PEPPER'S FERRY REGIONAL WASTEWATER TREATMENT AUTHORITY

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2016

PEPPER'S FERRY REGIONAL WASTEWATER TREATMENT AUTHORITY

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Pepper's Ferry Regional Wastewater Treatment Authority

Radford, Virginia

We have audited the accompanying financial statements of the business-type activities of Pepper's Ferry Regional Wastewater Treatment Authority, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Pepper's Ferry Regional Wastewater Treatment 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.

Auditor's Responsibility

Our responsibility is to express an opinion on the 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Pepper's Ferry Regional Wastewater Treatment Authority, as of June 30, 2016, and the respective changes in financial position and, where applicable, 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 4-8 and 31-33, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 26, 2016, on our consideration of Pepper's Ferry Regional Wastewater Treatment Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Pepper's Ferry Regional Wastewater Treatment Authority's internal control over financial reporting and compliance.

Michael B. Cooke, CPA, PC

Michael B. Cooke, CPA, PC
Blacksburg, Virginia
September 26, 2016

The following discussion and analysis of Pepper's Ferry Regional Wastewater Treatment Authority's financial performance provides an overview of the Authority's financial activities for the year ended June 30, 2016. It should be read in conjunction with the Authority's basic financial statements.

THE AUTHORITY AS A WHOLE

The Authority continues to apply Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, which was initiated in fiscal year 2004.

In July 2013, the Authority adopted early implementation of GASB 68, *Accounting and Financial Reporting for Pension Plans*, which requires governments providing defined benefit pensions to recognize the long-term obligation for pension benefits as a liability. The Authority also elected to partially fund this liability, as funds and rate structures allow, and established a reserve offset account for this purpose. For more information, see Note 1, part H, of the Notes to Financial Statements.

The Authority's net position for the year ended June 30, 2016 increased to $9,772,308 from $8,821,263 at June 30, 2015. Net position for fiscal year 2015 was restated due to a prior period adjustment, see Note 2 of the Notes to Financial Statements for more information. Net position is composed of net investment in capital assets and unrestricted net position. Net investment in capital assets for the year ended June 30, 2016 decreased to $6,001,510 from $6,215,991 at June 30, 2015. Unrestricted net position for the year ended June 30, 2016 increased to $3,770,798 from $2,605,272 at June 30, 2015.

Business-type Activities

The Authority is operated as a "business-type activity", or "enterprise fund activity." Business-type activities utilize the accrual basis of accounting and their statements provide both short and long-term financial information. Operating revenues for the Authority consist of two primary categories: wastewater treatment revenue and debt-service revenue. The discussion for debt service revenue will be presented later under "Debt." Wastewater treatment revenues for the year ended June 30, 2016 increased by 12.46 percent ($4,217,117 compared to $3,749,934 as of June 30, 2015), while operating expenses increased by 5.5 percent ($4,304,016 compared to $4,047,168 as of June 30, 2015). The factors driving these results are as follows:

Operating Revenue

Wastewater treatment revenue estimates used to develop the budget for the year ended June 30, 2016 were based on a five-year rolling flow average. Actual flows treated during the fiscal year were greater than the five-year rolling flow average budgeted values by 9.6 percent, which accounts for the majority of the overall 12.46 percent increase in revenues at June 30, 2016. The remaining increase in wastewater treatment revenues is directly related to a 3.1 percent increase in the treatment plant cost center rate when compared to the prior fiscal year.

Operating Expenses

Generally, total operating expenses of the Authority for the year ended June 30, 2016 tracked closely with budgeted values, but did increase by $256,848 overall when compared with actual expenditures for the year ended June 30, 2015; however, depreciation expense, which is included in the overall operating expense bottom line, increased by $150,441 for the year ended June 30, 2016 ($1,646,505 compared to $1,496,064 as of June 30, 2015). Had depreciation expense not been a factor during the fiscal year ended June 30, 2016, overall operating expense would have been $106,407 more than actual expenditures for the prior fiscal year.

Other operating expenses worthy of note include the following (2015 figures have been restated): Payroll expenses, including wages, taxes, and employee benefits, increased $57,618 for the year ended June 30, 2016, due to cost of living and merit increases during the fiscal year ($1,696,083 compared to $1,638,465 as of June 30, 2015); Electricity costs, decreased $12,542 for the fiscal year ended June 30, 2016 ($355,582 compared to $368,124 as of June 30, 2015); Professional fees increased $87,207 for the fiscal year ended June 30, 2016 ($160,263 compared to $73,056 as of June 30, 2015). These increased costs were associated with professional engineering evaluations for: 1) determining the status of equipment needing to be upgraded at the treatment plant and pump stations; 2) consideration of an Administration Building Annex; and, 3) evaluation of potential permit limits based on new ammonia criteria to be implemented by the Virginia DEQ. The final noteworthy operating expense was for Repairs and Maintenance, which decreased $13,995 for the year ended June 30, 2016 ($123,768 compared to $137,763 as of June 30, 2015).

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 $9,772,308 and $8,821,263, at June 30, 2016 and 2015, respectively. The largest portion of the Authority's net position reflects its investment in capital assets, less any related debt used to acquire those assets that is still outstanding. For 2016, 61.4% is invested in capital assets net of related debt. 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.

Table A presents the Condensed Statement of Net Position for the years ended June 30, 2016 and 2015. At June 30, 2016, and 2015, unrestricted net position was $3,770,798 and $2,605,272, respectively. Of total net position, unrestricted net position represented 3.9% and 3.0% for fiscal year 2016 and 2015, respectively.

Table A

Condensed Statement of Net Position
Years ended June 30, 2016 and 2015

	2016	2015 (Restated)
Assets:		
Current and other assets	$ 4,538,334	$ 3,395,215
Capital assets, net	13,075,779	14,209,159
Total Assets	17,614,113	17,604,374
Deferred outflows of resources:	201,282	119,563
Liabilities:		
Long-term outstanding	6,865,521	7,638,259
Other liabilities	1,114,745	1,118,737
Total Liabilities	7,980,266	8,756,996
Deferred inflows of resources:	62,821	145,678
Net Position:		
Net investment in capital assets	6,001,510	6,215,991
Unrestricted	3,770,798	2,605,272
Total net position	$ 9,772,308	$ 8,821,263

Table B presents the Condensed Statement of Revenues, Expenses, and Changes in Net Position for the years ended June 30, 2016 and 2015.

