Maury Service Authority FINANCIAL REPORT YEAR ENDED JUNE 30, 2016

# **Maury Service Authority**

# Officers At June 30, 2016

Chairperson John Riester, Jr.

Vice-Chairperson John Higgins Secretary/Treasurer 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, 2016, 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, 2016, 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 October 27, 2016, 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.

Rofinan, Farm, Cox Operister Charlottesville, Virginia

October 27, 2016

### 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, 2016.

### **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 18 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 \$24,343,054 (net position). Of this amount \$2,477,071 (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 \$776,324 during the year.
- The Authority's total debt decreased by \$1,663,846 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 \$23,343,054 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			
		2016		2015	
Assets:					
Current and other assets	\$	3,289,796	\$	3,061,923	
Capital assets	_	36,737,677		37,820,111	
Total Assets	\$_	40,027,473	\$	40,882,034	
Total Deferred Outflows of Resources	\$_	18,288	\$	25,992	
Liabilities:					
Long-term liabilities outstanding	\$	15,182,269	\$	16,846,115	
Other liabilities	_	520,438		495,181	
Total Liabilities	\$_	15,702,707	\$	17,341,296	
Net position:					
Net investment in capital assets	\$	21,573,696	\$	20,999,988	
Restricted for debt service and bond covenants		292,287		286,296	
Unrestricted	_	2,477,071		2,280,446	
Total Net Position	\$_	24,343,054	\$	23,566,730	

# 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			
	_	2016		2015	
Revenues:	_				
Sales - City of Lexington	\$	1,765,196	\$	1,709,587	
Sales - Rockbridge County PSA		1,034,043		1,110,829	
Contribution for debt service payments		1,444,279		1,444,279	
Investment income		7,103		1,822	
Other revenue	_	17,640		31,899	
Total revenues	\$_	4,268,261	\$	4,298,416	
Expenses:					
Operating expenses (excluding depreciation)	\$	2,133,974	\$	2,087,699	
Depreciation expense		1,131,844		1,130,794	
Special projects and studies		-		10,725	
Interest expense	_	226,119		257,277	
Total expenses	\$_	3,491,937	\$	3,486,495	
Increase (decrease) in net position	\$	776,324	\$	811,921	
Net position—July 1	_	23,566,730		22,754,809	
		04.040.65		00 5// 700	
Net position—June 30	\$	24,343,054	\$	23,566,730	

The Authority's net position increased by \$776,324 during the current year. Operating revenues decreased by \$21,177 while operating expenses (including depreciation) increased \$47,325 from FY 2015 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, 2016 amounts to \$36,737,677 (net of accumulated depreciation). Investment in capital assets decreased by approximately 3% during the year, due to the excess of depreciation over new construction projects. Below is a comparison of the items that make up capital assets as of June 30, 2016 with that of June 30, 2015.

		2016	2015	
Land	¢	010 071	¢	010 071
Land	\$	910,971	Ф	910,971
Utility plant in service		35,787,796		36,909,140
Construction in progress		38,910		-
Total net capital assets	\$	36,737,677	\$	37,820,111

More detailed information on the Authority's capital assets is presented in Note 4 of the Notes to Financial Statements.

<u>Long-term Debt</u> - At the end of the current fiscal year, the Authority had \$15,182,269 in bonds and notes outstanding versus \$16,846,115 last year, a decrease of 9.88%. The net decrease is due to the retirement of debt in excess of the issuance of bonds for the construction projects.

More detailed 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 increased by \$14,883, or 1.2%, over the previous year. Water rates increased by .8% during fiscal year 2016.

Sewage treatment revenues decreased by \$36,060 or 2.4%, from the previous year. The sewage treatment rate increased by a .64% during fiscal year 2016.

### Operating Expenses

Water operating expenses (excluding depreciation and amortization) decreased by \$55,200 in fiscal year 2016 from 2015 amounts. This represents a 7.1% decrease from the previous year.

Sewer operating expenses (excluding depreciation and amortization) increased by \$101,475 in fiscal year 2016 over 2015 amounts. This represents a 7.7% increase over the previous year.

### Review of Operations: (Continued)

### Long-Term Issues

Water: Our projections continue to show a slight increase in water sales over the next few years. Expenses are expected to increase with the rate of inflation especially in the areas related to personnel, chemicals, and electrical power. One can easily surmise, therefore, that the per-unit cost of producing drinking water will continue to go up.

