

Maury Service Authority

Officers At June 30, 2020

Chairperson John E. Riester, Jr.

Vice-Chairperson John Higgins

Secretary/Treasurer George Graves

Board Members

John E. Riester, Jr.

George Graves

John Higgins

James "Jimmy" Carter

Jonathan Goad

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ROBINSON, FARMER, COX ASSOCIATES, PLLC

Certified Public Accountants

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, 2020, 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, 2020, 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 and schedules related to pension and OPEB funding on pages 3-6 and 34-39 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.

Supplementary 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 19, 2021, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Maury Service Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Maury Service Authority's internal control over financial reporting and compliance.

Robinson Faren Cox Associates

Charlottesville, Virginia April 19, 2021 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, 2020.

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 7 through 9 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 10 through 33 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information for the schedules of pension and OPEB funding related to the Virginia Retirement System benefits. Other supplementary information presented includes budgetary comparison schedules.

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 \$26,269,031 (net position). Of this amount \$3,785,262 (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 \$125,393 during the year.
- The Authority's total long-term debt decreased by \$651,969 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 and deferred inflows of resources by \$26,269,031 at the close of the most recent fiscal year.

Financial Analysis: (Continued)

By far the largest portion of the Authority's net position (84 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			
	_	2020		2019	
Assets: Current and other assets Capital assets	\$	4,497,515 32,665,021	\$	3,825,071 33,704,372	
Total Assets	\$	37,162,536	\$	37,529,443	
Total Deferred Outflows of Resources	\$	259,259	\$	248,524	
Liabilities: Long-term liabilities outstanding Other liabilities Total Liabilities	\$ _ \$	9,886,011 1,250,603 11,136,614		11,187,635 432,384 11,620,019	
Total Deferred Inflows of Resources	\$	16,150	\$	14,310	
Net position: Net investment in capital assets Restricted for debt service and bond covenants Restricted for pension benefits Unrestricted	Ş	22,096,311 319,832 67,626 3,785,262	\$	22,576,722 312,697 30,684 3,223,535	
Total Net Position	\$	26,269,031	\$	26,143,638	

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					
		2020	2019				
Revenues:							
Sales - City of Lexington	\$	2,775,214	\$	2,553,012			
Sales - Rockbridge County PSA		1,350,721		1,228,671			
Contribution for debt service payments		358,627		358,627			
Investment income		18,530		16,125			
Other revenue	_	244,756		182,119			
Total revenues	\$_	4,747,848	\$_	4,338,554			
Expenses:							
Operating expenses (excluding depreciation)	\$	3,252,975	\$	2,909,653			
Depreciation expense		1,167,296		1,193,631			
Special projects and studies		57,876		4,040			
Interest expense	_	145,408		155,699			
Total expenses	\$	4,623,555	\$	4,263,023			
Capital contributions	\$_	1,100	\$	-			
Increase (decrease) in net position	\$	125,393	\$	75,531			
Net position—July 1	_	26,143,638		26,068,107			
Net position–June 30	\$_	26,269,031	\$	26,143,638			

Financial Analysis: (Continued)

The Authority's net position increased by \$125,393 during the current year. Operating revenues increased by \$406,889 and operating expenses (including depreciation) increased \$316,987 over FY 2019 levels. Key elements of these changes are explained in greater detail under the Review of Operations section.

Capital Asset and Debt Administration

<u>Capital Assets</u> - The Authority's investment in capital assets as of June 30, 2020 amounted to \$32,665,021 (net of accumulated depreciation). Investments in capital assets decreased by approximately 2% during the year. Below is a comparison of the items that make up capital assets as of June 30, 2020 with that of June 30, 2019.

	_	2020	2019	
Land and land improvements	\$	910,971	\$	910,971
Utility plant in service		31,606,340		32,754,491
Construction in progress	_	147,710		38,910
Total net capital assets	\$	32,665,021	\$	33,704,372

Additional 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 \$10,478,666 in bonds outstanding versus \$11,130,635 last year, a decrease of 5.86%. 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 increased by \$317,727, or 21.91%, from the previous year. Water rates increased by 22.06% during fiscal year 2020 to \$3.32 with a 635 gallon, or .12%, decrease in consumption.

Sewage treatment revenues increased by \$939,340 or 36.28%, from the previous year. The sewage treatment rate increased by 1.17% to \$6.50 during fiscal year 2020. However, consumption decreased by 74,671 gallons or 17.07%.

Operating Expenses

Water operating expenses (excluding depreciation) increased by \$309,859 in fiscal year 2020 over 2019 amounts. This represents a 35.04% increase over the previous year.

Sewer operating expenses (excluding depreciation) increased by \$33,463 in fiscal year 2020 over 2019 amounts. This represents a 1.65% increase over the previous year.

Review of Operations: (Continued)

Long-Term Issues

Water: The MSA has ageing water treatment facilities that have reached the end of their useful life. This is a challenge the MSA staff works tirelessly to overcome to sustainably provide clean water. The water demand also fluctuates due to the ageing distribution system of the MSA customers. This fluctuation in demand is difficult to manage.

Wastewater: The MSA has ageing wastewater treatment facilities that have reached the end of their useful life. This is a challenge the MSA staff works tirelessly to overcome to sustainably provide clean water. The operating revenues will continue to fluctuate with the rainfall until the Infiltration and Inflow (I&I) is significantly reduced in the customer's collection systems. The MSA also experiences significantly higher strength waste streams to the wastewater treatment facilities that is contributing to overloading of the facilities.

Projects

Wastewater and Water: The MSA is currently conducting a Facilities Evaluation Study to understand the needs of the MSA facilities and begin developing a plan to address these needs.