Table B

Condensed Statement of Revenues, Expenses, and Changes in Net Position
Years ended June 30, 2016 and 2015

	2016	2015 (Restated)
Operating Revenues:		
Charges for Services	$ 5,299,633	$ 4,817,228
Operating Expenses:		
Operating expenses	2,657,511	2,551,104
Depreciation	1,646,505	1,496,064
Total operating expenses	4,304,016	4,047,168
Non-Operating Revenues (Expenses)		
Dividend and interest income	50,858	48,632
Gain (loss) on disposal of assets	(4,287)	59,568
Interest expense	(83,862)	(94,553)
Amortization of bond costs and discounts	(3,276)	(3,276)
Trustee fees	(4,005)	(4,005)
Total non-operating revenues (expenses)	(44,572)	6,366
Changes in net position	951,045	776,426
Total net position, beginning of year, as restated	8,821,263	8,044,837
Total net positon, end of year	$ 9,772,308	$ 8,821,263

THE AUTHORITY'S FUNDS

Operational Fund Budgetary Highlights

The Authority continues to scrutinize the overall operations of the Authority so as to optimize fund usage through operational cost savings measures wherever possible. For the year ended June 30, 2016, the change in net position of the Authority was $951,045, as compared to $776,426 for the year ended June 30, 2015, as restated. Net position at June 30, 2016 totaled $9,772,308, an increase of $951,045 as compared to June 30, 2015 restated net position of $8,821,263. The two smaller cost centers of the Authority (New River Pump Station and Radford Pump Station) each realized a net surplus for the year ended June 30, 2016 ($33,137.54 and $21,289.67 respectively). These unspent funds were deposited into dedicated reserve accounts for future use in those cost centers as determined and approved by the Board of Directors. The Authority continued to maintain a sulfate allocation and surcharge program for the jurisdictions served by the Authority. Through this program, participating jurisdictions may acquire excess sulfate allocation for industrial applications through a surcharge program. The Authority then holds the funds collected through the surcharge in a reserve account for any future treatment plant repairs due to corrosion, as well as for media replacement in the digester gas scrubbers that remove sulfate from the digester gas.

Capital Fund Budgetary Highlights

The capital fund is supported by a separate rate structure than the operational budget. The Authority continued its focus toward replacement and enhancement of its capital assets during the fiscal year ended June 30, 2016. The primary capital fund project scheduled for the fiscal year was design of the first phase of equipment and process upgrades associated with the solids handling at the treatment plant. As a cost-savings measure, the Authority Board approved the purchase of various equipment to then be provided to a contractor for installation. Any unused fees associated with the capital improvements program were set aside for use in the following fiscal year. The Authority also completed the construction of a new generator that replaced the existing two generators at the main treatment plant, the construction of the electrical switchgear that in essence is the brain of the electrical system at the main treatment plant, and construction of a new records storage and retention center located at the main treatment plant. These projects were carried over from the prior fiscal year.

The Authority Board of Directors has adopted a long-term approach to the replacement of the Authority's capital assets, as opposed to incurring additional long-term debt, particularly as it related to equipment replacement and upgrades. This long-term approach is also supported by the governing bodies of the member jurisdictions served by the Authority. The Authority remains dedicated to maintaining an active capital improvement program so as to ensure the assets of the Authority are continuously operable.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

As of the year ended June 30, 2016, the Authority has $13.1 million invested in capital assets (net of accumulated depreciation). The actual facilities included in these capital assets can best be described as the main wastewater treatment plant and outfall pipe, the New River pumping station and equalization facility, the Radford pumping station, and the wastewater force mains interconnecting these locations. This amount represents a net decrease in capital assets of $1,133,380 when compared with the capital assets value for the year ended June 30, 2015. The value of the Authority's capital assets decreased primarily due to: asset acquisitions in the amount of $517,412; depreciation expense of $1,646,505 and disposition of plant and equipment with a book value of $4,287; for a total decrease of depreciable assets in the amount of $1,133,380, as compared to the increase of $886,887 for the year ended June 30, 2015. Considering depreciation expense during the fiscal year ended June 30, 2016 was $1,646,505, and the asset acquisitions were $517,412, depreciation outpaced reinvestment in capital assets. At June 30, 2016, construction in progress totaled $157,262, which will increase net capital assets when booked to plant and equipment in the following fiscal year.

Following is a summary of the capital assets at year ended June 30, 2016:

Land	$	441,841
Construction in Progress	$	157,262
Plant and Equipment	$	50,541,639
Subtotal	$	51,140,742
Accumulated Depreciation	$	(38,064,963)
Total	$	13,075,779

It should also be noted that $32,045 in depreciable assets (plant and equipment) were removed from the books for the year ended June 30, 2016 due to disposal and/or retirement of assets no longer in use by the Authority; these disposals resulted in a net loss of $4,287 and were mentioned previously regarding calculation of the overall decrease in capital assets above.

Debt

As of June 30, 2016, the Authority has $7.0 million in outstanding debt, compared to $8.0 million at year ended June 30, 2015. The Authority's long-term debt was structured across four separate bond issues; 2002a series (retired), 2002b series, 2003 series (retired), 2006 series (retired). The 2002a series bonds were retired in the year 2012. The 2003 series bonds were retired in the year 2010. The 2002b series bonds carry a fixed interest rate of 1.00% and are scheduled to be retired in the year 2024 (annual principal and interest payment of $657,556 through 2010, then $801,556 through 2024). The 2006 series bonds were retired in the fiscal year ended June 30, 2014 by issuing the 2014 series bond refunding. The 2014 series bond refunding, a fifth separate bond issue, carries an interest rate of 1.85% with principal and interest paid monthly and is scheduled to be retired in April 2021.

