

PEPPER'S FERRY REGIONAL
WASTEWATER TREATMENT AUTHORITY
FINANCIAL STATEMENTS
FOR THE YEAR ENDED
JUNE 30, 2017

PEPPER'S FERRY REGIONAL WASTEWATER TREATMENT AUTHORITY

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the business-type activities of Pepper's Ferry Regional Wastewater Treatment Authority, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Pepper's Ferry Regional Wastewater Treatment Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Authorities, Boards, and Commissions*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Pepper's Ferry Regional Wastewater Treatment Authority, as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and schedules related to pension and OPEB funding on pages 4-9 and 36-39, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 20, 2017, on our consideration of Pepper's Ferry Regional Wastewater Treatment Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Pepper's Ferry Regional Wastewater Treatment Authority's internal control over financial reporting and compliance.



Michael B. Cooke, CPA, PC
Blacksburg, Virginia
October 20, 2017

PEPPER'S FERRY REGIONAL WASTEWATER TREATMENT AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED JUNE 30, 2017

The following discussion and analysis of Pepper's Ferry Regional Wastewater Treatment Authority's financial performance provides an overview of the Authority's financial activities for the year ended June 30, 2017. It should be read in conjunction with the Authority's basic financial statements.

THE AUTHORITY AS A WHOLE

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

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

The Authority's net position for the year ended June 30, 2017 increased to \$10,801,583 from \$9,977,160 at June 30, 2016. Net position for fiscal year 2016 was restated due to a prior period adjustment, see Note 2 of the Notes to Financial Statements for more information. Net position is composed of net investment in capital assets and unrestricted net position. Net investment in capital assets for the year ended June 30, 2017 increased to \$6,543,407 from \$6,206,362 at June 30, 2016. Unrestricted net position for the year ended June 30, 2017 increased to \$4,258,176 from \$3,770,798 at June 30, 2016.

Overview of the Financial Statements

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

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

The statement of net position presents information on the Authority's 1) assets and deferred outflows of resources and 2) liabilities and deferred inflows of resources with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

The statement of revenues, expenses, and changes in net position presents information showing how the Authority's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of 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).

The basic enterprise fund financial statements can be found on pages 10 through 13 of this report.

Notes to Financial Statements. The notes provide additional information that are essential to a full understanding of the data provided in the financial statements. The Notes to Financial Statements can be found on pages 14 through 35.

Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of financial position. In the case of the Authority, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$10,801,583 and \$9,977,160, at June 30, 2017 and 2016, respectively. The largest portion of the Authority's net position reflects its investment in capital assets, less any related debt used to acquire those assets that is still outstanding. For the year ended 2017, 60.58% is invested in capital assets net of related debt. Although the Authority's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Table A presents the Condensed Statement of Net Position for the years ended June 30, 2017 and 2016. At June 30, 2017, and 2016, unrestricted net position was \$4,258,176 and \$3,770,798, respectively. Of total net position, unrestricted net position represented 39.42% and 37.79% for fiscal years 2017 and 2016, respectively.

Table A

Condensed Statement of Net Position Years ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016 (Restated)</u>
Assets:		
Current and other assets	\$ 5,050,119	\$ 4,538,334
Capital assets, net	<u>12,687,879</u>	<u>13,296,192</u>
Total Assets	17,737,998	17,834,526
Deferred outflows of resources:	237,936	201,282
Liabilities:		
Long-term outstanding	6,147,640	6,865,521
Other liabilities	<u>1,026,711</u>	<u>1,114,745</u>
Total Liabilities	7,174,351	7,980,266
Deferred inflows of resources:	-	62,821
Net Position:		
Net investment in capital assets	6,543,407	6,206,362
Unrestricted	<u>4,258,176</u>	<u>3,770,798</u>
Total net position	\$ <u>10,801,583</u>	\$ <u>9,977,160</u>

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Table B presents the Condensed Statement of Revenues, Expenses, and Changes in Net Position for the years ended June 30, 2017 and 2016.

Table B

Condensed Statement of Revenues, Expenses, and Changes in Net Position
Years ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016 (Restated)</u>
Operating Revenues:		
Charges for Services	\$ 4,932,089	\$ 5,299,633
Operating Expenses:		
Operating expenses	2,608,292	2,657,511
Depreciation	<u>1,479,921</u>	<u>1,646,505</u>
Total operating expenses	4,088,213	4,304,016
Non-Operating Revenues (Expenses):		
Interest income	57,740	50,858
Gain (loss) on disposal of assets	(4,159)	(4,287)
Interest expense	(73,034)	(83,862)
Amortization of bond costs and discounts	-	(3,276)
Trustee fees	-	(4,005)
Total non-operating revenues (expenses)	<u>(19,453)</u>	<u>(44,572)</u>
Changes in net position	824,423	951,045
Total net position, beginning of year, as restated	<u>9,977,160</u>	<u>9,026,115</u>
Total net position, end of year	\$ <u>10,801,583</u>	\$ <u>9,977,160</u>

Review of Operations

Member service charge revenue estimates used to develop the budget for the year ended June 30, 2017 were based on a five-year rolling flow average. Actual flows pumped and treated during the fiscal year were less than the five-year rolling flow average budgeted values by 2.95%. Additionally, a 1.9% decrease in the treatment plant cost center rate negatively impacted member service charge revenue when compared to the prior fiscal year. Overall, member service charge revenues for the year ended June 30, 2017 decreased by 9.38% (\$3,821,540 compared to \$4,217,117 as of June 30, 2016).

