

PITTSYLVANIA COUNTY SERVICE AUTHORITY

FINANCIAL REPORT

DECEMBER 31, 2013

OFFICERS

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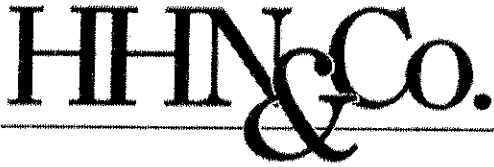
MANAGEMENT

BENNIE SNEAD - ACTING EXECUTIVE DIRECTOR

SHARON K. CASSADA – FINANCE DIRECTOR

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INDEPENDENT AUDITORS' REPORT

To the Board of Commissioners
Pittsylvania County Service Authority
405 R&L Smith Drive
Danville, Virginia 24540

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Pittsylvania County Service Authority, a component unit of Pittsylvania County, Virginia as of and for the year ended December 31, 2013, which comprise the Authority's basic financial statements as listed in the table of contents, and the related notes to the financial statements.

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.

Auditor's Responsibility

Our responsibility is to express opinions 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Pittsylvania County Service Authority, as of December 31, 2013, and the respective changes in net assets and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other-Matters

Pittsylvania County Service Authority has not presented the Management's Discussion and Analysis Section. 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. Other required supplementary information Schedule of Funding Progress for VRS included at Schedule 1 is also not a required part of the basic financial statements but is supplementary information required by U.S. generally accepted accounting principles. 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Pittsylvania County Service Authority's financial statements as a whole. The Expense Schedule included as Schedule 2 is presented for purposes of additional analysis and is not a required part of the financial statements. This schedule is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated March 20, 2014 on our consideration of Pittsylvania County Service Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Pittsylvania County Service Authority's internal control over financial reporting and compliance.

Harris Harvey Neal & Co. LLP

Danville, Virginia
March 20, 2014

Pittsylvania County Service Authority
Balance Sheet
December 31, 2013

ASSETS

Current Assets:

Cash and cash equivalents	\$ 581,814
Investments	1,453,022
Accounts receivables - trade	403,875
Capital lease receivable	17,907
Interest receivable	501
Inventory	38,014
Prepaid expenses	53,604
Total Current Assets	2,548,737

Other Assets

Investments - non-current	901,026
Capital lease receivable non-current portion	254,898
Total Other Assets	1,155,924

Capital Assets:

Utility plant in service, net of accumulated depreciation	33,546,366
Total Capital Assets	33,546,366
Total Non-current Assets	34,702,290
Total Assets	\$ 37,251,027

LIABILITIES AND NET ASSETS

Current Liabilities:

Accounts payable	\$ 89,071
Accounts payable - Pittsylvania County	23,000
Accrued interest payable	7,756
Wage accrual and payroll related liabilities	6,198
Unfunded accrued actuarial liability	20,731
Unearned connection fees	72,004
Customer advances	150,429
Current portion of long-term notes payable	405,934
Total Current Liabilities	775,123

Long-Term Obligations

Unfunded accrued actuarial liability	534,823
Long-term portion of notes payable	302,473
Total Long-Term Liabilities	837,296

Net Assets:

Investment in capital assets	32,837,959
Unrestricted	2,800,649
Total Net Assets	35,638,608
Total Liabilities and Net Assets	\$ 37,251,027

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

Pittsylvania County Service Authority
Statement of Revenue, Expenses, and Changes in Net Assets
For the Year Ended December 31, 2013

Operating Revenues:	
Water service	\$ 1,577,911
Sewer service	890,448
Hydrant rental	77,800
Water connection charges	40,656
Sewer connection charges	21,290
Line extension income	1,875
Penalties	29,845
Account charges	4,788
Reconnection charges	7,508
Sale of materials & supplies	1,412
Total Operating Revenues	<u>2,653,533</u>
Operating Expenses:	
Source of supply:	
Purchased water	547,751
Water pumping expenses (See Schedule 2)	169,151
Water distribution:	
Maintenance of mains and accessories	48,218
Water samples testing	25,315
Sewage treatment:	
Contracted sewage treatment	538,530
Maintenance	83,305
Depreciation expense	746,980
General and administrative (See Schedule 2)	573,084
Total Operating Expenses	<u>2,732,334</u>
Net Operating Loss	<u>(78,801)</u>
Non Operating Revenues (Expenses):	
Interest earned on bank deposits and investments	14,689
Interest expense	(20,717)
Loss on sale of capital assets	<u>(476,737)</u>
Net Nonoperating Revenues	<u>(482,765)</u>
Loss before capital contributions	(561,566)
Contributed Capital/ Contributions in Aid of Construction	<u>309,899</u>
Increase (decrease) in Net Assets	(251,667)
Net Assets at Beginning of Year	<u>35,890,275</u>
Net Assets at End of Year	<u>\$ 35,638,608</u>