The Authority's revenue stream for payment of its long-term debt comes directly from the member jurisdictions based on monthly payments, and is separate from wastewater treatment revenue. An annual debt service calculation is performed based on the previous five years of flow data, and then the annual debt payment schedule is developed based on apportioning the total annual debt to the member jurisdictions as determined by the calculation. Monthly debt service payments from the member jurisdictions are then transferred into trust accounts and held by the trustee for payment.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

Current Fiscal Year

The Board of Directors evaluated the existing treatment and pump station rate structure, as well as other rates, fees, and direct charges during the year ended June 30, 2015. That evaluation resulted in the establishment of new rates effective July 1, 2015 for the three primary cost centers, with one minor cost center rate remaining unchanged. The Board reconsiders the adequacy of the Authority's treatment and pump station rate structure during the budget process each fiscal year. Based on current trends associated with various cost indices, the Authority realizes that future increases in rates, fees, and direct charges may be necessary so as to keep pace with increased costs to operate the system.

Effective July 1, 2013, realizing the future requirements of GASB 68 related to financial reporting for pension plans, the Authority began disclosing the Net Pension Liability (NPL) for its Virginia Retirement System (VRS) pension plan on its statement of net position. Concurrent with this liability disclosure, the Authority also established an offset reserve asset account with an initial deposit of $100,000 to partially fund the liability. Additional deposits into this account were made throughout the years ended June 30, 2014, 2015, and 2016. For the fiscal year ended June 30, 2016, the balance in this offset account was $218,372. At June 30, 2016, the VRS pension plan NPL was $721,049. Therefore, at June 30, 2016 the Authority had funded the VRS retirement NPL to the level of 30.285 percent ($218,372 divided by $721,049). The Authority uses the most recent actuarial report provided by the VRS; for the Authority's year ended June 30, 2016, the most recent VRS actuarial report is dated June 30, 2015. The Authority Board of Directors may consider additional funding of the VRS NPL in the future, at its discretion, as funds and rate structures allow.

Next Fiscal Year

The Authority is currently experiencing a relatively flat five-year average flow volume received at the treatment plant. As such, it is anticipated that modest rate increases in future budgets may be necessary to fund the ever increasing costs to operate the Authority's facilities. For the fiscal year beginning July 1, 2016, the treatment plant cost center rate was decreased by 1.9 percent; however, given the results of a facility status update at the New River pump station that indicates additional capital asset costs are anticipated in the near future, the New River pump station cost center rate was increased 2.8% . The Radford Pump Station cost center rate did not change from the prior fiscal year. All other rates are proposed to remain virtually flat for the year beginning July 1, 2016. It is anticipated these rate changes will result in level funding of the Authority's operations for the upcoming year.

The Authority will complete the scheduled capital project during the fiscal year ending June 30, 2017, which is the completion of construction of the Phase I solids handling equipment upgrades at the treatment plant solids handling building. Additionally, design and initiation of equipment acquisition associated with Phase II of the solids handling equipment and SHB HVAC upgrades will occur.

Financial goals for the fiscal year ending June 30, 2017 are as follows:

The Authority has now implemented all current financial goals and strategies. Therefore, continued monitoring and evaluation of potential areas for improvement will be the focus for the upcoming fiscal year.

CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, ratepayers, customers, and creditors with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the resources it receives and their uses. Questions concerning this report or requests for additional information should be directed to the Executive Director, P.O. Box 2950, Radford, Virginia 24143, telephone (540) 639-3947.

STATEMENT OF NET POSITION
AT JUNE 30, 2016

ASSETS	
CURRENT ASSETS:	
Cash and cash equivalents	$ 3,882,730
Cash and cash equivalents - trust funds	255,408
Accounts receivable (net of allowance for uncollectibles)	10,479
Accounts receivable - members (net of allowance for uncollectibles)	374,157
Total current assets	4,522,774
CAPITAL ASSETS:	
Land	441,841
Plant and equipment	50,541,639
Accumulated Depreciation	(38,064,963)
Construction in Progress	157,262
Total capital assets, net	13,075,779
OTHER ASSETS:	
Bond costs, net	15,560
Total other assets	15,560
TOTAL ASSETS	17,614,113
DEFERRED OUTFLOWS OF RESOURCES	
Virginia Retirement System pension contributions subsequent to measurement date	123,465
Differences between expected and actual experience of net pension liability	77,817
TOTAL DEFERRED OUTFLOWS OF RESOURCES	201,282
LIABILITIES	
CURRENT LIABILITIES:	
Accounts payable	18,280
Accrued vacation and compensation payable	108,495
Accrued payroll and payroll liabilities	41,375
Accrued interest payable	16,798
Current portion of refunding bonds payable	187,870
Current portion of VA revolving fund loan payable	741,927
Total current liabilities	1,114,745
NONCURRENT LIABILITIES:	
Virginia Retirement System Net Pension Liability	721,049
Refunding bonds payable	738,492
VA revolving fund loan	5,405,980
Total noncurrent liabilities	6,865,521
TOTAL LIABILITIES	7,980,266
DEFERRED INFLOWS OF RESOURCES	
Net difference between projected and actual earnings on plan investments	62,821
TOTAL DEFERRED INFLOWS OF RESOURCES	62,821
NET POSITION	
Net investment in capital assets	6,001,510
Unrestricted	3,770,798
TOTAL NET POSITION	$ 9,772,308