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

Statement of Net Position As of June 30, 2020

		Water	Wastewater	Total
ASSETS				
Current Assets: Cash and cash equivalents	\$	885,999	\$ 1,872,521	\$ 2,758,520
Accounts receivable	Ŷ	365,178	785,345	1,150,523
Amounts due from other funds		-	200,065	200,065
Prepaid expenses		188	761	949
Total Current Assets	\$	1,251,365	\$ 2,858,692	\$4,110,057
Noncurrent Assets:				
Restricted Assets:				
Cash and cash equivalents	\$	319,832	\$ <u> </u>	\$319,832
Other Assets:				
Net pension asset	\$	21,681	\$ 45,945	\$67,626
Capital Assets: Land and improvements	\$	276,046	\$ 634,925	\$ 910,971
Construction in progress	7	147,710	-	147,710
Plant, lines and equipment		14,778,004	32,632,915	47,410,919
Total Capital Assets	\$	15,201,760	\$ 33,267,840	\$ 48,469,600
Accumulated depreciation		4,940,923	10,863,656	15,804,579
Net Capital Assets	\$	10,260,837		
Total Noncurrent Assets	\$	10,602,350	\$ 22,450,129	\$ 33,052,479
Total Assets	\$	11,853,715	\$\$\$\$\$\$\$\$	\$37,162,536
DEFERRED OUTFLOWS OF RESOURCES				
Deferred charge on refunding	\$	756	s - s	\$ 756
Pension related items		72,158	127,829	199,987
OPEB related items		18,885	39,631	58,516
Total Deferred Outflows of Resources	\$	91,799	\$ 167,460	\$ 259,259
LIABILITIES				
Current Liabilities:				
Accounts payable	\$	69,789	\$ 71,964	. ,
Construction and retainage payable		90,800	-	90,800
Accrued payroll liabilities		18,587 11,465	33,250	51,837 11,465
Accrued interest payable Amounts due to other funds		200,065	-	200,065
Compensated absences		39,334	53,047	92,381
Revenue bonds - current portion		339,293	323,009	662,302
Total Current Liabilities	\$	769,333	\$ 481,270	\$ 1,250,603
Long-term Liabilities:				
Revenue bonds payable - net of current portion	\$	6,586,279	\$ 3,230,085	\$ 9,816,364
Net OPEB Liability		22,287	47,360	69,647
Total Long-term Liabilities	\$	6,608,566	\$ 3,277,445	\$ 9,886,011
Total Liabilities	\$	7,377,899	\$3,758,715_\$	\$ 11,136,614
DEFERRED INFLOWS OF RESOURCES				
Pension related items	\$	7,279	\$ 4,437	\$ 11,716
OPEB related items		1,419	3,015	4,434
Total Deferred Inflows of Resources	\$	8,698	\$	\$16,150
NET POSITION				
Net investment in capital assets	\$	3,245,221	\$ 18,851,090	\$ 22,096,311
Restricted for debt service and bond covenants		319,832	-	319,832
Restricted for pension benefits		21,681	45,945	67,626
Unrestricted		972,183	2,813,079	3,785,262
Total Net Position	\$	4,558,917	\$ <u>21,710,114</u>	\$ <u>26,269,031</u>

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, 2020

		Water	Wastewater	Total
Operating Revenue:				
Sales:				
Lexington	\$	1,085,681 \$	1,689,533 \$	2,775,214
Rockbridge County Service Authority		681,961	668,760	1,350,721
Miscellaneous revenue		-	244,756	244,756
Total Operating Revenue	\$	1,767,642 \$	2,603,049 \$	4,370,691
Operating Expenses:				
Personnel and benefits	\$	552,184 \$	1,079,729 \$	1,631,913
Electricity		178,060	253,763	431,823
Chemicals		85,452	143,544	228,996
Insurance		45,901	38,031	83,932
Maintenance		111,628	198,887	310,515
Professional fees		52,220	50,747	102,967
Other expenses		168,774	294,055	462,829
Depreciation		372,847	794,449	1,167,296
Total Operating Expenses	\$	1,567,066 \$	2,853,205 \$	4,420,271
Operating Income (loss)	\$	200,576 \$	(250,156) \$	(49,580)
Nonoperating Revenues (Expenses):				
Contribution for debt service payments	\$	35,618 \$	323,009 \$	358,627
Interest income		9,639	8,891	18,530
Special projects and studies		(31,487)	(26,389)	(57,876)
Interest expense		(145,408)		(145,408)
Total Nonoperating Revenues (Expenses)	\$	(131,638) \$	305,511 \$	173,873
Income (loss) before capital contributions	\$	68,938 \$	55,355 \$	124,293
Capital contributions	\$	1,100 \$	- \$	1,100
Change in net position	\$	70,038 \$	55,355 \$	125,393
Net position, beginning of year	_	4,488,879	21,654,759	26,143,638
Net position, end of year	\$	4,558,917 \$	21,710,114 \$	26,269,031

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

Statement of Cash Flows Year Ended June 30, 2020

	_	Water	Wastewater	Total
Cash Flows from Operating Activities: Receipts from customers and users Payments to suppliers Payments to and for employees	\$	1,772,656 \$ (641,145) (564,956)	2,349,308 \$ (1,005,734) (1,062,655)	4,121,964 (1,646,879) (1,627,611)
Net Cash Provided by (Used for) Operating Activities	\$	566,555 \$	280,919 \$	847,474
Cash Flows from Noncapital Financing Activities: Contribution for debt service payments Interfund loans Net Cash Provided By (Used for) Noncapital	\$ _	35,618 \$ 22,963	323,009 \$ (22,963)	358,627
Financing Activities	\$	58,581 \$	300,046 \$	358,627
Cash Flows from Capital and Related Financing Activities: Purchase and construction of assets	\$	(18,000) \$	(19,146) \$	(37,146)
Capital contributions from governments Principal payments on bonds Interest paid on indebtedness Net Cash Provided by (Used for) Capital and Related	_	1,100 (324,879) (149,582)	(323,009)	1,100 (647,888) (149,582)
Financing Activities	\$	(491,361) \$	(342,155) \$	(833,516)
Cash Flows from Investing Activities: Interest income	\$	9,639 \$	8,891 \$	18,530
Net Cash Provided by (Used for) Investing Activities	\$	9,639 \$	8,891 \$	18,530
Increase (decrease) in cash and cash equivalents	\$	143,414 \$	247,701 \$	391,115
Cash and cash equivalents - beginning - including restricted	_	1,062,417	1,624,820	2,687,237
Cash and cash equivalents - ending - including restricted	Ş	1,205,831 \$	1,872,521 \$	3,078,352
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:	Ş	200,576 \$	(250,156) \$	(49,580)
Depreciation Payments for special projects and studies (Increase) decrease in accounts receivable (Increase) decrease in prepaid expenses (Increase) decrease in net pension asset		372,847 (31,487) 5,014 6,380 (11,862)	794,449 (26,389) (253,741) 20,923 (25,080)	1,167,296 (57,876) (248,727) 27,303 (36,942)
(Increase) decrease in pension deferred outflows (Increase) decrease in OPEB deferred outflows Increase (decrease) in accounts payable Increase (decrease) in accrued payroll liabilities		(13,491) (6,489) 25,997 6,371	4,681 2,335 (21,241) 3,252	(8,810) (4,154) 4,756 9,623
Increase (decrease) in accrued payfor inabilities Increase (decrease) in compensated absences Increase (decrease) in net OPEB liability Increase (decrease) in pension deferred inflows Increase (decrease) in OPEB deferred inflows	_	3,608 9,747 (975) 319	26,490 2,900 3,381 (885)	30,098 12,647 2,406 (566)
Net Cash Provided by (Used for) Operating Activities	\$	566,555 \$	280,919 \$	847,474
Schedule of non-cash capital and related financing activities: Construction payables	= \$	90,800 \$	- \$	90,800

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

Notes to Financial Statements As of June 30, 2020

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. <u>Basic Financial Statements</u>: 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
 - 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
 - Required supplementary information
 - Pension and OPEB Funding Information

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

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. <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. There was no capitalized interest for the year ended June 30, 2020.
- F. <u>Cash and Cash Equivalents:</u> The Authority's cash and cash equivalents consist of cash on hand, 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.
- G. <u>Budgets and Budgetary Accounting</u>: 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. <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.

