  
Year Ended June 30, 2019

Cash flows from operating activities:	
Cash received from customers	\$ 9,516,440
Cash paid to suppliers for goods and services	(4,468,919)
Cash paid to employees for services	(2,938,086)
Net cash provided by (used for) operating activities	\$ 2,109,435
Cash flows from noncapital financing activities:	
Contributions from Pulaski County	\$ 124,718
Grants received	9,000
Net cash provided by (used for) noncapital financing activities	\$ 133,718
Cash flows from capital and related financing activities:	
Connection charges	\$ 69,400
Acquisition of capital assets	(2,554,225)
Proceeds from issuance of debt	11,000
Retirement of debt	(384,465)
Interest and loan costs paid on debt	(312,490)
Net cash provided by (used for) capital and related financing activities	\$ (3,170,780)
Cash flows from investing activities:	
Interest income	\$ 38,934
Loan payments received	46,628
Net cash provided by (used for) investing activities	\$ 85,562
Net increase (decrease) in cash	\$ (842,065)
Cash at beginning of year (including restricted cash of \$257,785)	3,345,803
Cash at end of year (including restricted cash of \$281,481)	\$ 2,503,738
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities	
Operating income (loss)	\$ 236,510
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:	
Depreciation/Amortization	1,441,952
(Increase) decrease in receivables	235,737
(Increase) decrease in prepaid expenses	(3,781)
(Increase) decrease in deferred outflows of resources	(4,492)
Increase (decrease) in operating accounts payable	300,928
Increase (decrease) in compensated absences	14,143
Increase (decrease) in net OPEB liabilities	(3,838)
Increase (decrease) in net pension liability	(121,111)
Increase (decrease) in deferred inflows of resources	2,329
Increase (decrease) in customer deposits	11,058
Net cash provided by (used for) operating activities	\$ 2,109,435

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  
AT JUNE 30, 2019

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

The financial statements of the Pulaski County Public Service Authority (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 the County of Pulaski, Virginia and is presented as such in the County’s financial report for the fiscal year ended June 30, 2019.

**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.

**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 acquisition 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. Capitalized interest totaled \$0 and \$0 for fiscal years ending June 30, 2019 and June 30, 2018, respectively.

Property, plant, and equipment are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Infrastructure	5-50
Machinery and equipment	3-10
Buidings and improvements	30-50

PULASKI COUNTY PUBLIC SERVICE AUTHORITY  
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
AT JUNE 30, 2019

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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, 2019, the allowance amounted to approximately \$2,009,661.

E. Cash and Cash Equivalents:

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.

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 \$281,481.

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. 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 financial 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 only has one item that qualifies for reporting in this category. It is comprised of certain items related to the measurement of the net pension liability and net OPEB liabilities and contributions to the pension and OPEB plans made during the current year and subsequent to the net pension liability and net OPEB liabilities measurement date. For more detailed information on these items, reference the related notes.

PULASKI COUNTY PUBLIC SERVICE AUTHORITY  
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
AT JUNE 30, 2019

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

I. Deferred Outflows/Inflows of Resources: (continued)

In addition to liabilities, the statement of financial 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 has one type of item that qualifies for reporting in this category. Certain items related to the measurement of the net pension liability and net OPEB liabilities are reported as deferred inflows of resources. For more detailed information on these items, reference the related notes.

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.

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. Pensions:

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Pulaski County Public Service Authority's and the deductions from the Pulaski County Public Service Authority's net fiduciary position have been determined on the same basis as they were reported by the Virginia Retirement System (VRS). For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

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PULASKI COUNTY PUBLIC SERVICE AUTHORITY  
(A COMPONENT UNIT OF PULASKI COUNTY)  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
AT JUNE 30, 2019

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

M. Other Postemployment Benefits (OPEB)

For purposes of measuring the net VRS related OPEB liabilities, deferred outflows of resources and deferred inflows of resources related to the OPEB, and OPEB expense, information about the fiduciary net position of the VRS GLI OPEB Plan and the additions to/deductions from the VRS OPEB Plans' net fiduciary position have been determined on the same basis as they were reported by VRS. In addition, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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 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). The Authority had no investments at June 30, 2019.

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PULASKI COUNTY PUBLIC SERVICE AUTHORITY  
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
AT JUNE 30, 2019

**NOTE 3 - CAPITAL ASSETS:**

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

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	\$ 225,354	\$ -	\$ -	\$ 225,354
Construction in progress	269,878	1,839,162	-	2,109,040
Total capital assets not being depreciated	<u>\$ 495,232</u>	<u>\$ 1,839,162</u>	<u>\$ -</u>	<u>\$ 2,334,394</u>
Capital assets, being depreciated:				
Infrastructure	\$ 47,629,722	\$ 329,913	\$ -	\$ 47,959,635
Buildings and improvements	503,384	-	-	503,384
Machinery and equipment	5,457,756	385,150	(7,949)	5,834,957
Total capital assets being depreciated	<u>\$ 53,590,862</u>	<u>\$ 715,063</u>	<u>\$ (7,949)</u>	<u>\$ 54,297,976</u>
Accumulated depreciation:				
Infrastructure	\$ (25,461,244)	\$ (1,104,886)	\$ -	\$ (26,566,130)
Buildings and improvements	(28,795)	(9,939)	-	(38,734)
Machinery and equipment	(3,598,996)	(326,995)	7,949	(3,918,042)
Total accumulated depreciation	<u>\$ (29,089,035)</u>	<u>\$ (1,441,820)</u>	<u>\$ 7,949</u>	<u>\$ (30,522,906)</u>
Total capital assets being depreciated, net	<u>\$ 24,501,827</u>	<u>\$ (726,757)</u>	<u>\$ -</u>	<u>\$ 23,775,070</u>
Capital assets, net	<u>\$ 24,997,059</u>	<u>\$ 1,112,405</u>	<u>\$ -</u>	<u>\$ 26,109,464</u>

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PULASKI COUNTY PUBLIC SERVICE AUTHORITY  
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
AT JUNE 30, 2019

**NOTE 4 - LONG-TERM OBLIGATIONS:**

The following is a summary of changes in long-term obligations of the Authority for the fiscal year ended June 30, 2019:

	Beginning Balance	Issuances/ Increases	Retirements/ Decreases	Ending Balance
Direct Borrowings and Placements:				
Revenue bonds	\$ 9,716,396	\$ 11,000	\$ (384,465)	\$ 9,342,931
Unamortized bond premiums	31,886	-	(2,277)	29,609
Net OPEB liabilities	313,108	44,171	(48,009)	309,270
Net pension liability	575,762	638,929	(760,040)	454,651
Compensated absences	185,084	60,414	(46,271)	199,227
Total	<u>\$ 10,822,236</u>	<u>\$ 754,514</u>	<u>\$ (1,241,062)</u>	<u>\$ 10,335,688</u>