Wastewater: Although our calculations, based on recent past trends, show that the influent to the wastewater plant will increase, this figure is highly dependent on the weather.

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.

### **Projects**

Water: The waterline replacement project presently referred to as the Houston Street Waterline project has been delayed. It is now slated to be completed by mid 2018.

Wastewater: No additional projects at the wastewater treatment plant are anticipated for several more years. We are currently working with a consulting engineering to address our concerns about aging software and control systems related to the treatment plant.

Equipment maintenance and replacement will continue as needed. MSA has developed a comprehensive Asset Management Plan to anticipate most of the equipment repair and replacement needs and to set money aside for those future expenses.

### Reorganization

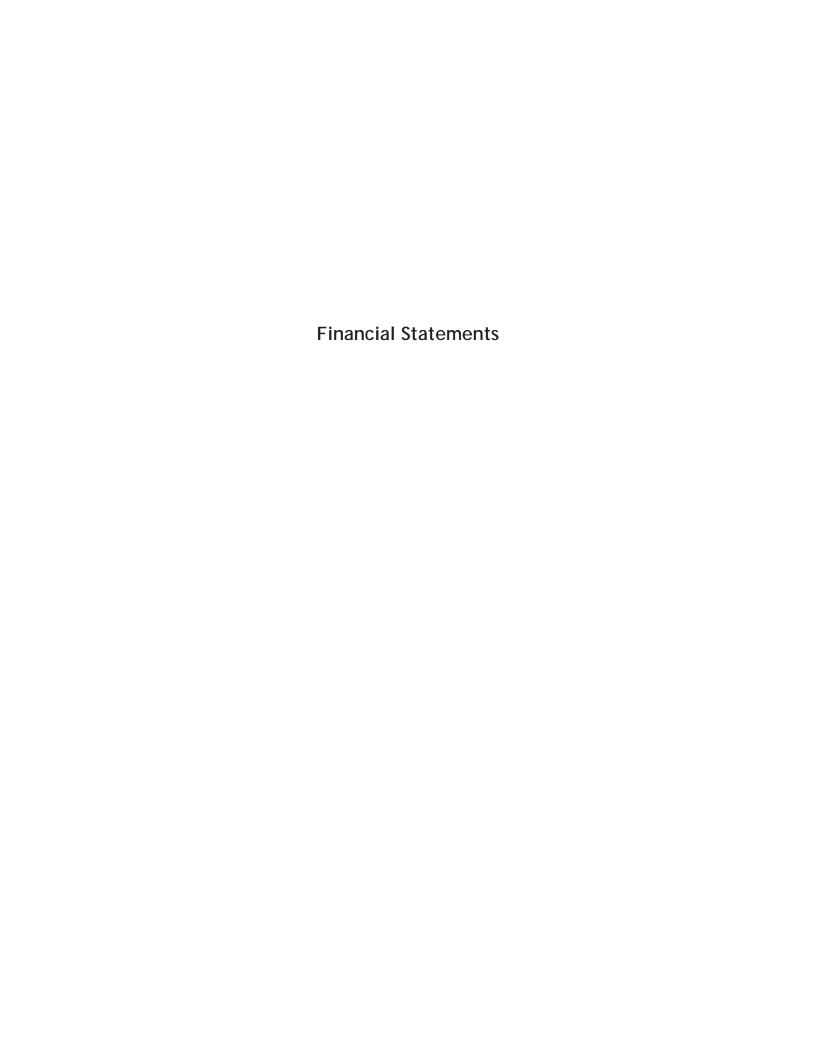
MSA took on responsibility for operation and maintenance of the two treatment facilities as of 1 July 2016. As anticipated, this significant change does not appear to have had any substantial effect on MSA finances.

### Reorganization

MSA did not renew the contracts to operate the water and wastewater treatment plants as of 1 July 2016. The MSA will take on the 15 employees who work at those facilities who are presently City employees. From then on the MSA will be responsible for the operation of its own facilities. At this point it appears that this change will not have a significant impact on MSA finances.

