

**PEPPER'S FERRY REGIONAL WASTEWATER TREATMENT
AUTHORITY**

FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2025

**PEPPER'S FERRY REGIONAL WASTEWATER TREATMENT AUTHORITY
FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2025**

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INTRODUCTORY SECTION

PEPPER'S FERRY REGIONAL WASTEWATER TREATMENT AUTHORITY

DIRECTORY OF PRINCIPAL OFFICIALS

JUNE 30, 2025

BOARD OF DIRECTORS

Jeffrey S. Worrell, Chairman

Dennis L. Setliff, Vice Chairman

R. David Horton, Secretary

Lane R. Penn, Treasurer

M. Todd King

David Ridpath

S. Wayne Seagle

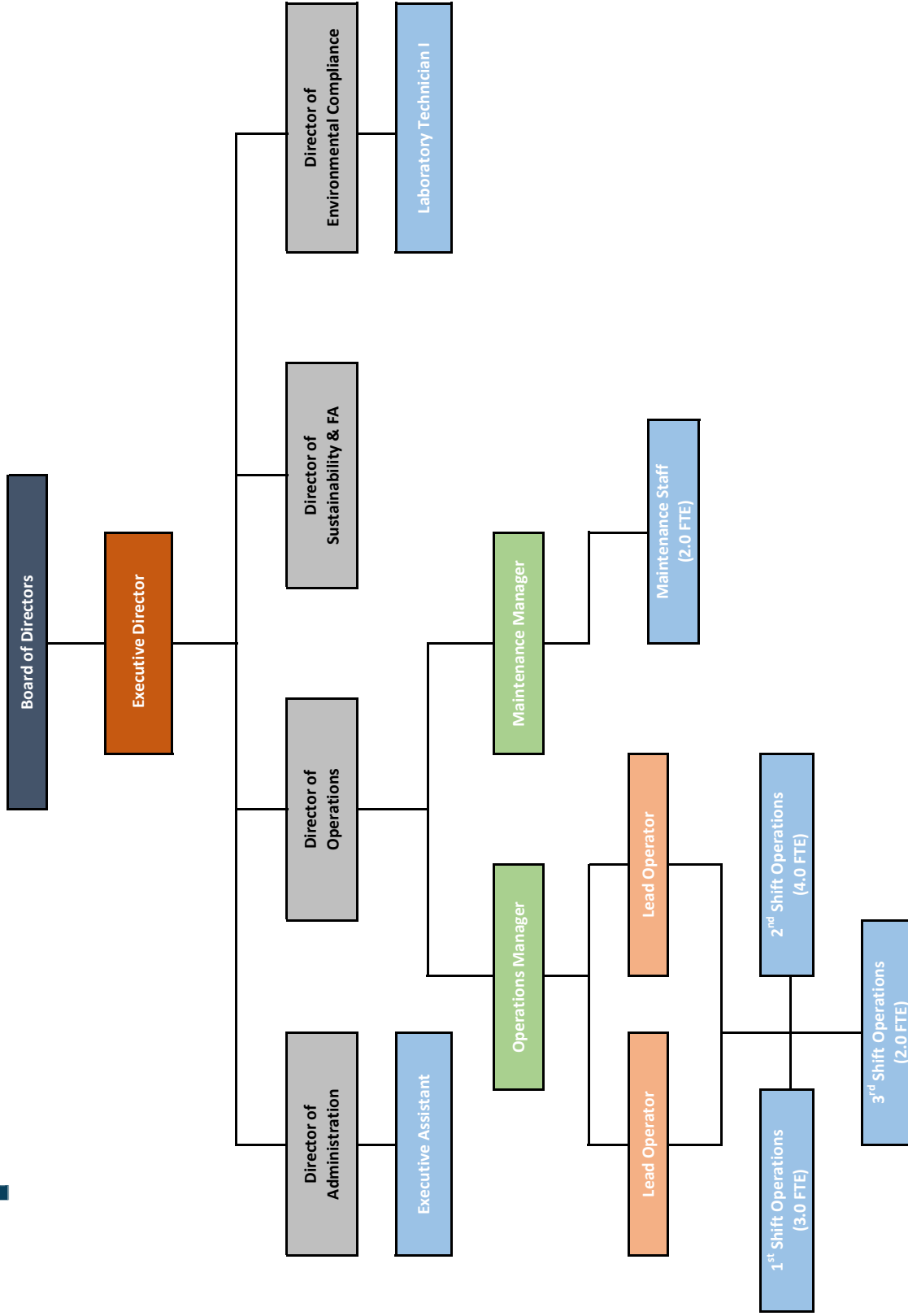
Christopher Stafford

EXECUTIVE DIRECTOR

Ryan L. Hendrix



Pepper's Ferry Regional Wastewater Authority Organization Chart



FINANCIAL SECTION



Independent Auditors' Report

**To the Board of Directors
Pepper's Ferry Regional Wastewater Treatment Authority
Radford, Virginia**

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the business-type activities of the Pepper's Ferry Regional Wastewater Treatment Authority, as of and for the year ended June 30, 2025, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Pepper's Ferry Regional Wastewater Treatment Authority, as of June 30, 2025, 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.

Basis for Opinion

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. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Pepper's Ferry Regional Wastewater Treatment Authority, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Change in Accounting Principles

As described in Note 14 to the financial statements, in 2025, the Pepper's Ferry Regional Wastewater Treatment Authority adopted new accounting guidance, GASB Statement No. 101, *Compensated Absences*. Our opinion is not modified with respect to this matter.

Restatement of Beginning Balances

As described in Note 14 to the financial statements, in 2025, the Pepper's Ferry Regional Wastewater Treatment Authority restated beginning balances to reflect the requirements of GASB Statement No. 101. Our opinion is not modified with respect to this matter.

Emphasis of Matter - Hurricane Helene Impact

As described in Note 13 and Note 15, the Authority incurred substantial damages from the flooding that resulted from Hurricane Helene.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Pepper's Ferry Regional Wastewater Treatment Authority ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the *Specifications for Audits of Authorities, Boards, and Commissions* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the *Specifications for Audits of Authorities, Boards, and Commissions*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Pepper's Ferry Regional Wastewater Treatment Authority's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Pepper's Ferry Regional Wastewater Treatment Authority's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

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

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the introductory section and other statistical information but does not include the basic financial statements and our auditors' report thereon. Our opinion on the basic financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 7, 2025, on our consideration of the 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, 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 Pepper's Ferry Regional Wastewater Treatment 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 Pepper's Ferry Regional Wastewater Treatment Authority's internal control over financial reporting and compliance.



Blacksburg, Virginia
November 7, 2025

PEPPER'S FERRY REGIONAL WASTEWATER TREATMENT AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2025

The following management discussion and analysis (MD&A) serves as an introduction to the financial statements of Pepper's Ferry Regional Wastewater Treatment Authority's (the Authority) financial performance and provides an overview of the Authority's financial activities for the year ended June 30, 2025. The MD&A represents management's examination and analysis of the Authority's financial condition and performance, and it should be read in conjunction with the Authority's basic financial statements which immediately follow this section. The MD&A is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments (GASB 34).

FINANCIAL HIGHLIGHTS

The Authority's net position for the year ended June 30, 2025 increased to \$15,617,719 from \$15,362,997 at June 30, 2024. 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, 2025 increased to \$12,090,957 from \$11,942,975 at June 30, 2024. Unrestricted net position for the year ended June 30, 2025 increased to \$3,521,503 from \$3,420,022 at June 30, 2024.

For the year ended June 30, 2025, the Authority had total revenues of \$7,409,432, which totaled \$367,953 more than expenses and losses of \$7,041,479, and has outstanding debt totaling \$11,646,263.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Authority is solely engaged in business-type activities and therefore its basic financial statements are comprised of two components: 1) enterprise fund financial statements and 2) notes to the financial statements. The financial statements are prepared in accordance with accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board (GASB).

The enterprise fund financial statements provide information about the Authority using the accrual basis of accounting, which is the method used by most private-sector enterprises. The report includes three financial statements: the Statement of Net Position; the Statement of Revenues, Expenses, and Changes in Net Position; and the Statement of Cash Flows.

Statement of Net Position: Found as Exhibit 1 of this report, this statement presents information on the Authority's assets and deferred outflows of resources, as well as the liabilities and deferred inflows of resources, with the difference between the two reported as net position. Net position is displayed in three broad components – net investment in capital assets, restricted assets, and unrestricted assets.

Statement of Revenues, Expenses, and Changes in Net Position: Found as Exhibit 2 of this report, this statement 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 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 (e.g., earned but unused vacation

leave). Revenues and expenses are categorized as either operating or non-operating based upon definitions provided by GASB Statements 33 and 34. Operating revenue consists of member service charges, debt service charges, and other revenue. Non-operating revenue consists of interest.

Statement of Cash Flows: Found as Exhibit 3 of this report, this statement presents changes in cash equivalents, resulting from operational, financial, and investing activities. This statement presents cash receipts and cash disbursement information without consideration of the earning event when an obligation arises, or depreciation of capital assets.

One of the main goals of these financial statements is to report on the Authority's net position and changes that affected net position during the fiscal year. The change in the Authority's net position is one way to measure the Authority's financial health, or financial position. Increases and decreases in net position are indicators of whether the Authority's financial health is improving or deteriorating.

In addition to the financial statements presented within this report, you will find the **Notes to Financial Statements**. These notes to the basic financial statements provide additional information that is essential for a full understanding of the data provided within the financial statements.

This report also contains the required supplementary information in addition to the basic financial statements and accompanying notes. The required supplementary information concerning the Authority's assets, liability, and funding of its obligation to provide pension and other post-employment benefits to its employees is located immediately following the notes to financial statements.

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FINANCIAL ANALYSIS OF THE AUTHORITY AS A WHOLE

Table A presents the Condensed Statement of Net Position for the years ended June 30, 2025 and 2024. At June 30, 2025 and 2024, unrestricted net positions were \$3,521,503 and \$3,420,022, respectively. Of total net position, unrestricted net position represented 22.5% and 22.3% for fiscal years 2025 and 2024, respectively.

Table A

**Condensed Statement of Net Position
Years ended June 30, 2025 and 2024**

	<u>2025</u>	<u>2024</u>
Assets:		
Current and other assets	\$ 5,148,867	\$ 4,694,328
Capital assets, net	<u>22,102,835</u>	<u>22,638,120</u>
Total assets	27,251,702	27,332,448
Deferred outflows of resources	497,151	370,332
Total assets and deferred outflows of Resources	<u>\$ 27,748,853</u>	<u>\$ 27,702,780</u>
Liabilities:		
Current	\$ 962,513	\$ 888,611
Noncurrent	<u>11,017,743</u>	<u>11,346,384</u>
Total liabilities	11,980,256	12,234,995
Deferred inflows of resources	150,878	104,788
Net Position:		
Net investment in capital assets	\$12,090,957	\$11,942,975
Unrestricted	3,521,503	3,420,022
Restricted	5,259	-
Total net position	\$15,617,719	\$15,362,997
Total liabilities, and deferred inflows of resources, and net position	<u>\$ 27,748,853</u>	<u>\$ 27,702,780</u>

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 \$15,617,719 and \$15,362,997 at June 30, 2025 and 2024, respectively. The largest portion of the Authority's net position reflects its investment in capital assets (property, plant, and equipment less accumulated depreciation), reduced by any related debt used to acquire those assets that are still outstanding. For 2025 and 2024, 77.0% and 77.7% of the Authority's net position is invested in capital assets, respectively. The Authority uses these capital assets to provide services to customers; consequently, these assets are not available for future spending.