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

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2016

OPERATING REVENUES	
Charges for Services	
Waste treatment charges	$ 4,217,117
Debt service revenue	1,008,891
Miscellaneous revenues	73,625
Total operating revenues	5,299,633
OPERATING EXPENSES	
Salaries and wages	1,168,619
Payroll taxes	76,829
Employee benefits	450,635
Chemical supplies	82,643
Computer expenses	13,184
Dues, licenses, and subscriptions	17,773
Electricity	355,582
Equipment rental	3,886
Food, travel, and lodging	7,627
Fuel and fluids	16,099
Insurance and bonding	41,684
Office supplies, postage, and advertising	9,832
Other materials and supplies	7,722
Professional fees	160,263
Repairs and maintenance	123,768
Telephone and communications	12,844
Training and education	2,445
Water	39,441
Other operating costs	66,635
Depreciation	1,646,505
Total operating expenses	4,304,016
OPERATING INCOME (LOSS)	995,617
NON-OPERATING REVENUES (EXPENSES)	
Dividend and interest income	50,858
Gain (loss) on disposal of assets	(4,287)
Interest expense	(83,862)
Amortization of bond costs and discounts	(3,276)
Trustee fees	(4,005)
Total non-operating revenues (expenses)	(44,572)
CHANGE IN NET POSITION	951,045
NET POSITION, JUNE 30, 2015	8,847,378
Prior period adjustment (See Note 2)	(26,115)
NET POSITION, JULY 1, 2015 - RESTATED	8,821,263
NET POSITION, JUNE 30, 2016	$ 9,772,308

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

PEPPER'S FERRY REGIONAL WASTEWATER TREATMENT AUTHORITY Exhibit C

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2016

CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received From:		
Customers	$	5,276,436
Cash Paid to/for:		
Employees		(1,702,226)
Suppliers		(975,571)
Net Cash Provided by (Used for) Operating Activities		2,598,639
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
None		-
Net Cash Provided by (Used for) Noncapital Financing Activities		-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchases of capital assets		(517,412)
Payment of principal		(918,899)
Interest on debt		(85,983)
Trustee fees		(4,005)
Net Cash Provided by (Used for) Capital and Related Financing Activities		(1,526,299)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest and dividends received		50,858
Net Cash Provided by (Used for) Investing Activities		50,858
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		1,123,198
Cash and Cash Equivalents, July 1, 2015		3,014,940
Cash and Cash Equivalents, June 30, 2016	$	4,138,138

RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH
PROVIDED BY (USED FOR) OPERATING ACTIVITIES

Operating income (loss)	$	995,617
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:		
Depreciation		1,646,505
Changes in operating assets, liabilities, and deferred outflows and inflows of resources:		
(Increase) Decrease in assets and deferred outflows of resources:		
Accounts receivable, net of allowance		12,675
Accounts receivable - members, net of allowance		(35,872)
Virginia Retirement System pension contributions subsequent to measurement date		(3,902)
Differences between expected and actual experience of net pension liability		(77,817)
Increase (Decrease) in liabilities and deferred inflows of resources:		
Accounts payable		(14,143)
Accrued vacation and compensation payable		(1,035)
Accrued payroll and payroll liabilities		2,408
Net pension liability		157,060
Net difference between projected and actual earnings on plan investments		(82,857)
Net Cash Flows from Operating Activities	$	2,598,639

NON-CASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:		
Amortization of bond issue costs	$	3,276
Disposal of equipment	$	32,045

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Background of Authority

Pepper's Ferry Regional Wastewater Treatment Authority (the Authority) is a public body, politic and corporate, created on August 8, 1977 by Articles of Incorporation executed by the Board of Supervisors for the Counties of Pulaski and Montgomery and the Councils of the City of Radford and the Town of Dublin (the Members), pursuant to the Virginia Water and Sewer Authorities Act. In 1979, the Articles of Incorporation were amended and restated to add the Town of Pulaski as a member. The Authority was created to acquire, finance, construct, operate, and maintain facilities for the development and operation of a wastewater equalization, pumping, treatment, and disposal system for the long-term needs of its Members. The Authority owns and operates certain facilities (the Collection Facilities), which are or will be owned and operated by the five Members. The Regional Facility and the Collection Facilities are known collectively as the System.

B. Basis of Presentation

The financial statements have been prepared in accordance with GASB Statement 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*.

The Authority follows the business-type activities requirements of GASB Statement 34, which provides that the following sections be included in the annual financial report:

1. Management's discussion and analysis
2. Basic financial statements including a statement of net position, statement of revenues, expenses and changes in net position, and a statement of cash flows
3. Notes to financial statements
4. Required supplementary information including schedules related to pension and other postemployment benefits funding

C. Basis of Accounting

The Authority's financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The Authority distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with the Authority's principal ongoing operations. The principal operating revenues of the Authority are charges to customers for services. Operating expenses include the cost of services, administrative expenses, and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Proprietary Funds

Proprietary Funds account for operations that are financed and operated in a manner similar to those found in private business enterprises. The measurement focus is on the flow of economic resources. Operating revenues include charges for services. Operating expenses include personnel services, as well as materials and supplies, depreciation, and other expenses used in the normal course of operations.

Enterprise Funds

Enterprise Funds finance and account for the acquisition, operation, and manitenance of facilities and services that are supported by user charges.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

D. Cash and Cash Equivalents

The Authority's cash and cash equivalents consist of checking account deposits, interest bearing demand deposits, and certificates of deposit.

E. Allowance for Uncollectible Accounts and Accounts Receivable

Accounts receivable are reported at the amount management expects to collect from outstanding balances. Thus, accounts receivable are stated at face value less an allowance for uncollectible accounts. Management considers all accounts receivable to be fully collectible at June 30, 2016, therefore no allowance for uncollectible accounts has been established.

F. Capital Assets

Capital assets are stated at cost. The threshold for recording capital assets is $1,500. Depreciation of property and equipment is computed using the straight-line method over useful lives as follows:

Automotive equipment	4	years
Instrumentation	4	years
Equipment	10 to 20	years
Basins	25	years
Buildings	30	years
Lines	30	years

G. Compensated Absences

The liability for accrued vacation and compensation payable reported in the financial statements consists of unpaid accumulated leave balances and accrued wages. Accumulated leave is paid at the employee's current wage upon retirement or termination. There is no liability for unpaid accumulated sick leave since the Authority does not have a policy to pay any amounts when employees separate from service with the Authority. All vacation pay is accrued when incurred in the financial statements.

H. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Political Subdivision's Retirement Plan and the additions to/deductions from the Political Subdivision'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.

