Maury Service Authority

Financial Report

Year Ended June 30, 2017

Officers
At June 30, 2017

Chairperson
John Riester, Jr.

Vice-Chairperson	**Secretary/Treasurer**
John Higgins	**George Graves**

Board Members

John Riester, Jr.		Johnathan Goad
	George Graves	
John Higgins		Jimmy Carter

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ROBINSON, FARMER, COX ASSOCIATES
CERTIFIED PUBLIC ACCOUNTANTS A PROFESSIONAL LIMITED LIABILITY COMPANY

Independent Auditors' Report

To the Board of Directors
Maury Service Authority
Lexington, Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of the Maury Service Authority, as of and for the year ended June 30, 2017, 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 Maury Service Authority, as of June 30, 2017, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3-7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Maury Service Authority's basic financial statements. The supporting schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supporting schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supporting schedules are fairly stated in all material respects in relation to the basic 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 April 13, 2018, on our consideration of the Maury 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 Maury Service Authority's internal control over financial reporting and compliance.

Robinson, Farmer, Cox Associates

Charlottesville, Virginia
April 13, 2018

Management's Discussion and Analysis

As management of the Maury Service Authority (the Authority), we offer readers of our financial statements this narrative and overview and analysis of the financial activities of the Authority for the fiscal year ended June 30, 2017.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. Since the Authority is engaged only in business-type activities, its basic financial statements are comprised of only two components: 1) enterprise fund financial statements and 2) notes to financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Enterprise fund financial statements. The enterprise fund financial statements are designed to provide readers with a broad overview of the Authority's finances, in a manner similar to a private-sector business.

The statement of net position presents information on the Authority's assets, liabilities, and deferred outflows/inflows of resources with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

The statement of revenues, expenses and changes in fund net position presents information showing how the Authority's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The basic enterprise fund financial statements can be found on pages 8 through 10 of this report.

Notes to financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found on pages 11 through 30 of this report.

Financial Highlights

- The assets and deferred outflows of resources of the Authority exceeded its liabilities at the close of the most recent fiscal year by $25,200,547 (net position). Of this amount $2,725,336 (unrestricted net position) may be used to meet the Authority's ongoing obligations to customers and creditors.

- The Authority's total net position increased by $857,493 during the year.

- The Authority's total long term debt decreased by $1,689,590 during the current fiscal year due to principal payments on its indebtedness.

Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of an Authority's financial position. In the case of the Authority, assets and deferred outflows of resources exceeded liabilities by $25,200,547 at the close of the most recent fiscal year.

By far the largest portion of the Authority's net position (89 percent) reflects its net investment in capital assets. The Authority uses these capital assets to provide services to its customers; consequently, these assets are not available for future spending. Although the Authority's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

	Net Position	
	2017	2016
Assets:		
Current and other assets	$ 3,345,126	$ 3,289,796
Capital assets	35,657,148	36,737,677
Total Assets	$ 39,002,274	$ 40,027,473
Total Deferred Outflows of Resources	$ 11,805	$ 18,288
Liabilities:		
Long-term liabilities outstanding	$ 13,492,680	$ 15,182,269
Other liabilities	320,852	520,438
Total Liabilities	$ 13,813,532	$ 15,702,707
Net position:		
Net investment in capital assets	$ 22,176,273	$ 21,573,696
Restricted for debt service and bond covenants	298,938	292,287
Unrestricted	2,725,336	2,477,071
Total Net Position	$ 25,200,547	$ 24,343,054

Financial Analysis: (Continued)

At the end of the current fiscal year, the Authority is able to report positive balances in all categories of net position. The same situation held true for the prior fiscal year.

	Change in Net Position	
	2017	**2016**
Revenues:		
Sales - City of Lexington	$ 1,803,768	$ 1,765,196
Sales - Rockbridge County PSA	1,077,792	1,034,043
Contribution for debt service payments	1,444,279	1,444,279
Investment income	24,610	7,103
Other revenue	34,902	17,640
Total revenues	$ 4,385,351	$ 4,268,261
Expenses:		
Operating expenses (excluding depreciation)	$ 2,093,201	$ 2,133,974
Depreciation expense	1,139,134	1,131,844
Special projects and studies	93,716	-
Interest expense	201,807	226,119
Total expenses	$ 3,527,858	$ 3,491,937
Increase (decrease) in net position	$ 857,493	$ 776,324
Net position—July 1	24,343,054	23,566,730
Net position—June 30	$ 25,200,547	$ 24,343,054

The Authority's net position increased by $857,493 during the current year. Operating revenues increased by $99,583 while operating expenses (including depreciation) decreased $33,483 from FY 2016 levels. Key elements of these changes are explained in greater detail under the Review of Operations section.

Capital Asset and Debt Administration

Capital Assets - The Authority's investment in capital assets as of June 30, 2017 amounted to $35,657,148 (net of accumulated depreciation). Investments in capital assets decreased by approximately 3% during the year, due to the excess of depreciation over new construction projects and asset additions. Below is a comparison of the items that make up capital assets as of June 30, 2017 with that of June 30, 2016.

	2017	2016
Land and land improvements	$ 910,971	$ 910,971
Utility plant in service	34,707,267	35,787,796
Construction in progress	38,910	38,910
Total net capital assets	$ 35,657,148	$ 36,737,677

Additional information on the Authority’s capital assets is presented in Note 4 of the Notes to Financial Statements.

Long-term Debt - At the end of the current fiscal year, the Authority had $13,492,680 in bonds and notes outstanding versus $15,182,270 last year, a decrease of 11.13%. The net decrease is due to the retirement of debt in excess of the issuance of bonds for the construction projects.

Additional information on the Authority's long-term liabilities is presented in Note 5 of the Notes to Financial Statements.

Review of Operations

Operating Revenues

Water sales revenues decreased by $13,916, or 1.1%, from the previous year. Water rates increased by 3.66% during fiscal year 2017, but were offset by a $19,655, or 3.95%, decrease in consumption.

Sewage treatment revenues increased by $96,237 or 6.32%, over the previous year. The sewage treatment rate increased by 4.47% to $4.91 during fiscal year 2017.