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

Pittsylvania County Service Authority
Statement of Cash Flows
For the Year Ended December 31, 2013

Cash Flows from Operating Activities:	
Cash received from customers	\$ 2,592,456
Cash paid to supplies for goods and services	(1,625,083)
Cash paid to employees for services	(412,472)
Net cash provided by operating activities	<u>554,901</u>
Cash Provided (Used) by Capital and Related Financing Activities:	
Cash contributions in aid of construction	1,475
Proceeds from sale of capital assets	26,225
Debt service payments	(264,766)
Payments for capital assets	(120,586)
Net cash provided (used) by Capital and Related Financing Activities	<u>(357,652)</u>
Cash Flows from Investing Activities:	
Cash invested in instruments	(495,160)
Investment income	14,345
Net cash used by investing activities	<u>(480,815)</u>
Net increase (decrease) in cash and cash equivalents	(283,566)
Cash and Cash Equivalents	
Balances - Beginning of Year	<u>865,380</u>
Balances - End of Year	<u>\$ 581,814</u>
Reconciliation of Operating Loss to Net Cash Provided By Operating Activities	
Net Operating (Loss)	<u>\$ (78,801)</u>
Adjustments to reconcile net operating (loss) to net cash (used) provided by operating activities:	
Depreciation	746,980
Decrease in accrued actuarial liability	(45,656)
Changes in assets and liabilities:	
(Increase) decrease in trade receivables	(66,047)
(Increase) decrease in inventory	353
(Increase) decrease in prepaid expenses	(1,317)
Increase (decrease) in trade accounts payable and accruals	(5,581)
Increase (decrease) in customer advances	4,676
Increase (decrease) in unearned connection fees	294
Total Adjustments	<u>633,702</u>
Net cash provided by operating activities	<u>\$ 554,901</u>

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

Pittsylvania County Service Authority
Notes to The Financial Statements
December 31, 2013

1 DESCRIPTION AND PURPOSE OF AUTHORITY

The Pittsylvania County Service Authority (Authority) provides water and sewer services to the residents of Pittsylvania County, Virginia. The Authority is a governmental entity a political subdivision of the Commonwealth of Virginia chartered February 27, 1973, under the Water and Sewer Authorities Act of 1950 of the Commonwealth of Virginia, as amended.

2 REPORTING ENTITY

The intent in establishing the Authority was to develop a public utility that would ultimately be self-sustaining, funded by the revenues it generates for the services it provides through charges to customers. At this time the Authority continues to receive financial assistance from Pittsylvania County in the form of capital expenditures and debt service. A seven-member Board of Commissioners is appointed by the Pittsylvania County Board of Supervisors to govern the Authority. Commissioners are appointed for staggered four-year terms.

The Authority's Board of Commissioners is responsible for reviewing, approving and revising its budget, control over the hiring of management and employees, and rate setting for charges to customers. The Authority's Charter establishes that the Pittsylvania County Board of Supervisors can not impose its will upon the Authority; however the Authority has received a commitment from Pittsylvania County to underwrite certain debt service requirements of the Authority subject to appropriation by future Boards of Supervisors. While no other governmental unit is required by statute to make any payments for the Authority's debt, Pittsylvania County entered into "moral obligation" agreements with the Authority beginning in 2005 to support the debt service for specific capital improvements (See Note 11 - Moral Obligation Agreement), and by so doing, established a financial benefit/burden relationship. The Authority is deemed a component unit of Pittsylvania County, Virginia and as such the assets, liabilities, operations and cash flows of the Authority are reported in the financial statements of Pittsylvania County.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Measurement Focus and Basis of Accounting

The accounting policies and financial reporting of the Authority conform to accounting principles generally accepted in the United States of America applicable to governmental "enterprise" units. Accordingly, the accompanying financial statements are prepared in accordance with pronouncements issued by the Governmental Accounting Standards Board (GASB) in Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis -for State and Local Governments*, as it applies to enterprise units.

The accompanying financial statements are presented using governmental accounting standards applicable to an enterprise funds in accordance with Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*.