### **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 P.O. Box 785, Lexington, VA 24450.



Statement of Net Position As of June 30, 2016

	_	Water	<u> </u>	Sewer	_	Total
ASSETS Current Assets:						
Cash and cash equivalents	\$	430,642	\$	1,783,809	\$	2,214,451
Accounts receivable		327,393		421,218		748,611
Prepaid insurance	_	34,447		=		34,447
Total Current Assets	\$_	792,482	\$_	2,205,027	\$_	2,997,509
Noncurrent Assets:						
Restricted Assets:						
Cash and cash equivalents Capital Assets:	\$_	292,287	- \$ _	-	_\$_	292,287
Land and improvements	\$	276,046	\$	634,925	\$	910,971
Construction in progress	•	38,910	Ť	-	,	38,910
Plant, lines and equipment	_	14,691,210	_	32,246,391	_	46,937,601
Total Capital Assets	\$	15,006,166	\$	32,881,316	\$	47,887,482
Accumulated depreciation	_	3,454,592	_	7,695,213	_	11,149,805
Net Capital Assets	\$	11,551,574	\$_	25,186,103	\$_	36,737,677
Total Noncurrent Assets	\$	11,843,861	\$_	25,186,103	\$_	37,029,964
Total Assets	\$	12,636,343	\$_	27,391,130	\$_	40,027,473
DEFERRED OUTFLOWS OF RESOURCES						
Deferred charge on refunding	\$	18,288	\$_	-	\$_	18,288
LIABILITIES AND NET POSITION						
Current Liabilities:						
Accounts payable	\$	154,011	\$	343,318	\$	497,329
Accrued interest payable Revenue bonds - current portion		20,532 296,163		2,577 1,381,563		23,109 1,677,726
Total Current Liabilities	<del>-</del> \$	470,706	 \$	1,727,458	- <u>-</u> \$	2,198,164
		,		, ,		
Long-term Liabilities: Revenue bonds payable - net of current portion	_	7,908,465	_	5,596,078		13,504,543
Total Liabilities	\$	8,379,171	\$_	7,323,536	\$	15,702,707
Net Position:  Net investment in capital assets	\$	3,365,234	\$	18,208,462	\$	21,573,696
Restricted for debt service and bond covenants	Ψ	292,287	Ψ	10,200,402	Ψ	292,287
Unrestricted	_	617,939		1,859,132		2,477,071
Total Net Position	\$	4,275,460	\$_	20,067,594	\$_	24,343,054

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

Statement of Revenues, Expenses and Changes in Net Position Year Ended June 30, 2016

		Water	Sewer	Total
Operating Revenue:				
Sales:				
Lexington	\$	728,235 \$	1,036,961 \$	1,765,196
Rockbridge County Service Authority		548,041	486,002	1,034,043
Miscellaneous revenue		<u> </u>	17,640	17,640
Total Operating Revenue	\$	1,276,276 \$	1,540,603 \$	2,816,879
Operating Expenses:				
City of Lexington	\$	608,375 \$	1,225,042 \$	1,833,417
Professional fees		30,375	52,858	83,233
Insurance		3,854	22,745	26,599
Maintenance		8,109	98,133	106,242
Other expenses		71,488	12,995	84,483
Depreciation		364,149	767,695	1,131,844
Total Operating Expenses	\$	1,086,350 \$	2,179,468 \$	3,265,818
Operating Income (loss)	\$	189,926 \$	(638,865) \$	(448,939)
Nonoperating Revenues (Expenses):				
Contribution for debt service payments	\$	35,618 \$	1,408,661 \$	1,444,279
Interest income		6,198	905	7,103
Interest expense		(185,098)	(41,021)	(226,119)
Total Nonoperating Revenues (Expenses)	\$	(143,282) \$	1,368,545 \$	1,225,263
Income (loss)	\$	46,644 \$	729,680 \$	776,324
Change in net position	\$	46,644 \$	729,680 \$	776,324
Net position, beginning of year	_	4,228,816	19,337,914	23,566,730
Net position, end of year	\$	4,275,460 \$	20,067,594 \$	24,343,054