Notes to Financial S	tatements
As of June 30, 2020	(Continued)

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

- 1. <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 will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The Authority has multiple items that qualify for reporting in this category. The first 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. Other deferred outflows are comprised of certain items related to the measurement of the net pension asset and net OPEB liability and contributions to the pension and OPEB plans made during the current year and subsequent to the net pension asset and net OPEB liability measurement date. For more detailed information on these items, reference the related notes.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Authority also has items that qualify for reporting in this category. Certain items related to the measurement of the net pension asset and net OPEB liability are reported as deferred inflows of resources. For more detailed information on these items, reference the related notes.

- 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.
- L. <u>Net Position</u>: The difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources is called net position. Net position is comprised of three components: net investment in capital assets, restricted, and unrestricted.
 - Net investment in capital assets consists of capital assets, net of accumulated depreciation and reduced by outstanding balances of bonds, notes, and other debt that are attributable 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 included in this component of net position.
 - Restricted net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Assets are reported as restricted when constraints are placed on asset use either by external parties or by law through constitutional provision or enabling legislation.
 - Unrestricted net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that does not meet the definition of the two preceding categories.

Notes to Financial Sta	tements
As of June 30, 2020 (C	Continued)

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

L. <u>Net Position</u>: (Continued)

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.

- M. <u>Pensions</u>: For purposes of measuring the net pension asset, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Authority's Retirement Plan and the additions to/deductions from the Authority's Retirement Plan's net fiduciary position have been determined on the same basis as they were reported by the Virginia Retirement System (VRS). For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.
- N. <u>Other Postemployment Benefits (OPEB)</u>: For purposes of measuring the net VRS related OPEB liabilities, deferred outflows of resources and deferred inflows of resources related to the OPEB, and OPEB expense, information about the fiduciary net position of the VRS GLI OPEB Plan and the additions to/deductions from the VRS OPEB Plan's net fiduciary position have been determined on the same basis as they were reported by VRS. In addition, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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 <u>Code of Virginia</u>. 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.

Notes to Financial Statements As of June 30, 2020 (Continued)

Note 3–Deposits and Investments: (Continued)

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 that has received at least two of the following ratings: P-1 by Moody's Investors Service, Inc.; A-1 by Standard and Poor's; or F1 by Fitch Ratings, Inc. (Section 2.2-4502), banker's acceptances, repurchase agreements, and the State Treasurer's Local Government Investment Pool (LGIP).

The Authority does not have a formal investment policy and no investments at June 30, 2020.

Note 4–Capital Assets:

Details of changes in capital assets for the year ended June 30, 2020 are as follows:

	_	Beginning Balance	Increases	Decreases	Ending Balance
WATER:					
Capital assets not being depreciated:	ċ			~ ~ ~	
Land and improvements	\$	276,046 \$		\$-\$,
Construction in progress		38,910	108,800		147,710
Total capital assets not					
being depreciated	\$	314,956 \$	108,800	\$ <u> </u>	423,756
Capital assets being depreciated:					
Water plant and lines	\$	14,538,358 \$	-	\$- <u>\$</u>	5 14,538,358
Equipment		239,646	-		239,646
Total capital assets					
being depreciated	\$	14,778,004 \$	-	\$ <u> </u>	5 14,778,004
Accumulated depreciation: Water plant and lines	\$	(4,451,029) \$	(355,617)	s - s	6 (4,806,646)
Equipment	Ļ	(117,046)	(17,231)	 -	(134,277)
Total accumulated depreciation	s	(4,568,075) s	(372,848)	s <u> </u>	
Total capital assets, being		· .			·
depreciated, net	\$	10,209,929 ş	(372,848)	\$ <u>-</u> \$	9,837,081
Total water capital assets, net	\$	10,524,885 ş	(264,048)	\$ <u>-</u> \$	5 10,260,837

Notes to Financial Statements As of June 30, 2020 (Continued)

Note 4–Capital Assets: (Continued)

WASTEWATER:	_	Beginning Balance		Increases		Decreases	 Ending Balance
Capital assets not being							
depreciated: Land and improvements	\$	634,925	\$	-	\$	-	\$ 634,925
Total capital assets not being depreciated	\$_	634,925	\$_	-	\$_	-	\$ 634,925
Capital assets being depreciated:							
Wastewater treatment plant	\$	28,661,192	\$	-	\$	-	\$ 28,661,192
Equipment	_	3,952,577		19,146		-	 3,971,723
Total capital assets being depreciated	\$_	32,613,769	\$	19,146	\$	-	\$ 32,632,915
Accumulated depreciation:							
Wastewater treatment plant	\$	(8,512,568)	\$	(574,111)	\$	-	\$ (9,086,679)
Equipment	_	(1,556,639)		(220,338)		-	 (1,776,977)
Total accumulated depreciation	\$	(10,069,207)	\$	(794,449)	\$	-	\$ (10,863,656)
Total capital assets, being							
depreciated, net	\$	22,544,562	\$_	(775,303)	\$	-	\$ 21,769,259
Total wastewater capital assets, net	\$	23,179,487	\$	(775,303)	\$	-	\$ 22,404,184
Total capital assets, net	\$_	33,704,372	\$	(1,039,351)	\$	-	\$ 32,665,021

Note 5–Long-term Liabilities:

A. Changes in Long-term Liabilities:

The following is a summary of long-term liabilities transactions for the year ended June 30, 2020:

	_	Beginning Balance	lssuances/ Additions	•	Retirements/ Reductions	Ending Balance	Due Within One Year
Water Revenue Bonds Add:	\$	7,249,067 ş	-	\$	324,879 \$	6,924,188 ş	337,909
Issuance premiums		5,465	-		4,081	1,384	1,384
Total Water Revenue Bonds	\$	7,254,532 \$	-	\$	328,960 \$	6,925,572 \$	339,293
Net OPEB Liability		12,540	28,585		18,838	22,287	-
Total Water Long-term Liabilities	\$	7,267,072 \$	28,585	\$	347,798\$	6,947,859 \$	339,293
Wastewater Revenue Bonds	\$	3,876,103 \$	-	\$	323,009 \$	3,553,094 \$	323,009
Net OPEB Liability	_	44,460	48,630		45,730	47,360	-
Total Wastwater Long-term Liabilities	\$	3,920,563 \$	48,630	\$	368,739 \$	3,600,454 \$	323,009
Totals	\$	11,187,635 ş	77,215	\$	716,537 ş	10,548,313 ş	662,302

Notes to Financial St	atements
As of June 30, 2020	(Continued)

Note 5-Long-term Liabilities: (Continued)

B. Details of Long-term Liabilities:

Direct Borrowings and Direct Placements - 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 \$360,000 plus unamortized issuance premium of \$1,384.

\$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.