Generally, total operating expenses of the Authority for the year ended June 30, 2017 tracked closely with budgeted values, but did decrease by \$215,803 overall when compared with actual expenditures for the year ended June 30, 2016. Of this decrease, depreciation expense accounted for \$166,584 of the overall operating expense decrease for the year ended June 30, 2017. Operating expenses decreased by 5.01% (\$4,088,213 compared to \$4,304,016 as of June 30, 2016).

Other variances of operating expenses worth noting include the following: Payroll expenses, including wages, taxes, and employee benefits, increased \$62,907 for the year ended June 30, 2017, due to cost of living/merit increases, as well as an increase in health insurance premiums during the fiscal year (\$1,758,990 compared to \$1,696,083 as of June 30, 2016); Electricity costs decreased \$37,644 for the fiscal year ended June 30, 2017 and was attributable to less wastewater flows pumped as well as utilization of more energy efficient equipment (\$317,938 compared to \$355,582 as of June 30, 2016); Professional fees decreased \$82,029 for the fiscal year ended June 30, 2017 (\$78,234 compared to \$160,263 as of June 30, 2016). This decrease represents a return to the prior level of expenses for professional fees after a one-year increase in those costs. The final noteworthy operating expense variance was for Repairs and Maintenance, which increased \$17,842 for the year ended June 30, 2017 (\$141,610 compared to \$123,768 as of June 30, 2016).

THE AUTHORITY'S FUNDS

Operational Fund Budgetary Highlights

The Authority continues to scrutinize the overall operations of the Authority so as to optimize fund usage through operational cost saving measures wherever possible. For the year ended June 30, 2017, the change in net position of the Authority was \$824,423, as

compared to \$951,045 for the year ended June 30, 2016, as restated. Net position at June 30, 2017 totaled \$10,801,583, an increase of \$824,423 as compared to June 30, 2016 restated net position of \$9,026,115. The two smaller cost centers of the Authority (New River Pump Station and Radford Pump Station) each realized a net surplus for the year ended June 30, 2017 (\$66,321 and \$20,970, respectively). These unspent funds were deposited into dedicated reserve accounts for future use in those cost centers as determined and approved by the Board of Directors. The Authority continued to maintain a sulfate allocation and surcharge program for the jurisdictions served by the Authority. Through this program, participating jurisdictions may acquire excess sulfate allocation for industrial applications through a surcharge program. The Authority then holds the funds collected through the surcharge in a reserve account for any future treatment plant repairs due to corrosion, as well as for media replacement in the digester gas scrubbers that remove sulfate from the digester gas.

Capital Projects Budgetary Highlights

The capital projects budget is supported by a separate rate structure than the operational budget. The Authority continued its focus toward replacement and enhancement of its capital assets during the fiscal year ended June 30, 2017. The primary capital project scheduled for the fiscal year was construction of the first phase of equipment and process upgrades associated with the solids handling at the treatment plant. Unfortunately, construction bids came in above the anticipated budget resulting in the need to solicit bids a second time. The re-bidding of this project delayed award of the construction phase work until late in the fiscal year, and therefore no actual construction occurred during the fiscal year ended June 30, 2017. The Authority also accomplished the replacement of the New River Pump Station screenings compactor during the fiscal year ended June 30, 2017. This project was completed utilizing Authority staff rather than contractor services so as to reduce installation costs.

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

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

As of the year ended June 30, 2017, the Authority has \$12.7 million invested in capital assets (net of accumulated depreciation). The actual facilities included in these capital assets can best be described as the main wastewater treatment plant and outfall pipe, the New River pumping station and equalization facility, the Radford pumping station, and the wastewater force mains interconnecting these locations. This amount represents a net decrease in capital assets of \$608,313 when compared with the capital assets book value for the year ended June 30, 2016. The value of the Authority's net capital assets decreased primarily due to: asset acquisitions in the amount of \$885,553; depreciation expense of \$1,479,921 and disposition of plant and equipment with a book value of \$13,945; for a total net decrease of depreciable assets in the amount of \$608,313, as compared to the increase of \$1,133,380 for the year ended June 30, 2016. Considering depreciation expense during the fiscal year ended June 30, 2017 was \$1,479,921, and the asset acquisitions were \$885,553, depreciation outpaced reinvestment in capital assets. At June 30, 2017, construction in progress totaled \$79,188, which will increase net capital assets when booked to plant and equipment in the following fiscal year.

