PULASKI COUNTY SEWERAGE AUTHORITY

FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2019

Pulaski County Sewerage Authority
Financial Report
For the Year Ended June 30, 2019

DIRECTORS

Dennis Setliff - Chairman

Joe Sheffey – Vice Chairman

Joe Guthrie

Randy Miles

Tom Lillard

PULASKI COUNTY SEWERAGE AUTHORITY
FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2019

TABLE OF CONTENTS

FINANCIAL SECTION	Page (s)

FINANCIAL SECTION

Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Pulaski County Sewerage Authority, 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 Sewerage 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 8 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

Management has omitted 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 this missing information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 6, 2020, on our consideration of 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 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 Sewerage 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 Sewerage Authority's internal control over financial reporting and compliance.

Robinson, Farmer, Cox Associates

Blacksburg, Virginia
February 6, 2020

Basic Financial Statements

Exhibit 1

Pulaski County Sewerage Authority
Statement of Net Position
June 30, 2019

ASSETS		
Current Assets:		
Cash and Cash Equivalents	$	64,104
Restricted Cash - Customer Deposits		16,469
Accounts Receivable		52,575
Total Current Assets	$	133,148
Noncurrent Assets:		
Capital Assets, Net of Accumulated Depreciation:		
Sewer System	$	1,029,548
Total Capital Assets	$	1,029,548
Total Noncurrent Assets	$	1,029,548
Total Assets	$	1,162,696
LIABILITIES		
Current Liabilities:		
Accounts Payable	$	31,169
Customer Deposits Payable - Restricted Cash		16,469
Withholdings Payable		100
Notes Payable-Current portion		9,111
Total Current Liabilities	$	56,849
Total Liabilities	$	56,849
NET POSITION		
Investment in Capital Assets	$	1,029,548
Unrestricted		76,299
Total Net Position	$	1,105,847

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

Exhibit 2

Pulaski County Sewerage Authority
Statement of Revenues, Expenses and Change in Net Position
For the Year Ended June 30, 2019

OPERATING REVENUES		
Sewer Fees	$	408,253
Miscellaneous		1,350
Total Operating Revenues	$	409,603
OPERATING EXPENSES		
Salaries and Wages	$	7,375
Employee Benefits		564
Professional Services		39,342
Wastewater Treatment		230,043
Utilities and Telephone Services		6,549
Insurance		3,517
Supplies, Repairs, and Maintenance		75,416
Miscellaneous		7,487
Depreciation		42,343
Total Operating Expenses	$	412,636
Change in Net Position	$	(3,033)
Net Position, Beginning of Year		1,108,880
Net Position, End of Year	$	1,105,847

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

Exhibit 3

Pulaski County Sewerage Authority
Statement of Cash Flows
For the Year Ended June 30, 2019

CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from Customers	$	384,935
Payments to Suppliers for Goods and Services		(361,101)
Payments to Employees for Services		(7,839)
Net Cash Provided by (Used for) Operating Activities	$	15,995
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Retirement of Debt	$	(21,867)
Net Cash Provided by (Used for) Noncapital Financing Activities	$	(21,867)
Increase (Decrease) in Cash and Cash Equivalents	$	(5,872)
Cash and Cash Equivalents at Beginning of Year (including restricted cash of $15,768)		86,445
Cash and Cash Equivalents at End of Year (including restricted cash of $16,469)	$	80,573
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities:		
Operating Income (Loss)	$	(3,033)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities:		
Depreciation	$	42,343
Changes in operating assets and liabilities:		
Decrease (Increase) in Accounts Receivable		(25,369)
Increase (Decrease) in Customer Deposits		701
Increase (Decrease) in Accounts Payable		1,253
Increase (Decrease) in Withholdings Payable		100
Total Adjustments	$	19,028
Net Cash Provided by (Used for) Operating Activities	$	15,995

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

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

A. Financial Reporting Entity:

The Authority was created in 1966 as an authority pursuant to the Virginia Water and Sewer Authorities Act, Code of Virginia (1950, as amended) for the purpose of acquiring, constructing, operating, and maintaining a public sewer system for the Fairlawn area of Pulaski County, Virginia. The Authority's Board consists of five members.