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

Year Ending June 30,	Direct Borrowings and Placements Water and Sewer Revenue Bonds	
	Principal	Interest
2020	\$ 388,831	\$ 284,772
2021	329,588	274,092
2022	314,609	264,443
2023	323,394	255,865
2024	330,270	244,881
2025-2029	1,529,116	1,083,309
2030-2034	1,745,284	822,058
2035-2039	1,169,299	597,027
2040-2044	1,366,067	400,256
2045-2049	1,550,165	167,365
2050-2051	296,308	5,543
Totals	<u>\$ 9,342,931</u>	<u>\$ 4,399,611</u>

PULASKI COUNTY PUBLIC SERVICE AUTHORITY  
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
AT JUNE 30, 2019

**NOTE 4 - LONG-TERM OBLIGATIONS: (continued)**

Details of Long-term Obligations:

	Interest Rate(s)	Issue Date	Final Maturity Date	Amount of Original Issue	Balance	Amount Due Within One Year
Direct Borrowings and Placements:						
Rural Development (RD) Water and Sewer Revenue Bonds:						
Central Utilities	4.50%	5/11/2009	2049	\$ 865,900	\$ 777,438	\$ 12,820
Highland Park Sewer	4.25%	11/19/2009	2050	1,187,600	1,073,431	17,824
Dublin Subdivisions Sewer	4.25%	11/19/2009	2050	804,400	727,627	12,070
Commerce Park Initial	2.375%	2/17/2011	2051	3,812,000	3,376,432	73,149
Commerce Park Subsequent	2.375%	2/17/2011	2051	929,000	820,890	18,119
Total RD Revenue Bonds					<u>\$ 6,775,818</u>	<u>\$ 133,982</u>
Other Water and Sewer Revenue Bonds:						
Claytor Lake #1 and #2	3.300%	3/5/2014	2034	\$ 2,490,038	\$ 1,973,476	\$ 105,743
Suntrust Refinancing Revenue Bond	2.75%	3/5/2014	2045	1,515,489	356,949	138,360
Total Other Revenue Bonds					<u>\$ 2,330,425</u>	<u>\$ 244,103</u>
Premium	n/a	6/30/2004	2032	\$ 63,764	\$ 29,609	\$ 2,277
Virginia Resource Authority (VRA) Water and Sewer Revenue Bonds:						
Shrader Hill	0.00%	12/1/1993	2024	\$ 130,000	\$ 20,865	\$ 4,637
Generator	2.00%	3/31/2016	2024	220,000	215,823	6,109
Total VRA Revenue Bonds					<u>\$ 236,688</u>	<u>\$ 10,746</u>
Total Direct Borrowing and Placements Revenue Bonds					<u>\$ 9,372,540</u>	<u>\$ 391,108</u>
Other Obligations:						
Net OPEB liabilities	n/a	n/a	n/a	n/a	\$ 309,270	\$ -
Compensated absences	n/a	n/a	n/a	n/a	199,227	49,807
Net pension liability	n/a	n/a	n/a	n/a	454,651	-
Total Other Obligations					<u>\$ 963,148</u>	<u>\$ 49,807</u>
Totals					<u>\$ 10,335,688</u>	<u>\$ 440,915</u>

In the event of default on the rural development loans, the Lender can call the entire unpaid principal and interest amounts.

PULASKI COUNTY PUBLIC SERVICE AUTHORITY  
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
AT JUNE 30, 2019

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**NOTE 5 - LOAN RECEIVABLE:**

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, 2019 is \$1,248,457.

During 2018, the PSA entered into an agreement with Pulaski Sewerage Authority for a loan payable totaling \$32,800. The loan is payable in monthly installments with a final maturity date of November 2019. The loan is a non-interest bearing loan and based on the dollar amount, interest has not been imputed on same. The outstanding balance on the loan is \$9,111 at June 30, 2019.

**NOTE 6 - 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 \$199,227.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
AT JUNE 30, 2019

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**NOTE 7 - PENSION PLAN:**

*Plan Description*

All full-time, salaried permanent employees of the Pulaski County Public Service Authority are automatically covered by a VRS Retirement Plan upon employment. This is an agent multiple-employer plan administered by the Virginia Retirement System (the System) along with plans for other employer groups in the Commonwealth of Virginia. However, several entities whose financial information is not included in the primary government report participate in the VRS plan through Pulaski County, Virginia and the participating entities report their proportionate information on the basis of a cost-sharing plan. Members earn one month of service credit for each month they are employed and for which they and their employer pay contributions to VRS. Members are eligible to purchase prior service, based on specific criteria as defined in the Code of Virginia, as amended. Eligible prior service that may be purchased includes prior public service, active military service, certain periods of leave, and previously refunded service.

*Benefit Structures*

The System administers three different benefit structures for covered employees - Plan 1, Plan 2 and Hybrid. Each of these benefit structures has different eligibility criteria, as detailed below.

- a. Employees hired before July 1, 2010, vested as of January 1, 2013, and have not taken a refund, are covered under Plan 1, a defined benefit plan. Non-hazardous duty employees are eligible for an unreduced retirement benefit beginning at age 65 with at least 5 years of creditable service or age 50 with at least 30 years of creditable service. Non-hazardous duty employees may retire with a reduced benefit as early as age 55 with at least 5 years of creditable service or age 50 with at least 10 years of creditable service.
- b. Employees hired on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013 are covered under Plan 2, a defined benefit plan. Non-hazardous duty employees are eligible for an unreduced benefit beginning at their normal social security retirement age with at least 5 years of creditable service or when the sum of their age and service equals 90. Non-hazardous duty employees may retire with a reduced benefit as early as age 60 with at least 5 years of creditable service.
- c. Non-hazardous duty employees hired on or after January 1, 2014 are covered by the Hybrid Plan combining the features of a defined benefit plan and a defined contribution plan. Plan 1 and Plan 2 members also had the option of opting into this plan during the election window held January 1 - April 30, 2014 with an effective date of July 1, 2014. Employees covered by this plan are eligible for an unreduced benefit beginning at their normal social security retirement age with at least 5 years of creditable service, or when the sum of their age and service equal 90. Employees may retire with a reduced benefit as early as age 60 with at least 5 years of creditable service. For the defined contribution component, members are eligible to receive distributions upon leaving employment, subject to restrictions.

PULASKI COUNTY PUBLIC SERVICE AUTHORITY  
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
AT JUNE 30, 2019

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**NOTE 7 - PENSION PLAN:** (continued)

*Average Final Compensation and Service Retirement Multiplier*

The VRS defined benefit is a lifetime monthly benefit based on a retirement multiplier as a percentage of the employee's average final compensation multiplied by the employee's total creditable service. Under Plan 1, average final compensation is the average of the employee's 36 consecutive months of highest compensation and the multiplier is 1.7% for non-hazardous duty employees, 1.85% for sheriffs and regional jail superintendents. Under Plan 2, average final compensation is the average of the employee's 60 consecutive months of highest compensation and the retirement multiplier is 1.65% for non-hazardous duty employees, 1.85% for sheriffs and regional jail superintendents. Under the Hybrid Plan, average final compensation is the average of the employee's 60 consecutive months of highest compensation and the multiplier is 1.00%. For members who opted into the Hybrid Retirement Plan from Plan 1 or Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans.