FINANCIAL ANALYSIS OF THE AUTHORITY AS A WHOLE (CONTINUED)

Table B presents the Condensed Statement of Revenues, Expenses, and Changes in Net Position for the years ended June 30, 2025 and 2024.

	Table B	
	Condensed Statement of Revenues, Expenses, and Changes in Net Position Years ended June 30, 2025 and 2024	
	<u>2025</u>	<u>2024</u>
Operating Revenues:		
Charges for services	\$ 5,851,925	\$ 4,589,504
Debt service charges	697,300	1,298,467
Other revenues	<u>464,897</u>	<u>219,363</u>
Total operating revenues	7,014,122	6,107,334
Operating Expenses:		
Operating expenses	4,828,624	3,876,297
Depreciation	<u>1,868,406</u>	<u>1,844,689</u>
Total operating expenses	6,697,030	5,720,986
Non-Operating Revenues (Expenses):		
Interest income	123,800	160,230
Interest expense	(101,378)	(111,597)
Grant revenue	112,338	-
Insurance recoveries	159,172	-
Gain (loss) on disposal of assets	<u>(80,874)</u>	<u>(244)</u>
Total non-operating revenues (expenses)	<u>213,058</u>	<u>48,389</u>
Special and Extraordinary items		
Extraordinary item - asset impairment loss	<u>(162,197)</u>	-
Change in net position	367,953	434,737
Total net position, beginning of year	<u>15,249,766</u>	<u>14,928,260</u>
Total net position, end of year	<u>\$ 15,617,719</u>	<u>\$ 15,362,997</u>

OPERATIONAL REVENUE

The Authority evaluates the existing rate structures, as well as other fees and direct charges, annually during the budget development process. During this process, the Board considers the adequacy of the Authority's current treatment and pump station rate structures and based on current trends associated with various cost indices, determines whether increases to rates, fees, and/or direct charges are necessary to keep pace with increased operational, maintenance, and capital costs. Operational revenues come from service charges to the Member Jurisdictions, consisting of a Base Treatment fee, Wastewater Treatment Plant (WWTP) service rate, New River Pump Station (NRPS) service rate, Radford Pump Station (RPS) service rate, and Miscellaneous Revenue (i.e., septage, hauled waste, etc.)

The WWTP, NRPS, and RPS service rates are all charges to Member Jurisdictions for the actual treatment services provided. These treatment rates are calculated annually during the budget development process and each fiscal year's revenue from Member service charges is forecasted using a five-year rolling average for the actual pumped and treated flows for the previous five calendar years. For the year ended June 30, 2025, Member service charges were based upon actual pumped and treated flows for the 2019 through 2023 calendar years. During the fiscal year ended June 30, 2025, pumped and treated flows experienced during the fiscal year were significantly less than the five-year rolling average flow value by 19.6%. When compared to the previous fiscal year, treated flows for the year ended June 30, 2025 increased by 0.54%. The Base Treatment fee was a new service charge implemented on July 1, 2024, and was the result of a reevaluation of the Authority's rate structure. The Base Treatment fee is a fixed fee, comprised of the administrative expenses required to operate the Authority's facilities. By separating these administrative expenses from the treatment service rates, the Authority was able to drastically reduce the WWTP service rate, while still ensuring the necessary funds are available to pump and treat the wastewater received from our members.

The adopted rates for the fiscal year ending June 30, 2025 are as follows: WWTP service rate decreased by 53.8%, the NRPS service rate remained flat with no increases, and the RPS service rate experienced an 8.0% increase from the previous fiscal year. However, when compared to the prior fiscal year, the overall member service charge revenues increased by 14.8%. This increase in revenue is primarily due to miscellaneous revenue from the treatment of high strength waste from Pepsi Company but is also a result of the Authority's revised rate structure and the creation of a new Base Treatment fee. The Pepsi Company couldn't provide this waste to their normal supplier because it was damaged during Hurricane Helene but it has since been restored so this was a temporary increase.

OPERATIONAL EXPENSES

The Authority's operating expenses, less depreciation, for the year ended June 30, 2024 tracked closely with budgeted values, decreasing by \$135,021 when compared to the forecasted values for the FY 2024/2025 budget. However, Total Operating expenses (\$6,697,030) increased by 17.1% when compared to the previous fiscal year (\$5,720,986). This increase in operating expense is primarily due to a significant increase in professional services for the Authority's Master Plan, along with unexpected and unbudgeted expenses incurred due to the Hurricane Helene flooding. On September 27, 2024, Hurricane Helene produced catastrophic flooding in the New River valley which impacted both the NRPS and RPS. The Authority incurred over \$267,000 in emergency operations expenses, to include equipment and labor.

The Authority appraises its overall operations on a continual basis and attempts to optimize its fund usage through operational cost saving measures wherever possible. Significant variations in operating expenses, as compared to the prior year, include the following:

- Payroll expenses (wages, taxes, benefits, etc.) – Increase of \$369,312
- Chemical Supplies – Decrease of \$9,709
- Computer Expenses – Decrease of \$17,953
- Electricity – Increase of \$89,891
- Professional fees – Increase of \$501,691
- Repair and Maintenance (Contractual) Expenses – Increase of \$12,850

CAPITAL ASSETS

As of June 30, 2025, the Authority has invested \$22,097,576 in a variety of capital assets (net of accumulated depreciation), including land, buildings, basins, digesters, lines, equipment, vehicles, etc. The actual facilities

included in these capital assets can best be described as the regional Wastewater Treatment Plant and outfall pipe, the New River Pumping Station (NRPS) and Equalization facility, the Radford Pumping Station (RPS), and the wastewater force mains interconnecting these locations. The Authority’s net additions to depreciable capital assets for the year ending June 30, 2025 totaled \$1,286,498, while accumulated depreciation expenses increased by \$1,593,438 for the current year. Depreciation expenses included \$162,197 in impairments to the Authority’s infrastructure due to the Hurricane Helene flooding experienced in September 2024.

Considering depreciation expense, disposals of capital assets, and the Authority’s capital asset additions, total investment in capital assets decreased to \$22,097,576 at June 30, 2025 from \$22,638,120 at June 30, 2024, for a total net difference of (\$540,544). Additional information on the Authority’s capital assets can be found in Note 4 in the notes to the financial statements. The following is a summary of the capital assets net of accumulated depreciation at June 30, 2025 and 2024:

	<u>2025</u>	<u>2024</u>
Capital Assets:		
Land	\$ 441,841	\$ 441,841
Construction in progress	833,813	1,067,417
Plant and equipment	<u>61,879,137</u>	<u>60,592,639</u>
Total capital assets	63,154,791	62,101,897
Accumulated depreciation	<u>(41,057,215)</u>	<u>(39,463,777)</u>
Total capital assets, net	<u>\$ 22,097,576</u>	<u>\$ 22,638,120</u>

The Authority’s investment in its capital assets is accomplished through revenue from the Capital Improvement Plan (CIP) project budget, which is supported by direct charges to the member jurisdictions. A CIP budget calculation is performed based on the previous five years of flow data, and then the annual CIP payment schedule is developed based on apportioning the total CIP budget to the member jurisdictions based upon the CIP calculation.

The Authority continued its focus toward replacement and enhancement of its capital assets during the fiscal year ended June 30, 2025, budgeting \$1,632,000 in CIP project expenditures. The CIP budget was 100% funded by direct charges to the Authority’s Member Jurisdictions and acted to fund the following projects of significance for the fiscal year ending June 30, 2025:

- Motor Control Center (MCC) No. 6 B-Side Feeder Replacement: Construction
- Secondary Clarifier Mechanism Replacement – Phase I: Equipment and Installation
- New River PS Grit System Project – 60 % Design
- Pump Station Force Main Evaluation – Phase I

LONG-TERM OBLIGATIONS

The Authority has \$11,646,263 in outstanding debt, as compared to \$11,952,902 at year ended June 30, 2024. For the fiscal year ending June 30, 2025, the Authority’s long-term debt was structured across a single bond issue from 2018. The 2018 series bond carries a fixed interest rate of 1.00% with annual principal and interest payments of \$697,300, through 2041.

The Authority’s revenue stream for payment of its long-term debt comes from direct charges to the member jurisdictions. 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 based upon the debt service calculation. The total debt service costs for the Authority totaled \$ 697,300 for the year ended June 30, 2025.

Concerning the Authority's Net Pension Liability (NPL), in 2013, in accordance with GASB 68, the Authority began disclosing the NPL for its Virginia Retirement System (VRS) pension plan. Concurrently, the Board of Directors elected to partially fund the NPL through the establishment of an offset reserve asset account. Additional funding to this offset reserve account is recommended and approved by the Board of Directors as funds and rate structures permit. For the fiscal year ended June 30, 2025, the balance in this offset account was \$597,595 and the NPL was \$1,281,927. Therefore, at June 30, 2025 the Authority had funded the NPL to the level of 46.6%.

ECONOMIC FACTORS AND FUTURE BUDGETS

The Authority considers many factors when setting future fiscal year budgets and service fees that will be charged for business-type activities. Service fees and interest generate the revenues that are used to establish the budget. The estimated service fees are based on the anticipated flow volume (determined by utilizing a five-year flow average from each member jurisdiction) in the upcoming fiscal year. Some of the factors considered when establishing the budget include, but are not limited to:

- 1) Competitive employee salaries and benefits
- 2) Projected increases in health insurance premiums and retirement contribution rates assessed by the Virginia Retirement System
- 3) Member service rates on a cost per gallon basis
- 4) Historical budgetary information
- 5) Flow volume and other trend analysis
- 6) Capital improvement needs and asset reinvestment
- 7) Overall energy, chemical, and fuel costs

2025/2026 Fiscal Year

As mentioned previously, the Authority utilizes a five-year rolling average of actual pumped and treated flows to calculate the rates, charges, and fees necessary to support the budget. For the fiscal year beginning July 1, 2025, the five-year average utilizes treated flow volume from the 2020 – 2024 calendar year period. The total wastewater flow processed during calendar year 2024 was below the historical average, from a treated flow perspective, resulting in a 7.6% reduction in total flow processed as compared to calendar year 2023. The addition of the calendar year 2024 treated flows to the five-year average flow calculation resulted in the anticipated flows at the treatment plant to be 7.2% lower than the previous fiscal year's five-year average flow. For the fiscal year beginning July 1, 2025, the forecasted flows equal 1,628 million gallons or 4.65 million gallons per day.

With the success of the new rate structure initiated in fiscal year 2024/2025, the Authority continued the use of the Base Treatment fee for the fiscal year beginning July 1, 2025. With the Base Treatment fee funding the administrative expenses required to operate our facilities, the WWTP service rate was able to remain flat with no increase necessary for operational expenses. The NRPS service rate experienced a 4.65% increase, and the RPS service rate experienced an 11.1% increase from the previous fiscal year, and these increases were directly related to increased operational expenses at the pumping stations and capital projects related to the Hurricane Helene flooding.