Operating Expenses

Water operating expenses (excluding depreciation) decreased by $17,741 in fiscal year 2017 from 2016 amounts. This represents a 2.46% decrease from the previous year.

Sewer operating expenses (excluding depreciation) decreased by $23,032 in fiscal year 2017 from 2016 amounts. This represents a 1.63% decrease from the previous year.

Review of Operations: (Continued)

Long-Term Issues

Water: As in recent past years our projections continue to show only a slight increase in water sales in the next few years. This has been a national trend. Many water professionals believe that we are seeing the effect of more water saving type devices on the market such as high efficiency washing machines, dishwashers, and bathroom fixtures. Expenses are expected to increase with the rate of inflation especially in the areas related to personnel, chemicals, and electrical power. This means that the per unit cost of producing drinking water will continue to go up.

Wastewater: Our calculations continue to show that based on past trends, the influent to the wastewater plant will remain stagnant, although this is highly dependent on the weather. The operating revenues will continue to fluctuate with the rainfall until our customers are able to significantly reduce the amount of infiltration and inflow into the sewer system.

Another issue facing the wastewater plant is the aging staff. In the next several years there is going to be a large exodus of experienced staff due to retirement. Attracting new younger staff members is proving to be a significant challenge.

Projects

Water: The Houston St. Waterline Replacement project has now been delayed until approximately FY2021. There are no other significant projects planned for the MSA water system at this time.

Wastewater: Some progress has been made to hire a contractor to replace the out-of-date software in the control room. MSA is working with a consultant to address our concerns about other aging control systems related to the treatment system.

Two other projects in the discussion stage at the plant are the construction of a sludge drying bed for waste from cleaning out the influent pump station and a second sludge storage tank to help with solids handling at the plant.

Requests for Information

This financial report is designed to provide a general overview of the Authority's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Executive Director at 130 Osage Lane, Lexington, VA 24450.

Financial Statements

MAURY SERVICE AUTHORITY

Statement of Net Position
As of June 30, 2017

	Water	Sewer	Total
ASSETS			
Current Assets:			
Cash and cash equivalents	$ 607,589	$ 1,505,759	$ 2,113,348
Accounts receivable	302,092	447,696	749,788
Amounts due from other funds	-	168,791	168,791
Prepaid expenses	4,877	9,384	14,261
Total Current Assets	$ 914,558	$ 2,131,630	$ 3,046,188
Noncurrent Assets:			
Restricted Assets:			
Cash and cash equivalents	$ 298,938	$ -	$ 298,938
Capital Assets:			
Land and improvements	$ 276,046	$ 634,925	$ 910,971
Construction in progress	38,910	-	38,910
Plant, lines and equipment	14,727,663	32,268,544	46,996,207
Total Capital Assets	$ 15,042,619	$ 32,903,469	$ 47,946,088
Accumulated depreciation	3,823,817	8,465,123	12,288,940
Net Capital Assets	$ 11,218,802	$ 24,438,346	$ 35,657,148
Total Noncurrent Assets	$ 11,517,740	$ 24,438,346	$ 35,956,086
Total Assets	$ 12,432,298	$ 26,569,976	$ 39,002,274
DEFERRED OUTFLOWS OF RESOURCES			
Deferred charge on refunding	$ 11,805	$ -	$ 11,805
LIABILITIES AND NET POSITION			
Current Liabilities:			
Accounts payable	$ 664	$ 49,026	$ 49,690
Accrued payroll	8,505	19,417	27,922
Accrued interest payable	18,478	1,298	19,776
Amounts due to other funds	168,791	-	168,791
Compensated absences	11,019	43,654	54,673
Revenue bonds - current portion	309,012	1,396,967	1,705,979
Total Current Liabilities	$ 516,469	$ 1,510,362	$ 2,026,831
Long-term Liabilities:			
Revenue bonds payable - net of current portion	7,587,589	4,199,112	11,786,701
Total Liabilities	$ 8,104,058	$ 5,709,474	$ 13,813,532
Net Position:			
Net investment in capital assets	$ 3,334,006	$ 18,842,267	$ 22,176,273
Restricted for debt service and bond covenants	298,938	-	298,938
Unrestricted	707,101	2,018,235	2,725,336
Total Net Position	$ 4,340,045	$ 20,860,502	$ 25,200,547

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

MAURY SERVICE AUTHORITY

Statement of Revenues, Expenses and Changes in Net Position
Year Ended June 30, 2017

	Water	Sewer	Total
Operating Revenue:			
Sales:			
Lexington	$ 680,934	$ 1,122,834	$ 1,803,768
Rockbridge County Service Authority	581,426	496,366	1,077,792
Miscellaneous revenue	7,547	27,355	34,902
Total Operating Revenue	$ 1,269,907	$ 1,646,555	$ 2,916,462
Operating Expenses:			
Personnel and benefits	$ 290,753	$ 696,900	$ 987,653
Electricity	158,369	236,773	395,142
Chemicals	54,406	87,560	141,966
Insurance	24,971	39,257	64,228
Maintenance	40,291	143,609	183,900
Professional fees	85,353	45,802	131,155
Other expenses	50,317	138,840	189,157
Depreciation	369,224	769,910	1,139,134
Total Operating Expenses	$ 1,073,684	$ 2,158,651	$ 3,232,335
Operating Income (loss)	$ 196,223	$ (512,096)	$ (315,873)
Nonoperating Revenues (Expenses):			
Contribution for debt service payments	$ 35,618	$ 1,408,661	$ 1,444,279
Interest income	8,732	15,878	24,610
Special projects and studies	-	(93,716)	(93,716)
Interest expense	(175,988)	(25,819)	(201,807)
Total Nonoperating Revenues (Expenses)	$ (131,638)	$ 1,305,004	$ 1,173,366
Change in net position	$ 64,585	$ 792,908	$ 857,493
Net position, beginning of year	4,275,460	20,067,594	24,343,054
Net position, end of year	$ 4,340,045	$ 20,860,502	$ 25,200,547