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

Statement of Cash Flows Year Ended June 30, 2016

	_	Water	Sewer	Total
Cash Flows from Operating Activities: Receipts from customers and users Payments to suppliers Payments to City of Lexington for services Payments to employees	\$	1,263,616 \$ (70,335) (648,037) (30,375)	1,541,796 \$ (75,165) (1,255,578) (52,858)	2,805,412 (145,500) (1,903,615) (83,233)
Net Cash Provided by (Used for) Operating Activities	\$	514,869 \$	158,195 \$	673,064
Cash Flows from Noncapital Financing Activities: Contribution for debt service payments	\$_	35,618 \$	1,408,661 \$	1,444,279
Cash Flows from Capital and Related Financing Activities: Purchase and construction of assets Principal payments on bonds Interest paid on indebtedness Net Cash Provided by (Used for) Capital and Related Financing Activities	\$ _ \$	(38,910) \$ (283,362) (193,437) (515,709) \$	(10,500) \$ (1,366,379) (42,282) (1,419,161) \$	(49,410) (1,649,741) (235,719) (1,934,870)
Cash Flows from Investing Activities: Interest income	\$	6,198 \$	905 \$	7,103
Net Cash Provided by (Used for) Investing Activities	\$	6,198 \$	905 \$	7,103
Increase (decrease) in cash and cash equivalents	\$	40,976 \$	148,600 \$	189,576
Cash and cash equivalents at beginning of year		681,953	1,635,209	2,317,162
Cash and cash equivalents at end of year	\$_	722,929 \$	1,783,809 \$	2,506,738
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:  Operating income (loss)  Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:  Depreciation	\$	189,926 \$ 364,149	(638,865) \$ 767,695	(448,939) 1,131,844
(Increase) decrease in accounts receivable (Increase) decrease in prepaid items Increase (decrease) in accounts payable		12,828 (34,447) (17,587)	(16,678) - 46,043	(3,850) (34,447) 28,456
Net Cash Provided by (Used for) Operating Activities	\$_	514,869 \$	158,195 \$	673,064

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

Notes to Financial Statements As of June 30, 2016

### 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.

<u>Financial Reporting Entity</u> - 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. <u>Basis of Accounting</u> - 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. <u>Allowance for Doubtful Accounts</u> - 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

Notes to Financial Statements As of June 30, 2016 (Continued)

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

### C. <u>Basic Financial Statements: (Continued)</u>

- 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. <u>Capital Assets:</u>

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

- E. <u>Interest on Indebtedness:</u> 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, 2016 was \$0.
- F. <u>Cash and Cash Equivalents:</u> 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.

Notes to Financial Statements As of June 30, 2016 (Continued)

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

G. <u>Budgets and Budgetary Accounting:</u> A budget is prepared for information, fiscal planning purposes, and to provide the basis for setting wholesale rates. None of the participating entities are required to approve the budget. The budget is adopted as a planning document and is not a legal control on 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. <u>Inventory</u>: 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. <u>Use of Estimates:</u> 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. <u>Deferred Outflows/Inflows of Resources:</u> 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, 2016.

K. <u>Long-term Obligations</u>: 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.

Notes to Financial Statements As of June 30, 2016 (Continued)

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

- L. <u>Net Position</u>: 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. <u>Net Position Flow Assumption:</u> 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.

Notes to Financial Statements As of June 30, 2016 (Continued)

# Note 4—Capital Assets:

Details of changes in capital assets for the year ended June 30, 2016 are as follows:

WATER:	_	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being					
depreciated: Land and improvements Construction in progress	\$	276,046 \$	- \$ 38,910	- \$ 	276,046 38,910
Total water capital assets not being depreciated	\$_	276,046_\$	38,910_\$_	\$	314,956
Capital assets being depreciated: Plant, lines and equipment	\$	14,691,210 \$	- \$	- \$	14,691,210
Accumulated depreciation: Plant, lines and equipment	_	(3,090,443)	(364,149)	<u>-</u> .	(3,454,592)
Total water capital assets, being depreciated, net	\$_	11,600,767 \$	(364,149) \$	\$	11,236,618
Total water capital assets, net	\$_	11,876,813 \$	(325,239) \$	\$	11,551,574
SFWFR:	_	Beginning Balance	Increases	Decreases	Ending Balance
SEWER: Capital assets not being	_	•	Increases	Decreases	•
Capital assets not being depreciated:	-	Balance			Balance
Capital assets not being depreciated:  Land and improvements  Total sewer capital assets not	\$_	•	Increases - \$	Decreases	Balance 634,925
Capital assets not being depreciated:  Land and improvements	\$_ \$_	Balance			Balance
Capital assets not being depreciated:  Land and improvements  Total sewer capital assets not	· <del>-</del>	Balance 634,925 \$	\$	\$_	Balance 634,925
Capital assets not being depreciated: Land and improvements Total sewer capital assets not being depreciated  Capital assets being depreciated:	\$_	Balance 634,925 \$	<u>-</u> \$ \$	\$ \$	634,925 634,925
Capital assets not being depreciated: Land and improvements Total sewer capital assets not being depreciated  Capital assets being depreciated: Sewer treatment plant  Accumulated depreciation:	\$_	Balance 634,925 \$ 634,925 \$ 32,235,891 \$		\$ \$	634,925 634,925 32,246,391
Capital assets not being depreciated: Land and improvements Total sewer capital assets not being depreciated  Capital assets being depreciated: Sewer treatment plant  Accumulated depreciation: Sewer treatment plant  Total sewer capital assets, being	\$_ \$_	Balance \$ 634,925 \$ 634,925 \$ 32,235,891 \$ (6,927,518)	\$\$	\$ \$ \$	634,925 634,925 32,246,391 (7,695,213)