Total Direct Borrowings and Direct Placements - Water Revenue Bonds	\$ 6,925,572
Net OPEB Liability	\$ 22,287
Total Water Long-term Liabilities	\$ 6,947,859
Direct Borrowings and Direct Placements Wastewater Povenue Bends:	

186,384

6,739,188

3,553,094

Direct Borrowings and Direct Placements - Wastewater Revenue Bonds:

\$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.

Net OPEB Liability	\$ 47,360
Total Wastewater Long-term Liabilities	\$ 3,600,454
Total Long-Term Liabilities	\$ 10,548,313

C. <u>Default Provisions:</u>

In the event of default on revenue bonds, the lender may declare the entire unpaid principal and interest on the issuance as due and payable.

Notes to Financial Statements As of June 30, 2020 (Continued)

Note 5-Long-term Liabilities: (Continued)

D. Annual Amortization of Long-term Liabilities:

The annual requirements to amortize all long-term debt outstanding as of June 30, 2020 are as follows:

Direct Borrowings and Direct Placements									
Year Ending		Water Revenue Bonds				Sewer Revenue Bonds			
June 30,		Principal		Interest		Principal	_	Interest	
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		323,009		-	
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		239,524		2,230		-		-	
Total	\$ <u></u>	6,924,188	\$	2,382,206	\$	3,553,094	\$	-	

For the year ended June 30, 2020 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, 2020 (Continued)

Note 6-Interfund Balances:

Amounts reported as due to and from other funds totaled \$200,065 at June 30, 2020. This balance represents water fund expenses that were paid for by the wastewater fund.

Note 7–Concentration of Revenue:

The Maury Service Authority receives substantially all its revenues from the City of Lexington and the Rockbridge County Public Service Authority. For the year ended June 30, 2020, the Water Fund had sales of \$1,085,681 and \$681,961 with the City of Lexington and Rockbridge County Service Authority, respectively, while the Wastewater had sales of \$1,689,533 and \$668,760 with the City and Authority, respectively. As of June 30, 2020, the Water Fund had receivables from the City and Authority of \$204,714 and \$160,464, respectively and the Wastewater Fund had receivables from the City and Authority of \$444,005 and \$332,812, 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 <u>Code of Virginia</u>, as amended. Eligible prior service that may be purchased includes prior public service, active military service, certain periods of leave, and previously refunded service.

Benefit Structures

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, as detailed below.

a. Employees hired before July 1, 2010, vested as of January 1, 2013, and have not taken a refund, are covered under Plan 1, a defined benefit plan. Non-hazardous duty employees are eligible for an unreduced retirement benefit beginning at age 65 with at least 5 years of service credit or age 50 with at least 30 years of service credit. Non-hazardous duty employees may retire with a reduced benefit as early as age 55 with at least 5 years of service credit.

Notes to Financial Statements As of June 30, 2020 (Continued)

Note 9-Pension Plan: (Continued)

Benefit Structures: (Continued)

- b. Employees hired 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 are covered under Plan 2, a defined benefit plan. Non-hazardous duty employees are eligible for an unreduced benefit beginning at their normal social security retirement age with at least 5 years of service credit or when the sum of their age plus service credit equals 90. Non-hazardous duty employees may retire with a reduced benefit as early as age 60 with at least 5 years of service credit.
- c. Non-hazardous duty employees hired on or after January 1, 2014 are covered by the Hybrid Plan combining the features of a defined benefit plan and a defined contribution plan. Plan 1 and Plan 2 members also had the option of opting into this plan during the election window held January 1 April 30, 2014 with an effective date of July 1, 2014. Employees covered by this plan are eligible for an unreduced benefit beginning at their normal social security retirement age with at least 5 years of service credit, or when the sum of their age plus service credit equals 90. Employees may retire with a reduced benefit as early as age 60 with at least 5 years of service credit. For the defined contribution component, members are eligible to receive distributions upon leaving employment, subject to restrictions.

Average Final Compensation and Service Retirement Multiplier

The VRS defined benefit is a lifetime monthly benefit based on a retirement multiplier as a percentage of the employee's average final compensation multiplied by the employee's total service credit. Under Plan 1, average final compensation is the average of the employee's 36 consecutive months of highest compensation and the multiplier is 1.70% for non-hazardous duty employees. Under Plan 2, average final compensation is the average of the employee's 60 consecutive months of highest compensation and the retirement multiplier is 1.65% for non-hazardous duty employees. Under the Hybrid Plan, average final compensation is the average of the employee's 60 consecutive months of highest compensation and the multiplier 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.

Cost-of-Living Adjustment (COLA) in Retirement and Death and Disability Benefits

Retirees with an unreduced benefit or with a reduced benefit with at least 20 years of service credit are eligible for an annual COLA beginning July 1 after one full calendar year from the retirement date. Retirees with a reduced benefit and who have less than 20 years of service credit are eligible for an annual COLA beginning on July 1 after one calendar year following the unreduced retirement eligibility date. Under Plan 1, the COLA cannot exceed 5.00%. Under Plan 2 and the Hybrid Plan, the COLA cannot exceed 3.00%. The VRS also provides death and disability benefits. Title 51.1 of the <u>Code of Virginia</u>, as amended, assigns the authority to establish and amend benefit provisions to the General Assembly of Virginia.

Note 9-Pension Plan: (Continued)

Employees Covered by Benefit Terms

As of the June 30, 2018 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

	Number
Inactive members or their beneficiaries currently receiving benefits	1
Inactive members: Vested inactive members	1
Active members	18
Total covered employees	20

Contributions

The contribution requirement for active employees is governed by \$51.1-145 of the <u>Code of Virginia</u>, 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.

The Authority's contractually required employer contribution rate for the year ended June 30, 2020 was 12.70% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2017.

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 \$122,158 and \$103,181 for the years ended June 30, 2020 and June 30, 2019, respectively.

Net Pension Asset

The net pension liability (asset) (NPLA) is calculated separately for each employer and represents that particular employer's total pension liability determined in accordance with GASB Statement No. 68, less that employer's fiduciary net position. For the Authority, the net pension asset was measured as of June 30, 2019. The total pension liability used to calculate the net pension liability (asset) was determined by an actuarial valuation performed as of June 30, 2018, rolled forward to the measurement date of June 30, 2019.

Notes to Financial Statements As of June 30, 2020 (Continued)

Note 9-Pension Plan: (Continued)

Actuarial Assumptions - General Employees

The total pension liability for General Employees in the Authority's Retirement Plan was based on an actuarial valuation as of June 30, 2018, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2019.

Inflation	2.50%
Salary increases, including inflation	3.50% - 5.35%
Investment rate of return	6.75%, net of pension plan investment expenses, including inflation*

* Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 6.75%. However, since the difference was minimal, and a more conservative 6.75% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 6.75% to simplify preparation of pension liabilities.

Mortality rates:

All Others (Non-10 Largest) - Non-Hazardous Duty: 15% of deaths are assumed to be service related Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates at ages 81 and older projected with scale BB to 2020; males 95% of rates; females 105% of rates.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 3 years; females 1.0% increase compounded from ages 70 to 90.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with scale BB to 2020; males set forward 2 years, 110% of rates; females 125% of rates.