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

MAURY SERVICE AUTHORITY

Statement of Cash Flows
Year Ended June 30, 2017

	Water	Sewer	Total
Cash Flows from Operating Activities:			
Receipts from customers and users	$ 1,295,208	$ 1,620,077	$ 2,915,285
Payments to suppliers	(531,007)	(1,037,100)	(1,568,107)
Payments to and for employees	(277,706)	(685,963)	(963,669)
Net Cash Provided by (Used for) Operating Activities	$ 486,495	$ (102,986)	$ 383,509
Cash Flows from Noncapital Financing Activities:			
Contribution for debt service payments	$ 35,618	$ 1,408,661	$ 1,444,279
Interfund loans	168,791	(168,791)	-
Net Cash Provided By (Used for) Noncapital Financing Activities	$ 204,409	$ 1,239,870	$ 1,444,279
Cash Flows from Capital and Related Financing Activities:			
Purchase and construction of assets	$ (36,453)	$ (22,153)	$ (58,606)
Principal payments on bonds	(296,158)	(1,381,563)	(1,677,721)
Interest paid on indebtedness	(183,427)	(27,096)	(210,523)
Net Cash Provided by (Used for) Capital and Related Financing Activities	$ (516,038)	$ (1,430,812)	$ (1,946,850)
Cash Flows from Investing Activities:			
Interest income	$ 8,732	$ 15,878	$ 24,610
Net Cash Provided by (Used for) Investing Activities	$ 8,732	$ 15,878	$ 24,610
Increase (decrease) in cash and cash equivalents	$ 183,598	$ (278,050)	$ (94,452)
Cash and cash equivalents at beginning of year	722,929	1,783,809	2,506,738
Cash and cash equivalents at end of year	$ 906,527	$ 1,505,759	$ 2,412,286
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:			
Operating income (loss)	$ 196,223	$ (512,096)	$ (315,873)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:			
Depreciation	369,224	769,910	1,139,134
Payments for special projects and studies	-	(93,716)	(93,716)
(Increase) decrease in accounts receivable	25,301	(26,478)	(1,177)
(Increase) decrease in prepaid expenses	29,570	(9,384)	20,186
Increase (decrease) in accounts payable	(146,870)	(242,159)	(389,029)
Increase (decrease) in accrued payroll	8,505	19,417	27,922
Increase (decrease) in compensated absences	4,542	(8,480)	(3,938)
Net Cash Provided by (Used for) Operating Activities	$ 486,495	$ (102,986)	$ 383,509

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

Note 1—Formation of the Maury Service Authority:

The Maury Service Authority was formed on August 7, 1970 as a political subdivision of the Commonwealth of Virginia by the Cities of Buena Vista and Lexington and the County of Rockbridge pursuant to the Virginia Water and Sewer Authorities Act (1950 as amended). The Authority is governed by a Board of Directors appointed by the founding localities. The Authority is responsible for acquiring, financing, constructing, and maintaining facilities for the improvement, treatment, storage and transmission of potable water. The Authority also provides wastewater treatment services to the participating jurisdictions.

Financial Reporting Entity - The Authority's financial statements include all of its funds and accounts. There are no potential component units which should be included in the reporting entity. The Authority is construed as a joint venture between the localities listed above.

Note 2—Summary of Significant Accounting Policies:

A. Basis of Accounting - The Maury Service Authority operates as enterprise funds and its financial statements are prepared 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 sales and services. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

B. Allowance for Doubtful Accounts - The Authority bills the City of Lexington and the Rockbridge County Public Service Authority for substantially all of its services and consequently no provision for doubtful accounts is considered necessary.

C. Basic Financial Statements:

   The Authority's financial statements are prepared in accordance with Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis–For State and Local Governments*. As a result, the financial statements include a Management Discussion and Analysis (MD&A) section, providing an analysis of the Authority's overall financial position and results of operations.

   Since the Authority is only engaged in business-type activities, it is only required to present the financial statements required for enterprise funds. For the Authority, the basic financial statements and required supplementary information consist of:

   - Management's Discussion and Analysis

Note 2—Summary of Significant Accounting Policies: (Continued)

C. Basic Financial Statements: (Continued)

- Enterprise fund financial statements

  - Statement of Net Position
  - Statement of Revenues, Expenses, and Changes in Net Position
  - Statement of Cash Flows
  - Notes to Financial Statements

D. Capital Assets:

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the financial statements. Capital assets are defined by the Authority as assets with an initial, individual cost of more than $7,000 (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 its useful life are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

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

Assets	Years
Water and Sewage treatment plant and equipment	10 to 50
Machinery and equipment	3 to 25
Office furniture and fixtures	10
Automobiles	5 to 10

E. Interest on Indebtedness: Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed. Other interest costs of the Authority are treated as nonoperating expenses. Capitalized interest for the year ended June 30, 2017 was $0.

F. Cash and Cash Equivalents: The Authority's cash and cash equivalents consist of demand deposits, certificates of deposit, overnight repurchase agreements and short-term U.S. Governmental obligations, with an original maturity of three months or less from the date of acquisition, all of which are readily convertible to known amounts of cash.

Note 2—Summary of Significant Accounting Policies: (Continued)

G. Budgets and Budgetary Accounting: A budget is prepared for informational, fiscal planning purposes, and to provide the basis for setting wholesale rates. None of the participating entities are required to approve the budgets. The budgets are adopted as planning documents and are not legal controls over expenses.

The budgets are adopted on an appropriation basis. Principally, the appropriation basis of budgeting provides for a full accrual basis of accounting, capital expenditures, and bond principal payments but does not provide for depreciation of utility plant assets and amortization. A review of the budgetary comparison schedules presented herein will disclose how accurately the Authority was able to forecast its revenues and expenditures.

H. Inventory: Consumption of materials and supplies is recorded as an expense when used. No inventory amounts are recorded as an asset, as available inventories are not significant.

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

J. Deferred Outflows/Inflows of Resources: In addition to assets, the statement of financial position when applicable will report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The Authority only has one item that qualifies for reporting in this category. It is the deferred charge on refunding reported in the statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the statement of financial position when applicable will 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, 2017.