Pittsylvania County Service Authority
Notes to The Financial Statements
December 31, 2013

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus and Basis of Accounting (continued)

The Board has elected to apply all applicable FASB pronouncements and Accounting Principles Board Opinions, issued on or before December 31, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. The Board also elected not to apply FASB pronouncements issued after December 31, 1989.

The accrual basis of accounting is used by the Authority for financial reporting, and thus, revenues are recognized when earned and expenses when incurred. The Authority distinguishes operating revenues and expenses from non-operating revenues and expenses. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Authority's principal operations. The principal operating revenues are charges to customers from sales of water and sewer services. Hydrant rentals, connection charges, and various other sales and administrative services are also charged to operating revenue. Operating expenses include the costs of services and sales, general and administrative expenses, and also includes charges to depreciation for capital assets in service. Revenue and expenses not meeting the previous definitions are reported as nonoperating revenues and expenses.

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 a maturity of 90 days or less from the original purchase date. This includes certificates of deposits, short-term repurchase agreements, and liquid asset investment accounts.

Inventory

The Authority maintains its inventory of materials and parts through a perpetual inventory system adjusted periodically for physical counts. The inventory is valued at cost on a first-in, first-out basis of accounting. Inventory items are recorded as expenditures when consumed rather than when purchased.

Investments

Investments are reported at fair value in the statement of net assets. Changes in the fair value of investments are recorded as non-operating income in the statement of revenues, expenses and changes in net assets. Fair value is estimated based on quoted market prices at year-end.

Pittsylvania County Service Authority
Notes to The Financial Statements
December 31, 2013

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets

Capital assets are defined by the Authority as assets with an initial, individual cost of more than \$500 and an estimated useful life in excess of one year. The Authority's capital assets (comprised mainly of the utility plant in service) are stated at cost. From time to time third parties, including Pittsylvania County, land developers and customers, complete water and sewer construction and contribute the completed construction to the Authority to own and maintain. Facilities contributed to the Authority in such a manner are recorded at fair value, generally the contributor's original cost, and added to the utility plant in service. A corresponding income amount is recorded as contributed capital/ contributions in aid of construction. Depreciation is computed using the 150% declining balance method with useful lives varying from 5 to 20 years for equipment and 66 2/3 years for structures, lines and accessories. When a capital asset is retired or otherwise disposed of, the related cost and accumulated depreciation are eliminated from the accounts and any resulting gain or loss is reflected as non-operating revenue or expense.

Major outlays for capital assets and improvements are capitalized as construction of the projects are completed. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are expensed each year.

Long-Term Obligations

Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount.

Interest on Indebtedness

Interest costs of the Authority are treated as non-operating expenses. Interest incurred during the construction phase of capital assets for business-type activities is included as part of the capitalized value of the assets constructed. There were no capitalized interest costs for the year ended December 31, 2013.

Operating Revenues and Expenses

Operating revenues, such as charges for services, result from exchange transactions associated with providing water and sewer services. Exchange transactions are those in which each party receives and gives up essentially equal values. Operating expenses for the Authority includes the cost of services, administrative expenses and depreciation of capital assets. Any other costs are reported as non-operating expenses. Non-operating revenues, such as investment earnings, result from non-exchange transactions or ancillary activities.

Pittsylvania County Service Authority
Notes to The Financial Statements
December 31, 2013

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Concentration of Credit Risk

The Authority is engaged primarily in providing water and sewer service. In that capacity credit is extended to customers, substantially all of whom are local residents and businesses. The Authority is also dependent on Pittsylvania County to fund a portion of its debt service requirements through the year ending December 31, 2017 and the funding of any significant additions and improvements to its system of water and sewer lines.

Compensated Absences

Authority employees earn vacation and sick leave each month at rates established by the Board of Commissioners. No benefit or pay is received for unused sick leave or vacation leave upon termination. At December 31, 2013, the Authority had no liability for compensated absences.

Bad Debts

Bad debts that may occur during the normal course of business are written off under the direct charge-off method in the year the debt is deemed uncollectible. No amount has been reserved for bad debts inasmuch as anticipated uncollectible amounts are deemed to be immaterial.

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.

4 CASH DEPOSITS

Cash Deposits – Short-term

At December 31, 2013 the carrying value of the Authority's short-term bank deposits totaled \$581,814 and the corresponding bank balance amounted to \$581,979. All of the Authority's short-term cash on deposit with banks and savings institutions were collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.2-4400, et seq., Code of Virginia. Under the Act, banks holding public deposits in excess of the amounts insured by FDIC must pledge collateral in the amount of 50% of excess deposits to a collateral pool in the name of the State Treasury Board. The State Treasury Board is responsible for monitoring compliance with the collateralization and reporting requirements of the Act and for notifying participating depositors of the bank's compliance.