Note 9–Pension Plan: (Continued)

Actuarial Assumptions - General Employees (Continued)

The actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

All Others (Non-10 Largest) - Non-Hazardous Duty:

Mortality Rates (pre-retirement, post- retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Lowered rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14.00% to 15.00%
Discount Rate	Decreased rate from 7.00% to 6.75%

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Notes to Financial Statements As of June 30, 2020 (Continued)

Note 9-Pension Plan: (Continued)

Long-Term Expected Rate of Return

The long-term expected rate of return on pension System investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension System investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimate of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class (Strategy)	Target Allocation	Arithmetic Long-term Expected Rate of Return	Weighted Average Long-term Expected Rate of Return*
Public Equity	34.00%	5.61%	1.91%
Fixed Income	15.00%	0.88%	0.13%
Credit Strategies	14.00%	5.13%	0.72%
Real Assets	14.00%	5.27%	0.74%
Private Equity	14.00%	8.77%	1.23%
MAPS - Multi-Asset Public Strategies	6.00%	3.52%	0.21%
PIP - Private Investment Partnership	3.00%	6.29%	0.19%
Total	100.00%		5.13%
		Inflation	2.50%
*	Expected arithme	tic nominal return	7.63%

* The above allocation provides a one-year return of 7.63%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 7.11%, including expected inflation of 2.50%. The VRS Board elected a long-term rate of 6.75% which is roughly at the 40th percentile of expected long-term results of the VRS fund asset allocation.

Note 9-Pension Plan: (Continued)

Discount Rate

The discount rate used to measure the total pension liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Consistent with the phased-in funding provided by the General Assembly for state and teacher employer contributions; the Authority was also provided with an opportunity to use an alternative employer contribution rate. For the year ended June 30, 2019, the alternate rate was the employer contribution rate used in FY 2012 or 100% of the actuarially determined employer contribution rates. Based on those assumed to continue to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in Net Pension Asset

	Increase (Decrease)					
		Total		Plan		Net
		Pension		Fiduciary		Pension
		Liability		Net Position		Liability (Asset)
		(a)		(b)		(a) - (b)
Balances at June 30, 2018	\$	194,719	\$	225,403	\$	(30,684)
Changes for the year:						
Service cost	\$	109,183	\$	-	\$	109,183
Interest		13,463		-		13,463
Differences between expected						
and actual experience		(5,726)		-		(5,726)
Assumption changes		9,905		-		9,905
Contributions - employer		-		103,141		(103,141)
Contributions - employee		-		39,120		(39,120)
Net investment income		-		21,566		(21,566)
Benefit payments, including						
refunds of employee contributions		(4,778)		(4,778)		-
Administrative expenses		-		(45)		45
Other changes		-		(15)		15
Net changes	\$	122,047	\$	158,989	\$	(36,942)
Balances at June 30, 2019	\$	316,766	\$	384,392	\$	(67,626)

Notes to Financial Statements As of June 30, 2020 (Continued)

Note 9-Pension Plan: (Continued)

Sensitivity of the Net Pension Asset to Changes in the Discount Rate

The following presents the net pension asset of the Authority using the discount rate of 6.75%, as well as what the Authority's net pension asset would be if it were calculated using a discount rate that is one percentage point lower (5.75%) or one percentage point higher (7.75%) than the current rate:

		Rate						
	_	1% Decrease	Current Discount	1% Increase				
	_	(5.75%)	(6.75%)	(7.75%)				
Authority's Net Pension Asset	\$	(26,220) \$	(67,626) \$	(100,722)				

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended June 30, 2020, the Authority recognized pension expense of \$78,772. At June 30, 2020, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

		Deferred Outflows of Resources		Deferred Inflows of Resources
Differences between expected and actual experience	\$	64,219	\$	4,762
Changes of assumptions		8,237		-
Net difference between projected and actual earnings on pension plan investments		-		1,581
Changes in proportion		5,373		5,373
Employer contributions subsequent to the measurement date		122,158		-
Total	Ş	199,987	Ş	11,716

Notes to Financial Statements As of June 30, 2020 (Continued)

Note 9-Pension Plan: (Continued)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions: (Continued)

\$122,158 reported as deferred outflows of resources related to pensions resulting from the Authority's contributions subsequent to the measurement date will be recognized as an addition to the Net Pension Asset in the fiscal year ending June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in future reporting periods as follows:

\$ 15,774
15,773
16,398
16,250
1,918
-
\$

Pension Plan Data

Information about the VRS Political Subdivision Retirement Plan is also available in the separately issued VRS 2019 Comprehensive Annual Financial Report (CAFR). A copy of the 2019 VRS CAFR may be downloaded from the VRS website at <u>http://www.varetire.org/pdf/publications/2019-annual-report.pdf</u>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA 23218-2500.

Note 10-Group Life Insurance (GLI) Plan (OPEB Plan):

Plan Description

The Group Life Insurance (GLI) Plan was established pursuant to \$51.1-500 et seq. of the <u>Code of Virginia</u>, as amended, and which provides the authority under which benefit terms are established or may be amended. All full-time, salaried permanent employees of the state agencies, teachers, and employees of participating political subdivisions are automatically covered by the VRS GLI Plan upon employment. This is a cost-sharing multiple-employer plan administered by the Virginia Retirement System (the System), along with pensions and other OPEB plans, for public employer groups in the Commonwealth of Virginia.

In addition to the Basic GLI benefit, members are also eligible to elect additional coverage for themselves as well as a spouse or dependent children through the Optional GLI Plan. For members who elect the optional group life insurance coverage, the insurer bills employers directly for the premiums. Employers deduct these premiums from members' paychecks and pay the premiums to the insurer. Since this is a separate and fully insured plan, it is not included as part of the GLI Plan OPEB.

Note 10-Group Life Insurance (GLI) Plan (OPEB Plan): (Continued)

The specific information for GLI Plan OPEB, including eligibility, coverage and benefits is described below:

Eligible Employees

The GLI Plan was established July 1, 1960, for state employees, teachers, and employees of political subdivisions that elect the plan. Basic GLI coverage is automatic upon employment. Coverage ends for employees who leave their position before retirement eligibility or who take a refund of their accumulated retirement member contributions and accrued interest.

Benefit Amounts

The GLI Plan is a defined benefit plan with several components. The natural death benefit is equal to the employee's covered compensation rounded to the next highest thousand and then doubled. The accidental death benefit is double the natural death benefit. In addition to basic natural and accidental death benefits, the plan provides additional benefits provided under specific circumstances that include the following: accidental dismemberment benefit, safety belt benefit, repatriation benefit, felonious assault benefit, and accelerated death benefit option. The benefit amounts are subject to a reduction factor. The benefit amount reduces by 25% on January 1 following one calendar year of separation. The benefit amount reduces by an additional 25% on each subsequent January 1 until it reaches 25% of its original value. For covered members with at least 30 years of service credit, the minimum benefit payable was set at \$8,000 by statute in 2015. This will be increased annually based on the VRS Plan 2 cost-of-living calculation. The minimum benefit adjusted for the COLA was \$8,463 as of June 30, 2020.