Following is a summary of the capital assets at year ended June 30, 2017:

Land	\$	441,841
Construction in Progress		79,188
Plant and Equipment		<u>47,788,752</u>
Subtotal		48,309,781
Accumulated Depreciation		<u>(35,621,902)</u>
Total	\$	<u>12,687,879</u>

During the year ended June 30, 2017, the Authority sold various pieces of equipment for \$9,785. The Authority also wrote-off various other pieces of equipment that were no longer in use. These disposals resulted in a net loss of \$4,159.

Long-term Debt

As of June 30, 2017, the Authority has \$6.1 million in outstanding debt, compared to \$7.0 million at year ended June 30, 2016. The Authority's long-term debt was structured across four separate bond issues; 2002a series (retired), 2002b series, 2003 series (retired), and 2006 series (retired). The 2002a series bonds were retired in the year 2012. The 2003 series bonds were retired in the year 2010. The 2002b series bonds carry a fixed interest rate of 1.00% and are scheduled to be retired in the year 2024 (annual principal and interest payment of \$657,556 through 2010, then \$801,556 through 2024). The 2006 series bonds were retired in the fiscal year ended June 30, 2014 by issuing the 2014 series bond refunding. The 2014 series bond refunding, a fifth separate bond issue, carries an interest rate of 1.85% with principal and interest paid monthly and is scheduled to be retired in April 2021.

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

Current Fiscal Year

The Board of Directors evaluated the existing treatment and pump station rate structure, as well as other rates, fees, and direct charges during the year ended June 30, 2016. That evaluation resulted in the establishment of new rates effective July 1, 2016 for two of the three primary cost centers, with one minor cost center rate remaining unchanged. The Board reconsiders the adequacy of the Authority's treatment and pump station rate structure during the budget process each fiscal year. Based on current trends associated with various cost indices, the Authority realizes that future increases in rates, fees, and direct charges may be necessary so as to keep pace with increased costs to operate the system.

Effective July 1, 2013, realizing the future requirements of GASB 68 related to financial reporting for pension plans, the Authority began disclosing the Net Pension Liability (NPL) for its Virginia Retirement System (VRS) pension plan on its statement of net position. Concurrent with this liability disclosure, the Authority also established an offset reserve asset account with an initial deposit of \$100,000 to partially fund the liability. Additional deposits into this account were made for the years ended June 30, 2014, 2015, 2016, and 2017. For the fiscal year ended June 30, 2017, the balance in this offset account was \$323,135. At June 30, 2017, the VRS pension plan NPL was \$861,405. Therefore, at June 30, 2017 the Authority had funded the VRS retirement NPL to the level of 37.5% (\$323,135 divided by \$861,405). The Authority uses the most recent actuarial report provided by the VRS; for the Authority's year ended June 30, 2017, the most recent VRS actuarial report is dated June 30, 2016. The Authority's Board of Directors may consider additional funding of the VRS NPL in the future, at its discretion, as funds and rate structures allow.

Next Fiscal Year

The Authority is currently experiencing a relatively flat five-year average flow volume received at the treatment plant. As such, it is anticipated that modest rate increases in future budgets may be necessary to fund the ever-increasing costs to operate the Authority's facilities. For the fiscal year beginning July 1, 2017, the treatment plant cost center rate was increased by 3.5% , the New River pump station cost center rate was decreased 2.7% , and the Radford Pump Station cost center rate did not change from the prior fiscal year. All other rates are proposed to remain virtually flat for the year beginning July 1, 2017. It is anticipated these rate changes will result in level funding of the Authority's operations for the upcoming year.

The Authority plans to complete the capital project scheduled during the fiscal year ended June 30, 2017, which is the completion of construction of the Phase I solids handling equipment upgrades at the treatment plant solids handling building (SHB), and will design Phase II of the solids handling equipment and SHB HVAC upgrades. The design scope for the Phase II project will be expanded to include replacement of the return activated sludge pumps, motors and force main as well as the flow splitting structure, and replacement of the aeration basin air transmission header piping. The increase in the scope of designing and constructing these capital projects will necessitate consideration of increasing the Authority's long-term debt. The Authority's Board of Directors authorized the Executive Director to submit an application to the Virginia Clean Water Revolving Loan Fund Program for financial assistance in an amount not to exceed \$12,500,000 to fund these improvements. The Authority anticipates it will receive approval of its application toward the end of calendar year 2017.

Financial goals for the fiscal year ending June 30, 2018 are as follows:

The Authority anticipates issuing a solicitation for professional financial advisory services during the fiscal year ended June 30, 2018. The purpose in soliciting these services will include the review and modification of the Authority's financial and debt policies, review and modification of financial administrative procedures, review and potential modification of the Authority's Master Trust Agreement, review of current debt structure and an analysis of the Authority's debt capacity, modification of the Authority's ten-year capital improvement plan to include a capital funding component, and evaluate approaches for improving the Authority's credit position with the major rating agencies.

CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

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

STATEMENT OF NET POSITION
AT JUNE 30, 2017ASSETS

CURRENT ASSETS:

Cash and cash equivalents	\$ 4,388,084
Cash and cash equivalents - trust funds	255,573
Accounts receivable (net of allowance for uncollectibles)	10,469
Accounts receivable - members (net of allowance for uncollectibles)	395,993
Total current assets	<u>5,050,119</u>

NONCURRENT ASSETS:

Capital Assets:

Land	441,841
Construction in progress	79,188
Plant and equipment	47,788,752
Total capital assets	<u>48,309,781</u>
Accumulated depreciation	(35,621,902)
Total capital assets, net	<u>12,687,879</u>
 TOTAL ASSETS	 <u>17,737,998</u>

DEFERRED OUTFLOWS OF RESOURCES

Pension contributions subsequent to measurement date	110,464
Differences between expected and actual experience of net pension liability	57,210
Net difference between projected and actual earnings on plan investments	70,262
 TOTAL DEFERRED OUTFLOWS OF RESOURCES	 <u>237,936</u>

LIABILITIES

CURRENT LIABILITIES:

Accounts payable	17,572
Accrued payroll and payroll liabilities	39,309
Accrued interest payable	14,653
Compensated absences, current portion	14,592
Bonds payable, current maturities	940,585
Total current liabilities	<u>1,026,711</u>

NONCURRENT LIABILITIES:

Compensated absences, net of current portion	82,348
Net pension liability	861,405
Bonds payable, net of current maturities	5,203,887
Total noncurrent liabilities	<u>6,147,640</u>
 TOTAL LIABILITIES	 <u>7,174,351</u>

DEFERRED INFLOWS OF RESOURCES

None	-
 TOTAL DEFERRED INFLOWS OF RESOURCES	 <u>-</u>

NET POSITION

Net investment in capital assets	6,543,407
Unrestricted	4,258,176
 TOTAL NET POSITION	 <u>\$ 10,801,583</u>

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

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2017OPERATING REVENUES

Charges for Services	
Member service charges	\$ 3,821,540
Debt service revenue	1,009,314
Other revenues	101,235
Total operating revenues	<u>4,932,089</u>

OPERATING EXPENSES

Salaries and wages	1,191,351
Payroll taxes	88,986
Employee benefits	478,653
Chemical supplies	85,080
Computer expenses	11,844
Dues, licenses, taxes, and subscriptions	15,350
Electricity	317,938
Equipment rental	3,721
Food, travel, and lodging	6,625
Fuel and fluids	11,392
Insurance and bonding	36,509
Office supplies, postage, and advertising	8,429
Other materials and supplies	5,925
Professional fees	78,234
Repairs and maintenance	141,610
Telephone and communications	12,425
Training and education	5,038
Water	36,873
Other operating costs	72,309
Depreciation	1,479,921
Total operating expenses	<u>4,088,213</u>

OPERATING INCOME (LOSS)	<u>843,876</u>
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NONOPERATING REVENUES (EXPENSES)

Interest income	57,740
Gain (loss) on disposal of capital assets	(4,159)
Interest expense	(73,034)
Total nonoperating revenues (expenses)	<u>(19,453)</u>

CHANGE IN NET POSITION	824,423
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NET POSITION, BEGINNING OF YEAR - AS ORIGINALLY REPORTED	9,772,308
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Prior period adjustments	<u>204,852</u>
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NET POSITION, BEGINNING OF YEAR - RESTATED	9,977,160
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NET POSITION, END OF YEAR	<u>\$ 10,801,583</u>
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The accompanying notes to financial statements are an integral part of this statement.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2017

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from customers and users	\$ 4,910,263
Payments to employees	(1,731,730)
Payments to suppliers	(850,010)

Net Cash Provided by (Used for) Operating Activities	<u>2,328,523</u>
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CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

None	<u>-</u>
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Net Cash Provided by (Used for) Noncapital Financing Activities	<u>-</u>
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CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Acquisition and construction of capital assets	(885,553)
Proceeds from the sale of capital assets	9,785
Principal payments on bonds	(929,797)
Interest payments	(75,179)

Net Cash Provided by (Used for) Capital and Related Financing Activities	<u>(1,880,744)</u>
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CASH FLOWS FROM INVESTING ACTIVITIES

Interest received	<u>57,740</u>
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Net Cash Provided by (Used for) Investing Activities	<u>57,740</u>
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INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	505,519
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CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>4,138,138</u>
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CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>\$ 4,643,657</u></u>
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RECONCILIATION TO THE STATEMENT OF NET POSITION

Cash and cash equivalents	\$ 4,388,084
Cash and cash equivalents - trust funds	<u>255,573</u>
	<u><u>\$ 4,643,657</u></u>

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

PEPPER'S FERRY REGIONAL WASTEWATER TREATMENT AUTHORITY

Exhibit C
(continued)