*Cost-of-Living Adjustment (COLA) in Retirement and Death and Disability Benefits*

Retirees with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service are eligible for an annual COLA beginning July 1 after one full calendar year from the retirement date. Retirees with a reduced benefit and who have less than 20 years of creditable service are eligible for an annual COLA beginning on July 1 after one calendar year following the unreduced retirement eligibility date. Under Plan 1, the COLA cannot exceed 5.00%. Under Plan 2 and the Hybrid Plan, the COLA cannot exceed 3.00%. The VRS also provides death and disability benefits. Title 51.1 of the Code of Virginia, as amended, assigns the authority to establish and amend benefit provisions to the General Assembly of Virginia.

*Contributions*

The contribution requirement for active employees is governed by §51.1-145 of the Code of Virginia, as amended, but may be impacted as a result of funding options provided to political subdivisions by the Virginia General Assembly. Employees are required to contribute 5.00% of their compensation toward their retirement.

The Pulaski County Service Authority's contractually required employer contribution rate for the year ended June 30, 2019 was 8.85% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2017.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the Pulaski County Service Authority were \$143,608 and \$146,152 for the years ended June 30, 2019 and June 30, 2018, respectively.

PULASKI COUNTY PUBLIC SERVICE AUTHORITY  
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
AT JUNE 30, 2019

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**NOTE 7 - PENSION PLAN:** (continued)

*Net Pension Liability*

At June 30, 2019, the Pulaski County Service Authority reported a liability of \$454,651 for its proportionate share of the net pension liability. The Pulaski County Service Authority's net pension liability was measured as of June 30, 2018. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2017 and rolled forward to the measurement date of June 30, 2018. The Pulaski County Service Authority's proportionate share of the same was calculated using creditable compensation as of June 30, 2018 and 2017 as a basis for allocation. At June 30, 2019 and 2018, the Pulaski County Service Authority's proportion was 12.8998% and 12.9667% respectively.

*Actuarial Assumptions - General Employees*

The total pension liability for General Employees in the Pulaski County Public Service Authority's Retirement Plan was based on an actuarial valuation as of June 30, 2017, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2018.

Inflation	2.5%
Salary increases, including inflation	3.5% - 5.35%
Investment rate of return	7.0%, net of pension plan investment expenses, including inflation*

\* Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 7.0%. However, since the difference was minimal, and a more conservative 7.0% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 7.0% to simplify preparation of pension liabilities.

*Actuarial Assumptions - General Employees*

Mortality rates:

Largest 10 - Non-Hazardous Duty: 20% of deaths are assumed to be service related

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates at ages 81 and older projected with scale BB to 2020; males 95% of rates; females 105% of rates.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 3 years; females 1.0% increase compounded from ages 70 to 90.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with scale BB to 2020; males set forward 2 years, 110% of rates; females 125% of rates.

PULASKI COUNTY PUBLIC SERVICE AUTHORITY  
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
AT JUNE 30, 2019

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**NOTE 7 - PENSION PLAN:** (continued)

Mortality rates: (continued)

All Others (Non 10 Largest) - Non-Hazardous Duty: 15% of deaths are assumed to be service related

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates at ages 81 and older projected with scale BB to 2020; males 95% of rates; females 105% of rates.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 3 years; females 1.0% increase compounded from ages 70 to 90.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with scale BB to 2020; males set forward 2 years, 110% of rates; females 125% of rates.

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Largest 10 - Non-Hazardous Duty:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Lowered rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 20%

All Others (Non 10 Largest) - Non-Hazardous Duty:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Lowered rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 15%

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
AT JUNE 30, 2019

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**NOTE 7 - PENSION PLAN:** (continued)

*Long-Term Expected Rate of Return*

The long-term expected rate of return on pension System investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension System investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimate of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class (Strategy)</u>	<u>Target Allocation</u>	<u>Arithmetic Long-term Expected Rate of Return</u>	<u>Weighted Average Long-term Expected Rate of Return</u>
Public Equity	40.00%	4.54%	1.82%
Fixed Income	15.00%	0.69%	0.10%
Credit Strategies	15.00%	3.96%	0.59%
Real Assets	15.00%	5.76%	0.86%
Private Equity	15.00%	9.53%	1.43%
Total	100.00%		4.80%
		Inflation	2.50%
		*Expected arithmetic nominal return	7.30%

\* The above allocation provides a one-year return of 7.30%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 6.83%, including expected inflation of 2.50%.

*Discount Rate*

The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Consistent with the phased-in funding provided by the General Assembly for state and teacher employer contributions; the Authority was also provided with an opportunity to use an alternative employer contribution rate. For the year ended June 30, 2018, the alternate rate was the employer contribution rate used in FY 2012 or 90% of the actuarially determined employer contribution rate from the June 30, 2015 actuarial valuations, whichever was greater. From July 1, 2018 on, participating employers are assumed to continue to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

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**NOTE 7 - PENSION PLAN:** (continued)

*Sensitivity of the Pulaski County Public Service Authority's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate*

The following presents the Pulaski County Public Service Authority's proportionate share of the net pension liability using the discount rate of 7.00%, as well as what the Pulaski County Public Service Authority's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate:

	Rate		
	1% Decrease (6.00%)	Current Discount (7.00%)	1% Increase (8.00%)
Pulaski County Public Service Authority's proportionate share of the County Retirement Plan Net Pension Liability (Asset)	\$ 1,341,904	\$ 454,651	\$ (285,595)

*Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions*

For the year ended June 30, 2019, the Pulaski County Public Service Authority recognized pension expense of \$8,712. Since there was a change in proportionate share between measurement dates, a portion of the pension expense was related to deferred amounts from changes in proportion and from differences between employer contributions and the proportionate share of employer contributions.

At June 30, 2019, the Pulaski County Public Service Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 76,496
Change in assumptions	-	7,396
Net difference between projected and actual earnings on pension plan investments	-	53,860
Changes in proportion and differences between employer contributions and proportionate share of contributions	36	-
Employer contributions subsequent to the measurement date	143,608	-
Total	\$ 143,644	\$ 137,752

PULASKI COUNTY PUBLIC SERVICE AUTHORITY  
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**NOTE 7 - PENSION PLAN:** (continued)

*Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (continued)*

\$143,608 reported as deferred outflows of resources related to pensions resulting from the Pulaski County Public Service Authority’s contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the fiscal year ending June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in future reporting periods as follows:

<u>Year Ended June 30</u>		
2020	\$	(27,005)
2021		(33,069)
2022		(72,422)
2023		(5,220)

*Pension Plan Data*

Information about the VRS Political Subdivision Retirement Plan is also available in the separately issued VRS 2018 Comprehensive Annual Financial Report (CAFR). A copy of the 2018 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2018-annual-report-pdf>, or by writing to the System’s Chief Financial Officer at P.O. Box 2500, Richmond, VA 23218-2500.

**NOTE 8 - GROUP LIFE INSURANCE (GLI) PROGRAM (OPEB PLAN):**

*Plan Description*

The Group Life Insurance (GLI) Program was established pursuant to §51.1-500 et seq. of the Code of Virginia, as amended, and which provides the authority under which benefit terms are established or may be amended. All full-time, salaried permanent employees of the state agencies, teachers, and employees of participating political subdivisions are automatically covered by the VRS GLI Program upon employment. This is a cost-sharing multiple-employer plan administered by the Virginia Retirement System (the System), along with pensions and other OPEB plans, for public employer groups in the Commonwealth of Virginia.