Investments

Custodial Credit Risk - Statutes authorize local government 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).

Pittsylvania County Service Authority
Notes to The Financial Statements
December 31, 2013

4 CASH DEPOSITS (CONTINUED)

The Authority does not have a written investment policy.

Interest Rate Risk – The Authority limits its exposure to fair value losses arising from increasing interest rates by limiting the investments period to no more than 24 months.

Credit Risk – The Authority does not have a policy regarding credit risk.

Concentration of Credit Risk – The Authority does not place a limit on the amount of investments held with any one issuer.

As of December 31, 2013 the Authority's investments and maturities were as follows:

	Approximate Fair Value	Investment Maturities (in Years)	
		Less Than 1	1-5
Certificates of Deposit	\$ 2,354,048	1,453,022	901,026

5 RECEIVABLES

Accounts receivables at December 31, 2013 consisted of the follows:

Water and sewer services billed	\$ 261,101
Water and sewer services unbilled	<u>142,774</u>
	<u>\$ 403,875</u>

6 CAPITAL LEASE RECEIVABLE

The Town of Gretna annexed a portion of Pittsylvania County which incorporates water lines belonging to Pittsylvania County Service Authority. In 2013 the Town contracted to purchase those lines that now lie inside the corporate limits of the Town by capital lease. The lease obligation requires the Town to make annual payments of \$25,000 for a period of fourteen years for a total of \$350,000.00. In the event that the Town defaults on this obligation the facilities would revert back to the Authority. At December 31, 2013 the outstanding balance on this obligation was \$272,805 applying an interest rate of 2.7% per annum.

Pittsylvania County Service Authority
Notes to The Financial Statements
December 31, 2013

6 CAPITAL LEASE RECEIVABLE (CONTINUED)

Year	Amount		
	Receivable	Principal	Interest
2014	\$ 25,000	\$ 17,907	\$ 7,093
2015	25,000	18,373	6,627
2016	25,000	18,850	6,150
2017	25,000	19,340	5,660
2018	25,000	19,843	5,157
2019 - 2026	200,000	178,492	21,508
	<u>\$ 325,000</u>	<u>\$272,805</u>	<u>\$ 52,195</u>

7 CONTRIBUTED CAPITAL

Contributions received from Pittsylvania County, private corporations, individuals and others that are used to defray a part, or all, of the costs of installing additions to the utility plant or retirement of the related debt, are credited to contributed capital - contributions in aid of construction. The Authority reports cash and non-cash contributions as part of non-operating revenues (expenses). Contributed capital for the year ended December 31, 2013 was as follows:

Virginia Department of Environmental Quality (DEQ) Grant:	
State Funds	\$ 6,881
Pittsylvania County Contributions:	
Noncash contribution - construction in progress	144,544
Debt service contribution	158,474
	<u>\$ 309,899</u>

8 CONSTRUCTION WORK IN PROGRESS

Below are the major categories of construction work in progress costs from beginning to end of this fiscal year, with new costs incurred, the completed projects transferred out and costs of projects remaining incomplete at December 31, 2013.

9 UTILITY PLANT IN SERVICE

Description	Beginning Balance	Added Cost of Construction	Completed Construction	Ending Balance
Water Projects	\$ 3,315,992	\$ 169,558	\$ 3,485,550	\$ -
Sewer Projects	170,115	3,423	173,538	-
	<u>\$ 3,486,107</u>	<u>\$ 172,981</u>	<u>\$ 3,659,088</u>	<u>\$ -</u>

Pittsylvania County Service Authority
Notes to The Financial Statements
December 31, 2013

9 UTILITY PLANT IN SERVICE (CONTINUED)

Changes in capital assets for the year ended December 31, 2013 were as follows:

	December 31, 2012	Increase	Decrease	December 31, 2013
Land and rights	\$ 55,244	\$ -	\$ -	55,244
Land Improvements	1,210	-	-	1,210
Total land and improvements	<u>56,454</u>	<u>-</u>	<u>-</u>	<u>56,454</u>
<u>Buildings and operating equipment:</u>				
Water systems	26,800,293	3,484,421	756,233	29,528,481
Sewer systems	14,445,553	173,228	183,572	14,435,209
Shop, tools and equipment	310,195	43,916	-	354,111
Office building	398,119	-	-	398,119
Total	<u>41,954,160</u>	<u>3,701,565</u>	<u>939,805</u>	<u>44,715,920</u>
Accumulated Depreciation	<u>(10,774,584)</u>	<u>(733,941)</u>	<u>(164,593)</u>	<u>(11,343,932)</u>
Net book value	<u>31,179,576</u>	<u>2,967,624</u>	<u>775,212</u>	<u>33,371,988</u>
<u>Transportation equipment:</u>				
Sewer systems vehicles	117,947	48,816	9,500	157,263
Accumulated Depreciation	<u>(84,288)</u>	<u>(6,621)</u>	<u>(8,945)</u>	<u>(81,964)</u>
Net book value	<u>33,659</u>	<u>42,195</u>	<u>555</u>	<u>75,299</u>
<u>Office equipment:</u>				
Support departments:	159,922	6,261	-	166,183
Accumulated Depreciation	<u>(117,141)</u>	<u>(6,417)</u>	<u>-</u>	<u>(123,558)</u>
Net book value	<u>42,781</u>	<u>(156)</u>	<u>-</u>	<u>42,625</u>
Total capital assets, net	<u>\$ 31,312,470</u>	<u>\$ 3,009,663</u>	<u>\$ 775,767</u>	<u>\$ 33,546,366</u>

10 UNEARNED CONNECTION FEES AND DEPOSITS

Unearned connection fees totaling \$72,004 represent charges and deposits received for connections which had not been completed as of December 31, 2013.

11 MORAL OBLIGATION AGREEMENT

Pittsylvania County entered into "moral obligation" agreements with the Authority on July 19, 2005 and November 8, 2006 relating to Municipal Utilities Fund Revenue Notes, Series 2006 and 2007 respectively. The agreements provide that Pittsylvania County will pay "fixed costs" (debt service and capital costs) less revenue received from the Town of Chatham for water usage by the Prison. The agreements acknowledged that the current Pittsylvania County Board of Supervisors is not empowered to make binding commitments extending beyond their current fiscal year. However the agreement stated its intent to make annual appropriations sufficient to make such payments.

Pittsylvania County Service Authority
Notes to The Financial Statements
December 31, 2013

11 MORAL OBLIGATION AGREEMENT (CONTINUED)

Future payments shall be subject to, and dependent upon annual appropriations being made by the Pittsylvania County Board of Supervisors and therefore, no receivable for future payments has been accrued. All debt service related to these notes for the Year ended December 31, 2013, was contributed by Pittsylvania County and reported as contributions in aid of construction.

12 LONG-TERM DEBT

Long term debt of the Authority consisted of the following

Virginia Water Facilities Revolving Fund

In accordance with the financing agreement with the Virginia Water Facilities Revolving Fund, the Authority borrowed \$5,292,311 against a loan commitment of \$5,550,000.

Payments on the non-interest bearing installment loan started February 1, 1995, and continue semi-annually thereafter on February 1 and August 1 in each year, payable in equal installments of \$132,383. The loan is due and payable in full on August 1, 2014. The revenues from the water and waste water systems of the Authority are pledged as collateral for the loan.

Municipal Utilities Fund Revenue Note, Series 2006

In accordance with the financing agreement with the SunTrust Leasing Corporation, the assignee of Municipal Services Group, Inc., the Authority borrowed \$622,117 for construction of a 500,000 gallon water tank and tower at the State Prison in Chatham, Virginia. Payments on the installment loan, bearing an interest rate of 4.12%, started August 1, 2006, and continue semi-annually thereafter each year, in equal installments of \$38,267. The final regularly scheduled payment on this loan is due and payable in full on February 1, 2016. The bond is secured by a subordinated pledge of the revenues of the Authority, subordinated to the financing agreement with the Virginia Water Facilities Revolving Fund and is further secured by a lien on the 500,000 gallon water tank and tower. See also Note 11 - Moral Obligation Agreement.

Municipal Utilities Fund Revenue Note, Series 2007

In accordance with the financing agreement with the SunTrust Leasing Corporation, the assignee of Municipal Services Group, Inc., the Authority borrowed \$660,000 for the construction of a one million gallon water tank and tower at an Industrial Park in Ringgold, Virginia. Payments on the installment loan, bearing an interest rate of 4.31%, started August 1, 2007, and continue semi-annually thereafter in equal installments of \$40,970. The final regularly scheduled payment on this loan is due and payable in full on February 1, 2017. The bond is secured by a subordinated pledge of the revenues of the Authority, subordinated to the financing agreement with the Virginia Water Facilities Revolving Fund and is further secured by a lien on the one million gallon water tank and tower.

