

**PULASKI COUNTY SEWERAGE AUTHORITY**

**FINANCIAL REPORT**

**FOR THE YEAR ENDED JUNE 30, 2012**

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PULASKI COUNTY SEWERAGE AUTHORITY  
FINANCIAL REPORT  
FISCAL YEAR ENDED JUNE 30, 2012

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**DIRECTORS**

Ronnie Coake-Chairman

Dennis Setliff-Vice Chairman

Brad Collins-Secretary/Treasurer

Kyle Dehart

Joe Sheffey

PULASKI COUNTY SEWERAGE AUTHORITY  
FINANCIAL REPORT  
FISCAL YEAR ENDED JUNE 30, 2012

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**FINANCIAL SECTION**

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# ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

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## Independent Auditors' Report

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To The Members of the Board  
Pulaski County Sewerage Authority  
Fairlawn, Virginia

We have audited the accompanying financial statements of the business-type activities of the Pulaski County Sewerage Authority, as of and for the year ended June 30, 2012, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Pulaski County Sewerage Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Authorities, Boards, and Commissions*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Pulaski County Sewerage Authority, as of June 30, 2012, and the changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 4, 2013, on our consideration of the Pulaski County Sewerage Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by the missing information.

*Robinson, Farmer, Cox Associates*

Blacksburg, Virginia  
February 4, 2013

## **Basic Financial Statements**

Pulaski County Sewerage Authority  
Statement of Net Assets  
June 30, 2012

**ASSETS**

## Current Assets:

Cash and Cash Equivalents	\$ 210,886
Certificates of Deposit	310,218
Restricted Cash - Customer Deposits	9,843
Accounts Receivable	22,633
Prepaid Expenses	<u>1,360</u>
 Total Current Assets	 \$ <u>554,940</u>

## Noncurrent Assets:

## Other Assets:

Organization Costs	\$ <u>1,731</u>
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## Capital Assets, Net of Accumulated Depreciation:

Sewer System	\$ 291,946
Equipment	<u>12,654</u>
Total Capital Assets	\$ <u>304,600</u>

Total Noncurrent Assets	\$ <u>306,331</u>
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Total Assets	\$ <u>861,271</u>
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**LIABILITIES**

## Current Liabilities:

Accounts Payable	\$ 39,546
Customer Deposits Payable - Restricted Cash	9,843
Withholdings Payable	<u>47</u>

Total Liabilities	\$ <u>49,436</u>
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**NET ASSETS**

Invested in Capital Assets, Net of Related Debt	\$ 304,600
Unrestricted	<u>507,235</u>

Total Net Assets	\$ <u><u>811,835</u></u>
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The accompanying notes to financial statements are an integral part of this statement.

Pulaski County Sewerage Authority  
Statement of Revenues, Expenses and Changes in Net Assets  
For The Year Ended June 30, 2012

<b>OPERATING REVENUES</b>	
Sewer Fees	\$ 371,265
Miscellaneous	<u>7,479</u>
Total Operating Revenues	<u>\$ 378,744</u>
<b>OPERATING EXPENSES</b>	
Salaries and Wages	\$ 6,334
Employee Benefits	1,476
Professional Services	21,000
Wastewater Treatment	211,241
Utilities and Telephone Services	4,755
Insurance	2,632
Supplies, Repairs and Maintenance	50,470
Miscellaneous	5,222
Amortization	297
Depreciation	<u>25,550</u>
Total Operating Expenses	<u>\$ 328,977</u>
Operating Income (Loss)	<u>\$ 49,767</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>	
Interest Income	\$ 3,836
Connection Fees	<u>13,700</u>
Total Nonoperating Revenues (Expenses)	<u>\$ 17,536</u>
Change in Net Assets	\$ 67,303
Net Assets, Beginning of Year	<u>744,532</u>
Net Assets, End of Year	<u><u>\$ 811,835</u></u>