Notes to Financial Statements As of June 30, 2016 (Continued)

# 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, 2016:

		Beginning Balance	Issuances/ Additions		Retirements/ Reductions		Ending Balance	Due Within One Year
Revenue bonds:								
Water Revenue Bonds Add:	\$	8,454,508 \$	- :	\$	283,362	\$	8,171,146 \$	296,163
Issuance premiums	_	47,587		_	14,105	_	33,482	
Total Water Revenue Bonds	\$	8,502,095 \$	- !	\$	297,467	\$	8,204,628 \$	296,163
Sewer Revenue Bonds		8,344,020			1,366,379		6,977,641	1,381,563
Totals	\$	16,846,115 \$	- :	\$	1,663,846	\$_	15,182,269 \$	1,677,726

### 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 \$850,000 plus unamortized issuance premium of \$33,482.

883,483

\$

\$

\$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.

7,321,145

**Total Water Revenue Bonds** 

8,204,628

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.

2,132,513

\$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.

4,845,128

**Total Sewer Revenue Bonds** 

6,977,641

**Total Revenue Bonds** 

\$ 15,182,269

Notes to Financial Statements As of June 30, 2016 (Continued)

# 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, 2016 are as follows:

Year Ending		Water Rev	ven	e Bonds		Sewer Re	venu	ue Bonds
June 30,		Principal		Interest		Principal		Interest
2017	\$	296,163	\$	183,424	\$	1,381,563	\$	27,098
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	_	239,504	_	2,230		-	_	
Total	\$	8,171,146	\$ _	3,048,967	\$	6,977,641	\$_	38,791

In the year ended June 30, 2016 the City of Lexington and County of Rockbridge each contributed one-half of the Sewer Revenue Bond debt payment.

Notes to Financial Statements As of June 30, 2016 (Continued)