STATEMENT OF CASH FLOWS (continued)
FOR THE YEAR ENDED JUNE 30, 2017

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

Operating income (loss)	\$ 843,876
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:	
Depreciation	1,479,921
Changes in operating assets, liabilities, and deferred outflows and inflows of resources:	
(Increase) decrease in assets and deferred outflows of resources:	
Accounts receivable, net of allowance for uncollectibles	10
Accounts receivable - members, net of allowance for uncollectibles	(21,836)
Pension deferred outflows of resources	(36,654)
Increase (decrease) in liabilities and deferred inflows of resources:	
Accounts payable	(708)
Compensated absences	(11,555)
Accrued payroll and payroll liabilities	(2,066)
Net pension liability	140,356
Pension deferred inflows of resources	(62,821)
Net Cash Provided by (Used for) Operating Activities	<u>\$ 2,328,523</u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

None	\$ -
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The accompanying notes to financial statements are an integral part of this statement.

PEPPER'S FERRY REGIONAL WASTEWATER TREATMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

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

B. Basis of Presentation

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

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

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

C. Measurement Focus and Basis of Accounting

For financial reporting purposes, the 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 a liability has been incurred, regardless of the timing of the related cash flows.

The Authority distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with the Authority's principal ongoing operations. The principal operating revenues of the Authority are charges to customers for services. All revenues not meeting this definition are reported as nonoperating revenues. Nonoperating expenses include interest on debt and gains (losses) on disposal of capital assets. All expenses not meeting these definitions are reported as operating expenses.

When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, then unrestricted resources as they are needed.

Proprietary Funds

Proprietary Funds account for operations that are financed and operated in a manner similar to those found in private business enterprises. The measurement focus is upon determination of net income, financial position, and changes in financial position. Proprietary Funds consist of Enterprise Funds.

Enterprise Funds

Enterprise Funds account for the financing of services to the general public where all or most of the operating expenses involved are recorded in the form of charges to users of such services. The Authority prepares its financial reports utilizing one Enterprise Fund.

PEPPER'S FERRY REGIONAL WASTEWATER TREATMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Cash and Cash Equivalents

The Authority considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

E. Accounts Receivable and Allowance for Uncollectible Accounts

Accounts receivable are reported at the amount management expects to collect from outstanding balances. Thus, accounts receivable are stated at face value less an allowance for uncollectible accounts. 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, 2017, therefore no allowance for uncollectible accounts has been established.

F. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (basins, digesters, lines, 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 \$1,500 and an estimated useful life in excess of one year. These assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market 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 lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Automotive equipment	4	years
Instrumentation	3 to 5	years
Equipment	3 to 20	years
Basins, Digesters, etc.	25 to 30	years
Buildings	30	years
Lines	30	years

G. Deferred Outflows/Inflows of Resources

In addition to assets, the *statement of net position* reports a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The Authority has three items that qualify for reporting in this category. One item is comprised of contributions to pension plans made during the current year and subsequent to the net pension liability measurement date, which will be recognized as an adjustment to the net pension liability next fiscal year. The other items relate to the measurement of the net pension liability and include the difference between expected and actual experiences and the net difference between projected and actual earnings on pension plan investments. These items are amortized over a fixed five-year period. For more detailed information, reference the pension plan footnote.

In addition to liabilities, the *statement of net position* will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Authority has no items that qualify for reporting in this category.

PEPPER'S FERRY REGIONAL WASTEWATER TREATMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

H. Compensated Absences

The liability for compensated absences reported in the financial statements consists of unpaid accumulated leave balances. The liability is based on the leave accumulated at June 30. Limited leave may be accumulated until retirement or termination. Accumulated leave is paid at the employee's current wage upon retirement or termination. Sick leave is payable only upon retirement and limited to \$5,000, therefore, a liability for this amount is not reported in the financial statements.

I. Pensions

The Virginia Retirement System (VRS) Political Subdivision Retirement Plan is a multi-employer, agent plan. 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 an offset account as funds and rate structures allow. At June 30, 2017, the established reserve offset account balance is \$323,135. The June 30, 2017 *net pension liability* exceeds the reserve offset account balance by an amount of \$538,270.

J. Net Position

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

K. Estimates

The preparation of financial statements in conformity with 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 those estimates.

L. Advertising

Advertising and marketing costs are expensed as incurred. Advertising expense totaled \$3,145 for the year ended June 30, 2017.

2. PRIOR PERIOD ADJUSTMENT

Net position has been adjusted for the following at July 1, 2016:

During the year ended June 30, 2017, it was discovered that capital assets and accumulated depreciation had been erroneously adjusted in a prior period. An adjustment totaling \$220,412 was recorded which increased net position by \$220,412.

In accordance with GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, the Authority has expensed loan origination fees associated with bonds issued in prior periods. An adjustment totaling \$15,560 was recorded which decreased net position by \$15,560.