The Authority has multiple CIP budget funded projects scheduled for the year ending June 30, 2026. The CIP rate structure supports projects at the WWTP, NRPS, and RPS through direct charges for the respective cost centers. For the fiscal year ending June 30, 2026, the Authority budgeted \$1,591,800 in CIP direct charge funded expenditures. The CIP budget includes the following projects of significance:

- SCADA PLC/HMI Project – Phase II: Equipment and Installation
- Motor Control Center (MCC) No. 6 A-Side Feeder Replacement: Construction
- Secondary Clarifier Mechanism Replacement – Phase II: Equipment and Installation
- Pump Station Force Main Evaluation – Phase II
- NRPS and RPS Hurricane Helene Recovery & Resiliency – Evaluation and Design

Financial Goals for the Next Fiscal Year

The Authority will endeavor to meet the policies identified and approved within the Authority's Financial Policy. These policies include the requirements outlined within the Debt Policy, Reserve Policy, Capital Budget Policy, and Investment Policies. The Authority strives to provide excellent service to our member jurisdictions, ensure sustainable growth, while minimizing the impacts of rate changes. To that end, staff continue to evaluate the operation of its facilities, optimize fund usage and cost-saving measures where applicable, and improve planning efforts. While the Authority remains dedicated to minimizing the impacts of rate changes to its members, where possible, it is anticipated that modest rate increases in future budgets may be necessary to fund the ever-increasing costs to operate, maintain, and improve the Authority's treatment facilities and processes.

REQUESTS FOR INFORMATION

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, or email at rhendrix@pfrwta.com.

Basic Financial Statements

Pepper's Ferry Regional Wastewater Treatment Authority
Statement of Net Position
At June 30, 2025

ASSETS

Current Assets:

Cash and cash equivalents	\$	4,411,466
Accounts receivable - members		544,053
Accounts receivable - others		81,010
Due from other governments		112,338
Total current assets	\$	5,148,867

Noncurrent Assets:

Net OPEB asset	\$	5,259
Capital assets, net of depreciation		22,097,576
Total noncurrent assets	\$	22,102,835

Total assets **\$** **27,251,702**

DEFERRED OUTFLOWS OF RESOURCES

Pension related items	\$	473,476
OPEB related items		23,675
Total deferred outflows of resources	\$	497,151

LIABILITIES

Current Liabilities:

Accounts payable and accrued liabilities	\$	202,621
Construction payables		17,516
Payroll liabilities		63,910
Interest payable		49,946
Compensated absences - current portion		31,006
Revenue bonds - current portion		597,514
Total current liabilities	\$	962,513

Noncurrent Liabilities:

Compensated absences - net of current portion	\$	279,057
Net OPEB liability		65,170
Net pension liability		1,281,927
Revenue bonds - net of current portion		9,391,589
Total noncurrent liabilities	\$	11,017,743

Total liabilities **\$** **11,980,256**

DEFERRED INFLOWS OF RESOURCES

Pension related items	\$	126,220
OPEB related items		24,658
Total deferred inflows of resources	\$	150,878

NET POSITION

Net investment in capital assets	\$	12,090,957
Restricted - OPEB		5,259
Unrestricted		3,521,503
Total net position	\$	15,617,719

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

Pepper's Ferry Regional Wastewater Treatment Authority
Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended June 30, 2025

Operating Revenues:	
Charges for Services:	
Member service charges	\$ 5,851,925
Debt service charges	697,300
Other	464,897
Total operating revenues	\$ <u>7,014,122</u>
Operating Expenses:	
Salaries and wages	\$ 1,985,604
Payroll taxes	145,754
Employee benefits	745,530
Chemical supplies	130,534
Computer expenses	22,862
Dues, licenses, taxes, and subscriptions	25,224
Electricity	528,119
Equipment rental	1,621
Food, travel, and lodging	11,777
Fuel and fluids	22,443
Insurance and bonding	103,849
Office supplies, postage, and advertising	14,824
Other materials and supplies	26,322
Professional fees	658,004
Repairs and maintenance	208,887
Telephone and communications	15,447
Training and education	7,907
Water	74,874
Biosolid disposal	86,624
Other operating costs	12,418
Depreciation	1,868,406
Total operating expenses	\$ <u>6,697,030</u>
Operating income (loss)	\$ <u>317,092</u>
Nonoperating Revenues (Expenses):	
Interest income	\$ 123,800
Interest expense	(101,378)
Grant revenue	112,338
Insurance recoveries	159,172
Gain (Loss) on disposal of assets	(80,874)
Total nonoperating revenues (expenses)	\$ <u>213,058</u>
Special and Extraordinary items	
Extraordinary item - asset impairment loss (see Note 13)	<u>(162,197)</u>
Change in net position	\$ 367,953
Net position, beginning of year, as previously reported	\$ 15,362,997
Restatement	(113,231)
Net position, beginning of year, as restated	<u>\$ 15,249,766</u>
Net position, end of year	<u><u>\$ 15,617,719</u></u>

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

Pepper's Ferry Regional Wastewater Treatment Authority
Statement of Cash Flows
For the Year Ended June 30, 2025

Cash flows from operating activities:	
Receipts from customers and users	\$ 6,792,169
Payments to suppliers	(1,820,041)
Payments to employees and retirees	<u>(2,771,051)</u>
Net cash provided by (used for) operating activities	\$ <u>2,201,077</u>
Cash flows from noncapital and related financing activities:	
Insurance proceeds related to Hurricane Helene recovery	<u>\$ 159,172</u>
Cash flows from capital and related financing activities:	
Purchase and construction of capital assets	\$ (1,681,800)
Principal payments on bonds	(592,959)
Proceeds from sale of capital assets	15,300
Interest expense	<u>(104,342)</u>
Net cash provided by (used for) capital and related financing activities	\$ <u>(2,363,801)</u>
Cash flow from investing activities:	
Interest income	<u>\$ 123,800</u>
Net increase (decrease) in cash and cash equivalents	\$ 120,248
Cash and cash equivalents at beginning of year	<u>4,291,218</u>
Cash and cash equivalents at end of year	<u><u>\$ 4,411,466</u></u>
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:	
Operating income (loss)	\$ 317,092
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:	
Depreciation	1,868,406
Changes in operating assets, deferred outflows of resources, liabilities, and deferred inflows of resources:	
(Increase) decrease in accounts receivable	(221,953)
(Increase) decrease in net OPEB assets	(5,259)
(Increase) decrease in deferred outflows of resources	(126,819)
Increase (decrease) in accounts payable and accrued liabilities	131,695
Increase (decrease) in payroll liabilities	18,736
Increase (decrease) in compensated absences	43,746
Increase (decrease) in net OPEB liabilities	(3,688)
Increase (decrease) in net pension liability	133,031
Increase (decrease) in deferred inflows of resources	<u>46,090</u>
Net cash provided by (used for) operating activities	\$ <u><u>2,201,077</u></u>
Schedule of non-cash capital and related financing activities:	
Purchase of property, plant and equipment included in construction payables	\$ 17,516
Purchase of property, plant and equipment included in prior year construction payables	(113,083)

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

PEPPER'S FERRY REGIONAL WASTEWATER TREATMENT AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
AS OF JUNE 30, 2025

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The financial statements of the Authority conform to generally accepted accounting principles (GAAP) applicable to governmental units promulgated by the Governmental Accounting Standards Board (GASB). The following is a summary of the more significant policies:

A. Financial Reporting Entity

The 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 of or will be owned and operated by the six Members. The Regional Facility and the Collection Facilities are known collectively as the System.

The Governmental Accounting Standards Board (GASB) has determined that, under certain circumstances, related organizations should be considered component units of a primary entity and, as such, reported as part of the primary entity. In so doing, GASB established criteria for determining whether a related entity should be reported as a component unit and, under different circumstances, how component units must be presented. In defining the Authority as a primary reporting entity, related organizations were evaluated for possible inclusion, using the criteria established by the GASB. The criteria would require the reporting entity to include entities that hold resources entirely or almost entirely for the direct benefit of the Authority where the Authority has the ability to access a majority of those resources and those resources are significant to the Authority. Based on these criteria, the Authority does not have any component units, nor is the Authority considered a component unit of any of the participating jurisdictions. Therefore, these financial statements are for the primary entity only.

B. Financial Statement Presentation

The Authority follows the business-type activities requirements of current financial statement guidance, which provides that the following sections be included in the annual financial report:

1. Management 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 the financial statements
4. Required supplementary information

C. Basis of Accounting

For financial reporting purposes, the Pepper's Ferry Regional Wastewater Treatment Authority is considered a special-purpose government, engaged only in business-type activities. Accordingly, the Authority's financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. All significant intra-agency transactions have been eliminated.

PEPPER'S FERRY REGIONAL WASTEWATER TREATMENT AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
AS OF JUNE 30, 2025

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

D. Proprietary Fund Revenue and Expense Classifications

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.

Nonoperating revenues include activities that have the characteristics of nonexchange transactions, including gifts, and other revenue sources that are defined as nonoperating revenues, such as state appropriations and interest and other investment income.

Nonoperating expenses include interest on debt related to the purchase of capital assets and losses on the disposal of capital assets. All other expenses are classified as operating expenses.

E. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position includes a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net assets that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The Authority has one type of item that qualifies for reporting in this category comprised of certain items related to pension and OPEB. For more detailed information on these items, reference the related notes.

In addition to liabilities, the statement of financial position includes a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net assets that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Authority has one type of item that qualifies for reporting in this category comprised of items related to pension and OPEB. For more detailed information on these items, reference the related notes.

F. Net Position

The Statement of Net Position reports the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources as net position.

The Authority's net position is classified as follows:

Net Investment in Capital Assets - This category represents the net value of capital assets (property, plant, and equipment less accumulated depreciation) reduced by the debt incurred to acquire or construct the asset. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are also included in the component of net position.

Restricted- This category includes resources for which the Authority is legally or contractually obligated to spend in accordance with restrictions imposed by external parties.

Unrestricted - Unrestricted net position represents resources derived from charges to customers for goods received, services rendered or privileges provided, operating grants and contributions, and capital grants and contributions. These resources are used for transactions relating to the operations of the Authority and may be used at the Authority's discretion to meet current expenses for any lawful purposes.

Sometimes the Authority will fund outlays for a particular purpose from both restricted 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.

PEPPER'S FERRY REGIONAL WASTEWATER TREATMENT AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
AS OF JUNE 30, 2025

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

G. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, 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 \$5,000 (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 the asset's life are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Land and construction in progress are not depreciated. Property, plant, equipment, and infrastructure are depreciated using the straight-line method over the following estimated useful lives:

<u>Asset</u>	<u>Years</u>
Trucks and other vehicles	4-12
Equipment	3-20
Infrastructure	30
Buildings and improvements	20-30

H. Use of Estimates

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

I. Compensated Absences

The Authority recognizes a liability for compensated absences for leave time that (1) has been earned for services previously rendered by employees, (2) accumulates and is allowed to be carried over to subsequent years, and (3) is more likely than not to be used as time off or settled (for example paid in cash to the employee or payment to an employee flex spending account) during or upon separation from employment. Based on the criteria listed, two types of leave qualify for liability recognition for compensated absences - vacation and sick leave. The liability for compensated absences is reported as incurred in the financial statements. The liability for compensated absences includes salary-related benefits, where applicable.