### Note 6—Related Party Transactions:

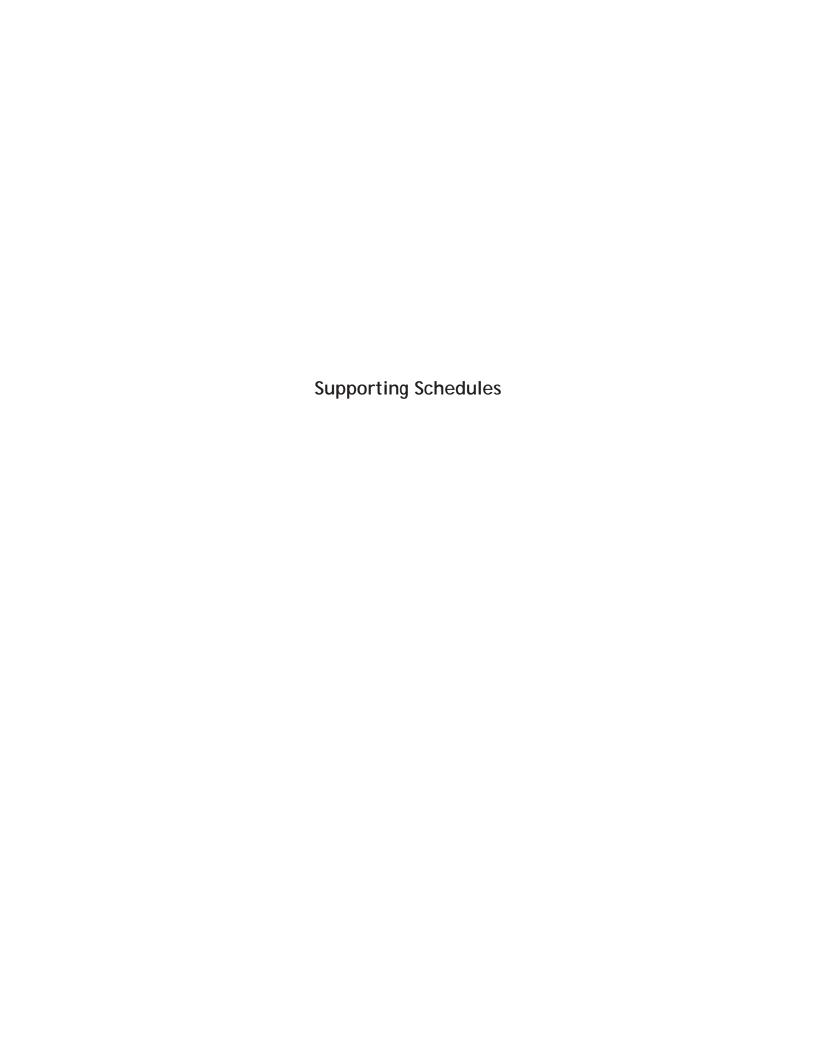
The Maury Service Authority receives substantially all of its revenues from the City of Lexington and the Rockbridge County Public Service Authority. Through contractual arrangement, the City of Lexington is responsible for the operation of the water and wastewater treatment plants. The Maury Service Authority reimburses the City for all costs associated with the operation of the plants including, but not limited to, personnel (including all employee benefits), supplies and materials. For the year ended June 30, 2016, the Water Fund had sales of \$728,235 and expenses of \$608,375 with the City of Lexington, while the Sewer Fund had sales of \$1,036,961 and expenses of \$1,225,042 with the City. As of June 30, 2016, the Water and Sewer Funds had receivables from the City of \$177,620 and \$275,552, respectively. The Authority had payables to the City at year-end of \$154,011 and \$341,066 from the Water and Sewer Funds, respectively.

### Note 7—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 8—Subsequent Event:

As of July 1, 2016, the Authority did not renew the contract with the City of Lexington to operate the water and wastewater treatment plans. The Authority assumed the employees who work at the facilities that were previously City employees. The Authority is now responsible for the operation of its own facilities. The Authority does not believe this change will have a significant impact on its financial operations.



Schedule of Revenues and Expenses - Budget and Actual - Water Fund Year Ended June 30, 2016