A summary for the prior period adjustments is shown below:

Net Position, June 30, 2016, as previously reported	\$ 9,772,308
Correction attributable to capital assets	220,412
Correction of bond issuance costs	(15,560)
Net Position, July 1, 2016, restated	<u>\$ 9,977,160</u>

PEPPER'S FERRY REGIONAL WASTEWATER TREATMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

3. CASH AND CASH EQUIVALENTS

Deposits:

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

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

- 1) Improvements and redemptions trust fund - created to accumulate, through monthly deposits, a minimum balance of \$200,000 for payment of operating expenses when needed, to make required transfers to the bond trust, to make up any deficiency in the debt service reserve trust, to make up any deficiency in the operating reserve trust, or to pay for the costs of replacements and improvements to the facility.
- 2) Operating Reserve Trust Fund - A reserve account equal to three months' estimated operating expenses.

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

- 1) Bond interest trust fund - created to hold a minimum balance equal to the amount of interest on the bonds accrued through the end of each month.
- 2) Bond redemption escrow trust - Created to accumulate the funds necessary to make the principal payment on the bonds due on the first of each month.

Cash and cash equivalents at June 30, 2017 consisted of bank accounts as follows:

1) Plant operations and maintenance	\$ 1,258,368
2) Treatment plant, capital improvements projects	887,847
3) Improvement fund	224,103
4) Sulfate corrosion fund	442,714
5) Treatment plant reserves	830,555
6) Radford Pump Station reserves	262,160
7) New River Pump Station reserves	159,202
8) Retirement Net Pension Liability reserve offset	323,135
9) Bond interest trust fund - designated	16,708
10) Bond redemption escrow fund - designated	238,865
Total cash and cash equivalents	<u>\$ 4,643,657</u>

PEPPER'S FERRY REGIONAL WASTEWATER TREATMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

4. CAPITAL ASSETS

Components of the Authority's capital assets at June 30, 2017 are summarized as follows:

Land	\$ 441,841
Construction in Progress	79,188
Treatment Plant	32,209,807
New River Pump Station	12,288,049
Radford Pump Station	3,290,896
Subtotal	<u>48,309,781</u>
Accumulated depreciation	<u>(35,621,902)</u>
Capital assets, net	<u>\$ 12,687,879</u>

The Authority's capital asset activity for the year ended June 30, 2017 is as follows:

	Balance 6/30/16 (as restated)	Increases	Decreases	Balance 6/30/17
<u>Capital assets, not being depreciated:</u>				
Land	\$ 441,841	-	-	\$ 441,841
Construction in Progress	157,262	72,548	(150,622)	79,188
Total nondepreciable assets	<u>599,103</u>	<u>72,548</u>	<u>(150,622)</u>	<u>521,029</u>
<u>Depreciable assets:</u>				
Treatment Plant	31,334,870	958,277	(83,340)	32,209,807
New River Pump Station	12,326,699	5,350	(44,000)	12,288,049
Radford Pump Station	3,290,896	-	-	3,290,896
Total depreciable assets	<u>46,952,465</u>	<u>963,627</u>	<u>(127,340)</u>	<u>47,788,752</u>
<u>Less accumulated depreciation:</u>				
Treatment Plant	(22,787,310)	(924,256)	74,729	(23,636,837)
New River Pump Station	(8,445,853)	(459,790)	38,666	(8,866,977)
Radford Pump Station	(3,022,213)	(95,875)	-	(3,118,088)
Total accumulated depreciation	<u>(34,255,376)</u>	<u>(1,479,921)</u>	<u>113,395</u>	<u>(35,621,902)</u>
Capital assets, net	<u>\$ 13,296,192</u>	<u>(443,746)</u>	<u>(164,567)</u>	<u>\$ 12,687,879</u>

During the fiscal year ended June 30, 2017, the Authority disposed of plant and equipment with an original cost of \$127,340; these dispositions resulted in a loss of \$4,159.

Depreciation expense for the year ended June 30, 2017 totaled \$1,479,921.

5. BONDS PAYABLE

Changes in long-term liabilities for the year ended June 30, 2017 are as follows:

	Beginning Balance	Issuances/ Additions	Retirement/ Reductions	Ending Balance	Due Within One Year
2002b VA Revolving Loan Fund	\$ 6,147,907	\$ -	\$ (741,928)	\$ 5,405,979	\$ 749,365
2014 Series Bond Refunding	926,362	-	(187,869)	738,493	191,220
Compensated absences	108,495	8,677	(20,232)	96,940	14,592
Totals	<u>\$ 7,182,764</u>	<u>\$ 8,677</u>	<u>\$ (950,029)</u>	<u>\$ 6,241,412</u>	<u>\$ 955,177</u>

PEPPER'S FERRY REGIONAL WASTEWATER TREATMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

5. BONDS PAYABLE (continued)

A. 2002b VA Revolving Loan Fund

In December 2002, the Authority issued bonds of \$13,400,000; proceeds were used for construction purposes. The bonds bear interest at an annual rate not to exceed 1.00% and are payable in semi-annual installments of combined principal and interest beginning on April 1, 2005 and ending April 1, 2024. As of June 30, 2017, the outstanding balance was \$5,405,979. Interest expense for the fiscal year ended June 30, 2017 was \$57,484.