In addition to the Basic GLI benefit, members are also eligible to elect additional coverage for themselves as well as a spouse or dependent children through the Optional GLI Program. For members who elect the optional group life insurance coverage, the insurer bills employers directly for the premiums. Employers deduct these premiums from members’ paychecks and pay the premiums to the insurer. Since this is a separate and fully insured program, it is not included as part of the GLI Program OPEB.

The specific information for GLI OPEB, including eligibility, coverage and benefits is described below:

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**NOTE 8 - GROUP LIFE INSURANCE (GLI) PROGRAM (OPEB PLAN): (continued)**

*Eligible Employees*

The GLI Program was established July 1, 1960, for state employees, teachers, and employees of political subdivisions that elect the program. Basic GLI coverage is automatic upon employment. Coverage ends for employees who leave their position before retirement eligibility or who take a refund of their accumulated retirement member contributions and accrued interest.

*Benefit Amounts*

The GLI Program is a defined benefit plan with several components. The natural death benefit is equal to the employee's covered compensation rounded to the next highest thousand and then doubled. The accidental death benefit is double the natural death benefit. In addition to basic natural and accidental death benefits, the program provides additional benefits provided under specific circumstances that include the following: accidental dismemberment benefit, safety belt benefit, repatriation benefit, felonious assault benefit, and accelerated death benefit option. The benefit amounts are subject to a reduction factor. The benefit amount reduces by 25% on January 1 following one calendar year of separation. The benefit amount reduces by an additional 25% on each subsequent January 1 until it reaches 25% of its original value. For covered members with at least 30 years of creditable service, the minimum benefit payable was set at \$8,000 by statute. The amount is increased annually based on the VRS Plan 2 cost-of-living adjustment and was increased to \$8,279 effective July 1, 2018.

*Contributions*

The contribution requirements for the GLI Program are governed by §51.1-506 and §51.1-508 of the Code of Virginia, as amended, but may be impacted as a result of funding provided to state agencies and school divisions by the Virginia General Assembly. The total rate for the GLI Program was 1.31% of covered employee compensation. This was allocated into an employee and an employer component using a 60/40 split. The employee component was 0.79% (1.31% x 60%) and the employer component was 0.52% (1.31% x 40%). Employers may elect to pay all or part of the employee contribution; however, the employer must pay all of the employer contribution. Each employer's contractually required employer contribution rate for the year ended June 30, 2019 was 0.52% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2017. The actuarially determined rate, when combined with employee contributions, was expected to finance the costs of benefits payable during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the Group Life Insurance Program from the entity were \$8,753 and \$8,112 for the years ended June 30, 2019 and June 30, 2018, respectively.

*GLI OPEB Liabilities, GLI OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the GLI Program OPEB*

At June 30, 2019, the entity reported a liability of \$124,870 for its proportionate share of the Net GLI OPEB Liability. The Net GLI OPEB Liability was measured as of June 30, 2018 and the total GLI OPEB liability used to calculate the Net GLI OPEB Liability was determined by an actuarial valuation as of that date. The covered employer's proportion of the Net GLI OPEB Liability was based on the covered employer's actuarially determined employer contributions to the GLI Program for the year ended June 30, 2018 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2018, the participating employer's proportion was 0.008224% as compared to 0.008026% at June 30, 2017.

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**NOTE 8 - GROUP LIFE INSURANCE (GLI) PROGRAM (OPEB PLAN): (continued)**

*GLI OPEB Liabilities, GLI OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the GLI Program OPEB (continued)*

For the year ended June 30, 2019, the participating employer recognized GLI OPEB expense of \$1,548. Since there was a change in proportionate share between measurement dates, a portion of the GLI OPEB expense was related to deferred amounts from changes in proportion.

At June 30, 2019, the employer reported deferred outflows of resources and deferred inflows of resources related to the GLI OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 6,063	\$ 2,322
Net difference between projected and actual earnings on GLI OPEB program investments	-	3,999
Change in assumptions	-	5,160
Changes in proportion	2,967	-
Employer contributions subsequent to the measurement date	8,753	-
Total	\$ 17,783	\$ 11,481

\$8,753 reported as deferred outflows of resources related to the GLI OPEB resulting from the employer's contributions subsequent to the measurement date will be recognized as a reduction of the Net GLI OPEB Liability in the fiscal year ending June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the GLI OPEB will be recognized in the GLI OPEB expense in future reporting periods as follows:

Year Ended June 30	
2020	\$ (1,161)
2021	(1,161)
2022	(1,161)
2023	-
2024	774
Thereafter	258

PULASKI COUNTY PUBLIC SERVICE AUTHORITY  
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**NOTE 8 - GROUP LIFE INSURANCE (GLI) PROGRAM (OPEB PLAN): (continued)**

*Actuarial Assumptions*

The total GLI OPEB liability was based on an actuarial valuation as of June 30, 2017, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2018. The assumptions include several employer groups as noted below. Mortality rates included herein are for relevant employer groups. Information for other groups can be referenced in the VRS CAFR.

Inflation	2.5%
Salary increases, including inflation:	
General state employees	3.5% - 5.35%
Teachers	3.5%-5.95%
SPORS employees	3.5%-4.75%
VaLORS employees	3.5%-4.75%
JRS employees	4.5%
Locality - General employees	3.5%-5.35%
Locality - Hazardous Duty employees	3.5%-4.75%
Investment rate of return	7.0%, net of investment expenses, including inflation*

\*Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 7.0%. However, since the difference was minimal, and a more conservative 7.0% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 7.0% to simplify preparation of OPEB liabilities.

**Mortality Rates - Largest Ten Locality Employers - General Employees**

**Pre-Retirement:**

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with scale BB to 2020; males 95% of rates; females 105% of rates.

**Post-Retirement:**

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 3 years; females 1.0% increase compounded from ages 70 to 90.

**Post-Disablement:**

RP-2014 Disability Mortality Rates projected with scale BB to 2020; males set forward 2 years, 110% of rates; females 125% of rates.

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**NOTE 8 - GROUP LIFE INSURANCE (GLI) PROGRAM (OPEB PLAN): (continued)**

*Actuarial Assumptions: (Continued)*

**Mortality Rates - Largest Ten Locality Employers - General Employees (Continued)**

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages and extended final retirement age from 70 to 75
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Lowered disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 20%

**Mortality Rates - Non-Largest Ten Locality Employers - General Employees**

**Pre-Retirement:**

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with scale BB to 2020; males 95% of rates; females 105% of rates.

**Post-Retirement:**

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 3 years; females 1.0% increase compounded from ages 70 to 90.