Vacation

The Authority's policy allows employees to accumulate limited leave that may be earned until retirement or termination. Employees are paid for accumulated unused compensated absence balances upon termination of their employment up to the amount of maximum carryover for the employee's years of service.

Employees of the Authority earn annual leave as follows:

<u>Years of Service</u>	<u>Earning Rate</u>	<u>Carryover maximum</u>
Date of hire - 5 years	8 hours/month	192 hours at end of calendar year
5+ years - 10 years	10 hours/month	240 hours at end of calendar year
10+ years	12 hours/month	288 hours at end of calendar year
15+ years	14 hours/month	336 hours at end of calendar year

PEPPER'S FERRY REGIONAL WASTEWATER TREATMENT AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
AS OF JUNE 30, 2025

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

I. Compensated Absences (Continued)

Sick Leave

The Authority's policy permits employees to accumulate earned but unused sick leave. Sick leave is earned at a rate of eight (8) hours per month prorated in the same manner as annual leave. Sick leave may be accumulated up to a maximum of 1,440 hours (180) days. Employees in good standing will be paid twenty-five percent (25%) of the value of unused sick leave up to a maximum amount of five thousand dollars (\$5,000) upon termination. In addition, a liability for estimated value of sick leave that will be used by employees as time off is included in the liability for compensated absences.

Employees of the Authority earn sick leave as follows:

<u>Years of Service</u>	<u>Earning Rate</u>	<u>Carryover maximum</u>
Date of hire - 5 years	8 hours/month	180 work days at end of calendar year
5+ years	10 hours/month	180 work days at end of calendar year

J. Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, amounts in demand deposits, and short-term investments with a maturity date within three months of the date acquired by the government. For purposes of the statement of cash flows, the government's proprietary funds consider their demand deposits and all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

K. Accounts Receivable

Accounts receivable are recorded at the invoiced amount and do not bear interest. Primary customers of the Authority consist of the City of Radford, Town of Pulaski, Town of Dublin, County of Pulaski, Montgomery County Public Service Authority, and Pulaski County Sewerage Authority. Accounts receivable are reported at the amount management expects to collect from the outstanding balances. Thus, accounts receivable are stated at face value less an allowance for uncollectible accounts. The Authority calculates its allowance for uncollectible accounts using historical collection data and specific account analysis. Management considers all accounts receivable to be fully collectible at June 30, 2025, therefore no allowance for uncollectible accounts has been established.

L. Prepaid Items

Certain payments to vendors represent costs applicable to future accounting periods and are recorded as prepaid items. The cost of prepaid items is recorded as an expense when consumed rather than when purchased.

M. 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 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.

In 2013, The Authority's Board of Directors elected to partially fund the net pension liability through a savings account as funds and rate structures allow. At June 30, 2025, the established reserve offset account balance is \$597,595. At June 30, 2025, the net pension liability exceeds the reserve offset account balance by an amount of \$684,332.

PEPPER'S FERRY REGIONAL WASTEWATER TREATMENT AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
AS OF JUNE 30, 2025

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

N. Other Postemployment Benefits (OPEB)

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 and HIC OPEB Plans and the additions to/deductions from the VRS OPEB Plans' fiduciary net 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 2 - DEPOSITS AND INVESTMENTS:

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.

Statutes authorize local governments and other public bodies to invest in obligations of the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, obligations of the International Bank for Reconstruction and Development (World Bank), the Asian Development Bank, the African Development Bank, "prime quality" commercial paper that has received at least two of the following ratings: P-1 by Moody's Investors Service, Inc.; A-1 by Standard & 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).

Cash and cash equivalents at June 30, 2025 consisted of bank accounts as follows:

Plant operations and maintenance	\$	766,641
Treatment plant, capital improvements projects		1,468,764
Bond fund		354,282
Sulfate corrosion fund		108,457
Treatment plant reserves		119,761
Radford Pump Station reserves		30,178
New River Pump Station reserves		114,873
Retirement Net Pension Liability reserve offset		597,595
Operating reserve		850,915
Total cash and cash equivalents	\$	<u>4,411,466</u>

PEPPER'S FERRY REGIONAL WASTEWATER TREATMENT AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
AS OF JUNE 30, 2025

NOTE 3 -MEMBER TRANSACTIONS:

The Authority receives the majority of its operating revenues from charges to its members. Gross member transactions are summarized as follows for the year ended June 30, 2025:

	Accounts	
	Receivable	Revenues
Town of Pulaski	\$ 230,420	\$ 2,844,599
City of Radford	171,929	2,028,788
Montgomery County Public Service Authority	19,304	215,663
Pulaski County Public Service Authority	71,411	849,739
Pulaski County Sewerage Authority	23,241	268,904
Town of Dublin	27,748	341,532
Total	<u>\$ 544,053</u>	<u>\$ 6,549,225</u>

NOTE 4 - CAPITAL ASSETS:

A summary of changes in capital assets for the year follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land	\$ 441,841	\$ -	\$ -	\$ 441,841
Construction in progress	<u>1,067,417</u>	<u>1,136,656</u>	<u>(1,370,260)</u>	<u>833,813</u>
Total capital assets, not being depreciated	<u>\$ 1,509,258</u>	<u>\$ 1,136,656</u>	<u>\$ (1,370,260)</u>	<u>\$ 1,275,654</u>
Capital assets, being depreciated:				
Buildings and Improvements	\$ 21,189,106	\$ 9,771	\$ (89,674)	\$ 21,109,203
Equipment	4,759,860	119,061	(258,537)	4,620,384
Trucks and other vehicles	380,457	38,210	-	418,667
Infrastructure	<u>34,263,216</u>	<u>1,652,795</u>	<u>(185,128)</u>	<u>35,730,883</u>
Total capital assets being depreciated	<u>\$ 60,592,639</u>	<u>\$ 1,819,837</u>	<u>\$ (533,339)</u>	<u>\$ 61,879,137</u>
Accumulated depreciation:				
Buildings and Improvements	\$ (17,270,674)	\$ (347,505)	\$ 89,674	\$ (17,528,505)
Equipment	(4,108,567)	(57,872)	170,186	(3,996,253)
Trucks and other vehicles	(228,111)	(28,853)	-	(256,964)
Infrastructure*	<u>(17,856,425)</u>	<u>(1,596,373)</u>	<u>177,305</u>	<u>(19,275,493)</u>
Total accumulated depreciation	<u>\$ (39,463,777)</u>	<u>\$ (2,030,603)</u>	<u>\$ 437,165</u>	<u>\$ (41,057,215)</u>
Capital assets, net	<u>\$ 21,128,862</u>	<u>\$ (210,766)</u>	<u>\$ (96,174)</u>	<u>\$ 20,821,922</u>
Total capital assets-business type activities	<u>\$ 22,638,120</u>	<u>\$ 925,890</u>	<u>\$ (1,466,434)</u>	<u>\$ 22,097,576</u>

*Increase in depreciation includes an asset impairment of \$162,197.

PEPPER'S FERRY REGIONAL WASTEWATER TREATMENT AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
AS OF JUNE 30, 2025

NOTE 5 - LONG-TERM OBLIGATIONS:

The following is a summary of long-term obligation transactions of the Authority for the year ended June 30, 2025:

	Balance July 1, 2024	Restatement	Increases/ Issuances	Decreases/ Retirements	Balance June 30, 2025	Due Within One Year
Direct Borrowings:						
VRA - Series 2018 Bond	\$ 10,582,062	\$ -	\$ -	\$ (592,959)	\$ 9,989,103	\$ 597,514
Compensated absences*	153,086	113,231	43,746	-	310,063	31,006
Net pension liability	1,148,896	-	948,849	(815,818)	1,281,927	-
Net OPEB liabilities	68,858	-	40,327	(44,015)	65,170	-
Total	\$ 11,952,902	\$ 113,231	\$ 1,032,922	\$ (1,452,792)	\$ 11,646,263	\$ 628,520

Annual requirements to amortize long-term obligations and the related interest are as follows:

Year Ending June 30,	Direct Borrowings	
	Revenue Bonds	
	Principal	Interest
2026	\$ 597,514	99,786
2027	603,587	93,713
2028	609,722	87,578
2029	615,692	81,609
2030	622,178	75,123
2031-2035	3,206,888	279,613
2036-2040	3,373,292	113,209
2041	360,230	1,835
Totals	\$ 9,989,103	832,466

PEPPER'S FERRY REGIONAL WASTEWATER TREATMENT AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
AS OF JUNE 30, 2025

NOTE 5 - LONG-TERM OBLIGATIONS: (CONTINUED)

Details of long-term indebtedness:

	<u>Interest Rates</u>	<u>Issue Date</u>	<u>Final Maturity Date</u>	<u>Amount of Original Issue</u>	<u>Balance Outstanding</u>	<u>Amount Due Within One Year</u>
Direct Borrowings:						
Revenue Bonds:						
VRA - Series 2018 Bond (sa+)	1%	10/10/2018	2041	\$ 12,840,000	\$ 9,989,103	\$ 597,514
Other Obligations:						
Compensated absences					\$ 310,063	\$ 31,006
Net pension liability					1,281,927	-
Net OPEB liabilities					65,170	-
Total Other Obligations					\$ 1,657,160	\$ 31,006
Total Long-Term Obligations					\$ 11,646,263	\$ 628,520

sa+ = semi-annual payments of principal and interest

The revenue bonds are subject to a pledge of the system generated revenues. The revenues as received by the Authority are immediately subject to the lien of this pledge. Further, the Authority has agreed to fix and collect rates, fees, and other charges for the services as provided by the system so that each year the net revenues available for debt service will equal at least 100% of the amount required to pay the principal and interest costs of the bonds. The Authority agrees to monitor rates and immediately take action to increase its rates or reduce operation expenses if it fails to satisfy such requirements.

Events of default on the above revenue bonds include failure to pay any payment of principal or interest due under the agreement, failure to fund the required reserve funds, or failing to observe any other covenant including the above net revenue requirement.

In the event of default for the revenue bonds, at the discretion of the lender, all amounts owed under the bonds at the time of default, including principal, interest, and all other fees will become immediately due and payable. In addition, the lender may take any and all actions available to it under the laws of the Commonwealth of Virginia, including Section 62.1-216.1 of the Code of Virginia, to secure payment of the principal and interest of the bonds if such payment shall not be paid when it becomes due and payable.

PEPPER'S FERRY REGIONAL WASTEWATER TREATMENT AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
AS OF JUNE 30, 2025

NOTE 6 - PENSION PLAN:

Plan Description

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

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 with a membership date 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 or age 50 with at least 10 years of service credit.
- b. Employees with a membership date from July 1, 2010 to December 31, 2013, that have not taken a refund or employees with a membership date prior to July 1, 2010 and not vested before 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 with a membership date 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.