B. 2014 Series Bond Refunding

In January 2014, the Authority issued bonds of \$1,365,452; proceeds were used to 1) provide funds to refund the Series 2006 Sewage System Revenue Bond and 2) pay the costs of issuance associated with the bond. The bonds bear interest at a fixed annual rate of 1.85% and are payable in monthly installments of combined principal and interest beginning on February 1, 2014 and ending April 1, 2021. At June 30, 2017, the outstanding balance was \$738,493. Interest expense for the fiscal year ended June 30, 2017 was \$15,550.

The debt service requirements for the Authority's bonds are as follows:

<u>Year ending June 30,</u>	<u>2002b VA Revolving Loan Fund</u>		<u>2014 Series Bond Refunding</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2018	\$ 749,365	\$ 52,162	\$ 191,220	\$ 12,047
2019	756,878	44,679	194,877	8,478
2020	764,465	37,091	198,432	4,843
2021	772,129	29,427	153,964	1,209
2022	779,870	21,687	-	-
Thereafter	1,583,272	19,840	-	-
	<u>\$ 5,405,979</u>	<u>\$ 204,886</u>	<u>\$ 738,493</u>	<u>\$ 26,577</u>

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PEPPER'S FERRY REGIONAL WASTEWATER TREATMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

6. PENSION PLAN

A. Plan Description

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

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

RETIREMENT PLAN PROVISIONS		
VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
<p>About Plan 1</p> <p>Plan 1 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. Employees are eligible for Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.</p>	<p>About Plan 2</p> <p>Plan 2 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. Employees are eligible for Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.</p>	<p>About the Hybrid Retirement Plan</p> <p>The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan. Most members hired on or after January 1, 2014 are in this plan, as well as Plan 1 and Plan 2 members who were eligible and opted into the plan during a special election window. (see "Eligible Members")</p> <ul style="list-style-type: none"> • The defined benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. • The benefit from the defined contribution component of the plan depends on the member and employer contributions made to the plan and the investment performance of those contributions. • In addition to the monthly benefit payment payable from the defined benefit plan at retirement, a member may start receiving distributions from the balance in the defined contribution account, reflecting the contributions, investment gains or losses, and any required fees.

PEPPER'S FERRY REGIONAL WASTEWATER TREATMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

6. PENSION PLAN (continued)

A. Plan Description (continued)

VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
<p>Eligible Members Employees are in Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.</p> <p>Hybrid Opt-In Election VRS non-hazardous duty covered Plan 1 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.</p> <p>The Hybrid Retirement Plan's effective date for eligible Plan 1 members who opted in was July 1, 2014.</p> <p>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</p> <p>Members who were eligible for an optional retirement plan (ORP) and had prior service under Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 1 or ORP.</p>	<p>Eligible Members Employees are in Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.</p> <p>Hybrid Opt-In Election Eligible Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.</p> <p>The Hybrid Retirement Plan's effective date for eligible Plan 2 members who opted in was July 1, 2014.</p> <p>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</p> <p>Members who were eligible for an optional retirement plan (ORP) and have prior service under Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 2 or ORP.</p>	<p>Eligible Members Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes:</p> <ul style="list-style-type: none"> • Authority employees* • Members in Plan 1 or Plan 2 who elected to opt into the plan during the election window held January 1-April 30, 2014; the plan's effective date for opt-in members was July 1, 2014 <p>*Non-Eligible Members Some employees are not eligible to participate in the Hybrid Retirement Plan. They include:</p> <ul style="list-style-type: none"> • Authority employees who are covered by enhanced benefits for hazardous duty employees <p>Those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under Plan 1 or Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select Plan 1 or Plan 2 (as applicable) or ORP.</p>
<p>Retirement Contributions Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some political subdivisions elected to phase in the required 5% member contribution but all employees will be paying the full 5% by July 1, 2016. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment.</p>	<p>Retirement Contributions Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some political subdivisions elected to phase in the required 5% member contribution but all employees will be paying the full 5% by July 1, 2016.</p>	<p>Retirement Contributions A member's retirement benefit is funded through mandatory and voluntary contributions made by the member and the employer to both the defined benefit and the defined contribution components of the plan. Mandatory contributions are based on a percentage of the employee's creditable compensation and are required from both the member and the employer. Additionally, members may choose to make voluntary contributions to the defined contribution component of the plan, and the employer is required to match those voluntary contributions according to specified percentages.</p>