**Post-Disablement:**

RP-2014 Disability Mortality Rates projected with scale BB to 2020; males set forward 2 years, 110% of rates; females 125% of rates.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
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**NOTE 8 - GROUP LIFE INSURANCE (GLI) PROGRAM (OPEB PLAN): (continued)**

*Actuarial Assumptions: (Continued)*

**Mortality Rates - Non-Largest Ten Locality Employers - General Employees**

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages and extended final retirement age from 70 to 75
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Lowered disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 15%

**NET GLI OPEB Liability**

The net OPEB liability (NOL) for the GLI Program represents the program’s total OPEB liability determined in accordance with GASB Statement No. 74, less the associated fiduciary net position. As of measurement date of June 30, 2018, NOL amounts for the GLI Program are as follows (amounts expressed in thousands):

		Group Life Insurance OPEB Program
Total GLI OPEB Liability	\$	3,113,508
Plan Fiduciary Net Position		1,594,773
Employers' Net GLI OPEB Liability (Asset)	\$	1,518,735
Plan Fiduciary Net Position as a Percentage of the Total GLI OPEB Liability		51.22%

The total GLI OPEB liability is calculated by the System’s actuary, and each plan’s fiduciary net position is reported in the System’s financial statements. The net GLI OPEB liability is disclosed in accordance with the requirements of GASB Statement No. 74 in the System’s notes to the financial statements and required supplementary information.

PULASKI COUNTY PUBLIC SERVICE AUTHORITY  
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
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**NOTE 8 - GROUP LIFE INSURANCE (GLI) PROGRAM (OPEB PLAN): (continued)**

*Long-Term Expected Rate of Return*

The long-term expected rate of return on the System’s investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of System’s investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimate of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class (Strategy)	Target Allocation	Arithmetic Long-term Expected Rate of Return	Weighted Average Long-term Expected Rate of Return
Public Equity	40.00%	4.54%	1.82%
Fixed Income	15.00%	0.69%	0.10%
Credit Strategies	15.00%	3.96%	0.59%
Real Assets	15.00%	5.76%	0.86%
Private Equity	15.00%	9.53%	1.43%
Total	<u>100.00%</u>		<u>4.80%</u>
		Inflation	<u>2.50%</u>
		*Expected arithmetic nominal return	<u>7.30%</u>

\*The above allocation provides a one-year return of 7.30%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 6.83%, including expected inflation of 2.50%.

*Discount Rate*

The discount rate used to measure the total GLI OPEB liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that member contributions will be made per the VRS guidance and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ended June 30, 2018, the rate contributed by the entity for the GLI OPEB will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly, which was 100% of the actuarially determined contribution rate. From July 1, 2018 on, employers are assumed to continue to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the GLI OPEB’s fiduciary net position was projected to be available to make all projected future benefit payments of eligible employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total GLI OPEB liability.

PULASKI COUNTY PUBLIC SERVICE AUTHORITY  
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
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**NOTE 8 - GROUP LIFE INSURANCE (GLI) PROGRAM (OPEB PLAN): (continued)**

*Sensitivity of the Employer's Proportionate Share of the Net GLI OPEB Liability to Changes in the Discount Rate*

The following presents the employer's proportionate share of the net GLI OPEB liability using the discount rate of 7.00%, as well as what the employer's proportionate share of the net GLI OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate:

	Rate		
	1% Decrease	Current Discount	1% Increase
	(6.00%)	(7.00%)	(8.00%)
Pulaski County Public Service Authority's proportionate share of the Group Life Insurance Program Net OPEB Liability	\$ 163,182	\$ 124,870	\$ 93,782

*GLI Program Fiduciary Net Position*

Detailed information about the GLI Program's Fiduciary Net Position is available in the separately issued VRS 2018 Comprehensive Annual Financial Report (CAFR). A copy of the 2018 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2018-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

**NOTE 9 - OTHER POSTEMPLOYMENT BENEFITS - HEALTH INSURANCE:**

*Plan Description*

In addition to the pension benefits described in Note 7, the Pulaski County Public Service Authority participates in a cost-sharing defined benefit healthcare plan, the Plan. Several entities participate in the defined benefit healthcare plan through the County of Pulaski, Virginia and the participating entities report their proportionate information on the basis of a cost-sharing plan. The plan provides postemployment 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 employees be age 50 with 10 years of service or permanently, totally disabled and injured in the line of duty. The Plan does not issue a publicly available financial report.

*Benefits Provided*

Postemployment benefits are provided to eligible retirees to include healthcare and vision benefits for retirees and their dependents. Benefits are provided through a third-party insurer, and the full cost of benefits is covered by the plan.

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AT JUNE 30, 2019

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NOTE 9 - OTHER POSTEMPLOYMENT BENEFITS - HEALTH INSURANCE: (continued)

*Contributions*

The board does not pre-fund benefits; therefore, no assets are accumulated in a trust fund. The current funding policy is to pay benefits directly from general assets on a pay-as-you-go basis. Contributions to the OPEB plan from the Pulaski County Public Service Authority were \$0 for the year ended June 30, 2019.

*Actuarial Assumptions*

The total OPEB liability was determined by an actuarial valuation as of July 1, 2018, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.50%
Salary Increases	2.50%
Discount Rate	3.62%
Healthcare Cost Trend Rate	6.00% for fiscal year end 2019, decreasing 0.50% per year to an ultimate rate of 5.00%

Mortality rates were based on the RP-2014 Fully Generational Mortality Table, with base year 2006, using two-dimensional improvement scale MP-2018.

The actuarial assumptions used in the July 1, 2018 valuation were based on July 1, 2018 valuation data rolled forward to the measurement date. The methods, assumptions, and participant data used can be found in the July 1, 2018 actuarial valuation report.

*Discount Rate*

The discount rate has been set equal to 3.62% and represents the Municipal GO AA 20-year yield curve rate as of the measurement date.

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**NOTE 9 - OTHER POSTEMPLOYMENT BENEFITS - HEALTH INSURANCE: (continued)**

*Sensitivity of the Employer's Proportionate Share of the Total OPEB Liability to Changes in the Discount Rate*

The following presents the total OPEB liability of the Pulaski County Public Service Authority, as well as what the total OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.62%) or one percentage point higher (4.62%) than the current discount rate:

Rate		
1% Decrease (2.62%)	Current Discount Rate (3.62%)	1% Increase (4.62)
\$ 203,866	\$ 184,400	\$ 166,560

*Sensitivity of the Employer's Proportionate Share of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates*

The following presents the total OPEB liability of the Pulaski County Public Service Authority, as well as what the total OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower (5.00% decreasing by 0.50% annually to an ultimate rate of 4.00%) or one percentage point higher (7.00% decreasing by 0.50% annually to an ultimate rate of 6.00%) than the current healthcare cost trend rates:

Rates		
Healthcare Cost		
1% Decrease	Current Rate	1% Increase
\$ 161,042	\$ 184,400	\$ 211,819

*Total OPEB Liabilities, OPEB Expense, Deferred Outflows of Resources and Deferred Inflows of Resources*

At June 30, 2019, the Pulaski County Public Service Authority reported a liability of \$184,400 for its proportionate share of the Total OPEB Liability. The Total OPEB Liability was measured as of July 1, 2018 and was determined by an actuarial valuation as of that date. At June 30, 2019 and 2018, the Pulaski County Public Service Authority's proportion was 4.14% and 4.24%, respectively.