PEPPER'S FERRY REGIONAL WASTEWATER TREATMENT AUTHORITY
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 AS OF JUNE 30, 2025

NOTE 6 - PENSION PLAN: (CONTINUED)

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, 1.85% for sheriffs and regional jail superintendents. 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, 1.85% for sheriffs and regional jail superintendents. 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 Code of Virginia, as amended, assigns the authority to establish and amend benefit provisions to the General Assembly of Virginia.

Employees Covered by Benefit Terms

As of the June 30, 2023 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

	<u>Number</u>
Inactive members or their beneficiaries currently receiving benefits	20
Inactive members:	
Vested inactive members	2
Non-vested inactive members	12
Inactive members active elsewhere in VRS	<u>6</u>
Total inactive members	40
Active members	<u>22</u>
Total covered employees	<u><u>62</u></u>

PEPPER'S FERRY REGIONAL WASTEWATER TREATMENT AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
AS OF JUNE 30, 2025

NOTE 6 - PENSION PLAN: (CONTINUED)

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.

The Authority's contractually required employer contribution rate for the year ended June 30, 2025 was 14.04% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2023.

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 \$245,468 and \$174,895 for the years ended June 30, 2025 and June 30, 2024, respectively.

The defined contributions component of the Hybrid plan includes member and employer mandatory and voluntary contributions. The Hybrid plan member must contribute a mandatory rate of 1% of their covered payroll. The employer must also contribute a mandatory rate of 1% of this covered payroll, which totaled \$3,773 for the year ended June 30, 2025. Hybrid plan members may also elect to contribute an additional voluntary rate of up to 4% of their covered payroll; which would require the employer a mandatory additional contribution rate of up to 2.5%. This additional employer mandatory contribution totaled \$7,526 for the year ended June 30, 2025. The total Hybrid plan participant covered payroll totaled \$375,728 for the year ended June 30, 2025.

Net Pension Liability

The net pension liability (NPL) 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 Authority, the net pension liability was measured as of June 30, 2024. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2023, rolled forward to the measurement date of June 30, 2024.

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, 2023, 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, 2024.

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

**PEPPER'S FERRY REGIONAL WASTEWATER TREATMENT AUTHORITY
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 AS OF JUNE 30, 2025**

NOTE 6 - PENSION PLAN: (CONTINUED)

Actuarial Assumptions - General Employees (Continued)

Mortality rates:

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

Pre-Retirement:

Pub-2010 Amount Weighted Safety Employee Rates projected generationally; 95% of rates for males; 105% of rates for females set forward 2 years

Post-Retirement:

Pub-2010 Amount Weighted Safety Healthy Retiree Rates projected generationally; 110% of rates for males; 105% of rates for females set forward 3 years

Post-Disablement:

Pub-2010 Amount Weighted General Disables Rates projected generationally; 95% of rates for males set back 3 years; 90% of rates for females set back 3 years

Beneficiaries and Survivors:

Pub-2010 Amount Weighted Safety Contingent Annuitant Rates projected generationally; 110% of rates for males and females set forward 2 years

Mortality Improvement:

Rates projected generationally with Modified MP-2020 Improvement Scale that is 75% of the MP-2020 rates

The actuarial assumptions used in the June 30, 2023 valuation were based on the results of an actuarial experience study for the period from July 1, 2016 through June 30, 2020. 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)	Update to Pub-2010 public sector mortality tables. For future mortality improvements, replace load with a modified Mortality Improvement Scale MP-2020
Retirement Rates	Adjusted rates to better fit experience for Plan 1; set separate rates based on experience for Plan 2/Hybrid; changed final retirement age
Withdrawal Rates	Adjusted rates to better fit experience at each age and service decrement through 9 years of service
Disability Rates	No change
Salary Scale	No change
Line of Duty Disability	No change
Discount Rate	No change

PEPPER'S FERRY REGIONAL WASTEWATER TREATMENT AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
AS OF JUNE 30, 2025

NOTE 6 - 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)	Long-Term Target Asset Allocation	Arithmetic Long-term Expected Rate of Return	Weighted Average Long-term Expected Rate of Return*
Public Equity	32.00%	6.70%	2.14%
Fixed Income	16.00%	5.40%	0.86%
Credit Strategies	16.00%	8.10%	1.30%
Real Assets	15.00%	7.20%	1.08%
Private Equity	15.00%	8.70%	1.31%
PIP - Private Investment Partnerships	1.00%	8.00%	0.08%
Diversifying Strategies	6.00%	5.80%	0.35%
Cash	2.00%	3.00%	0.06%
Leverage	-3.00%	3.50%	-0.11%
Total	100.00%		7.07%
		Expected arithmetic nominal return**	7.07%

* The above allocation provides a one-year expected return of 7.07% (includes 2.50% inflation assumption). 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. These results provide a range of returns over various time periods that ultimately provide a median return of 7.10%, including expected inflation of 2.50%.

**On June 15, 2023, the VRS Board elected a long-term rate of return of 6.75% which was roughly at the 45th percentile of expected long-term results of the VRS fund asset allocation at that time, providing a median return of 7.14%, including expected inflation of 2.50%.

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.

PEPPER'S FERRY REGIONAL WASTEWATER TREATMENT AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
AS OF JUNE 30, 2025

NOTE 6 - PENSION PLAN: (CONTINUED)

Discount Rate: (Continued)

For the year ended June 30, 2024, the employer contribution rate was 100% of the actuarially determined employer contribution rate from the June 30, 2023 actuarial valuations. From July 1, 2024 on, participating employers are 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 Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) - (b)
Balances at June 30, 2023	\$ 5,665,848	\$ 4,516,952	\$ 1,148,896
Changes for the year:			
Service cost	\$ 174,817	\$ -	\$ 174,817
Interest	385,911	-	385,911
Differences between expected and actual experience	256,631	-	256,631
Contributions - employer	-	174,895	(174,895)
Contributions - employee	-	72,016	(72,016)
Net investment income	-	440,108	(440,108)
Benefit payments, including refunds	(246,930)	(246,930)	-
Administrative expenses	-	(2,787)	2,787
Other changes	-	96	(96)
Net changes	\$ 570,429	\$ 437,398	\$ 133,031
Balances at June 30, 2024	\$ 6,236,277	\$ 4,954,350	\$ 1,281,927

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

The following presents the net pension liability of the Authority using the discount rate of 6.75%, as well as what the Authority's net pension 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 (5.75%)	Current Discount (6.75%)	1% Increase (7.75%)
Authority's Net Pension Liability	\$ 2,024,932	\$ 1,281,927	\$ 657,228

PEPPER'S FERRY REGIONAL WASTEWATER TREATMENT AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
AS OF JUNE 30, 2025

NOTE 6 - PENSION PLAN: (CONTINUED)

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

For the year ended June 30, 2025, the Authority recognized pension expense of \$300,703. At June 30, 2025, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 228,008	\$ -
Net difference between projected and actual earnings on pension plan investments	-	126,220
Employer contributions subsequent to the measurement date	<u>245,468</u>	<u>-</u>
Total	<u>\$ 473,476</u>	<u>\$ 126,220</u>

\$245,468 reported as deferred outflows of resources related to pensions resulting from the Authority's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the fiscal year ending June 30, 2026. 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:

<u>Year Ended June 30</u>	
2026	\$ 54,159
2027	99,817
2028	(25,127)
2029	(27,061)
2030	-
Thereafter	-

Pension Plan Data

Information about the VRS Political Subdivision Retirement Plan is also available in the separately issued VRS 2024 Annual Comprehensive Financial Report (Annual Report). A copy of the 2024 VRS Annual Report may be downloaded from the VRS website at <http://www.varetire.org/pdf/publications/2024-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA 23218-2500.

PEPPER'S FERRY REGIONAL WASTEWATER TREATMENT AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
AS OF JUNE 30, 2025

NOTE 7 - HEALTH INSURANCE CREDIT (HIC) PLAN (OPEB PLAN):

Plan Description

The Political Subdivision Health Insurance Credit (HIC) Plan was established pursuant to §51.1-1400 et seq. of the Code of Virginia, as amended, and which provides the authority under which benefit terms are established or may be amended. All full-time, salaried permanent employees of participating political subdivisions are automatically covered by the VRS Political Subdivision HIC Plan upon employment. This is an agent multiple-employer plan administered by the Virginia Retirement System (the System), along with pension and other OPEB plans, for public employer groups in the Commonwealth of Virginia. Members earn one month of service credit toward the benefit for each month they are employed and for which their employer pays contributions to VRS. The HIC is a tax-free reimbursement in an amount set by the General Assembly for each year of service credit against qualified health insurance premiums retirees pay for single coverage, excluding any portion covering the spouse or dependents. The credit cannot exceed the amount of the premiums and ends upon the retiree's death.

The specific information about the Political Subdivision HIC Plan OPEB, including eligibility, coverage and benefits is set out in the table below:

Eligible Employees

The Political Subdivision Retiree HIC Plan was established July 1, 1993 for retired political subdivision employees of employers who elect the benefit and retire with at least 15 years of service credit. Eligible employees include full-time permanent salaried employees of the participating political subdivision who are covered under the VRS pension plan. These employees are enrolled automatically upon employment.

Benefit Amounts

The Political Subdivision Retiree HIC Plan is a defined benefit plan that provides a credit toward the cost of health insurance coverage for retired political subdivision employees of participating employers. For employees who retire, the monthly benefit is \$1.50 per year of service per month with a maximum benefit of \$45.00 per month. For employees who retire on disability or go on long-term disability under the Virginia Local Disability Program (VLDP), the monthly benefit is \$45.00 per month.

HIC Plan Notes

The monthly HIC benefit cannot exceed the individual premium amount. There is no HIC for premiums paid and qualified under LODA; however, the employee may receive the credit for premiums paid for other qualified health plans. Employees who retire after being on long-term disability under VLDP must have at least 15 years of service credit to qualify for the HIC as a retiree.

**PEPPER'S FERRY REGIONAL WASTEWATER TREATMENT AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
AS OF JUNE 30, 2025**

NOTE 7 - HEALTH INSURANCE CREDIT (HIC) PLAN (OPEB PLAN): (CONTINUED)

Employees Covered by Benefit Terms

As of the June 30, 2023 actuarial valuation, the following employees were covered by the benefit terms of the HIC OPEB plan:

	<u>Number</u>
Inactive members or their beneficiaries currently receiving benefits	9
Inactive members:	
Inactive members active elsewhere in VRS	4
Total inactive members	<u>13</u>
Active members	<u>22</u>
Total covered employees	<u><u>35</u></u>

Contributions

The contribution requirements for active employees is governed by §51.1-1402(E) 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. The Authority contractually required employer contribution rate for the year ended June 30, 2025 was 0.09% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2023. The actuarially determined rate 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 from the Authority to the HIC Plan were \$1,574 and \$4,651 for the years ended June 30, 2025 and June 30, 2024, respectively.

Net HIC OPEB Liability/(Asset)

The Authority's net HIC OPEB liability/(asset) was measured as of June 30, 2024. The total HIC OPEB liability was determined by an actuarial valuation performed as of June 30, 2023, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2024.