In 2013, the Authority's Board of Directors elected to partially fund the Net Pension Liability through an offset account as funds and rate structures allow; at June 30, 2016, the established reserve offset account balance is $218,372. The Net Pension Liability is in excess of the reserve offset account balance by an amount of $502,677.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

I. Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position reports a separate section for deferred outflows of resources which represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense) until then. The Authority has two items that qualify for reporting in this category. The first consists of contributions subsequent to the measurement date for pensions; this will be applied to the net pension liability in the next fiscal year. The second item is the difference between expected and actual experiences. This difference will be recognized in pension expense over a five year period.

In addition to liabilities, the Statement of Net Position reports a separate section for deferred inflows of resources which represents an acquisition of net position that applies to future periods and so will not be recognized as in inflow of resources (revenue) until that time. The Authority has only one item that qualifies for reporting in this category, the net difference between projected and actual earnings on pension plan investments. This difference will be recognized in pension expense over a five year period.

J. Net Position

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

K. Estimates

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

2. PRIOR PERIOD ADJUSTMENT

The Authority implemented GASB No. 68, Accounting and Financial Reporting for Pensions, in fiscal year 2015. GASB No. 68 establishes accounting and financial reporting standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures related to employee pensions. The Authority has recognized a net pension liability beginning in fiscal year 2013, but has not historically recognized deferred inflows of resources related to the net difference between projected and actual earnings on pension plan investments and has recorded pension expenditures equal to the contributions made during the fiscal year. However, due to the implementation of GASB No. 68, the Authority has restated the appropriate prior period net position to reflect the effects on beginning balances due to these changes in accounting and financial reporting standards related to pensions.

A summary for the prior period adjustment is shown below:

Net Position, June 30, 2015, as previously reported	$ 8,847,378
Recognition of deferred outflows and inflows in accordance with GASB No. 68	(26,115)
Net Position, July 1, 2015, as restated	$ 8,821,263

3. CASH AND CASH EQUIVALENTS

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

In accordance with the First Amendment to Agreement of Trust, dated February 1, 2011, the Operating Reserve Trust Fund and the Improvement and Redemption Trust Fund were transferred to Authority-held funds at National Bank (NBB) and are now included as cash and cash equivalents.

1) Improvements and redemptions trust fund - created to accumulate, through monthly deposits, a minimum balance of $200,000 for payment of operating expenses when needed, to make required transfers to the bond trust, to make up any deficiency in the debt service reserve trust, to make up any deficiency in the operating reserve trust, or to pay for the costs of replacements and improvements to the facility.

2) Operating Reserve Trust Fund - A reserve account equal to three months' estimated operating expenses.

In accordance with the Master Trust Agreement, the following accounts have been established:

1) Bond interest trust fund - created to hold a minimum balance equal to the amount of interest on the bonds accrued through the end of each month.

2) Bond redemption escrow trust - Created to accumulate the funds necessary to make the principal payment on the bonds due on the first of each month.

Cash and cash equivalents at June 30, 2016 consisted of bank accounts as follows:

1) Plant operations and maintenance	$ 1,190,893
2) Treatment plant, capital improvements projects	631,242
3) Improvement fund	220,669
4) Sulfate corrosion fund	384,571
5) Treatment plant reserves	814,325
6) Radford PS reserves	236,981
7) New River PS reserves	185,677
8) Retirement NPL reserve offset	218,372
9) Bond interest trust fund - designated	19,456
10) Bond redemption escrow fund - designated	235,952
Total cash and cash equivalents	$ 4,138,138

4. RELATED PARTY TRANSACTIONS

Most of the operating revenues of the Authority are derived from charges to its members:

Charges for services	$ 4,217,117
Debt service payments	1,008,891
Balances due from members	374,157

5. CAPITAL ASSETS

Components of the Authority's capital assets at June 30, 2016 are summarized as follows:

Land	$ 441,841
Construction in Progress	157,262
Plant and equipment	50,541,639
Subtotal	51,140,742
Accumulated depreciation	(38,064,963)
Capital assets, net	$ 13,075,779

During the fiscal year ended June 30, 2016, the Authority disposed of plant and equipment with an original cost of $32,045; these dispositions resulted in a loss of $4,287.

Depreciation expense for the fiscal year ended June 30, 2016 was $1,646,505.

The Authority's capital asset activity for the year ended June 30, 2016 is as follows:

	Balance 6/30/15	Increases	Decreases	Balance 6/30/16
Capital assets not being depreciated:				
Land	$ 441,841	-	-	$ 441,841
Construction in Progress	49,377	151,834	(43,949)	157,262
Total nondepreciable assets	491,218	151,834	(43,949)	599,103
Depreciable assets:				
Plant and equipment	50,164,157	409,527	(32,045)	50,541,639
Total depreciable assets	50,164,157	409,527	(32,045)	50,541,639
Less accumulated depreciation:				
Plant and equipment	(36,446,216)	(1,646,505)	27,758	(38,064,963)
Total accumulated depreciation	(36,446,216)	(1,646,505)	27,758	(38,064,963)
Capital assets, net	$ 14,209,159	(1,085,144)	(48,236)	$ 13,075,779

6. BONDS PAYABLE

A. 2002b VA Revolving Loan Fund

In December 2002, the Authority issued bonds of $13,400,000; proceeds were used for construction purposes. The bonds bear interest at an annual rate not to exceed 1.00% and are payable in semi-annual installments of combined principal and interest beginning on April 1, 2005 and ending April 1, 2024. As of June 30, 2016, the outstanding balance was $6,147,907. The following is a breakdown of annual principal and interest payments:

Year ending June 30,	Principal	Interest
2017	741,927	59,629
2018	749,365	52,191
2019	756,828	44,679
2020	764,465	37,091
2021	772,129	29,427
Thereafter	2,363,193	41,527
	$ 6,147,907	$ 264,544

Interest expense for the fiscal year ended June 30, 2016 was $65,157.