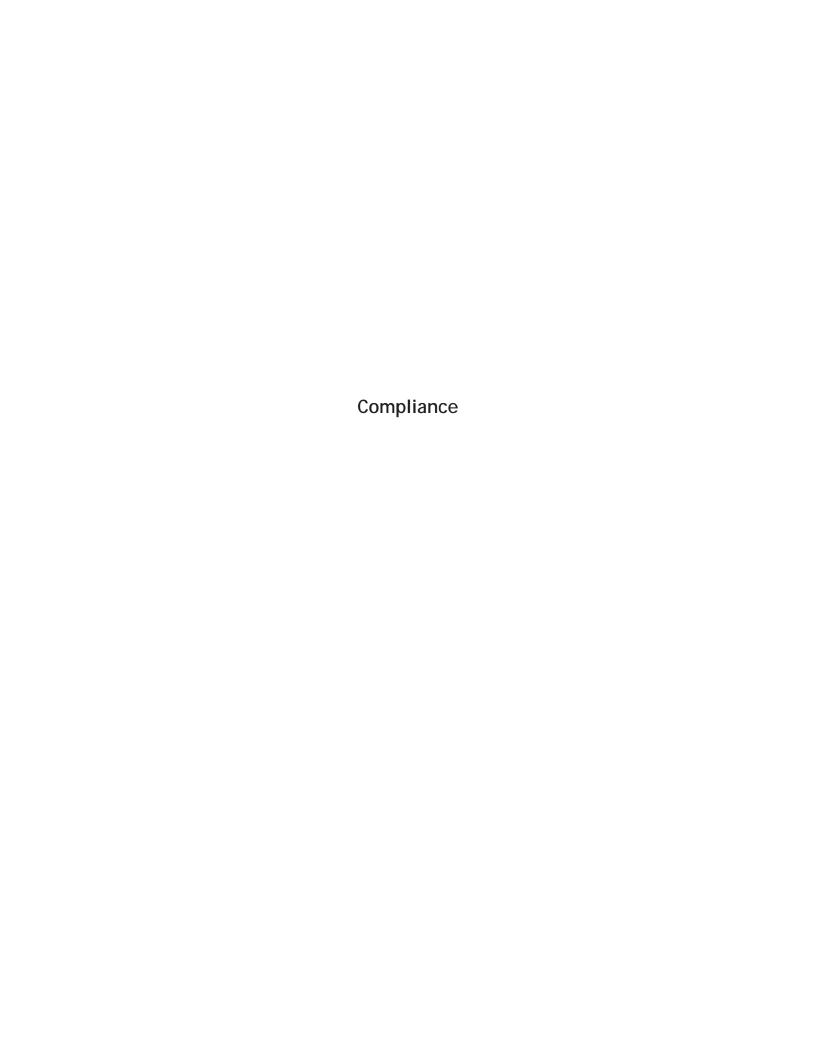
	Budget	Actual	Variance Favorable (Unfavorable)
REVENUE:	 Daaget	 7.ocuan	 (Ginavorabio)
Water sales	\$ 1,277,448	\$ 1,276,276	\$ (1,172)
Interest income	300	6,126	5,826
Miscellaneous	35,655	35,618	(37)
Total revenue	\$ 1,313,403	\$ 1,318,020	\$ 4,617
EXPENSES:			
City contract	\$ 660,434	\$ 608,375	\$ 52,059
Loan payment on water plant bond:			
Principal	145,000	145,000	-
Interest	45,503	43,758	1,745
Loan payment on Loop Project:			
Principal	286,296	138,362	
Interest		147,934	-
Audit fee	2,768	2,500	268
Accountant	2,768	1,773	995
Depreciation and improvement fund	69,325		69,325
Professional fees	43,750	30,375	13,375
Honoraria	1,800	1,750	50
Insurance	22,000	3,854	18,146
Dues	1,947	1,998	(51)
Legal and advisory services	500	12,600	(12,100)
Office expenses	1,300	782	518
Maintenance	5,250	48,157	(42,907)
Special Projects	10,000	-	10,000
Houston Street extension	13,712	-	13,712
Travel	1,050	756	294
Total expenses	\$ 1,313,403	\$ 1,187,974	\$ 125,429
Net income (loss)	\$ -	\$ 130,046	\$ 130,046

This schedule is presented on the Authority's budgetary basis of accounting and includes only the accounts included in the annual operating budget of the Authority.

Schedule of Revenues and Expenses - Budget and Actual - Sewer Fund Year Ended June 30, 2016

	Budget		Actual		Variance Favorable (Unfavorable)
REVENUE:	Daaget		Hotaai	•	(Office of Cabio)
Sewer sales	\$ 1,434,854	\$	1,522,963	\$	88,109
Interest	600		554		(46)
Miscellaneous	-		17,640		17,640
Total revenue	\$ 1,435,454	\$	1,541,157	\$	105,703
EXPENSES:					
Wastewater contract	\$ 1,190,796	\$	1,225,042	\$	(34,246)
Audit fee	2,768		2,500		268
Accountant	2,768		2,471		297
Capital sinking fund	154,643		-		154,643
Professional fees	46,825		52,858		(6,033)
Honoraria	1,800		1,800		-
Insurance	15,979		22,745		(6,766)
Legal and advisory services	500		-		500
Nutrient credit exchange	-		5,032		(5,032)
Office expenses	1,300		455		845
Dues	2,050		26,033		(23,983)
Maintenance	5,000		72,100		(67,100)
Special projects	10,000				10,000
Travel	1,025		737		288
Total expenses	\$ 1,435,454	\$	1,411,773	\$	23,681
Net income (loss)	\$ 	\$ _	129,384	\$	129,384

This schedule is presented on the Authority's budgetary basis of accounting and includes only the accounts included in the annual operating budget of the Authority.



# ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

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, 2016, 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 October 27, 2016.

### 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.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **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*.

### 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.

Refiner, Farm, Cox Associates Charlottesville, Virginia

October 27, 2016