Actuarial Assumptions

The total HIC OPEB liability was based on an actuarial valuation as of June 30, 2023, 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, 2024

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

**PEPPER'S FERRY REGIONAL WASTEWATER TREATMENT AUTHORITY
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 AS OF JUNE 30, 2025**

NOTE 7 - HEALTH INSURANCE CREDIT (HIC) PLAN (OPEB PLAN): (CONTINUED)

Actuarial Assumptions: (Continued)

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

Pre-Retirement:

Pub-2010 Amount Weighted Safety Employee Rates projected generationally; 95% of rates for males; 105% of rates for females set forward 2 years

Post-Retirement:

Pub-2010 Amount Weighted Safety Healthy Retiree Rates projected generationally; 110% of rates for males; 105% of rates for females set forward 3 years

Post-Disablement:

Pub-2010 Amount Weighted General Disabled Rates projected generationally; 95% of rates for males set back 3 years; 90% of rates for females set back 3 years

Beneficiaries and Survivors:

Pub-2010 Amount Weighted Safety Contingent Annuitant Rates projected generationally; 110% of rates for males and females set forward 2 years

Mortality Improvement Scale:

Rates projected generationally with Modified MP-2020 Improvement Scale that is 75% of the MP-2020 rates

The actuarial assumptions used in the June 30, 2023 valuation were based on the results of an actuarial experience study for the period from July 1, 2016 through June 30, 2020. 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)	Update to Pub-2010 public sector mortality tables. For future mortality improvements, replace load with a modified Mortality Improvement Scale MP-2020
Retirement Rates	Adjusted rates to better fit experience for Plan 1; set separate rates based on experience for Plan 2/Hybrid; changed final retirement age from 75 to 80 for all
Withdrawal Rates	Adjusted rates to better fit experience at each age and service decrement through 9 years of service
Disability Rates	No change
Salary Scale	No change
Line of Duty Disability	No change
Discount Rate	No change

**PEPPER'S FERRY REGIONAL WASTEWATER TREATMENT AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
AS OF JUNE 30, 2025**

NOTE 7 - HEALTH INSURANCE CREDIT (HIC) 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)	Long-Term Target Asset Allocation	Arithmetic Long-term Expected Rate of Return	Weighted Average Long-term Expected Rate of Return*
Public Equity	32.00%	6.70%	2.14%
Fixed Income	16.00%	5.40%	0.86%
Credit Strategies	16.00%	8.10%	1.30%
Real Assets	15.00%	7.20%	1.08%
Private Equity	15.00%	8.70%	1.31%
PIP - Private Investment Partnerships	1.00%	8.00%	0.08%
Diversifying Strategies	6.00%	5.80%	0.35%
Cash	2.00%	3.00%	0.06%
Leverage	-3.00%	3.50%	-0.11%
Total	100.00%		7.07%
		Expected arithmetic nominal return**	7.07%

*The above allocation provides a one-year expected return of 7.07% (includes 2.50% inflation assumption). 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. These results provide a range of returns over various time periods that ultimately provide a median return of 7.10%, including expected inflation of 2.50%.

**On June 15, 2023, the VRS Board elected a long-term rate of return of 6.75% which was roughly at the 45th percentile of expected long-term results of the VRS fund asset allocation at that time, providing a median return of 7.14%, including expected inflation of 2.50%.

**PEPPER'S FERRY REGIONAL WASTEWATER TREATMENT AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
AS OF JUNE 30, 2025**

NOTE 7 - HEALTH INSURANCE CREDIT (HIC) PLAN (OPEB PLAN): (CONTINUED)

Discount Rate

The discount rate used to measure the total HIC OPEB liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made in accordance with the VRS funding policy at rate 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, 2024, the rate contributed by the entity for the HIC OPEB was 100% of the actuarially determined contribution rate. From July 1, 2024 on, employers are assumed to continue to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the HIC 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 HIC OPEB liability.

Changes in Net HIC OPEB Liability (Asset)

	Total HIC OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net HIC OPEB Liability (Asset) (a) - (b)
Balances at June 30, 2023	\$ 50,081	\$ 50,663	\$ (582)
Changes for the year:			
Service cost	1,161	-	1,161
Interest	3,354	-	3,354
Differences between expected and actual experiences	265	-	265
Contributions - employer	-	4,651	(4,651)
Net investment income	-	4,875	(4,875)
Benefit payments	(3,117)	(3,117)	-
Administrative expenses	-	(68)	68
Other changes	-	(1)	1
Net changes	1,663	6,340	(4,677)
Balances at June 30, 2024	\$ 51,744	\$ 57,003	\$ (5,259)

Sensitivity of the Pepper's Ferry Regional Wastewater Treatment Authority HIC Net OPEB Liability/(Asset) to Changes in the Discount Rate

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

	Rate		
	1% Decrease (5.75%)	Current Discount Rate (6.75%)	1% Increase (7.75%)
Authority's Net HIC OPEB Liability (Asset)	\$ (376)	\$ (5,259)	\$ (9,461)

**PEPPER'S FERRY REGIONAL WASTEWATER TREATMENT AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
AS OF JUNE 30, 2025**

NOTE 7 - HEALTH INSURANCE CREDIT (HIC) PLAN (OPEB PLAN): (CONTINUED)

HIC Plan OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to HIC Plan OPEB

For the year ended June 30, 2025, the Authority recognized HIC Plan OPEB expense of \$(4,666). At June 30, 2025, the Authority reported deferred outflows of resources and deferred inflows of resources related to the Authority's HIC Plan for the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 209	\$ 6,276
Change in actuarial assumptions	215	3,956
Net difference between projected and actual earnings on Political HIC OPEB plan investments	-	1,075
Employer contributions subsequent to the measurement date	<u>1,574</u>	<u>-</u>
Total	<u>\$ 1,998</u>	<u>\$ 11,307</u>

\$1,574 reported as deferred outflows of resources related to the HIC OPEB resulting from the Authority's contributions subsequent to the measurement date will be recognized as a reduction of the Net HIC OPEB Liability/(Asset) in the fiscal year ending June 30, 2026. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the HIC OPEB will be recognized in the HIC OPEB expense in future reporting periods as follows:

<u>Year ended June 30</u>	
2026	\$ (6,285)
2027	(3,555)
2028	(802)
2029	(241)
2030	-
Thereafter	-

HIC Plan Data

Information about the VRS Political Subdivision HIC Plan is available at the separately issued VRS 2024 Annual Comprehensive Financial Report (Annual Report). A copy of the 2024 VRS Annual Report may be downloaded from the VRS website at <http://www.varetire.org/pdf/publications/2024-annual-report.pdf> or by writing to the System's Chief Financial Officer at P.O Box 2500, Richmond, VA, 23218-2500.

PEPPER'S FERRY REGIONAL WASTEWATER TREATMENT AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
AS OF JUNE 30, 2025

NOTE 8 - 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 Code of Virginia, 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.

The specific information for GLI 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, seatbelt 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 adjustment calculation. The minimum benefit adjusted for the COLA was \$9,532 as of June 30, 2025.

Contributions

The contribution requirements for the GLI Plan are governed by §51.1-506 and §51.1-508 of the Code of Virginia, 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 1.18% of covered employee compensation. This was allocated into an employee and an employer component using a 60/40 split. The employee component was 0.71% (1.18% x 60%) and the employer component was 0.47% (1.18% x 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, 2025, was 0.47% of covered employee compensation. This rate was the final approved General Assembly rate, which was based on an actuarially determined rate from an actuarial valuation as of June 30, 2023. 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 Group Life Insurance Plan from the entity were \$8,217 and \$8,101 for the years ended June 30, 2025, and June 30, 2024, respectively.

PEPPER'S FERRY REGIONAL WASTEWATER TREATMENT AUTHORITY
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 AS OF JUNE 30, 2025

NOTE 8 - 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

At June 30, 2025, the entity reported a liability of \$65,170 for its proportionate share of the Net GLI OPEB Liability. The Net GLI OPEB Liability was measured as of June 30, 2024 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, 2023, and rolled forward to the measurement date of June 30, 2024. 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, 2024 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2024, the Authority's proportion was 0.00584% as compared to 0.00579% at June 30, 2023.

For the year ended June 30, 2025, the participating employer recognized GLI OPEB expense of \$2,578. 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, 2025, the employer reported deferred outflows of resources and deferred inflows of resources related to the GLI OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 10,279	\$ 1,592
Net difference between projected and actual earnings on GLI OPEB plan investments	-	5,493
Change in assumptions	371	3,230
Changes in proportionate share	2,810	3,036
Employer contributions subsequent to the measurement date	<u>8,217</u>	<u>-</u>
Total	<u>\$ 21,677</u>	<u>\$ 13,351</u>

**PEPPER'S FERRY REGIONAL WASTEWATER TREATMENT AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
AS OF JUNE 30, 2025**

NOTE 8 - 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)

\$8,217 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, 2026. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the GLI OPEB will be recognized in the GLI OPEB expense in future reporting periods as follows:

<u>Year Ended June 30</u>	
2026	\$ (2,242)
2027	1,334
2028	(600)
2029	515
2030	1,102
Thereafter	-

Actuarial Assumptions

The total GLI OPEB liability was based on an actuarial valuation as of June 30, 2023, 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, 2024.

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

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

Pre-Retirement:

Pub-2010 Amount Weighted Safety Employee Rates projected generationally; males set forward 2 years; 105% of rates for females set forward 3 years

Post-Retirement:

Pub-2010 Amount Weighted Safety Healthy Retiree Rates projected generationally; 95% of rates for males set forward 2 years; 95% of rates for females set forward 1 year

Post-Disablement:

Pub-2010 Amount Weighted General Disabled Rates projected generationally; 110% rates for males set forward 3 years; 110% of rates for females set forward 2 years

Beneficiaries and Survivors:

Pub-2010 Amount Weighted Safety Contingent Annuitant Rates projected generationally

Mortality Improvement:

Rates projected generationally with Modified MP-2020 Improvement Scale that is 75% of the MP-2020 rates

**PEPPER'S FERRY REGIONAL WASTEWATER TREATMENT AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
AS OF JUNE 30, 2025**

NOTE 8 - 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, 2023 valuation were based on the results of an actuarial experience study for the period from July 1, 2016 through June 30, 2020. 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)	Update to Pub-2010 public sector mortality tables. For future mortality improvements, replace load with a modified Mortality Improvement Scale MP-2020
Retirement Rates	Adjusted rates to better fit experience for Plan 1; set separate rates based on experience for Plan 2/Hybrid; changed final retirement age from 75 to 80 for all
Withdrawal Rates	Adjusted rates to better fit experience at each age and service decrement through 9 years of service
Disability Rates	No change
Salary Scale	No change
Line of Duty Disability	No change
Discount Rate	No change

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, 2024, NOL amounts for the GLI Plan are as follows:

	GLI OPEB Plan
	<u> </u>
Total GLI OPEB Liability	\$ 4,196,055
Plan Fiduciary Net Position	3,080,133
GLI Net OPEB Liability (Asset)	<u>\$ 1,115,922</u>
Plan Fiduciary Net Position as a Percentage of the Total GLI OPEB Liability	73.41%

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.