The Governmental Accounting Standards Board (GASB) has determined that, under certain circumstances, related organizations should be considered component units of a primary entity and, as such, reported as part of the primary entity. In so doing, GASB established criteria for determining whether a related entity should be reported as a component unit and, under different circumstances, how component units must be presented. In defining the Authority as a primary reporting entity, related organizations were evaluated for possible inclusion, using the criteria established by the GASB. The criteria would require the reporting entity to include entities that hold resources entirely or almost entirely for the direct benefit of the Authority where the Authority has the ability to access a majority of those resources and those resources are significant to the Authority. Based on these criteria, the Authority does not have any component units, nor is the Authority considered a component unit of any of the participating jurisdictions. Therefore, these financial statements are for the primary entity only.

B. Basis of Accounting:

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 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.

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

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. There was no interest capitalized during the current or previous fiscal year.

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

Assets	Years
Sewer System	20-40
Machinery and 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 original maturities of 90 days or less. Certificates of deposit with original maturity dates of greater than 90 days are not considered cash and cash equivalents.

F. Use of 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.

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

G. Prepaid Items:

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

H. 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 obligation 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 obligation are also included in this component of net position.

I. 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 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.

J. 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 does not have any deferred outflows of resources as of June 30, 2019.

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 does not have any deferred inflows of resources as of June 30, 2019.

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, 2019, 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, 2018	Increases	Decreases	Ending Balance June 30, 2019
Capital assets, being depreciated:				
Sewer system	$ 2,226,014	$ -	$ -	$ 2,226,014
Machinery and Equipment	68,052	-	-	68,052
Total capital assets being depreciated	$ 2,294,066	$ -	$ -	$ 2,294,066
Accumulated depreciation:				
Sewer system	$ (1,154,662)	$ (41,804)	$ -	$ (1,196,466)
Machinery and Equipment	(67,513)	(539)	-	(68,052)
Total accumulated depreciation	$ (1,222,175)	$ (42,343)	$ -	$ (1,264,518)
Total capital assets being depreciated, net	$ 1,071,891	$ (42,343)	$ -	$ 1,029,548
Capital assets, net	$ 1,071,891	$ (42,343)	$ -	$ 1,029,548

NOTE 4 – LONG-TERM OBLIGATIONS:

The following is a summary of long-term obligation transactions of the Authority for the year ended June 30, 2019:

	Balance July 1, 2018	Issuances	Retirements	Balance June 30, 2019
Pulaski County PSA loan (1)	$ 30,978	$ -	$ (21,867)	$ 9,111
Total	$ 30,978	$ -	$ (21,867)	$ 9,111

Annual requirements to amortize the Authority's long term obligations and related interest are as follows:

Year Ending June 30,	PSA Loan (1) Principal	Interest
2020	$ 9,111	$ -
Totals	$ 9,111	$ -

Details of indebtedness:

	Interest Rates	Date Issued	Final Maturity Date	Amount of Original Issue	Balance	Amount Due Within One Year
Notes:						
PSA Loan	0.00%	5/31/2018	2020	$ 32,800	$ 9,111	$ 9,111
Notes Total					$ 9,111	$ 9,111

(1) – The loan from the Pulaski County PSA is considered a Direct Borrowing or a Direct Placement. There are no default provisions.

NOTE 5 – 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 6 – INTERGOVERNMENTAL AGREEMENTS:

The Authority has an agreement with Pulaski Public Service Authority to maintain the utility lines for $50,000 annually.

NOTE 7 – LITIGATION:

As of 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.

NOTE 8 – 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.

Compliance

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

To the Board of Directors
Pulaski County Sewerage Authority
Fairlawn, 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 Sewerage Authority as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise Pulaski County Sewerage Authority's basic financial statements and have issued our report thereon dated February 6, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Pulaski County Sewerage 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 Sewerage Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of Pulaski County Sewerage 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 certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items 2019-001 that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Pulaski County Sewerage 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 Sewerage Authority's Response to Findings

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

Purpose of this Report

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

Robinson, Farmer, Cox Associates

Blacksburg, Virginia
February 6, 2020

Pulaski Authority Sewerage Authority
Schedule of Findings and Responses
For the 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?	None reported
Noncompliance material to financial statements noted?	No

Section II - Financial Statement Findings

2019-001

Criteria:	A key component of 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.
Cause of Condition:	The service organization only has two employees and the Authority Board Members do not review monthly billing reports.
Effect of Condition:	There is a reasonable possibility that a material misstatement of the financial statements will not be prevented or detected by the Authority's internal controls over financial reporting.
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 - Status of Prior Audit Findings

2018-001

Finding 2018-001 was recurring in fiscal year 2019 as 2019-001.