6. BONDS PAYABLE, continued

B. 2014 Series Bond Refunding

In January 2014, the Authority issued bonds of $1,365,452; proceeds were used to 1) provide funds to refund the Series 2006 Sewage System Revenue Bond and 2) pay the costs of issuance associated with the bond. The bonds bear interest at a fixed annual rate of 1.85% and are payable in monthly installments of combined principal and interest beginning on February 1, 2014 and ending April 1, 2021. At June 30, 2016, the outstanding balance was $926,362. The following is a breakdown of annual principal and interest payments:

Year ending June 30,	Principal	Interest
2017	187,870	15,550
2018	191,220	12,047
2019	194,877	8,478
2020	198,432	4,843
2021	153,963	1,209
	$ 926,362	$ 42,127

Interest expense for the fiscal year ended June 30, 2016 was $18,705.

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7. PENSION PLAN

A. Plan Description

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

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

RETIREMENT PLAN PROVISIONS

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

7. PENSION PLAN, continued...

A. Plan Description, continued...

VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
Eligible Members Employees are in Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013. *Hybrid Opt-In Election* VRS non-hazardous duty covered Plan 1 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014. The Hybrid Retirement Plan's effective date for eligible Plan 1 members who opted in was July 1, 2014. If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan. Members who were eligible for an optional retirement plan (ORP) and had prior service under Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 1 or ORP.	Eligible Members Employees are in Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013. *Hybrid Opt-In Election* Eligible Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014. The Hybrid Retirement Plan's effective date for eligible Plan 2 members who opted in was July 1, 2014. If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan. Members who were eligible for an optional retirement plan (ORP) and have prior service under Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 2 or ORP.	Eligible Members Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes: • Political subdivision employees* • Members in Plan 1 or Plan 2 who elected to opt into the plan during the election window held January 1-April 30, 2014; the plan's effective date for opt-in members was July 1, 2014 *Non-Eligible Members Some employees are not eligible to participate in the Hybrid Retirement Plan. They include: • Political subdivision employees who are covered by enhanced benefits for hazardous duty employees Those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under Plan 1 or Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select Plan 1 or Plan 2 (as applicable) or ORP.
Retirement Contributions Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some political subdivisions elected to phase in the required 5% member contribution but all employees will be paying the full 5% by July 1, 2016. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment.	Retirement Contributions Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some political subdivisions elected to phase in the required 5% member contribution but all employees will be paying the full 5% by July 1, 2016.	Retirement Contributions A member's retirement benefit is funded through mandatory and voluntary contributions made by the member and the employer to both the defined benefit and the defined contribution components of the plan. Mandatory contributions are based on a percentage of the employee's creditable compensation and are required from both the member and the employer. Additionally, members may choose to make voluntary contributions to the defined contribution component of the plan, and the employer is required to match those voluntary contributions according to specified percentages.

7. PENSION PLAN, (continued)

A. Plan Description, (continued)

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

7. PENSION PLAN, continued...

A. Plan Description, continued...

VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
Vesting Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least five years (60 months) of creditable service. Vesting means members are eligible to qualify for retirement if they meet the age and service requirements for their plan. Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund. Members are always 100% vested in the contributions that they make.	Vesting Same as Plan 1.	Vesting Defined Benefit Component: Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years (60 months) of creditable service. Plan 1 or Plan 2 members with at least five years (60 months) of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component. Defined Contributions Component: Defined contribution vesting refers to the minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined contribution component of the plan. Members are always 100% vested in the contributions that they make. Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service. • After two years, a member is 50% vested and may withdraw 50% of employer contributions. • After three years, a member is 75% vested and may withdraw 75% of employer contributions. • After four or more years, a member is 100% vested and may withdraw 100% of employer contributions. Distribution is not required by law until age 70½.

7. PENSION PLAN, continued...

A. Plan Description, continued...

VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
Calculating the Benefit The Basic Benefit is calculated based on a formula using the member's average final compensation, a retirement multiplier and total service credit at retirement. It is one of the benefit payout options available to a member at retirement. An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit.	Calculating the Benefit See definition under Plan 1.	Calculating the Benefit Defined Benefit Component: See definition under Plan 1 Defined Contribution Component: The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions.
Average Final Compensation A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.	Average Final Compensation A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.	Average Final Compensation Same as Plan 2. It is used in the retirement formula for the defined benefit component of the plan.
Service Retirement Multiplier *VRS:* The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.70% . *Political subdivision hazardous duty employees:* The retirement multiplier of eligible political subdivision hazardous duty employees other than sheriffs and regional jail superintendents is 1.70% or 1.85% as elected by the employer.	Service Retirement Multiplier *VRS:* Same as Plan 1 for service earned, purchased or granted prior to January 1, 2013. For non-hazardous duty members the retirement multiplier is 1.65% for creditable service earned, purchased or granted on or after January 1, 2013. *Political subdivision hazardous duty employees:* Same as Plan 1.	Service Retirement Multiplier Defined Benefit Component: *VRS*: The retirement multiplier for the defined benefit component is 1.00% . For members who opted into the Hybrid Retirement Plan from Plan 1 or Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans. *Political subdivision hazardous duty employees:* Not applicable. Defined Benefit Component: Not applicable.
Normal Retirement Age *VRS:* Age 65. *Political subdivisions hazardous duty employees:* Age 60.	Normal Retirement Age *VRS:* Normal Social Security retirement age. *Political subdivisions hazardous duty employees:* Same as Plan 1.	Normal Retirement Age Defined Benefit Component: *VRS:* Same as Plan 2. *Political subdivisions hazardous duty employees:* Not applicable. Defined Contribution Component: Members are eligible to receive distributions upon leaving employment, subject to restrictions.

7. PENSION PLAN, continued...

A. Plan Description, continued...

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

7. PENSION PLAN, continued...

A. Plan Description, continued...

VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
Cost-of-living Adjustment (COLA) in Retirement	Cost-of-living Adjustment (COLA) in Retirement	Cost-of-living Adjustment (COLA) in Retirement
The Cost-of-Living Adjustment (COLA) matches the first 3% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4%) up to a maximum COLA of 5%.	The Cost-of-Living Adjustment (COLA) matches the first 2% increase in the CPI-U and half of any additional increase (up to 2%), for a maximum COLA of 3%.	Defined Benefit Component: Same as Plan 2. Defined Contribution Component: Not applicable.
Eligibility: For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full calendar year from the retirement date. For members who retire with a reduced benefit and who have less than 20 years of creditable service, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date.	Eligibility: Same as Plan 1	Eligibility: Same as Plan 1 and Plan 2.
Exceptions to COLA Effective Dates: The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances: • The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013. • The member retires on disability. • The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP). • The member Is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program. • The member dies in service and the member's survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins.	Exceptions to COLA Effective Dates: Same as VRS Plan 1	Exceptions to COLA Effective Dates: Same as Plan 1 and Plan 2.