PEPPER'S FERRY REGIONAL WASTEWATER TREATMENT AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
AS OF JUNE 30, 2025

NOTE 8 - 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)	Long-Term Target Asset Allocation	Arithmetic Long-term Expected Rate of Return	Weighted Average Long-term Expected Rate of Return*
Public Equity	32.00%	6.70%	2.14%
Fixed Income	16.00%	5.40%	0.86%
Credit Strategies	16.00%	8.10%	1.30%
Real Assets	15.00%	7.20%	1.08%
Private Equity	15.00%	8.70%	1.31%
PIP - Private Investment Partnerships	1.00%	8.00%	0.08%
Diversifying Strategies	6.00%	5.80%	0.35%
Cash	2.00%	3.00%	0.06%
Leverage	-3.00%	3.50%	-0.11%
Total	100.00%		7.07%
		Expected arithmetic nominal return**	7.07%

*The above allocation provides a one-year expected return of 7.07% (includes 2.50% inflation assumption). 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. These results provide a range of returns over various time periods that ultimately provide a median return of 7.10%, including expected inflation of 2.50%.

**On June 15, 2023, the VRS Board elected a long-term rate of return of 6.75% which was roughly at the 45th percentile of expected long-term results of the VRS fund asset allocation at that time, providing a median return of 7.14%, including expected inflation of 2.50%.

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 and 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, 2024, 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 113% of the actuarially determined contribution rate. From July 1, 2024 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.

PEPPER'S FERRY REGIONAL WASTEWATER TREATMENT AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
AS OF JUNE 30, 2025

NOTE 8 - GROUP LIFE INSURANCE (GLI) PLAN (OPEB PLAN): (CONTINUED)

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%
The Authority's proportionate share of the GLI Plan Net OPEB Liability	\$ 101,348	\$ 65,170	\$ 35,943

GLI Plan Data

Detailed information about the GLI Plan's Fiduciary Net Position is available in the separately issued VRS 2024 Annual Comprehensive Financial Report (Annual Report). A copy of the 2024 VRS Annual Report may be downloaded from the VRS website at <http://www.varetire.org/pdf/publications/2024-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

NOTE 9 - OPEB SUMMARY INFORMATION:

	Authority				
	Deferred Outflows	Deferred Inflows	Net OPEB Asset	Net OPEB Liability	OPEB Expense
VRS OPEB Plans:					
GLI Plan	\$ 21,677	\$ 13,351	\$ -	\$ 65,170	\$ 2,578
HIC Plan	1,998	11,307	5,259	-	(4,666)
Totals	\$ 23,675	\$ 24,658	\$ 5,259	\$ 65,170	\$ (2,088)

NOTE 10- 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 Risk Sharing Insurance Association (VRSA), for its coverage of property damage and general liability. The VRSA 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.

NOTE 11 - LITIGATION:

As of June 30, 2025, there were no matters of litigation involving the Authority which would materially affect the Authority's financial position should any court decisions on pending matters not be favorable.

PEPPER'S FERRY REGIONAL WASTEWATER TREATMENT AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
AS OF JUNE 30, 2025

NOTE 12 - COMMITMENTS AND CONTINGENCIES:

At June 30, 2025, the Authority had the below outstanding contractual commitments:

Project	Amount of Contract	Amount of Contract Outstanding	Accounts Payable	Retainage Payable
Force Main Condition Assessment - Phase I	\$ 141,429	\$ 124,806	\$ 14,292	\$ -
SCADA HMI Upgrades	466,695	35,285	-	-
LSHT Mixing Project	126,353	5,360	9,894	-
Master Plan for the PFRWTA	350,977	52,989	49,518	-
MCC-6 Feeder Project	69,240	17,364	1,492	-
Grit Removal Upgrade Project	70,464	64,334	6,130	-
Total	\$ 1,225,158	\$ 300,138	\$ 81,326	\$ -

NOTE 13 - EXTRAORDINARY ITEM - ASSET IMPAIRMENT LOSS:

During the fiscal year, the remnants of Hurricane Helene caused flooding and significant damage to the New River Pump Station and Radford Pump Station. As a result of the damage, the Authority has recognized an asset impairment loss of \$162,197 to reduce the carrying value of those assets. The Authority received insurance proceeds from its flood and general insurance and those proceeds were used to make emergency repairs to the buildings and stabilize operations. While the facility is fully operational, it expects to receive significant additional insurance proceeds and grant awards to replace infrastructure that was submerged in the flood.

NOTE 14 - ADOPTION OF ACCOUNTING PRINCIPLE:

The Authority implemented provisions of the Governmental Accounting Standards Board Statement No. 101, *Compensated Absences*. The objective of Statement No. 101 is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. Beginning net position for the Authority was restated to include estimated sick leave to be used in compensated absences as part of implementation of Governmental Accounting Standards Board Statement No. 101, *Compensated Absences*.

Net position, as previously stated 6/30/2024	\$ 15,362,997
Implementation of GASB Statement 101	(113,231)
Net position, as restated 6/30/2024	<u>\$ 15,249,766</u>

NOTE 15 - SUBSEQUENT EVENTS:

The Authority submitted insurance claims related to damages caused by Hurricane Helene in July 2025 and received \$1,865,578 as a result of the insurance claims. These funds will be used to fund ongoing repairs to buildings and infrastructure.

In addition, the Authority is working with Virginia Department of Emergency Management and US FEMA to obtain grant funding to replace additional damaged equipment and infrastructure as well as related engineering costs. US FEMA has approved a grant in the amount of \$4,858,820 related to these costs. Finally, the Authority has an outstanding grant application with Virginia Department of Emergency Management in the amount of \$13,456,807 to further fund these necessary improvements for equipment and infrastructure that was underwater and not rated as submersible.

PEPPER'S FERRY REGIONAL WASTEWATER TREATMENT AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
AS OF JUNE 30, 2025

NOTE 16 - UPCOMING PRONOUNCEMENTS:

Statement No. 103, *Financial Reporting Model Improvements*, improves key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government's accountability. The requirements of this Statement are effective for fiscal year beginning after June 15, 2025.

Statement No. 104, *Disclosure of Certain Capital Assets*, requires certain types of assets (lease assets, subscription assets, intangible right-to-use assets, and other intangible assets) to be disclosed separately in the capital asset note disclosures by major class of underlying asset. It also requires additional disclosures for capital assets held for sale. The requirements of this Statement are effective for fiscal years beginning after June 15, 2025.

Implementation Guide No. 2025-1, *Implementation Guidance Update—2025*, effective for fiscal years beginning after June 15, 2025.

Management is currently evaluating the impact these standards will have on the financial statements when adopted.

Required Supplementary Information

Pepper's Ferry Regional Wastewater Treatment Authority
 Schedule of Changes in Net Pension Liability (Asset) and Related Ratios
 Pension Plan
 For the Measurement Dates of June 30, 2015 through June 30, 2024

	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
Total Pension Liability										
Service cost	\$ 174,817	\$ 160,793	\$ 147,047	\$ 142,112	\$ 119,986	\$ 99,404	\$ 99,252	\$ 126,074	\$ 126,823	\$ 131,743
Interest	385,911	350,751	339,476	290,804	279,432	258,023	253,611	243,290	226,731	204,669
Assumption changes	-	-	-	140,334	-	118,710	-	(43,469)	-	-
Difference between expected and actual experience	256,631	270,575	(37,809)	240,431	(25,767)	165,008	(130,787)	(34,118)	10,993	106,532
Benefit payments	(246,930)	(303,579)	(287,262)	(192,069)	(218,290)	(156,612)	(161,470)	(127,216)	(128,759)	(126,795)
Net change in pension liability	\$ 570,429	\$ 478,540	\$ 161,452	\$ 621,612	\$ 155,361	\$ 484,533	\$ 60,606	\$ 164,561	\$ 235,788	\$ 316,149
Total pension liability - beginning	5,665,848	5,187,308	5,025,856	4,404,244	4,248,883	3,764,350	3,703,744	3,539,183	3,303,395	2,987,246
Total pension liability - ending (a)	\$ 6,236,277	\$ 5,665,848	\$ 5,187,308	\$ 5,025,856	\$ 4,404,244	\$ 4,248,883	\$ 3,764,350	\$ 3,703,744	\$ 3,539,183	\$ 3,303,395
Plan Fiduciary Net Position										
Contributions - employer	\$ 174,895	\$ 161,892	\$ 137,203	\$ 135,508	\$ 98,684	\$ 94,151	\$ 100,924	\$ 104,799	\$ 122,768	\$ 119,563
Contributions - employee	72,016	65,528	62,654	61,958	58,312	55,485	48,881	53,936	55,883	54,633
Net investment income	440,108	279,057	(4,445)	950,666	65,318	217,823	224,415	329,961	47,114	113,188
Benefit payments	(246,930)	(303,579)	(287,262)	(192,069)	(218,290)	(156,612)	(161,470)	(127,216)	(128,759)	(126,795)
Administrator charges	(2,787)	(2,779)	(2,748)	(2,294)	(2,225)	(2,099)	(1,906)	(1,835)	(1,554)	(1,476)
Other	96	112	101	91	(78)	(138)	(544)	(696)	(20)	(24)
Net change in plan fiduciary net position	\$ 437,398	\$ 200,231	\$ (94,497)	\$ 953,860	\$ 1,721	\$ 208,610	\$ 210,300	\$ 358,949	\$ 95,432	\$ 159,089
Plan Fiduciary Net Position - beginning	4,516,952	4,316,721	4,411,218	3,457,358	3,455,637	3,247,027	3,036,727	2,677,778	2,582,346	2,423,257
Plan Fiduciary Net Position - ending (b)	\$ 4,954,350	\$ 4,516,952	\$ 4,316,721	\$ 4,411,218	\$ 3,457,358	\$ 3,455,637	\$ 3,247,027	\$ 3,036,727	\$ 2,677,778	\$ 2,582,346
Authority's net pension liability (asset) - ending (a) - (b)	\$ 1,281,927	\$ 1,148,896	\$ 870,587	\$ 614,638	\$ 946,886	\$ 793,246	\$ 517,323	\$ 667,017	\$ 861,405	\$ 721,049
Plan fiduciary net position as a percentage of the total pension liability	79.44%	79.72%	83.22%	87.77%	78.50%	81.33%	86.26%	81.99%	75.66%	78.17%
Covered payroll	\$ 1,500,261	\$ 1,363,165	\$ 1,292,532	\$ 1,275,504	\$ 1,194,673	\$ 1,137,284	\$ 999,122	\$ 1,077,329	\$ 1,126,536	\$ 1,096,227
Authority's net pension liability (asset) as a percentage of covered payroll	85.45%	84.28%	67.36%	48.19%	79.26%	69.75%	51.78%	61.91%	76.46%	65.78%

Pepper's Ferry Regional Wastewater Treatment Authority
Schedule of Employer Contributions
Pension Plan
For the Years Ended June 30, 2016 through June 30, 2025

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)
2025	\$ 245,468	\$ 245,468	\$ -	\$ 1,748,349	14.04%
2024	174,895	174,895	-	1,500,261	11.66%
2023	162,200	162,200	-	1,363,165	11.90%
2022	137,489	137,489	-	1,292,532	10.64%
2021	135,824	135,824	-	1,275,504	10.65%
2020	98,949	98,949	-	1,194,673	8.28%
2019	94,145	94,145	-	1,137,284	8.28%
2018	100,771	100,771	-	999,122	10.09%
2017	110,464	110,464	-	1,077,329	10.25%
2016	119,765	119,765	-	1,126,536	10.63%

* Excludes contributions (mandatory and match on voluntary) to the defined contribution portion of the Hybrid plan.