PULASKI COUNTY PUBLIC SERVICE AUTHORITY  
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
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**NOTE 9 - OTHER POSTEMPLOYMENT BENEFITS - HEALTH INSURANCE: (continued)**

*Total OPEB Liabilities, OPEB Expense, Deferred Outflows of Resources and Deferred Inflows of Resources (Continued)*

For the year ended June 30, 2019, the Pulaski County Public Service Authority recognized OPEB expense of \$15,000. At June 30, 2019, the Authority, reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 12,600
Change in assumptions	-	9,900
Total	\$ -	\$ 22,500

Amounts reported as deferred outflows or resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ended June 30	
2020	\$ (3,700)
2021	(3,700)
2022	(3,700)
2023	(3,700)
2024	(3,700)
2025	(3,700)
Thereafter	(300)

Additional disclosures on changes in total OPEB liability and related ratios can be found in the required supplementary information following the notes to the financial statements.

**NOTE 10 - AGGREGATE OPEB INFORMATION:**

	Deferred Outflows	Deferred Inflows	Net OPEB Liability	OPEB Expense
VRS OPEB Plans:				
Group Life Insurance Program	\$ 17,783	\$ 11,481	\$ 124,870	\$ 1,548
Stand-Alone Plan	-	22,500	184,400	15,000
Totals	\$ 17,783	\$ 33,981	\$ 309,270	\$ 16,548

PULASKI COUNTY PUBLIC SERVICE AUTHORITY  
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
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**NOTE 11 - OTHER NONCURRENT ASSETS:**

As of June 30, 2019, the Authority had the following intangible assets:

	Beginning Balance	Increases	Decreases	Ending Balance
Intangible assets:				
Organization expense	\$ 21,480	\$ -	\$ -	\$ 21,480
Accumulated amortization:				
Organization expense	\$ (21,348)	\$ (132)	\$ -	\$ (21,480)
Intangible assets, net	<u>\$ 132</u>	<u>\$ (132)</u>	<u>\$ -</u>	<u>\$ -</u>

**NOTE 12 - LITIGATION:**

At June 30, 2019, 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.

**NOTE 13 - COMMITMENTS:**

The Authority entered into an agreement with Virginia’s First Regional Industrial Facility Authority (VRIFA) whereby VRIFA would pay for the engineering and installation of a sewer line which totaled \$369,134. The Authority collects revenues from the use of the sewer line and based on same, remits annual payments to VRIFA to pay on the balance of costs incurred. The agreement terms coincide with the life of the sewer line which is 40 years beginning on June 30, 2017. During the year, the Authority paid VRIFA \$13,711 related to the agreement. At June 30, 2019, the remaining balance owed to VRIFA totaled \$339,932.

**NOTE 14 - SUBSEQUENT EVENT:**

On July 30, 2019, the Authority issued revenue bonds of \$475,000 for a water meter replacement project.

**NOTE 15 - ADOPTION OF ACCOUNTING PRINCIPLES:**

The Authority implemented the financial reporting provisions of Governmental Accounting Standards Board Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements* during the fiscal year ended June 30, 2019. This Statement clarifies which liabilities governments should include when disclosing information related to debt. It also requires that additional essential information related to debt be disclosed in notes to financial statements. No restatement was required as a result of this implementation.

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NOTE 16 - UPCOMING PRONOUCEMENTS:

Statement No. 87, *Leases*, requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019.

Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*, provides guidance for reporting capital assets and the cost of borrowing for a reporting period and simplifies accounting for interest cost incurred before the end of a construction period. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019.

Management is currently evaluating the impact these standards will have on the financial statements when adopted.

Required Supplementary Information

PULASKI COUNTY PUBLIC SERVICE AUTHORITY  
 (A COMPONENT UNIT OF PULASKI COUNTY, VIRGINIA)  
 Schedule of the Authority's Proportionate Share of the Net Pension Liability (Asset)  
 For the Measurement Dates of June 30, 2014 through June 30, 2018

Pulaski County, Virginia's Pension Plan (a cost-sharing multiple employer plan administered by the VRS)

Date (1)	Proportion of the Net Position Liability (Asset) (NPLA) (2)	Proportionate Share of the NPLA (3)	Covered Payroll (4)	Proportionate Share of the NPLA as a Percentage of Covered Payroll (3)/(4) (5)	Pension Plan's Fiduciary Net Position as a Percentage of Total Pension Liability (Asset) (6)
2018	12.8998%	\$ 454,651	\$ 1,552,987	29.28%	93.59%
2017	12.9667%	575,762	1,498,406	38.42%	91.72%
2016	12.7300%	924,782	1,399,901	66.06%	86.10%
2015	13.2000%	688,791	1,380,323	49.90%	89.62%
2014	13.2000%	615,090	1,341,630	45.85%	90.36%

Schedule is intended to show information for 10 years. Information prior to the 2014 valuation is not available. However, additional years will be included as they become available.

PULASKI COUNTY PUBLIC SERVICE AUTHORITY  
(A COMPONENT UNIT OF PULASKI COUNTY, VIRGINIA)  
Schedule of Employer Contributions - Pension Plan  
For the Years Ended June 30, 2015 through June 30, 2019

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Pulaski County, Virginia's Pension Plan (a cost-sharing multiple employer plan administered by the VRS)

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Date	Contractually Required Contribution (1)	Contributions in Relation to Contractually Required Contribution (2)	Contribution Deficiency (Excess) (3)	Employer's Covered Payroll (4)	Contributions as a % of Covered Payroll (5)
2019	\$ 143,608	\$ 143,608	-	\$ 1,680,489	8.55%
2018	146,152	146,152	-	1,552,987	9.41%
2017	142,214	142,214	-	1,498,406	9.49%
2016	169,248	169,248	-	1,399,901	12.09%
2015	166,881	166,881	-	1,380,323	12.09%

Schedule is intended to show information for 10 years. Prior to 2015, information for the Authority was reported with that of the County. Therefore, additional information is not available at this time. Additional information will be presented as it becomes available.

PULASKI COUNTY PUBLIC SERVICE AUTHORITY  
(A COMPONENT UNIT OF PULASKI COUNTY, VIRGINIA)  
Notes to Required Supplementary Information - Pension Plan  
For the Year Ended June 30, 2019

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Changes of benefit terms - There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation.

Changes of assumptions - The following changes in actuarial assumptions were made effective June 30, 2016 based on the most recent experience study of the System for the four-year period ending June 30, 2016:

Largest 10 - Non-Hazardous Duty:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Lowered rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 20%

All Others (Non 10 Largest) - Non-Hazardous Duty:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Lowered rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 15%

Pulaski County Public Service Authority  
 (A component unit of Pulaski County, Virginia)  
 Schedule of Authority's Share of Net OPEB Liability  
 Group Life Insurance Program  
 For the Measurement Dates of June 30, 2018 and 2017

Date (1)	Employer's Proportion of the Net GLI OPEB Liability (2)	Employer's Proportionate Share of the Net GLI OPEB Liability (3)	Employer's Covered Payroll (4)	Employer's Proportionate Share of the Net GLI OPEB Liability as a Percentage of Covered Payroll (3)/(4) (5)	Plan Fiduciary Net Position as a Percentage of Total GLI OPEB Liability (6)
2018	0.008224%	\$ 124,870	\$ 1,552,987	8.04%	51.22%
2017	0.008026%	120,808	1,498,406	8.06%	48.86%

Schedule is intended to show information for 10 years. Information prior to the 2017 valuation is not available. However, additional years will be included as they become available.