Contributions

The contribution requirements for the GLI Plan are governed by \$51.1-506 and \$51.1-508 of the <u>Code of Virginia</u>, as amended, but may be impacted as a result of funding provided to state agencies and school divisions by the Virginia General Assembly. The total rate for the GLI Plan was 1.31% of covered employee compensation. This was allocated into an employee and an employer component using a 60/40 split. The employee component was 0.79% ($1.31\% \times 60\%$) and the employer component was 0.52% ($1.31\% \times 40\%$). Employers may elect to pay all or part of the employee contribution; however, the employer must pay all of the employer contribution. Each employer's contractually required employer contribution rate for the year ended June 30, 2020 was 0.52% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2017. The actuarially determined rate, when combined with employee contributions, was expected to finance the costs of benefits payable during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the GLI Plan from the entity were \$5,344 and \$4,362 for the years ended June 30, 2020 and June 30, 2019, respectively.

GLI OPEB Liabilities, GLI OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the GLI Plan OPEB

At June 30, 2020, the entity reported a liability of \$69,647 for its proportionate share of the Net GLI OPEB Liability. The Net GLI OPEB Liability was measured as of June 30, 2019 and the total GLI OPEB liability used to calculate the Net GLI OPEB Liability was determined by an actuarial valuation performed as of June 30, 2018, and rolled forward to the measurement date of June 30, 2019. The covered employer's proportion of the Net GLI OPEB Liability was based on the covered employer's actuarially determined employer contributions to the GLI Plan for the year ended June 30, 2019 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2019, the participating employer's proportion was .00428% as compared to .00372% at June 30, 2018.

Notes to Finan	icial St	atements
As of June 30,	2020	(Continued)

Note 10–Group Life Insurance (GLI) Plan (OPEB Plan): (Continued)

GLI OPEB Liabilities, GLI OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the GLI Plan OPEB: (Continued)

For the year ended June 30, 2020, the participating employer recognized GLI OPEB expense of \$13,343. Since there was a change in proportionate share between measurement dates, a portion of the GLI OPEB expense was related to deferred amounts from changes in proportion.

At June 30, 2020, the employer reported deferred outflows of resources and deferred inflows of resources related to the GLI OPEB from the following sources:

		Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$	4,632	\$ 903
Net difference between projected and actual earnings on GLI OPEB plan investments		-	1,431
Change of assumptions		4,397	2,100
Changes in proportion		44,143	-
Employer contributions subsequent to the measurement date	_	5,344	
Total	\$_	58,516	\$ 4,434

\$5,344 reported as deferred outflows of resources related to the GLI OPEB resulting from the employer's contributions subsequent to the measurement date will be recognized as a reduction of the Net GLI OPEB Liability in the fiscal year ending June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the GLI OEPB will be recognized in the GLI OPEB expense in future reporting periods as follows:

Year Ended June 30	_	
2021	\$	11,980
2022		11,980
2023		12,585
2024		8,073
2025		3,260
Thereafter		860

Notes to Financial St	atements
As of June 30, 2020	(Continued)

Note 10—Group Life Insurance (GLI) Plan (OPEB Plan): (Continued)

Actuarial Assumptions

The total GLI OPEB liability was based on an actuarial valuation as of June 30, 2018, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2019. The assumptions include several employer groups. Salary increases and mortality rates included herein are for relevant employer groups. Information for other groups can be referenced in the VRS CAFR.

Inflation	2.50%
Salary increases, including inflation: Locality - General employees	3.50%-5.35%
Investment rate of return	6.75%, net of investment expenses, including inflation*

*Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 6.75%. However, since the difference was minimal, and a more conservative 6.75% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 6.75% to simplify preparation of OPEB liabilities.

Mortality Rates - Non-Largest Ten Locality Employers - General Employees

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with scale BB to 2020; males 95% of rates; females 105% of rates.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 3 years; females 1.0% increase compounded from ages 70 to 90.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with scale BB to 2020; males set forward 2 years, 110% of rates; females 125% of rates.

Note 10-Group Life Insurance (GLI) Plan (OPEB Plan): (Continued)

Actuarial Assumptions: (Continued)

Mortality Rates - Non-Largest Ten Locality Employers - General Employees: (Continued)

The actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

Mortality Rates (pre-retirement, post- retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages and extended final retirement age from 70 to 75
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Lowered disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14.00% to 15.00%
Discount Rate	Decreased rate from 7.00% to 6.75%

NET GLI OPEB Liability

The net OPEB liability (NOL) for the GLI Plan represents the plan's total OPEB liability determined in accordance with GASB Statement No. 74, less the associated fiduciary net position. As of the measurement date of June 30, 2019, NOL amounts for the GLI Plan are as follows (amounts expressed in thousands):

	 GLI OPEB Plan
Total GLI OPEB Liability	\$ 3,390,238
Plan Fiduciary Net Position	1,762,972
GLI Net OPEB Liability (Asset)	\$ 1,627,266
Plan Fiduciary Net Position as a Percentage	
of the Total GLI OPEB Liability	52.00%

The total GLI OPEB liability is calculated by the System's actuary, and each plan's fiduciary net position is reported in the System's financial statements. The net GLI OPEB liability is disclosed in accordance with the requirements of GASB Statement No. 74 in the System's notes to the financial statements and required supplementary information.

Notes to Financial St	atements
As of June 30, 2020	(Continued)

Note 10-Group Life Insurance (GLI) Plan (OPEB Plan): (Continued)

Long-Term Expected Rate of Return

The long-term expected rate of return on the System's investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of System's investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimate of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class (Strategy)	Target Allocation	Arithmetic Long-term Expected Rate of Return	Weighted Average Long-term Expected Rate of Return*
Public Equity	34.00%	5.61%	1.91%
Fixed Income	15.00%	0.88%	0.13%
Credit Strategies	14.00%	5.13%	0.72%
Real Assets	14.00%	5.27%	0.74%
Private Equity	14.00%	8.77%	1.23%
MAPS - Multi-Asset Public Strategies	6.00%	3.52%	0.21%
PIP - Private Investment Partnership	3.00%	6.29%	0.19%
Total	100.00%		5.13%
		Inflation	2.50%
	*Expected arithme	tic nominal return	7.63%

*The above allocation provides a one-year return of 7.63%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 7.11%, including expected inflation of 2.50%. The VRS Board elected a long-term rate of 6.75% which is roughly at the 40th percentile of expected long-term results of the VRS fund asset allocation.