7. PENSION PLAN, continued...

A. Plan Description, continued...

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

B. Employees Covered by the Benefit Terms

As of the June 30, 2014 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

	Number
Inactive members or their beneficiaries currently receiving benefits	12
Inactive members:	
Vested inactive members	2
Non-vested inactive members	6
Inactive members active elsewhere in VRS	7
Total inactive members	15
Active members	21
Total covered employees	48

7. PENSION PLAN, continued...

C. Contributions

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

The political subdivision's contractually required contribution rate for the year ended June 30, 2016 was 10.96% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2013.

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 political subdivision were $123,465 and $119,563 for the years ended June 30, 2016 and June 30, 2015, respectively.

D. Net Pension Liability

The political subdivisions net pension liability was measured as of June 30, 2015. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2014, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2015.

E. Actuarial Assumptions - General Employees

The total pension liability for General Employees in the Political Subdivision's Retirement Plan was based on an actuarial valuation as of June 30, 2014, 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, 2015.

Inflation	2.50%
Salary increases, including inflation	3.5% - 5.35%
Investment rate of return	7.0% , net of pension plan investment expense, 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 7.0% . However, since the difference was minimal, and a more conservative 7.0% 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 7.0% to simplify preparation of pension liabilities.

Mortality rates: 14 % of deaths are assumed to be service related

Largest 10 – Non-LEOS:

Pre-Retirement:

RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set forward 4 years and females were set back 2 years.

Post-Retirement:

RP-2000 Combined Mortality Table Projected with Scale AA to 2020 with males set forward 1 year.

Post-Disablement:

RP-2000 Disability Life Mortality Table Projected to 2020 with males set back 3 years and no provision for future mortality improvement

7. PENSION PLAN, continued...

E. Actuarial Assumptions - General Employees, continued...

Mortality rates: 14 % of deaths are assumed to be service related, continued...

All Others (Non 10 Largest) – Non-LEOS:

Pre-Retirement:

RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set forward 4 years and females were set back 2 years.

Post-Retirement:

RP-2000 Combined Mortality Table Projected with Scale AA to 2020 with males set forward 1 year.

Post-Disablement:

RP-2000 Disability Life Mortality Table Projected to 2020 with males set back 3 years and no provision for future mortality improvement

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period from July 1, 2008 through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follows:

Largest 10 – Non-LEOS:

- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

All Others (Non 10 Largest) – Non-LEOS:

- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

F. 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
U.S. Equity	19.50%	6.46%	1.26%
Developed Non-U.S. Equity	16.50%	6.28%	1.04%
Emerging Market Equity	6.00%	10.00%	0.60%
Fixed Income	15.00%	0.09%	0.01%
Emerging Debt	3.00%	3.51%	0.11%
Rate Sensitive Credit	4.50%	3.51%	0.16%
Non Rate Sensitive Credit	4.50%	5.00%	0.23%
Convertibles	3.00%	4.81%	0.14%
Public Real Estate	2.25%	6.12%	0.14%
Private Real Estate	12.75%	7.10%	0.91%
Private Equity	12.00%	10.41%	1.25%
Cash	1.00%	-1.50%	-0.02%
Total	100.00%		5.83%
		Inflation	2.50%
		* Expected arithmetic nominal return	8.33%

(see next page for *)

7. PENSION PLAN, continued...

F. Long-Term Expected Rate of Return, continued...

* Using stochastic projection results provides an expected range of real rates of return over various time horizons. Looking at one year results produces an expected real return of 8.33% but also has a high standard deviation, which means there is high volatility. Over larger time horizons the volatility declines significantly and provides a median return of 7.44% , including expected inflation of 2.50% .

G. Discount Rate

The discount rate used to measure the total pension liability was 7.00% . 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. Through the fiscal year ending June 30, 2018, the rate contributed by the employer for the Political Subdivision Retirement Plan will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2018 on, participating employers are assumed 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.

H. Changes in Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at June 30, 2014	$ 2,987,246	$ 2,423,257	$ 563,989
Changes for the year:			
Service Cost	131,743	-	131,743
Interest	204,669	-	204,669
Differences between expected and actual experience	106,532	-	106,532
Contributions - employer	-	119,563	(119,563)
Contributions - employee	-	54,633	(54,633)
Net investment income	-	113,188	(113,188)
Benefit payments, including refunds of employee contributions	(126,795)	(126,795)	-
Administrative expenses	-	(1,476)	1,476
Other changes	-	(24)	24
Net Changes	316,149	159,089	157,060
Balances at June 30, 2015	$ 3,303,395	$ 2,582,346	$ 721,049

I. Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the political subdivision using the discount rate of 7.00% , as well as what the political subdivision's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate:

	1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
Political subdivision's Net Pension Liability	$ 1,140,397	$ 721,049	$ 368,749

7. PENSION PLAN, continued...

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

For the year ended June 30, 2016, the political subdivision recognized pension expense of $115,949. At June 30, 2016, the political subdivision 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	$	77,817	$	-
Change in assumptions	$	-	$	-
Net difference between projected and actual earnings on pension plan investments	$	-	$	62,821
Employer contributions subsequent to the measurement date	$	123,465	$	-
Total	$	201,282	$	62,821

$123,465 reported as deferred outflows of resources related to pensions resulting from the political subdivision's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the year ended June 30, 2017. 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:

Year ended June 30		
2017	$	3,905
2018	$	3,905
2019	$	(4,425)
2020	$	11,611
Thereafter	$	-

8. RISK MANAGEMENT

The Authority is exposed to various risks of loss related to the following: torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Authority participates with other government entities in a public entity risk pool, The Virginia Municipal League Insurance Program (VMLIP), for its coverage of property damage and general liability. The pool is designed to be self-sustaining through contributions from members. There have been no significant reductions in insurance coverage from the prior year, and settled claims, if any, have not exceeded the Authority's insurance coverage in any of the past three years.