Pulaski County Public Service Authority  
(A component unit of Pulaski County, Virginia)

Schedule of Employer Contributions

Group Life Insurance Program

For the Years Ended June 30, 2017 through June 30, 2019

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Date	Contractually Required Contribution (1)	Contributions in Relation to Contractually Required Contribution (2)	Contribution Deficiency (Excess) (3)	Employer's Covered Payroll (4)	Contributions as a % of Covered Payroll (5)
2019	\$ 8,753	\$ 8,753	\$ -	\$ 1,683,303	0.52%
2018	8,112	8,112	-	1,552,987	0.52%
2017	7,716	7,716	-	1,498,406	0.51%

Schedule is intended to show information for 10 years. Information prior to the 2017 valuation is not available. However, additional years will be included as they become available.

Pulaski County Public Service Authority  
(A component unit of Pulaski County, Virginia)  
Notes to Required Supplementary Information  
Group Life Insurance Program  
For the Year Ended June 30, 2019

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Changes of benefit terms - There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation.

Changes of assumptions - The following changes in actuarial assumptions were made effective June 30, 2016 based on the most recent experience study of the System for the four-year period ending June 30, 2016:

**Largest Ten Locality Employers - General Employees**

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages and extended final retirement age from 70 to 75
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Lowered disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 20%

**Non-Largest Ten Locality Employers - General Employees**

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages and extended final retirement age from 70 to 75
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Lowered disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 15%

Pulaski County Public Service Authority  
 (A component unit of Pulaski County, Virginia)  
 Schedule of Authority's Proportionate Share of the Net OPEB Liability (Asset)  
 Health Insurance  
 For the Years Ended June 30, 2018 through June 30, 2019

Date (1)	Proportion of the Net OPEB Liability (NPLA) (2)	Proportionate Share of the NOLA (3)	Covered Payroll (4)	Proportionate Share of the NOLA as a Percentage of Covered Payroll (3)/(4) (5)
2019	4.1400%	\$ 184,400	\$ 1,370,208	13.46%
2018	4.2400%	192,300	1,352,433	14.22%

Schedule is intended to show information for 10 years. Information prior to the 2017 valuation is not available. However, additional years will be included as they become available.

Pulaski County Public Service Authority  
 (A component unit of Pulaski County, Virginia)  
 Schedule of Employer Contributions  
 Health Insurance

For the Years Ended June 30, 2018 through June 30, 2019

Date	Contractually Required Contribution (1)	Contributions in Relation to Contractually Required Contribution (2)	Contribution Deficiency (Excess) (3)	Employer's Covered Payroll (4)	Contributions as a % of Covered Payroll (5)
2019	\$ -	\$ -	\$ -	\$ 1,370,208	0.00%
2018	900	900	-	1,352,433	0.07%

Schedule is intended to show information for 10 years. Information prior to the 2017 valuation is not available. However, additional years will be included as they become available.

Pulaski County Public Service Authority  
 (A component unit of Pulaski County, Virginia)  
 Notes to Required Supplementary Information  
 Health Insurance  
 For the Year Ended June 30, 2019

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Valuation Date: 7/1/2018  
 Measurement Date: 7/1/2018

No assets are accumulated in a trust that meets the criteria in GASB 75 to pay related benefits.

*Methods and assumptions used to determine OPEB liability:*

Actuarial Cost Method	Entry age normal cost method
Discount Rate	3.62%
Inflation	2.50%
Healthcare Trend Rate	6.00% for fiscal year end 2019, decreasing 0.50% per year to an ultimate rate of 5.00%
Salary Increase Rates	2.50%
Retirement Age	The average age at retirement is 62
Mortality Rates	RP-2014 Mortality Table, fully generational with base year 2006, projected using two-dimensional mortality improvementscaled MP-2018

## Other Supplementary Information

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

Comparative Schedule of Revenues, Expenses and Changes in Net Position  
Year Ended June 30, 2019 (With Comparative Amounts for Year Ended June 30, 2018)

	2019	2018
<b>Operating Revenues:</b>		
Garbage service	\$ 4,401,887	\$ 5,112,091
Water service	3,109,730	3,094,363
Sewer service	1,359,528	1,165,487
Street lights	14,337	14,022
Reconnection fees	12,830	11,950
Penalties and interest on delinquent accounts	255,094	263,529
Miscellaneous	116,239	111,671
	<b>\$ 9,269,645</b>	<b>\$ 9,773,113</b>
 <b>Operating Expenses:</b>		
<i>Water Distribution:</i>		
Salaries	\$ 163,504	\$ 162,887
Fringes	73,466	81,849
Professional Services	47,459	15,987
County central services	30,729	29,092
Supplies	3,025	4,058
Repair and maintenance	65,611	69,734
Machinery and equipment	4,581	5
Other	89,991	77,389
Depreciation	640,751	753,003
	<b>\$ 1,119,117</b>	<b>\$ 1,194,004</b>
 <i>Water Treatment Plant:</i>		
Salaries	\$ 332,176	\$ 276,973
Fringes	115,968	107,630
Professional Services	375,803	369,884
County central services	69,912	9,576
Supplies	172,228	215,557
Repair and maintenance	12,840	5,201
Other	159,809	281,585
Depreciation	120,809	117,699
	<b>\$ 1,359,545</b>	<b>\$ 1,384,105</b>

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

Comparative Schedule of Revenues, Expenses and Changes in Net Position  
Year Ended June 30, 2019 (With Comparative Amounts for Year Ended June 30, 2018)

	2019	2018
<b>Operating Expenses: (Continued)</b>		
<i>Sewer Collection and Treatment:</i>		
Salaries	\$ 96,109	\$ 96,405
Fringes	52,168	53,997
Professional Services	858,795	619,633
County central services	7,504	9,749
Supplies	25,533	6,647
Repair and maintenance	54,236	32,670
Other	68,008	75,361
Depreciation	463,547	456,649
	<u>1,625,900</u>	<u>1,351,111</u>
Total Sewer Collection and Treatment	\$	\$
<i>Refuse Collection and Disposal:</i>		
Salaries	\$ 1,121,606	\$ 1,076,750
Fringes	493,499	503,608
Professional Services	1,629,856	1,980,263
County central services	538,164	421,185
Supplies	2,907	8,690
Other	160,858	108,640
Depreciation	200,367	196,324
	<u>4,147,257</u>	<u>4,295,460</u>
Total Refuse Collection and Disposal	\$	\$
<i>Administration:</i>		
Salaries	\$ 200,909	\$ 156,444
Fringes	87,831	71,853
Professional Services	134,306	120,798
County central services	25,039	12,793
Supplies	3,286	2,541
Computer equipment	-	1,011
Other	117,439	135,841
Amortization expense	132	16,883
Depreciation	16,346	-
	<u>585,288</u>	<u>518,164</u>
Total Administration	\$	\$
<i>Street Lighting:</i>		
Electricity	\$ 14,027	\$ 16,209