K. Long-term Obligations: Bond premiums and discounts are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount.

Note 2—Summary of Significant Accounting Policies: (Continued)

L. Net Position: Net position is the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources. Net investment in capital assets represents capital assets, less accumulated depreciation, less any outstanding debt related to the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are also included in this component of net position.

M. 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.

Note 3—Deposits and Investments:

Deposits

Deposits with banks are covered by the Federal Deposit Insurance Corporation (FDIC) and collateralized in accordance with the Virginia Security for Public Deposits Act (the "Act") Section 2.2-4400 et. seq. of the Code of Virginia. Under the Act, banks and savings institutions holding public deposits in excess of the amount insured by the FDIC must pledge collateral to the Commonwealth of Virginia Treasury Board. Financial institutions may choose between two collateralization methodologies and depending upon that choice, will pledge collateral that ranges in the amounts from 50% to 130% of excess deposits. Accordingly, all deposits are considered fully collateralized.

Investments

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

The Authority does not have a formal investment policy.

Note 4—Capital Assets:

Details of changes in capital assets for the year ended June 30, 2017 are as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
WATER:				
Capital assets not being depreciated:				
Land and improvements	$ 276,046	$ -	$ -	$ 276,046
Construction in progress	38,910	-	-	38,910
Total water capital assets not being depreciated	$ 314,956	$ -	$ -	$ 314,956
Capital assets being depreciated:				
Plant, lines and equipment	$ 14,691,210	$ 36,453	$ -	$ 14,727,663
Accumulated depreciation:				
Plant, lines and equipment	(3,454,593)	(369,224)	-	(3,823,817)
Total water capital assets, being depreciated, net	$ 11,236,617	$ (332,771)	$ -	$ 10,903,846
Total water capital assets, net	$ 11,551,573	$ (332,771)	$ -	$ 11,218,802

	Beginning Balance	Increases	Decreases	Ending Balance
SEWER:				
Capital assets not being depreciated:				
Land and improvements	$ 634,925	$ -	$ -	$ 634,925
Total sewer capital assets not being depreciated	$ 634,925	$ -	$ -	$ 634,925
Capital assets being depreciated:				
Sewer treatment plant	$ 32,246,391	$ 22,153	$ -	$ 32,268,544
Accumulated depreciation:				
Sewer treatment plant	(7,695,213)	(769,910)	-	(8,465,123)
Total sewer capital assets, being depreciated, net	$ 24,551,178	$ (747,757)	$ -	$ 23,803,421
Total sewer capital assets, net	$ 25,186,103	$ (747,757)	$ -	$ 24,438,346
Total capital assets, net	$ 36,737,676	$ (1,080,528)	$ -	$ 35,657,148

Note 5—Long-term Debt:

A. Changes in Long-term Debt:

The following is a summary of long-term debt transactions for the year ended June 30, 2017:

	Beginning Balance	Issuances/ Additions	Retirements/ Reductions	Ending Balance	Due Within One Year
Revenue bonds:					
Water Revenue Bonds	$ 8,171,146	$ -	$ 296,158	$ 7,874,988	$ 309,012
Add:					
Issuance premiums	33,482	-	11,869	21,613	-
Total Water Revenue Bonds	$ 8,204,628	$ -	$ 308,027	$ 7,896,601	$ 309,012
Sewer Revenue Bonds	6,977,642	-	1,381,563	5,596,079	1,396,967
Totals	$ 15,182,270	$ -	$ 1,689,590	$ 13,492,680	$ 1,705,979

B. Details of Long-term Debt:

Revenue Bonds:

Water Revenue Bonds:	
$1,660,000 Water System Revenue Refunding Bond, Series 2009, issued through the Virginia Resources Authority dated June 17, 2009 bearing interest at rates ranging from 1.125% to 3.759% due in semi-annual installments of interest through April 1, 2021. Principal is payable annually on April 1. Face amounts of bonds outstanding $695,000 plus unamortized issuance premium of $21,613.	$ 716,614
$7,598,000 Water Revenue Bond, Series 2012, issued through Rural Development dated June 5, 2012 bearing interest at 2%. Payments of interest only are due on June 5, 2013 and 2014. Beginning July 5, 2014, monthly payments of combined principal and interest of $23,858 are due through June 5, 2052.	7,179,987
Total Water Revenue Bonds	$ 7,896,601
Sewer Revenue Bonds:	
$16,608,359 Sewer Revenue Bond, Series 1996, dated July 23, 1996, bearing interest of 3%, due in semi-annual installments of $565,592 (including principal and interest) beginning June 1, 1999 and ending June 1, 2018.	$ 1,073,959
$6,543,947 Sewer Revenue bond, Series 2009, dated May 7, 2009 due in semi-annual installments of principal of $163,599 commencing on December 1, 2011 through June 1, 2031. No interest.	4,522,120
Total Sewer Revenue Bonds	$ 5,596,079
Total Revenue Bonds	$ 13,492,680

Note 5—Long-term Debt: (Continued)

C. Annual Amortization of Long-term Debt:

The annual requirements to amortize all long-term debt outstanding as of June 30, 2017 are as follows:

Year Ending	Water Revenue Bonds		Sewer Revenue Bonds	
June 30,	Principal	Interest	Principal	Interest
2018	$ 309,012	$ 172,625	$ 1,396,967	$ 11,693
2019	316,919	161,134	323,009	-
2020	324,884	149,578	323,009	-
2021	337,909	137,852	323,009	-
2022	155,996	130,300	323,009	-
2023	159,144	127,152	323,009	-
2024	162,357	123,939	323,009	-
2025	165,634	120,662	323,009	-
2026	168,977	117,319	323,008	-
2027	172,388	113,908	323,008	-
2028	175,867	110,429	323,008	-
2029	179,417	106,879	323,008	-
2030	183,038	103,258	323,008	-
2031	186,733	99,563	323,008	-
2032	190,502	95,794	-	-
2033	194,347	91,949	-	-
2034	198,270	88,026	-	-
2035	202,272	84,024	-	-
2036	206,355	79,941	-	-
2037	210,520	75,776	-	-
2038	214,769	71,527	-	-
2039	219,104	67,192	-	-
2040	223,526	62,770	-	-
2041	228,038	58,258	-	-
2042	232,641	53,655	-	-
2043	237,337	48,959	-	-
2044	242,127	44,169	-	-
2045	247,014	39,282	-	-
2046	252,000	34,296	-	-
2047	257,087	29,209	-	-
2048	262,276	24,020	-	-
2049	267,569	18,726	-	-
2050	272,970	13,326	-	-
2051	278,480	7,816	-	-
2052	239,509	2,230	-	-
Total	$ 7,874,988	$ 2,865,543	$ 5,596,078	$ 11,693

In the year ended June 30, 2017 the City of Lexington and County of Rockbridge each contributed one-half of the Sewer Revenue Bond debt payment.