Pittsylvania County Service Authority
Notes to The Financial Statements
December 31, 2013

12 LONG-TERM DEBT (CONTINUED)
Changes in Long-Term Debt

The following is a summary of long-term debt transactions of the Authority for the year ended December 31, 2013:

	<u>Beginning</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending</u>
Virginia Water Facilities				
Revolving Fund	\$ 529,534	\$ -	\$ 264,767	\$ 264,767
Municipal Utilities Fund				
Revenue Note, Series 2006	247,095	-	67,038	180,057
Revenue Note, Series 2007	331,944	-	68,361	263,583
	1,108,573	-	400,166	708,407
Less- Current Maturities	(405,934)	-	-	(405,934)
Long-Term Maturities	<u>\$ 702,639</u>	<u>\$ -</u>	<u>\$ 400,166</u>	<u>\$ 302,472</u>

The annual requirements to amortize bond principal and interest are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 405,934	\$ 17,306	\$ 423,240
2015	147,182	11,292	158,474
2016	115,185	5,021	120,206
2017	40,106	864	40,970
	<u>\$ 708,407</u>	<u>\$ 34,483</u>	<u>\$ 742,890</u>

13 DEFINED BENEFIT PENSION PLAN

Plan Description - The Authority contributes to the Virginia Retirement System (VRS), an agent and cost-sharing multiple-employer public defined benefit pension plan with separate cost-sharing pools for each locality. It is administered by the VRS Board of Trustees. All full-time, salaried, permanent employees of participating employers are eligible to become members of VRS. Participants hired before July 1, 2010 participate in Plan 1 and all those hired on or after July 1, 2010 are in Plan 2.

Benefits - Effective January 1, 2013 benefit provisions changed. Benefits vest after five years of credited service. Members are eligible for an unreduced retirement benefit at age sixty-five with five years of service for Plan 1 (at Social Security normal retirement age for Plan 2). Benefits are payable monthly for life in an amount equal to 1.7 percent of their average final compensation (AFC) for each year of credited service. AFC for Plan 1 is defined as the highest consecutive thirty-six months of reported compensation and for Plan 2 it is the highest sixty months of reported compensation.

Pittsylvania County Service Authority
Notes to The Financial Statements
December 31, 2013

13 DEFINED BENEFIT PENSION PLAN (CONTINUED)

Plan 1 members are eligible for early retirement at age fifty or fifty-five with creditable service of ten or five years respectively. Plan 2 members may retire early at age sixty with five years of service or when the sum of their age and years of service totals ninety. Benefits are actuarially reduced for retirees who retire prior to becoming eligible for full retirement benefits. Retirees qualify for an annual cost-of-living adjustment (COLA) beginning in July of their second year of retirement. The maximum COLA in any one year is different for plan 1 and 2. For Plan 1 an automatic cost-of-living increase is based on the first 3% of the Consumer Price Index (2% for Plan 2) plus half of each percentage increase from 3% to 7% (2% to 4% for Plan 2). The VRS also provides death and disability benefits. Title 51.1 of the Code of Virginia (1950), as amended, assigns the authority to establish and amend benefit provisions to the General Assembly of Virginia.

The System issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for VRS. A copy of that report may be obtained by writing to the System at P. O. Box 2500, Richmond, VA 23218-2500 or downloaded at <http://www.varetire.org/Pdf/2010annurept.pdf>

Funding Policy - Plan members are required by Title 51.1 of the Code of Virginia (1950), as amended, to contribute five percent of their annual reported compensation to VRS. Previously the Authority assumed this five percent member contribution. In addition, The Authority is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the statute and approved by the VRS Board of Trustees. The Authority's contribution rate for the year was 11.89% of covered payroll and is based on the June 30, 2011 valuation which will remain in effect through June 30, 2014.

Annual Pension Cost - The Authority's annual pension cost of \$50,560 for fiscal year December 30, 2013, was equal to the Authority's required and actual contributions. The required contribution was determined as part of the June 30, 2011, actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) 7% rate of return on investments net of administrative expenses, (b) projected salary increases ranging from 3.75% to 5.60% per year, (c) 2.5% cost-of-living adjustments (2.25% for Plan 2). The actuarial value of the plan assets was determined under the Entry Age Normal actuarial cost method. The annual required contribution rate under GASB 27 provisions were 13.48% and 13.16% for 2013 and 2012 respectively with an amortization factor of 18.2204 based on a thirty year funding period for June 30, 2013.