9. NEW ACCOUNTING STANDARDS

The Governmental Accounting Standards Board (GASB) has issued the following statements which are not yet effective.

GASB Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other than Pensions improves the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement will be effective for the year ending June 30, 2017.

GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions improves accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement will be effective for the year ending June 30, 2018.

GASB Statement No. 80, Blending Requirements for Certain Component Units—an amendment of GASB Statement No. 14, amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, Determining Whether Certain Organizations Are Component Units. This Statement will be effective for the year ending June 30, 2017.

GASB Statement No. 81, Irrevocable Split-Interest Agreements, requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period. This Statement will be effective for the year ending June 30, 2017.

GASB Statement No. 82, Pension Issues - An Amendment of GASB Statements No. 67, No. 68, and No. 73, requires the presentation of covered payroll, defined as the payroll on which contributions to a pension plan are based, and ratios that use that measure. This Statement will be effective for the year ending June 30, 2017.

Management has not yet evaluated the effects, if any, of adopting these standards.

10. SUBSEQUENT EVENTS

In preparing the financial statements, Pepper's Ferry Regional Wastewater Treatment Authority has evaluated events and transactions for potential recognition or disclosure through September 26, 2016, the date the financial statements were available to be issued. Management is not aware of any subsequent events that occurred or other matters that should be disclosed.

SCHEDULE OF CHANGES IN THE EMPLOYER'S NET PENSION LIABILITY AND
RELATED RATIOS - VRS
YEAR ENDED JUNE 30, 2016

	2015	2014
Total pension liability:		
Service cost	$ 131,743	$ 129,313
Interest	204,669	190,862
Changes of benefit terms	-	-
Differences between expected and actual experience	106,532	-
Changes in assumptions	-	-
Benefit payments, including refunds of employee contributions	(126,795)	(119,063)
Net change in total pension liability	316,149	201,112
Total pension liability - beginning	2,987,246	2,786,134
Total pension liability - ending (a)	$ 3,303,395	$ 2,987,246
Plan fiduciary net position:		
Contributions - employer	$ 119,563	$ 130,817
Contributions - employee	54,633	54,005
Net investment income	113,188	326,618
Benefit payments, including refunds of employee contributions	(126,795)	(119,063)
Administrative expense	(1,476)	(1,686)
Other	(24)	18
Net change in plan fiduciary net position	159,089	390,709
Plan fiduciary net position - beginning	2,423,257	2,032,548
Plan fiduciary net position - ending (b)	$ 2,582,346	$ 2,423,257
Political subdivision's net pension liability - ending (a) - (b)	$ 721,049	$ 563,989
Plan fiduciary net position as a percentage of the total Pension liability	78.172%	81.120%
Covered-employee payroll	$ 1,113,811	$ 1,083,131
Political subdivision's net pension liability as a percentage of the covered-employee payroll	64.737%	52.070%

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is completed, the political subdivision will present information for those years which information is available.

SCHEDULE OF CHANGES IN THE EMPLOYER'S CONTRIBUTIONS - VRS
YEAR ENDED JUNE 30, 2016

Date	Contractually Required Contribution (1)	Contributions in Relation to Contractually Required Contribution (2)	Contribution Deficiency (Excess) (3)	Employer's Covered Employee Payroll (4)	Contributions as a % of Covered Employee Payroll (5)
2016	$ 119,765	$ 119,765	$ -	$ 1,116,732	$ 10.75%
2015	$ 123,201	$ 123,201	$ -	$ 1,113,811	$ 11.06%

Notes to the Schedule

Valuation date:

Actuarially determined contribution rates are calculated as of June 30, two years prior to the end of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry Age Normal
Amortization method	Level percent of pay, closed
Remaining amortization period	20 - 29 years
Asset valuation method	5-year smoothed market
Inflation	2.50%
Salary increases	3.5 - 5.35% , including inflation
Investment rate of return	7.00%

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is completed, the political subdivision will present information for those years which information is available.

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - VRS
YEAR ENDED JUNE 30, 2016

1. Changes to Benefit Terms

There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation. The 2014 valuation includes Hybrid Retirement Plan members for the first time. The hybrid plan applies to most new employees hired on or after January 1, 2014 and not covered by enhanced hazardous duty benefits. Because this was a new benefit and the number of participants was relatively small, the impact on the liabilities as of the measurement date of June 30, 2015 are not material.

2. Changes of Assumptions

The following changes in actuarial assumptions were made effective June 30, 2013 based on the most recent experience study of the System for the four-year period ending June 30, 2012:

Largest 10 – Non-LEOS:

- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

Largest 10 – LEOS:

- Update mortality table
- Decrease in male rates of disability

All Others (Non 10 Largest) – Non-LEOS:

- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

All Others (Non 10 Largest) – LEOS:

- Update mortality table
- Adjustments to rates of service retirement for females
- Increase in rates of withdrawal
- Decrease in male and female rates of disability

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INDEPENDENT AUDITOR'S 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
Pepper's Ferry Regional Wastewater Treatment Authority

We have audited, in accordance with the auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the *Specifications for Audits of Authorities, Boards, and Commissions*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the business-type activities of Pepper's Ferry Regional Wastewater Treatment Authority, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Pepper's Ferry Regional Wastewater Treatment Authority's basic financial statements, and have issued our report thereon dated September 26, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Pepper's Ferry Regional Wastewater Treatment Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Pepper's Ferry Regional Wastewater Treatment Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of Pepper's Ferry Regional Wastewater Treatment 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 Pepper's Ferry Regional Wastewater Treatment Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Michael B. Cooke, CPA, PC

Michael B. Cooke, CPA, PC
Blacksburg, Virginia
September 26, 2016