Note 6—Interfund Balances:

Amounts reported as due to and from other funds totaled $168,791 at June 30, 2017. This balance represents water fund expenses that were paid for by the sewer fund.

Note 7—Concentration of Revenue:

The Maury Service Authority receives substantially all of its revenues from the City of Lexington and the Rockbridge County Public Service Authority. For the year ended June 30, 2017, the Water Fund had sales of $680,934 and $581,426 with the City of Lexington and Rockbridge County Service Authority, respectively, while the Sewer Fund had sales of $1,122,834 and $496,366 with the City and Authority, respectively. As of June 30, 2017, the Water Fund had receivables from the City and Authority of $135,027 and $158,161, respectively and the Sewer Fund had receivables from the City and Authority of $312,075 and $129,584, respectively.

Note 8—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 joined together with other local governments in the Commonwealth to form the Virginia Municipal League Self Insurance Risk Pool, a public entity risk pool currently operating as a common risk management and insurance program for member governments. The Authority pays an annual premium to the pool for its workers' compensation, general liability, automobile liability, property, crime and public official's insurance coverages. The Agreement for Formation of the pool provides that the pool will be self-sustaining through member premiums. Settled claims have not exceeded pool coverage in any of the past three fiscal years.

Note 9—Pension Plan:

Plan Description

All full-time, salaried permanent employees of the Authority are automatically covered by a VRS Retirement Plan upon employment. This is an agent multiple-employer plan administered by the Virginia Retirement System (the System) along with plans for other employer groups in the Commonwealth of Virginia. Members earn one month of service credit for each month they are employed and for which they and their employer pay contributions to VRS. Members are eligible to purchase prior service, based on specific criteria as defined in the Code of Virginia, as amended. Eligible prior service that may be purchased includes prior public service, active military service, certain periods of leave, and previously refunded service.

Through June 2016, Authority employees participated in VRS through the City of Lexington, Virginia. Payments were made to the City for VRS and ICMA costs. In 2017, the Authority established its own plan through VRS.

Note 9—Pension Plan: (Continued)

Plan Description: (Continued)

The System administers three different benefit structures for covered employees – Plan 1, Plan 2, and, Hybrid. Each of these benefit structures has different eligibility criteria. The specific information for each plan and the eligibility for covered groups within each plan are set out in the table below:

RETIREMENT PLAN PROVISIONS		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
About Plan 1 Plan 1 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. Employees are eligible for Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.	**About Plan 2** Plan 2 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. Employees are eligible for Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.	**About the Hybrid Retirement Plan** The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan. Most members hired on or after January 1, 2014 are in this plan, as well as Plan 1 and Plan 2 members who were eligible and opted into the plan during a special election window. (see "Eligible Members") • The defined benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. • The benefit from the defined contribution component of the plan depends on the member and employer contributions made to the plan and the investment performance of those contributions.

Note 9—Pension Plan: (Continued)

Plan Description: (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
About Plan 1 (Cont.)	**About Plan 2 (Cont.)**	**About the Hybrid Retirement Plan (Cont.)** • In addition to the monthly benefit payment payable from the defined benefit plan at retirement, a member may start receiving distributions from the balance in the defined contribution account, reflecting the contributions, investment gains or losses, and any required fees.
Eligible Members Employees are in Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013. **Hybrid Opt-In Election** VRS non-hazardous duty covered Plan 1 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014. The Hybrid Retirement Plan's effective date for eligible Plan 1 members who opted in was July 1, 2014. If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.	**Eligible Members** Employees are in Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013. **Hybrid Opt-In Election** Eligible Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014. The Hybrid Retirement Plan's effective date for eligible Plan 2 members who opted in was July 1, 2014. If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.	**Eligible Members** Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes: • Political subdivision employees* • Members in Plan 1 or Plan 2 who elected to opt into the plan during the election window held January 1-April 30, 2014; the plan's effective date for opt-in members was July 1, 2014. ***Non-Eligible Members** Some employees are not eligible to participate in the Hybrid Retirement Plan. They include: • Political subdivision employees who are covered by enhanced benefits for hazardous duty employees.

Note 9—Pension Plan: (Continued)

Plan Description: (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
Hybrid Opt-In Election (Cont.) Members who were eligible for an optional retirement plan (ORP) and had prior service under Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 1 or ORP.	**Hybrid Opt-In Election (Cont.)** Members who were eligible for an optional retirement plan (ORP) and have prior service under Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 2 or ORP.	***Non-Eligible Members (Cont.)** Those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under Plan 1 or Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select Plan 1 or Plan 2 (as applicable) or ORP.
Retirement Contributions Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some political subdivisions elected to phase in the required 5% member contribution but all employees are paying the full 5% as of July 1, 2016. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment.	**Retirement Contributions** Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some political subdivisions elected to phase in the required 5% member contribution but all employees are paying the full 5% as of July 1, 2016.	**Retirement Contributions** A member's retirement benefit is funded through mandatory and voluntary contributions made by the member and the employer to both the defined benefit and the defined contribution components of the plan. Mandatory contributions are based on a percentage of the employee's creditable compensation and are required from both the member and the employer. Additionally, members may choose to make voluntary contributions to the defined contribution component of the plan, and the employer is required to match those voluntary contributions according to specified percentages.