Discount Rate

The discount rate used to measure the total GLI OPEB liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that member contributions will be made per the VRS guidance and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ended June 30, 2019, the rate contributed by the entity for the GLI OPEB will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly which was 100%

Notes to Financial St	atements
As of June 30, 2020	(Continued)

Note 10–Group Life Insurance (GLI) Plan (OPEB Plan): (Continued)

Discount Rate: (Continued)

of the actuarially determined contribution rate. From July 1, 2019 on, employers are assumed to continue to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the GLI OPEB's fiduciary net position was projected to be available to make all projected future benefit payments of eligible employees. Therefore, the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total GLI OPEB liability.

Sensitivity of the Employer's Proportionate Share of the Net GLI OPEB Liability to Changes in the Discount Rate

The following presents the employer's proportionate share of the net GLI OPEB liability using the discount rate of 6.75%, as well as what the employer's proportionate share of the net GLI OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (5.75%) or one percentage point higher (7.75%) than the current rate:

		Rate			
	_	1% Decrease	Current Discount		1% Increase
	_	(5.75%)	(6.75%)		(7.75%)
Authority's proportionate share of the				_	
GLI Plan Net OPEB Liability	\$	91,497 \$	69,647	\$	51,928

GLI Plan Fiduciary Net Position

Detailed information about the GLI Plan's Fiduciary Net Position is available in the separately issued VRS 2019 Comprehensive Annual Financial Report (CAFR). A copy of the 2019 VRS CAFR may be downloaded from the VRS website at <u>http://www.varetire.org/pdf/publications/2019-annual-report.pdf</u>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

Note 11–Compensated Absences:

The Authority has accrued the liability arising from outstanding compensated absences. Full-time employees accrue paid leave at varying rates as services are provided. The liability totals \$92,381 at year-end.

Note 12–Contract Obligations:

In fiscal year 2020, the Authority entered into an agreement for engineering services in connection with the development of Water and Wastewater Facilities Assessment Studies. The contract totals \$304,998 with \$248,423 outstanding at year-end.

In addition, the Authority has an agreement with Rockbridge PSA to share costs related to the Rt. 60/McCorkle/Taco Bell Water Project. The Authority's share of the contract totals \$473,830 with \$383,030 outstanding at year-end.

Notes to Financial Statements As of June 30, 2020 (Continued)

Note 13-COVID-19 Pandemic:

On March 11, 2020, the World Health Organization declared COVID-19 a pandemic, which has caused an economic downturn on a global scale, disrupted global supply chains, and created significant uncertainty, volatility, and disruption across economies and financial markets. The full impact of the COVID-19 outbreak continues to evolve as of the release date of this report. Management is monitoring the situation and impact that it may have on its financial condition, liquidity, operations, suppliers, industry, and workforce. Given the daily evolution of the COVID-19 outbreak and global responses to curb its spread, the Authority is not able to estimate the effects of the COVID-19 outbreak on its results of operations, financial condition, or liquidity for fiscal year 2021.

Required Supplementary Information

Schedule of Changes in Net Pension Liability (Asset) and Related Ratios For the Measurement Dates of June 30, 2017 through June 30, 2019

		2019	2018	2017
Total pension liability	_			
Service cost	\$	109,183 \$	99,909 \$	-
Interest		13,463	(32)	(2)
Differences between expected and actual experience		(5,726)	95,699	-
Changes of assumptions		9,905	-	-
Benefit payments		(4,778)	(789)	(66)
Net change in total pension liability	\$	122,047 \$	194,787 \$	(68)
Total pension liability - beginning		194,719	(68)	-
Total pension liability - ending (a)	\$	316,766 \$	194,719 \$	(68)
	_			
Plan fiduciary net position Contributions - employer	Ś	103,141 \$	76,397 \$	68,109
Contributions - employee	Ş	39,120	34,076	30,602
Net investment income		21,566	10,462	6,570
			,	
Benefit payments		(4,778) (45)	(789) 6	(66) 60
Administrator charges Other		(45)	-	(10)
Net change in plan fiduciary net position	s ⁻	158,989 \$	(14)	105,265
Plan fiduciary net position - beginning	ç	225,403	105,265	105,205
Plan fiduciary net position - ending (b)	\$	384,392 \$	225,403 \$	105,265
Fian fiducially fiel position - ending (D)	ڊ =	J04,J72 J	22J,40J Ş	105,205
Authority's net pension liability (asset) - ending (a) - (b)	\$_	(67,626) \$	(30,684) \$	(105,333)
Plan fiduciary net position as a percentage of the total				
pension liability		121.35%	115.76%	-154801.47%
Covered payroll	\$	831,960 \$	699,040 \$	618,940
Authority's net pension liability (asset) as a percentage of covered payroll		-8.13%	-4.39%	-17.02%

Schedule is intended to show information for 10 years. The Authority began participation in the VRS pension plan on July 1, 2016.

Schedule of Employer Contributions - Pension Plan For the Years Ended June 30, 2017 through June 30, 2020

Date	Contractually Required Contribution (1)	Contributions in Relation to Contractually Required Contribution (2)	 Contribution Deficiency (Excess) (3)	_	Employer's Covered Payroll (4)	Contributions as a % of Covered Payroll (5)
2020	\$ 122,158	\$ 122,158	\$ -	\$	1,027,725	11.89%
2019	103,181	103,181	-		831,960	12.40%
2018	76,438	76,438	-		699,040	10.93%
2017	68,455	68,455	-		618,940	11.06%

Schedule is intended to show information for 10 years. The Authority began participation in the VRS pension plan on July 1, 2016.

Notes to Required Supplementary Information - Pension Plan For the Year Ended June 30, 2020

Changes of benefit terms - There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation.

Changes of assumptions - The actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

All Others (Non-10 Largest) - Non-Hazardous Duty:

Mortality Rates (pre-retirement, post- retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Lowered rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14.00% to 15.00%
Discount Rate	Decreased rate from 7.00% to 6.75%

Schedule of Authority's Share of Net OPEB Liability Group Life Insurance (GLI) Plan For the Measurement Dates of June 30, 2017 through June 30, 2019

Date (1)	Employer's Proportion of the Net GLI OPEB Liability (Asset) (2)	Employer's Proportionate Share of the Net GLI OPEB Liability (Asset) (3)		Employer's Covered Payroll (4)	Employer's Proportionate Share of the Net GLI OPEB Liability (Asset) as a Percentage of Covered Payroll (3)/(4) (5)	Plan Fiduciary Net Position as a Percentage of Total GLI OPEB Liability (6)
2019	0.00428% \$		 \$	838,825	8.30%	52.00%
2018 2017	0.00372% 0.00335%	57,000 51,000	Ŷ	706,893 618,940	8.06% 8.24%	51.22% 48.86%

Schedule is intended to show information for 10 years. The Authority began participation in the VRS GLI plan on July 1, 2016.

Date	_	Contractually Required Contribution (1)	 Contributions in Relation to Contractually Required Contribution (2)	 Contribution Deficiency (Excess) (3)	_	_	Employer's Covered Payroll (4)	Contributions as a % of Covered Payroll (5)
2020	\$	5,344	\$ 5,344	\$ -		\$	1,027,725	0.52%
2019		4,362	4,362	-			838,825	0.52%
2018		3,676	3,676	-			706,893	0.52%
2017		3,218	3,218	-			618,940	0.52%

Schedule is intended to show information for 10 years. The Authority began participation in the VRS GLI plan on July 1, 2016.