Trend Information - Many VRS plans experienced a gain for the year ended June 30, 2013, primarily due to an actuarial value of assets return of more than the expected 7% return. As a result the Authority's net pension obligation decreased this year for the first time in a number of years as shown in the schedule below. The June 30, 2013 valuation shows a decrease in the unfunded pension obligation in the amount of \$45,656, which is reported as a component of the pension expense along with the \$44,252 pension contributions made in the current fiscal year. The total unfunded liability was \$555,554 at December 31, 2013 including the current portion of that obligation estimated to be \$20,731.

Pittsylvania County Service Authority
Notes to The Financial Statements
December 31, 2013

13 DEFINED BENEFIT PENSION PLAN (CONTINUED)

The schedule of funding progress presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Valuation Date	Annual Pension Cost (APC)	Annual Required Contribution	Change In Net Pension Obligation	Percentage of APC Contributed	Net Pension Obligation
June 30, 2013	\$ 50,560	\$ 50,560	\$ (45,656)	100%	\$ 555,554
June 30, 2012	\$ 44,252	\$ 44,252	\$ 62,278	100%	\$ 601,210
June 30, 2011	\$ 46,489	\$ 46,489	\$ 46,984	100%	\$ 538,932

Funding Status

The Pittsylvania County Service Authority contributes to the Virginia Retirement System (VRS), an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for political subdivisions in the Commonwealth of Virginia. The Authority's payroll for employees covered by the VRS for the year ended June 30, 2013, was \$322,438. The total payroll for the year ended June 30, 2013, was \$389,946.

Annual Required Contribution Rate

Contribution Rate	<u>June 30, 2013</u> 13.48%
Funding Period in Years	30 Years

14 PURCHASED WATER AND SEWAGE TREATMENT AGREEMENTS

The Authority contracts for sewage treatment with the City of Danville and the Towns of Chatham and Gretna. During the year the rate charged by the Town of Gretna for sewage treatment was \$56 for the first 6,000 gallons and \$6.00 per 1,000 gallons for amounts over 6,000 gallons. The contract with the Town of Chatham is on a cost reimbursement basis with monthly payments of \$11,005.55 and an adjustment, as necessary, after June 30, of each year. The contract with the City of Danville calls for a rate equivalent to other Danville users which amounts to \$2.55 per 750 gallons processed. Water is provided through agreements with the City of Danville and the Towns of Chatham, Gretna, Hurt and Henry County.

The rates for water are as follows:

City of Danville	\$1.57 per 750 gallons
Henry County	\$0.8373 per 1,000 gallons
Town of Chatham	\$605.33 per month – flat rate (adjusted annually)
Town of Hurt	\$3.12 per 1,000 gallons
Town of Gretna	\$42.47 for first 6,000 gallons and \$4.20 per 1,000 gallons thereafter

Pittsylvania County Service Authority
Notes to The Financial Statements
December 31, 2013

15 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.

To mitigate the associated risks, the Authority participates in the Virginia Association of Counties Risk Pool, a public entity risk pool that was created to provide property and liability insurance and risk management services. The Virginia Association of Counties Risk Pool is self-insured for this coverage and the Authority could be assessed for additional premiums in the event the pool incurs losses. There have been no significant reductions in insurance coverage from the previous year, and claims have not exceeded coverage in any of the past three fiscal years.

The Authority carries \$250,000 in blanket employee dishonesty coverage through the Virginia Association of Counties, Group Self-Insured Risk Pool.

16 COMMITMENTS

Maintenance Agreements

The Authority had commitments at December 31, 2013 related to maintenance of all of its water towers. These contracts may be adjusted each third year from the initial contract date to reflect the current year cost of service and with adjustments limited to 5% per annum. The maintenance contract on the Authority's half-million gallon water tower located at the State Prison in Chatham, Virginia began in August of 2009 and requires annual fees each August. In 2013 the annual fee was \$17,421. In addition the Authority has a commitment for the maintenance of its one million gallon water storage tank located in Ringgold, Virginia. The contract period started in November 2008 with annual fees payable each November through 2017. The annual fee was fixed for the initial 3 years and currently amounts to \$23,114. Each of the Authority's four other towers on the system are maintained under an agreement requiring semi-annual payments and for the year ended December 31, 2013 those payments were \$27,105 each.

17 CONTINGENT LIABILITIES

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the organization expects such amounts, if any, to be immaterial.

At December 31, 2013 there were no matters of litigation involving Pittsylvania County Service Authority which would materially affect the organization's financial position should any court decision or pending matter be determined unfavorable to the organization.