Note 9—Pension Plan: (Continued)

Plan Description: (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
Creditable Service Creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.	**Creditable Service** Same as Plan 1.	**Creditable Service** **Defined Benefit Component:** Under the defined benefit component of the plan, creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit. **Defined Contributions Component:** Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.

Note 9—Pension Plan: (Continued)

Plan Description: (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
Vesting Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least five years (60 months) of creditable service. Vesting means members are eligible to qualify for retirement if they meet the age and service requirements for their plan. Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund. Members are always 100% vested in the contributions that they make.	**Vesting** Same as Plan 1.	**Vesting** **<u>Defined Benefit Component:</u>** Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years (60 months) of creditable service. Plan 1 or Plan 2 members with at least five years (60 months) of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component. **<u>Defined Contributions Component:</u>** Defined contribution vesting refers to the minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined contribution component of the plan. Members are always 100% vested in the contributions that they make.

Note 9—Pension Plan: (Continued)

Plan Description: (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
Vesting (Cont.)	**Vesting (Cont.)**	**Vesting (Cont.)** **<u>Defined Contributions Component:</u> (Cont.)** Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service. • After two years, a member is 50% vested and may withdraw 50% of employer contributions. • After three years, a member is 75% vested and may withdraw 75% of employer contributions. • After four or more years, a member is 100% vested and may withdraw 100% of employer contributions. Distribution is not required by law until age 70½.
Calculating the Benefit The Basic Benefit is calculated based on a formula using the member's average final compensation, a retirement multiplier and total service credit at retirement. It is one of the benefit payout options available to a member at retirement.	**Calculating the Benefit** See definition under Plan 1.	**Calculating the Benefit** **<u>Defined Benefit Component:</u>** See definition under Plan 1

Note 9—Pension Plan: (Continued)

Plan Description: (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
Calculating the Benefit (Cont.) An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit.	**Calculating the Benefit (Cont.)**	**Calculating the Benefit (Cont.)** <u>**Defined Contribution Component:**</u> The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions.
Average Final Compensation A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.	**Average Final Compensation** A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.	**Average Final Compensation** Same as Plan 2. It is used in the retirement formula for the defined benefit component of the plan.
Service Retirement Multiplier **VRS:** The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.70%. **Sheriffs and regional jail superintendents:** The retirement multiplier for sheriffs and regional jail superintendents is 1.85%. **Political subdivision hazardous duty employees:** The retirement multiplier of eligible political subdivision hazardous duty employees other than sheriffs and regional jail superintendents is 1.70% or 1.85% as elected by the employer.	**Service Retirement Multiplier** **VRS:** Same as Plan 1 for service earned, purchased or granted prior to January 1, 2013. For non-hazardous duty members the retirement multiplier is 1.65% for creditable service earned, purchased or granted on or after January 1, 2013. **Sheriffs and regional jail superintendents:** Same as Plan 1. **Political subdivision hazardous duty employees:** Same as Plan 1.	**Service Retirement Multiplier** <u>**Defined Benefit Component:**</u> **VRS:** The retirement multiplier for the defined benefit component is 1.00%. For members who opted into the Hybrid Retirement Plan from Plan 1 or Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans. **Sheriffs and regional jail superintendents:** Not applicable. **Political subdivision hazardous duty employees:** Not applicable. <u>**Defined Contribution Component**</u>**:** Not applicable.

Note 9—Pension Plan: (Continued)

Plan Description: (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
Normal Retirement Age **VRS:** Age 65. **Political subdivisions hazardous duty employees:** Age 60.	**Normal Retirement Age** **VRS:** Normal Social Security retirement age. **Political subdivisions hazardous duty employees:** Same as Plan 1.	**Normal Retirement Age** **Defined Benefit Component:** **VRS:** Same as Plan 2. **Political subdivisions hazardous duty employees:** Not applicable. **Defined Contribution Component:** Members are eligible to receive distributions upon leaving employment, subject to restrictions.
Earliest Unreduced Retirement Eligibility **VRS:** Age 65 with at least five years (60 months) of creditable service or at age 50 with at least 30 years of creditable service. **Political subdivisions hazardous duty employees:** Age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service.	**Earliest Unreduced Retirement Eligibility** **VRS:** Normal Social Security retirement age with at least five years (60 months) of creditable service or when their age and service equal 90. **Political subdivisions hazardous duty employees:** Same as Plan 1.	**Earliest Unreduced Retirement Eligibility** **Defined Benefit Component:** **VRS:** Normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90. **Political subdivisions hazardous duty employees:** Not applicable. **Defined Contribution Component:** Members are eligible to receive distributions upon leaving employment, subject to restrictions.
Earliest Reduced Retirement Eligibility **VRS:** Age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service.	**Earliest Reduced Retirement Eligibility** **VRS:** Age 60 with at least five years (60 months) of creditable service.	**Earliest Reduced Retirement Eligibility** **Defined Benefit Component:** **VRS:** Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service.

Note 9—Pension Plan: (Continued)

Plan Description: (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
Earliest Reduced Retirement Eligibility (Cont.) **Political subdivisions hazardous duty employees:** 50 with at least five years of creditable service.	**Earliest Reduced Retirement Eligibility (Cont.)** **Political subdivisions hazardous duty employees:** Same as Plan 1.	**Earliest Reduced Retirement Eligibility (Cont.)** **Political subdivisions hazardous duty employees:** Not applicable. **Defined Contribution Component:** Members are eligible to receive distributions upon leaving employment, subject to restrictions.
Cost-of-Living Adjustment (COLA) in Retirement The Cost-of-Living Adjustment (COLA) matches the first 3% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4%) up to a maximum COLA of 5%. **Eligibility:** For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full calendar year from the retirement date. For members who retire with a reduced benefit and who have less than 20 years of creditable service, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date.	**Cost-of-Living Adjustment (COLA) in Retirement** The Cost-of-Living Adjustment (COLA) matches the first 2% increase in the CPI-U and half of any additional increase (up to 2%), for a maximum COLA of 3%. **Eligibility:** Same as Plan 1.	**Cost-of-Living Adjustment (COLA) in Retirement** **Defined Benefit Component:** Same as Plan 2. **Defined Contribution Component:** Not applicable. **Eligibility:** Same as Plan 1 and Plan 2.