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

Comparative Schedule of Revenues, Expenses and Changes in Net Position  
Year Ended June 30, 2019 (With Comparative Amounts for Year Ended June 30, 2018)

	<u>2019</u>	<u>2018</u>
Operating Expenses: (Continued)		
<i>Billing:</i>		
Salaries	\$ 62,833	\$ 69,720
Fringes	25,048	27,640
Professional Services	27,289	27,019
County central services	24,667	24,750
Supplies	632	1,408
Other	<u>41,532</u>	<u>22,303</u>
Total Billing	\$ <u>182,001</u>	\$ <u>172,840</u>
Total operating expenses	\$ <u>9,033,135</u>	\$ <u>8,931,893</u>
Operating income (loss)	\$ <u>236,510</u>	\$ <u>841,220</u>
Nonoperating Revenues (Expenses):		
Interest income	\$ 38,934	\$ 34,252
Grants	9,000	-
Contributions from Primary Government	135,930	132,862
Connection fees	69,400	36,900
Interest expense	<u>(309,406)</u>	<u>(314,150)</u>
Total nonoperating revenues (expenses)	\$ <u>(56,142)</u>	\$ <u>(110,136)</u>
Increase (decrease) in Net Position	\$ 180,368	\$ 731,084
Net Position, Beginning of Year	<u>20,125,413</u>	<u>19,394,329</u>
Net Position, End of Year	<u><u>\$ 20,305,781</u></u>	<u><u>\$ 20,125,413</u></u>

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## STATISTICAL SECTION

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Table 1

PULASKI COUNTY PUBLIC SERVICE AUTHORITY  
(A COMPONENT UNIT OF PULASKI COUNTY, VIRGINIA)  
Pledged Revenue Coverage  
Last Ten Fiscal Years\*  
(unaudited)

Water and Sewer Revenue Bonds						
Fiscal Year	Operating Revenues (1)	Less: Operating expenses (2)	Net revenues available for debt service	Debt Service		Coverage
				Principal	Interest	
2019	\$ 9,377,979	\$ 7,591,183	\$ 1,786,796	\$ 384,465	\$ 312,490	256%
2018	9,844,265	7,391,335	2,452,930	531,670	316,423	289%
2017	9,885,706	7,838,149	2,047,557	549,396	304,857	240%

(1) Operating revenues, interest and connection fees as described in Note 1.

(2) Net of depreciation and amortization.

\*Table is intended to show information for 10 years. Information prior to 2017 is not available. However, additional years will be included as they become available.

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COMPLIANCE SECTION

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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*

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To the Honorable Members 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 Public Service Authority (the Authority), a component unit of the County of Pulaski, Virginia, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise Pulaski County Public Service Authority's basic financial statements and have issued our report thereon dated November 24, 2019.

#### Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Pulaski County Public Service 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 Pulaski County Public Service Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of Pulaski County Public Service Authority's internal control.

*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. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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 have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2019-001 that we consider to be a material weakness.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether Pulaski County Public Service 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 findings 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.



Blacksburg, Virginia  
November 24, 2019



Independent Auditors' Report on Compliance for Each Major Program and on  
Internal Control over Compliance Required by the Uniform Guidance

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

Report on Compliance for Each Major Federal Program

We have audited the Pulaski County Public Service Authority's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Pulaski County Public Service Authority's major federal programs for the year ended June 30, 2019. Pulaski County Public Service 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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

*Auditors' Responsibility*

Our responsibility is to express an opinion on compliance for each of the Pulaski County Public Service 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 the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 Pulaski County Public Service 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 Pulaski County Public Service Authority's compliance.

*Opinion on Each Major Federal Program*

In our opinion, the Pulaski County Public Service 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, 2019.

## Report on Internal Control over Compliance

Management of the Pulaski County Public Service 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 Pulaski County Public Service 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 the Uniform Guidance, 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 Pulaski County Public Service 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 a 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*Robinson, James, Cox Associates*

Blacksburg, Virginia  
November 24, 2019

Pulaski County Public Service Authority  
(A Component Unit of Pulaski County, Virginia)  
Schedule of Expenditures of Federal Awards  
For the Year Ended June 30, 2019

Federal Grantor/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	N/A	\$ <u>1,627,096</u>
Total Expenditures of Federal Awards			\$ <u><u>1,627,096</u></u>

Notes to the Schedule of Expenditures of Federal Awards

NOTE A--BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of the Pulaski County Public Service Authority under programs of the federal government for the year ended June 30, 2019. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, (Uniform Guidance). 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 B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- (1) Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost
- (2) The Authority did not elect the 10% de minimus indirect cost rate because they only request direct costs for reimbursement.
- (3) Pass-through entity identifying numbers are presented where available.

NOTE C--OUTSTANDING BALANCE OF FEDERAL LOANS

The Authority has received federal funding through loans. At June 30, 2019, the outstanding balance of these loans was: \$ 6,775,818

NOTE D--SUBRECIPIENTS

The Authority did not have any subrecipients for the year ended June 30, 2019.

NOTE E--RELATIONSHIP TO THE FINANCIAL STATEMENTS

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

Intergovernmental state and federal revenues per the basic financial statements:		
Statement of Revenues, Expenses and Changes in Net Position:		\$ <u>9,000</u>
Reconciling items:		
State revenues		\$ (9,000)
Expenditures in advance of loan proceeds		<u>1,627,096</u>
Total federal expenditures per basic financial statements		\$ <u>1,627,096</u>
Total federal expenditures per the Schedule of Expenditures of Federal Awards		\$ <u><u>1,627,096</u></u>

## Pulaski County Public Service Authority

Schedule of Findings and Questioned Costs  
Year Ended June 30, 2019

## 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?	No
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs: Material weaknesses identified?	No
Significant deficiency(ies) identified?	No
Type of auditors' report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR Section 200.516(a)	No

## Identification of major programs:

<u>CFDA #</u>	<u>Name of Federal Program or Cluster</u>
10.760	Water and Waste Disposal System for Rural Communities

Dollar threshold used to distinguish between Type A and Type B programs:	\$750,000
Auditee qualified as low-risk auditee?	No

## Pulaski County Public Service Authority

Schedule of Findings and Questioned Costs  
Year Ended June 30, 2019

## Section II - Financial Statement Findings

2019-001

Criteria:	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.
Effect of Condition:	There is a reasonable possibility that a material misstatement of the financial statements will not be prevented or detected and corrected by the Authority's internal controls over financial reporting.
Cause of Condition:	The Authority does not have proper controls in place to detect and correct adjustments in closing their year end financial statements.
Recommendation:	The Authority should review the auditors' proposed audit adjustments for the fiscal year and develop a plan to ensure the trial balances and related schedules are accurately presented for audit.
Management's Response:	The Authority will review the auditors' proposed audit adjustments for the fiscal year and will develop a plan of action to ensure that all adjusting entries are made prior to final audit fieldwork next year.

## Section III - Federal Award Findings and Questioned Costs

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

## Section IV - Status of Prior Audit Findings and Questioned Costs

There were no prior year findings or questioned costs reported.