Pittsylvania County Service Authority
Notes to The Financial Statements
December 31, 2013

18 RELATED PARTY TRANSACTIONS

As previously stated the Authority is a component unit of Pittsylvania County (see Note 2). Other support provided by Pittsylvania County is included in contributed capital. See Note 7 regarding the County's contribution to the Authority for 2013. In addition the County rents fire hydrants from the Authority. For the current fiscal year the County paid the Authority \$77,800 for hydrant rentals.

19 SUBSEQUENT EVENTS – MANAGEMENT REVIEW

The Authority must disclose the date through which subsequent events have been evaluated in accordance with the requirements in FASB ASC Paragraph 855. In regards to these financial statements and the notes to these financial statements, the Organization has evaluated all subsequent events through March 11, 2014, the date the Organization's financial statements are available to be issued.

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 Commissioners
Pittsylvania County Service Authority
405 R&L Smith Drive
Danville, Virginia 24540

We have audited the financial statements of the business-type activities of Pittsylvania County Service Authority, as of and for the year ended December 31, 2013, which comprise the Pittsylvania County Service Authority's basic financial statements and have issued our report thereon dated March 20, 2014. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Pittsylvania County Service Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Pittsylvania County Service Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Pittsylvania County Service Authority's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

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.

Harris Harvey Neal & Co. LLP

Danville, Virginia
March 20, 2014

Pittsylvania County Service Authority
Schedule of Funding Progress for VRS
Year Ended December 31, 2013

Schedule 1

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Liability (AAL)	Unfunded AAL (UAAAL)	Funded Ratio		UAAAL as a % of Covered Payroll
				(2) / (3)	(5) / (6)	
(1)	(2)	(3)	(4)	(5)	(6)	(7)
June 30, 2013	\$ 1,289,037	\$ 1,844,591	\$ 555,554	69.88%	\$ 322,438	172.30%
June 30, 2012	\$ 1,242,709	\$ 1,843,919	\$ 601,210	67.39%	\$ 309,302	194.38%
June 30, 2011	\$ 1,244,158	\$ 1,783,090	\$ 538,932	69.78%	\$ 309,302	174.24%
June 30, 2010	\$ 1,218,353	\$ 1,710,301	\$ 491,948	71.24%	\$ 298,420	164.85%
June 30, 2009	\$ 1,224,798	\$ 1,573,038	\$ 348,240	77.86%	\$ 298,420	116.69%
June 30, 2008	\$ 1,308,940	\$ 1,486,637	\$ 177,697	88.05%	\$ 358,986	49.50%
June 30, 2007	\$ 1,159,449	\$ 1,347,767	\$ 188,318	86.03%	\$ 340,906	55.24%
June 30, 2006	\$ 1,015,693	\$ 1,278,719	\$ 263,026	79.43%	\$ 345,696	76.09%

Valuation Date	June 30, 2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Pay, Open
Payroll Growth Rate	3.00%
Remaining Amortization Period	30 years (decreasing by 1 year each subsequent valuation until reaching 0 years)
Asset Valuation Method	Five-Year Smoothed Market Value
Actuarial Assumptions	
a. Investment Rate of Return *	7.00%
b. Projected Salary Increases *	3.50% to 5.35%
c. Cost-of-living Adjustments	2.50%

* Includes Inflation of 2.50%

Pittsylvania County Service Authority
Expense Schedule
For the Year Ended December 31, 2013

Schedule 2

Water Pumping Expenses:

Water tank maintenance	\$ 108,962
Maintenance of equipment	14,125
Power purchased	45,703
Fire flow expense	361
Total water pumping expenses	\$ 169,151

General and Administrative Expenses:

Salaries - meter readers	\$ 18,870
Salaries - accounting	91,143
Salaries - administrative and general	86,564
Salaries - director/ acting director	94,579
Salaries - board of commissioners	15,875
Contracted services	2,422
Travel and meetings expense	3,020
Legal	13,638
Auditing	10,920
Office supplies and postage	13,259
Dues and subscriptions	9,799
Insurance	20,797
Telephone	8,446
Electricity-office	3,633
Maintenance of general equipment	16,837
Gasoline and diesel	21,299
Advertising	2,162
Office fuel	5,280
Miss Utility	1,179
Mowing and grounds	4,674
Office cleaning	4,412
Office machine maintenance	5,556
Payroll taxes	7,814
Medical insurance	82,959
Retirement contributions expense	6,483
Uniforms	3,875
Water assessment tax	10,096
Shop supplies	939
Bad debt expense	5,467
Miscellaneous	1,087
Total general and administrative	\$ 573,084