Note 9—Pension Plan: (Continued)

Plan Description: (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
Cost-of-Living Adjustment (COLA) in Retirement (Cont.) **<u>Exceptions to COLA Effective Dates:</u>** The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances: • The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013. • The member retires on disability. • The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP). • The member is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program. • The member dies in service and the member's survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins.	**Cost-of-Living Adjustment (COLA) in Retirement (Cont.)** **<u>Exceptions to COLA Effective Dates:</u>** Same as Plan 1.	**Cost-of-Living Adjustment (COLA) in Retirement (Cont.)** **<u>Exceptions to COLA Effective Dates:</u>** Same as Plan 1 and Plan 2.

Note 9—Pension Plan: (Continued)

Plan Description: (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
Disability Coverage Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.7% on all service, regardless of when it was earned, purchased or granted. VSDP members are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.	**Disability Coverage** Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service, regardless of when it was earned, purchased or granted. VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.	**Disability Coverage** Employees of political subdivisions (including Plan 1 and Plan2 opt-ins) participate in the Virginia Local Disability Program (VLDP) unless their local governing body provides an employer-paid comparable program for its members. Hybrid members (including Plan 1 and Plan 2 opt-ins) covered under VLDP are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.
Purchase of Prior Service Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as creditable service in their plan. Prior creditable service counts toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. When buying service, members must purchase their most recent period of service first. Members also may be eligible to purchase periods of leave without pay.	**Purchase of Prior Service** Same as Plan 1.	**Purchase of Prior Service** **<u>Defined Benefit Component:</u>** Same as Plan 1, with the following exceptions: • Hybrid Retirement Plan members are ineligible for ported service. • The cost for purchasing refunded service is the higher of 4% of creditable compensation or average final compensation. • Plan members have one year from their date of hire or return from leave to purchase all but refunded prior service at approximate normal cost. After that one-year period, the rate for most categories of service will change to actuarial cost. **<u>Defined Contribution Component:</u>** Not applicable.

Note 9—Pension Plan: (Continued)

Pension Plan Data

Information about the VRS Political Subdivision Retirement Plan is also available in the separately issued VRS 2016 Comprehensive Annual Financial Report (CAFR). A copy of the 2016 VRS CAFR may be downloaded from the VRS website at http://www.varetire.org/Pdf/Publications/2016-annual-report.pdf, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA 23218-2500.

Contributions

The contribution requirement for active employees is governed by §51.1-145 of the Code of Virginia, as amended, but may be impacted as a result of funding options provided to political subdivisions by the Virginia General Assembly. Employees are required to contribute 5.00% of their compensation toward their retirement. Prior to July 1, 2012, all or part of the 5.00% member contribution may have been assumed by the employer. Beginning July 1, 2012 new employees were required to pay the 5% member contribution. In addition, for existing employees, employers were required to begin making the employee pay the 5.00% member contribution. This could be phased in over a period of up to 5 years and the employer is required to provide a salary increase equal to the amount of the increase in the employee-paid member contribution.

The Authority's contractually required contribution rate for the year ended 2017 was 11.06% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial cost study based on eligible employee data and the data, actuarial assumptions, and methods used in the June 30, 2015 actuarial valuation for VRS.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the Authority were $68,455 for the year ended June 30, 2017.

The Authority will receive a valuation in accordance with GASB 68 for future financial statements. There are no deferred outflows, net pension asset or liability, or deferred inflows to report for fiscal year 2017.

Supporting Schedules

Schedule of Revenues and Expenses - Budget and Actual - Water Fund
Year Ended June 30, 2017

	Budget	Actual	Variance Favorable (Unfavorable)
REVENUE:			
Water sales	$ 1,370,166	$ 1,262,360	$ (107,806)
Interest income	-	8,732	8,732
Contribution for debt service payments	35,655	35,618	(37)
Miscellaneous	9,288	7,547	(1,741)
Total revenue	$ 1,415,109	$ 1,314,257	$ (100,852)
EXPENSES:			
Wages	$ 261,237	$ 202,952	$ 58,285
Payroll Taxes	19,985	23,154	(3,169)
VRS	38,347	21,595	16,752
Insurance - Health	38,216	43,053	(4,837)
Accountant	3,257	1,950	1,307
Audit fee	2,837	2,600	237
Bank Fees	-	1,588	(1,588)
Buildings & Grounds	1,000	-	1,000
Chemicals	75,000	54,406	20,594
Contract Services	5,700	1,142	4,558
Dues	2,816	1,818	998
Education	-	790	(790)
Electricity	165,000	158,369	6,631
Gas, grease, oil	2,000	2,671	(671)
Generator expense	4,000	4,965	(965)
Honoraria	1,800	910	890
Insurance - General	31,207	24,971	6,236
IT Contract	6,500	10,813	(4,313)
Janitorial Supplies	1,000	2,097	(1,097)
Lab Supplies	6,500	5,520	980
Legal and advisory services	500	6,207	(5,707)
Maintenance	82,648	40,291	42,357
Monitoring	-	3,631	(3,631)
Office expenses	2,050	3,224	(1,174)

Schedule of Revenues and Expenses - Budget and Actual - Water Fund
Year Ended June 30, 2017

	Budget	Actual	Variance Favorable (Unfavorable)
EXPENSES: (Continued)			
Professional fees	$ 62,500	$ 74,595	$ (12,095)
Repairs - Mech. & Instrum.	-	1,010	(1,010)
Safety	1,000	1,224	(224)
Special Projects	10,000		10,000
Telephone	3,500	4,272	(772)
Travel	3,100	607	2,493
Vehicles	3,000	2,129	871
Wearing Apparel	3,000	1,906	1,094
Solids Handling	5,000	-	5,000
Payment on water plant bond:			
Principal	155,000	155,000	-
Interest	38,291	38,291	-
Loan payment on Loop Project:			
Principal	141,158	141,158	-
Interest	145,138	145,138	-
Asset repair and replacement	39,000	36,453	2,547
Houston Street extension	53,822	-	53,822
Total expenses	$ 1,415,109	$ 1,220,500	$ 194,609
Net income (loss)	$ -	$ 93,757	$ 93,757

Reconciliation to Statement of Revenues, Expenses and Changes in Net Position:

Net income (loss) - Budgetary Basis	$ 93,757
Principal payments on bonds and loans	296,158
Depreciation	(369,224)
Interest Accrual	7,441
Capital asset additions	36,453
Change in Net Position - GAAP Basis	$ 64,585

This schedule is presented on the Authority's budgetary basis of accounting. Depreciation is excluded from the schedule and loan payments are included.