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



**Pulaski County Sewerage Authority**  
**Statement of Cash Flows**  
**For The Year Ended June 30, 2012**

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Receipts from Customers	\$ 379,799
Payments to Suppliers for Goods and Services	(288,839)
Payments to Employees for Services	<u>(7,792)</u>
Net Cash Provided by (Used for) Operating Activities	<u>\$ 83,168</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Acquisition of Capital Assets	\$ (6,500)
Connection Charges	<u>13,700</u>
Net Cash Provided by (Used for) Capital and Related Financing Activities	<u>\$ 7,200</u>
Increase (Decrease) in Cash and Cash Equivalents	\$ 90,368
Cash and Cash Equivalents at Beginning of Year	<u>130,361</u>
Cash and Cash Equivalents at End of Year (includes \$9,843 restricted)	<u><u>\$ 220,729</u></u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities	
Operating Income (Loss)	\$ 49,767
<b>Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities:</b>	
Depreciation	25,550
Amortization	297
<b>Changes in operating assets and liabilities:</b>	
Decrease (Increase) in Accounts Receivable	5
Decrease (Increase) in Prepaid Expenses	9
Increase (Decrease) in Customer Deposits	1,050
Increase (Decrease) in Accounts Payable	6,472
Increase (Decrease) in Withholdings Payable	<u>18</u>
Total Adjustments	<u>\$ 33,401</u>
Net Cash Provided by (Used for) Operating Activities	<u><u>\$ 83,168</u></u>

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

PULASKI COUNTY SEWERAGE AUTHORITY  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2012

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

The financial statements of the Authority conform to generally accepted accounting principles (GAAP) applicable to governmental units promulgated by the Governmental Accounting Standards Board (GASB). The following is a summary of the more significant policies:

A. Financial Reporting Entity:

The Authority was created in 1966 under the Virginia Water and Sewer Authorities Act. The Authority's purpose is to acquire, construct, operate and maintain a public sewer system for the Fairlawn area of Pulaski County, Virginia.

B. Basis of Accounting:

The Pulaski County Sewerage Authority operates as an enterprise fund and its accounts are maintained on the accrual basis of accounting. Under this method, revenues are recognized when earned, and expenses are recorded as liabilities when incurred, without regard to receipt or payment of cash. The Authority accrues revenue for services rendered but not yet billed at the end of the fiscal year. The Authority follows all applicable GASB pronouncements and FASB Pronouncements issued before November 30, 1989 unless these pronouncements conflict with or contradict GASB pronouncements.

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 sewer charges. Operating expenses include the cost of services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

C. Capital Assets:

Capital assets, which include property, plant and equipment, are reported in the financial statements. Capital assets are defined by the Authority as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not to be capitalized.

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

PULASKI COUNTY SEWERAGE AUTHORITY  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2012 (CONTINUED)

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

C. Capital Assets: (Continued)

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

<u>Assets</u>	<u>Years</u>
Sewerage Collection System	20-40
Equipment	3-10

D. Allowance for Uncollectible Accounts:

The Authority does not recognize an allowance for uncollectible accounts due to the immateriality of the amount of such accounts.

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 maturities of 90 days or less. In accordance with GASB Statement No. 9, certificates of deposit with original maturity dates of greater than 90 days are not considered cash and cash equivalents.

F. Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

G. Net Assets:

Net assets are the difference between assets and liabilities. Net assets invested in capital assets represent capital assets, less accumulated depreciation, less any outstanding debt related to the acquisition, construction or improvement of those assets.

H. Organization and Bond Issue Costs:

All expenses incurred not directly applicable to the acquisition of land or the construction of the plant and system were charged to organization costs as well as bond issue costs associated with the issuance of long-term debt. These costs are being amortized over a 40 year life.

I. Prepaid Expenses:

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses in the financial statements. The cost of prepaid expenses is expensed when consumed rather than when purchased.