Notes to Required Supplementary Information Group Life Insurance (GLI) Plan For the Year Ended June 30, 2020

Changes of benefit terms - There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation.

Changes of assumptions - The actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

Non-Largest Ten Locality Employers - General Employees:

Mortality Rates (pre-retirement, post- retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages and extended final retirement age from 70 to 75
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Lowered disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14.00% to 15.00%
Discount Rate	Decreased rate from 7.00% to 6.75%

Supporting Schedules

Schedule of Revenues and Expenses - Budget and Actual - Water Fund Year Ended June 30, 2020

		Budget	Actual	Variance Favorable (Unfavorable)
REVENUE:				
Water sales	\$	1,583,640 \$	1,767,642 \$	184,002
Interest income		10,000	9,639	(361)
Contribution for debt service payments		35,655	35,618	(37)
Total revenue	\$	1,629,295 \$	1,812,899 \$	183,604
EXPENSES:				
Wages	Ş	409,946 \$	417,455 \$	(7,509)
Payroll taxes		31,361	29,766	1,595
VRS		60,385	31,217	29,168
Insurance - health		93,269	73,747	19,522
Accountant		5,661	5,369	292
Audit fee		5,355	9,475	(4,120)
Chemicals		80,000	85,452	(5,452)
Contract services		6,370	1,735	4,635
Dues		3,990	3,828	162
Education		4,000	3,316	684
Electricity		178,920	178,060	860
Gas, grease, oil		5,000	11,612	(6,612)
Generator expense		5,000	17,597	(12,597)
Honoraria		1,950	-	1,950
Insurance - general		51,078	45,901	5,177
IT contract		7,774	6,495	1,279
Janitorial supplies		2,536	1,746	790
Lab supplies		6,180	5,733	447
Legal and advisory services		3,000	12,746	(9,746)
Maintenance		53,757	111,628	(57,871)
Monitoring		7,590	8,891	(1,301)
Office expenses		3,605	12,282	(8,677)
Other expenses		-	110	(110)

Schedule of Revenues and Expenses - Budget and Actual - Water Fund Year Ended June 30, 2020

	Budget		Actual		Variance Favorable (Unfavorable)
EXPENSES: (Continued)					
Professional fees	\$ 10,300	Ş	24,630	Ş	(14,330)
Safety	1,030		1,186		(156)
Solids handling	15,000		83,270		(68,270)
Special projects	40,000		31,487		8,513
Telephone	5,686		5,188		498
Travel	3,090		1,108		1,982
Vehicles	2,000		1,377		623
Wearing apparel	2,000		2,474		(474)
Landfill contract	-		822		(822)
Payment on water plant bond:					
Principal	175,000		175,000		-
Interest	13,166		13,166		-
Loan payment on Loop Project:					
Principal	149,879		149,879		-
Interest	136,417		136,417		-
Asset repair and replacement	49,000		108,800		(59,800)
Total expenses	\$ 1,629,295	\$	1,808,965	\$	(179,670)
Net income (loss)	\$ -	Ş	3,934	Ş	3,934

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

Net income (loss) - Budgetary Basis	\$	3,934
Principal payments on bonds and loans		324,879
Depreciation		(372,847)
Interest accrual and premium/deferred loss amortization		4,175
Capital asset additions		108,800
Contribution from Rockbridge PSA		46,600
Contribution to Rockbridge PSA		(45,500)
Rounding		(3)
Change in Net Position - GAAP Basis	ş	70,038

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 - Wastewater Fund Year Ended June 30, 2020

REVENUE:	_	Budget	Actual		Variance Favorable (Unfavorable)
Sewer sales	\$	2,055,105 \$	2,358,293	¢	303,188
Interest	Ŷ	10,000	8,891	Ŷ	(1,109)
Contribution for debt service payments		-	323,009		323,009
Miscellaneous		10,000	244,756		234,756
Total revenue	\$	2,075,105 \$	2,934,949	\$	859,844
EXPENSES:					
Wages	\$	765,901 \$	736,493	Ś	29,408
Payroll taxes		58,591	51,496	'	7,095
VRS		112,817	89,467		23,350
Insurance - health		197,254	202,273		(5,019)
Accountant		5,661	1,387		4,274
Audit fee		5,253	9,475		(4,222)
Bank fees		-	73		(73)
Chemicals		105,000	143,544		(38,544)
Contract services		5,000	3,844		1,156
Dues		5,407	4,166		1,241
Education		8,240	8,507		(267)
Electricity		265,000	253,763		11,237
Gas, grease, oil		14,607	15,582		(975)
Generator expense		10,410	3,505		6,905
Honoraria		1,950	120		1,830
Insurance - general		36,078	38,031		(1,953)
Janitorial supplies		5,150	3,650		1,500
Lab supplies		55,114	72,419		(17,305)
Legal and advisory services		4,000	1,801		2,199
Maintenance		95,505	198,887		(103,382)
Monitoring		7,500	21,422		(13,922)
Office expenses		4,635	18,325		(13,690)
Permits expense		15,450	14,234		1,216

Schedule of Revenues and Expenses - Budget and Actual - Wastewater Fund Year Ended June 30, 2020

	_	Budget		Actual		Variance Favorable (Unfavorable)
EXPENSES: (Continued)						
Professional fees	\$	10,300	\$	38,084	\$	(27,784)
Safety		2,000		5,797		(3,797)
Solids handling		12,000		77,934		(65,934)
Special projects		40,000		26,389		13,611
Telephone		6,922		5,474		1,448
Travel		3,090		3,769		(679)
Vehicles		15,450		15,788		(338)
Wearing apparel		4,000		6,789		(2,789)
IT contract		7,500		8,000		(500)
Landfill contract		4,320		4,660		(340)
Loan payment on sewer plant bonds:						
Principal		-		323,009		(323,009)
Asset repair and replacement		185,000		19,146	_	165,854
Total expenses	\$	2,075,105	\$	2,427,303	\$	(352,198)
Net income (loss)	\$ <u> </u>	-	\$	507,646	\$	507,646
Reconciliation to Statement of Revenues, Ex	penses ar	nd Changes in	Net	Position:		
Net income (loss) - Budgetary Basis			\$	507,646		
Principal payments on bonds				323,009		
Depreciation				(794,449)		
Capital asset additions				19,146		
Rounding				3		
Change in Net Position - GAAP Basis			Ş _	55,355	-	

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

Compliance



ROBINSON, FARMER, COX ASSOCIATES, PLLC

Certified Public Accountants

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, 2020, 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 19, 2021.

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) as a basis for designing 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 financial statements. 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.

Robinson Farren Cox Associates

Charlottesville, Virginia April 19, 2021