Schedule of Revenues and Expenses - Budget and Actual - Sewer Fund
Year Ended June 30, 2017

	Budget	Actual	Variance Favorable (Unfavorable)
REVENUE:			
Sewer sales	$ 1,448,630	$ 1,619,200	$ 170,570
Interest	15,000	15,878	878
Contribution for debt service payments	-	1,408,661	1,408,661
Miscellaneous	-	27,355	27,355
Total revenue	$ 1,463,630	$ 3,071,094	$ 1,607,464
EXPENSES:			
Wages	$ 410,815	$ 396,328	$ 14,487
Payroll Taxes	31,427	59,618	(28,191)
VRS	50,325	77,341	(27,016)
Insurance - Health	152,504	163,613	(11,109)
Accountant	3,257	2,712	545
Audit fee	2,837	2,600	237
Bank fees	-	2,659	(2,659)
Buildings & Grounds	3,000	74	2,926
Chemicals	80,000	87,560	(7,560)
Contract Services	5,000	2,124	2,876
Dues	3,475	2,561	914
Education	-	2,107	(2,107)
Electricity	255,000	236,773	18,227
Gas, grease, oil	10,000	4,107	5,893
Generator expense	13,000	6,490	6,510
Honoraria	1,800	2,340	(540)
Insurance - General	31,207	39,257	(8,050)
Janitorial Supplies	1,000	4,564	(3,564)
Lab Supplies	11,000	12,056	(1,056)
Legal and advisory services	500	5,490	(4,990)
Maintenance	113,583	143,609	(30,026)
Monitoring	1,000	7,202	(6,202)
Office expenses	1,750	6,810	(5,060)
Permits Expense	13,000	11,540	1,460

Schedule of Revenues and Expenses - Budget and Actual - Sewer Fund
Year Ended June 30, 2017

	Budget	Actual	Variance Favorable (Unfavorable)
EXPENSES: (Continued)			
Professional fees	$ 62,250	$ 35,000	$ 27,250
Repairs - Mech. & Instrum.	1,000	-	1,000
Safety	2,000	4,330	(2,330)
Solids Handling	-	49,446	(49,446)
Special Projects	10,000	93,716	(83,716)
Telephone	5,000	4,099	901
Travel	2,100	209	1,891
Vehicles	13,500	5,518	7,982
Wearing Apparel	800	1,887	(1,087)
IT Contract	6,000	5,479	521
Landfill Contract	5,500	3,240	2,260
Loan payment on sewer plant bonds:			
Principal	-	1,381,563	(1,381,563)
Interest	-	27,098	(27,098)
Asset repair and replacement	160,000	22,153	137,847
Total expenses	$ 1,463,630	$ 2,913,273	$ (1,449,643)
Net income (loss)	$ -	$ 157,821	$ 157,821

Reconciliation to Statement of Revenues, Expenses and Changes in Net Position:

Net income (loss) - Budgetary Basis	$ 157,821
Principal payments on bonds	1,381,563
Depreciation	(769,910)
Interest Accrual	1,279
Capital asset additions	22,153
Rounding	2
Change in Net Position - GAAP Basis	$ 792,908

This schedule is presented on the Authority's budgetary basis of accounting. Depreciation is excluded from the schedule and loan payments are included.

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
Maury Service Authority
Lexington, 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 Maury Service Authority as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Maury Service Authority's financial statements and have issued our report thereon dated April 13, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Maury Service Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Maury Service Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of Maury Service Authority's internal control.

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. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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 (2017-001).

Compliance and Other Matters

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

Maury Service Authority's Response to Findings

Maury Service Authority's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs and responses. Maury Service 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

Charlottesville, Virginia
April 13, 2018

Maury Service Authority

Schedule of Findings and Responses
For the Year Ended June 30, 2017

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)?	None reported
Noncompliance material to financial statements noted?	No

Section II - Financial Statement Findings

2017-001
Criteria:

Per Statement on Auditing Standards 115, identification of a material adjustment to the financial statements that was not detected by entity's internal controls indicates that a material weakness may exist.

Condition:

The Authority's financial statements required material adjustments by the Auditor to ensure such statements complied with Generally Accepted Accounting Principles (GAAP).

Context:

Management contracts with a CPA to provide general ledger services. However, the prior year audit entries were not recorded on the general ledger and current year accruals were not identified or recorded on the general ledger.

Effect:

There is more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal controls over financial reporting.

Cause:

Management and the contracted bookkeeper failed to identify all year end accounting adjustments necessary for the books to be prepared in accordance with current reporting standards. The Authority does not have proper controls in place to detect and record governmental GAAP accruals in closing their year end financial statements.

Recommendation:

We recommend that accrual activity (accounts payable, accrued payroll, accrued leave, depreciation, etc.) be recorded prior to audit fieldwork to limit the auditor’s involvement in recording adjusting journal entries and making significant adjustments to the general ledger.

Management's Response:

MSA has made significant changes to the bookkeeping system used for financial accountability. The QuickBooks software is now an integral part of the day-to-day financial transactions. Adjustments have also been made in the way we identify accounts payable, accrued leave, etc. to ensure the information is accurate and easily accessible. Additionally, our plan is to have an accountant review our financial information at the end of each fiscal year so we know the appropriate information is available and in the proper format when the Auditors arrive.