Pepper's Ferry Regional Wastewater Treatment Authority
Notes to Required Supplementary Information
Pension Plan
For the Year Ended June 30, 2025

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, 2023, valuation were based on the results of an actuarial experience study for the period from July 1, 2016, through June 30, 2020. 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)	Update to Pub-2010 public sector mortality tables. For future mortality improvements, replace load with a modified Mortality Improvement Scale MP-2020
Retirement Rates	Adjusted rates to better fit experience for Plan 1; set separate rates based on experience for Plan 2/Hybrid; changed final retirement age
Withdrawal Rates	Adjusted rates to better fit experience at each age and service decrement through 9 years of service
Disability Rates	No change
Salary Scale	No change
Line of Duty Disability	No change
Discount Rate	No change

Pepper's Ferry Regional Wastewater Treatment Authority
Schedule of Changes in the Authority's Net OPEB Liability (Asset) and Related Ratios
Health Insurance Credit (HIC) Plan
For the Measurement Dates of June 30, 2018 through June 30, 2024

	2024	2023	2022	2021	2020	2019	2018
Total HIC OPEB Liability							
Service cost	\$ 1,161	\$ 1,188	\$ 1,398	\$ 1,592	\$ 1,282	\$ 1,086	\$ 1,083
Interest	3,354	3,741	4,507	4,562	4,478	4,107	4,387
Differences between expected and actual experience	265	(7,326)	(3,014)	(5,769)	(858)	4,606	(5,866)
Changes in assumptions	-	-	(10,370)	1,131	-	1,349	-
Benefit payments	(3,117)	(3,506)	(3,814)	(3,650)	(3,650)	(3,308)	(3,904)
Net change in total HIC OPEB liability	\$ 1,663	\$ (5,903)	\$ (11,293)	\$ (2,134)	\$ 1,252	\$ 7,840	\$ (4,300)
Total HIC OPEB Liability - beginning	50,081	55,984	67,277	69,411	68,159	60,319	64,619
Total HIC OPEB Liability - ending (a)	\$ 51,744	\$ 50,081	\$ 55,984	\$ 67,277	\$ 69,411	\$ 68,159	\$ 60,319
Plan fiduciary net position							
Contributions - employer	\$ 4,651	\$ 4,225	\$ 4,007	\$ 3,954	\$ 3,349	\$ 3,189	\$ 3,097
Net investment income	4,875	2,846	40	9,418	708	2,147	2,272
Benefit payments	(3,117)	(3,506)	(3,814)	(3,650)	(3,650)	(3,308)	(3,904)
Administrative expense	(68)	(68)	(81)	(113)	(68)	(47)	(54)
Other	(1)	79	1,445	-	-	(2)	(160)
Net change in plan fiduciary net position	\$ 6,340	\$ 3,576	\$ 1,597	\$ 9,609	\$ 339	\$ 1,979	\$ 1,251
Plan fiduciary net position - beginning	50,663	47,087	45,490	35,881	35,542	33,563	32,312
Plan fiduciary net position - ending (b)	\$ 57,003	\$ 50,663	\$ 47,087	\$ 45,490	\$ 35,881	\$ 35,542	\$ 33,563
Authority's net HIC OPEB liability (asset) - ending (a) - (b)	\$ (5,259)	\$ (582)	\$ 8,897	\$ 21,787	\$ 33,530	\$ 32,617	\$ 26,756
Plan fiduciary net position as a percentage of the total HIC OPEB liability	110.16%	101.16%	84.11%	67.62%	51.69%	52.15%	55.64%
Covered payroll	\$ 1,500,261	\$ 1,363,165	\$ 1,292,532	\$ 1,292,532	\$ 1,275,504	\$ 1,194,673	\$ 1,137,284
Authority's net HIC OPEB liability (asset) as a percentage of covered payroll	-0.35%	-0.04%	0.69%	1.69%	2.63%	2.73%	2.35%

Schedule is intended to show information for 10 years. Information prior to the 2018 valuation is not available. However, additional years will be included as they become available.

Pepper's Ferry Regional Wastewater Treatment Authority
 Schedule of Employer Contributions
 Health Insurance Credit (HIC) Plan
 For the Years Ended June 30, 2016 through June 30, 2025

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)
2025	\$ 1,574	\$ 1,574	-	\$ 1,748,349	0.09%
2024	4,651	4,651	-	1,500,261	0.31%
2023	4,225	4,225	-	1,363,165	0.31%
2022	4,007	4,007	-	1,292,532	0.31%
2021	3,954	3,954	-	1,275,504	0.31%
2020	3,349	3,349	-	1,194,673	0.28%
2019	3,178	3,178	-	1,137,284	0.28%
2018	3,097	3,097	-	999,122	0.31%
2017	3,355	3,355	-	1,077,329	0.31%
2016	3,830	3,830	-	1,126,536	0.34%

Pepper's Ferry Regional Wastewater Treatment Authority
Notes to Required Supplementary Information
Health Insurance Credit (HIC) Plan
For the Year Ended June 30, 2025

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, 2023, valuation were based on the results of an actuarial experience study for the period from July 1, 2016 through June 30, 2020. 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)	Update to Pub-2010 public sector mortality tables. For future mortality improvements, replace load with a modified Mortality Improvement Scale MP-2020
Retirement Rates	Adjusted rates to better fit experience for Plan 1; set separate rates based on experience for Plan 2/Hybrid; changed final retirement age from 75 to 80 for all
Withdrawal Rates	Adjusted rates to better fit experience at each age and service decrement through 9 years of service
Disability Rates	No change
Salary Scale	No change
Line of Duty Disability	No change
Discount Rate	No change

Pepper's Ferry Regional Wastewater Treatment Authority
 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, 2024

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)
2024	0.00584%	\$ 65,170	\$ 1,500,261	4.34%	73.41%
2023	0.00579%	69,440	1,363,165	5.09%	69.30%
2022	0.00590%	71,523	1,292,532	5.53%	67.21%
2021	0.00620%	71,952	1,275,504	5.64%	67.45%
2020	0.00580%	96,960	1,194,673	8.12%	52.64%
2019	0.00580%	94,382	1,137,284	8.30%	52.00%
2018	0.00525%	79,000	999,122	7.91%	51.22%
2017	0.00584%	88,000	1,077,329	8.17%	48.86%

Schedule is intended to show information for 10 years. Information prior to the 2017 valuation is not available. However, additional years will be included as they become available.

Pepper's Ferry Regional Wastewater Treatment Authority
 Schedule of Employer Contributions
 Group Life Insurance (GLI) Plan
 For the Years Ended June 30, 2016 through June 30, 2025

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)
2025	\$ 8,217	\$ 8,217	\$ -	\$ 1,748,349	0.47%
2024	8,101	8,101	-	1,500,261	0.54%
2023	7,361	7,361	-	1,363,165	0.54%
2022	6,980	6,980	-	1,292,532	0.54%
2021	6,888	6,888	-	1,275,504	0.54%
2020	6,212	6,212	-	1,194,673	0.52%
2019	5,914	5,914	-	1,137,284	0.52%
2018	5,195	5,195	-	999,122	0.52%
2017	5,602	5,602	-	1,077,329	0.52%
2016	5,407	5,407	-	1,126,536	0.48%

Pepper's Ferry Regional Wastewater Treatment Authority
Notes to Required Supplementary Information
Group Life Insurance (GLI) Plan
For the Year Ended June 30, 2025

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, 2023 valuation were based on the results of an actuarial experience study for the period from July 1, 2016 through June 30, 2020. 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)	Update to Pub-2010 public sector mortality tables. For future mortality improvements, replace load with a modified Mortality Improvement Scale MP-2020
Retirement Rates	Adjusted rates to better fit experience for Plan 1; set separate rates based on experience for Plan 2/Hybrid; changed final retirement age from 75 to 80 for all
Withdrawal Rates	Adjusted rates to better fit experience at each age and service decrement through 9 years of service
Disability Rates	No change
Salary Scale	No change
Line of Duty Disability	No change
Discount Rate	No change

Other Statistical Information

Table 1

Pepper's Ferry Regional Wastewater Treatment Authority
Schedule of Debt Coverage - Unaudited
For the Years Ended June 30, 2023 through June 30, 2025

Fiscal Year	Operating Revenues and Interest Income	Less Operating Expenses*	Net Revenues Available for Debt Service	Debt Service		Coverage (1)
				Principal	Interest	
2025	\$ 7,137,922	\$ 4,828,624	\$ 2,309,298	\$ 592,959	\$ 104,342	331.18%
2024	6,267,564	3,876,297	2,391,267	1,382,656	116,522	159.51%
2023	5,807,062	3,856,358	1,950,704	1,368,935	129,919	130.15%

*excluding depreciation

Note 1: The revenue covenant is 100% of all debt service.

Source: Unless otherwise noted, the information in this Table is derived from the financial reports for the relevant year.

COMPLIANCE SECTION



**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
Pepper's Ferry Regional Wastewater Treatment Authority
Radford, 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 business-type activities of Pepper's Ferry Regional Wastewater Treatment Authority as of and for the year ended June 30, 2025, 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 November 7, 2025.

Report on 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) 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 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified a certain deficiency in internal control, described in the accompanying schedule of findings and responses as item 2025-001, that we consider to be a material weakness.

Report on 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 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*.

Pepper's Ferry Regional Wastewater Treatment Authority's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on Pepper's Ferry Regional Wastewater Treatment Authority's response to the finding identified in our audit and described in the accompanying schedule of findings and responses. Pepper's Ferry Regional Wastewater Treatment Authority's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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.

A handwritten signature in cursive script that reads "Robinson, James, Cox Associates".

Blacksburg, Virginia
November 7, 2025

**Pepper's Ferry Regional Wastewater Treatment Authority
Schedule of Findings and Responses
For the Year Ended June 30, 2025**

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	Yes
Significant deficiency(ies) identified?	None reported
Noncompliance material to financial statements noted?	No

Section II - Financial Statement Findings

2025-001 - Material Weakness

Criteria:	An auditee should have sufficient controls in place to produce financial statements in accordance with applicable standards. Furthermore, reliance on the auditor to propose adjustments necessary to comply with reporting standards is not a component of such controls.
Condition:	The financial statements as presented for audit, did not contain all necessary adjustments to comply with generally accepted accounting principles (GAAP). As such, the auditor proposed adjustments that were material to the financial statements.
Cause:	The Authority did not have proper controls in place to detect and correct adjustments in closing their year end financial statements.
Effect:	There is a reasonable possibility that a material misstatement of the financial statements will not be prevented or detected by the Authority's internal controls over financial reporting.
Recommendation:	The Authority should review the auditors' proposed audit adjustments for the fiscal year and develop a plan to ensure the trial balances and related schedules are accurately presented for audit going forward.
Management's Response:	The Authority will review the auditors' proposed audit adjustments for the fiscal year and will develop a plan of action to ensure that all adjusting entries are made prior to final audit fieldwork next year.

Section III- Status of Prior Audit Findings

There are no prior year findings.