PULASKI COUNTY SEWERAGE AUTHORITY  
 NOTES TO THE FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED JUNE 30, 2012 (CONTINUED)

**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 local governments and other public bodies to invest in obligations of the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, obligations of the International Bank for Reconstruction and Development (World Bank), the Asian Development Bank, the African Development Bank, "prime quality" commercial paper and certain corporate notes, banker's acceptances, repurchase agreements, and the State Treasurer's Local Government Investment Pool (LGIP).

For the year ended June 30, 2012, the Authority did not have any investments.

**NOTE 3 - CAPITAL ASSETS:**

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

	Beginning Balance July 1, 2011	Increases	Decreases	Ending Balance June 30, 2012
Capital assets, being depreciated:				
Sewer System	\$ 1,278,667	\$ 6,500	\$ -	\$ 1,285,167
Equipment	68,052	-	-	68,052
Total capital assets being depreciated	<u>\$ 1,346,719</u>	<u>\$ 6,500</u>	<u>\$ -</u>	<u>\$ 1,353,219</u>
Less: accumulated depreciation for:				
Sewer System	\$ (971,802)	\$ (21,419)	\$ -	\$ (993,221)
Equipment	(51,267)	(4,131)	-	(55,398)
Total accumulated depreciation	<u>\$ (1,023,069)</u>	<u>\$ (25,550)</u>	<u>\$ -</u>	<u>\$ (1,048,619)</u>
Capital assets, net	<u>\$ 323,650</u>	<u>\$ (19,050)</u>	<u>\$ -</u>	<u>\$ 304,600</u>

**PULASKI COUNTY SEWERAGE AUTHORITY  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2012 (CONTINUED)**

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**NOTE 4 - RISK MANAGEMENT:**

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Authority carries commercial insurance for all risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**NOTE 5 - INTERGOVERNMENTAL AGREEMENTS:**

The Authority has an agreement with Pulaski Public Service Authority to maintain the utility lines for \$12,000 annually.

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**COMPLIANCE SECTION**

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# ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

## REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Members of the Board  
Pulaski County Sewerage Authority  
Fairlawn, Virginia

We have audited the financial statements of the business-type activities of Pulaski County Sewerage Authority, as of and for the year ended June 30, 2012, and have issued our report thereon dated February 4, 2013. 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.

### INTERNAL CONTROL OVER FINANCIAL REPORTING

Management of the Authority is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Pulaski County Sewerage Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Pulaski County Sewerage Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Pulaski County Sewerage Authority's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control over financial reporting that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses to be a material weakness (reference 2012-1).

### COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the Pulaski County Sewerage Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit,

COMPLIANCE AND OTHER MATTERS (CONTINUED)

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*.

We noted certain other matters that we reported to management of the Pulaski County Sewerage Authority in a separate letter dated February 4, 2013.

Pulaski County Sewerage Authority's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the Pulaski County Sewerage Authority's response and, accordingly, we express no opinion on it.

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

*Robinson, Farmer, Co. Associates*

Blacksburg, Virginia  
February 4, 2013



PULASKI COUNTY SEWERAGE AUTHORITY  
 SCHEDULE OF FINDINGS AND RESPONSES  
 FOR THE YEAR ENDED JUNE 30, 2012

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

**Financial Statements**

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

**Section II - Financial Statement Findings**

2012-1

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Criteria:	A key component in internal controls is the segregation of duties. No one employee should have access to both accounting records and related assets.
Condition:	The service organization that keeps the books for the Authority lacks proper segregation of duties over the billing of revenue.
Effect of Condition:	There is more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Authority's internal controls over financial reporting.
Cause of Condition:	The service organization only has two employees and the Authority Board Members do not review monthly billing reports.
Recommendation:	The Board should review monthly billing reports to help alleviate risk created by improper segregation of duties.
Management's Response:	The Board acknowledges that internal control over the billing of revenue lacks proper segregation of duties and will begin to review the work of the service organization to help mitigate the risk.

**Section III - Prior Year Findings**

Finding 2011-1 recurred during fiscal year 2012 and is noted as 2012-1.