PEPPER'S FERRY REGIONAL WASTEWATER TREATMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

6. PENSION PLAN (continued)

A. Plan Description (continued)

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

PEPPER'S FERRY REGIONAL WASTEWATER TREATMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

6. PENSION PLAN (continued)

A. Plan Description (continued)

VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
<p>Vesting Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least five years (60 months) of creditable service. Vesting means members are eligible to qualify for retirement if they meet the age and service requirements for their plan. Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund.</p> <p>Members are always 100% vested in the contributions that they make.</p>	<p>Vesting Same as Plan 1.</p>	<p>Vesting <u>Defined Benefit Component:</u> Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years (60 months) of creditable service. Plan 1 or Plan 2 members with at least five years (60 months) of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component.</p> <p><u>Defined Contributions Component:</u> Defined contribution vesting refers to the minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined contribution component of the plan.</p> <p>Members are always 100% vested in the contributions that they make.</p> <p>Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service.</p> <ul style="list-style-type: none"> • After two years, a member is 50% vested and may withdraw 50% of employer contributions. • After three years, a member is 75% vested and may withdraw 75% of employer contributions. • After four or more years, a member is 100% vested and may withdraw 100% of employer contributions. <p>Distribution is not required by law until age 70½.</p>

PEPPER'S FERRY REGIONAL WASTEWATER TREATMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

6. PENSION PLAN (continued)

A. Plan Description (continued)

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

PEPPER'S FERRY REGIONAL WASTEWATER TREATMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

6. PENSION PLAN (continued)

A. Plan Description (continued)

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

PEPPER'S FERRY REGIONAL WASTEWATER TREATMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

6. PENSION PLAN (continued)

A. Plan Description (continued)

VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
<p>Cost-of-living Adjustment (COLA) in Retirement</p> <p>The Cost-of-Living Adjustment (COLA) matches the first 3% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4%) up to a maximum COLA of 5%.</p> <p><u>Eligibility:</u> For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full calendar year from the retirement date.</p> <p>For members who retire with a reduced benefit and who have less than 20 years of creditable service, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date.</p> <p><u>Exceptions to COLA Effective Dates:</u> The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances:</p> <ul style="list-style-type: none"> • The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013. • The member retires on disability. • The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP). • The member is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program. • The member dies in service and the member's survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins. 	<p>Cost-of-living Adjustment (COLA) in Retirement</p> <p>The Cost-of-Living Adjustment (COLA) matches the first 2% increase in the CPI-U and half of any additional increase (up to 2%), for a maximum COLA of 3%.</p> <p><u>Eligibility:</u> Same as Plan 1</p> <p><u>Exceptions to COLA Effective Dates:</u> Same as VRS Plan 1</p>	<p>Cost-of-living Adjustment (COLA) in Retirement</p> <p><u>Defined Benefit Component:</u> Same as Plan 2.</p> <p><u>Defined Contribution Component:</u> Not applicable.</p> <p><u>Eligibility:</u> Same as Plan 1 and Plan 2.</p> <p><u>Exceptions to COLA Effective Dates:</u> Same as Plan 1 and Plan 2.</p>

PEPPER'S FERRY REGIONAL WASTEWATER TREATMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

6. PENSION PLAN (continued)

A. Plan Description (continued)

VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
<p>Disability Coverage Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.7% on all service, regardless of when it was earned, purchased or granted.</p> <p>VSDP members are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.</p>	<p>Disability Coverage Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service, regardless of when it was earned, purchased or granted.</p> <p>VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.</p>	<p>Disability Coverage Employees of political subdivisions (including Plan 1 and Plan 2 opt-ins) participate in the Virginia Local Disability Program (VLDP) unless their local governing body provides an employer-paid comparable program for its members.</p> <p>Hybrid members (including Plan 1 and Plan 2 opt-ins) covered under VLDP are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.</p>
<p>Purchase of Prior Service Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as creditable service in their plan. Prior creditable service counts toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. When buying service, members must purchase their most recent period of service first. Members also may be eligible to purchase periods of leave without pay.</p>	<p>Purchase of Prior Service Same as Plan 1.</p>	<p>Purchase of Prior Service <u>Defined Benefit Component:</u> Same as Plan 1, with the following exceptions:</p> <ul style="list-style-type: none"> • Hybrid Retirement Plan members are ineligible for ported service. • The cost for purchasing refunded service is the higher of 4% of creditable compensation or average final compensation. • Plan members have one year from their date of hire or return from leave to purchase all but refunded prior service at approximate normal cost. After that one-year period, the rate for most categories of service will change to actuarial cost. <p><u>Defined Contribution Component:</u> Not applicable.</p>

B. Employees Covered by the Benefit Terms

As of the June 30, 2015 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

	Number
Inactive members or their beneficiaries currently receiving benefits	13
Inactive members:	
Vested inactive members	3
Non-vested inactive members	5
Inactive members active elsewhere in VRS	6
Total inactive members	14
Active members	22
Total covered employees	49

PEPPER'S FERRY REGIONAL WASTEWATER TREATMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

6. PENSION PLAN (continued)

C. Contributions

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

The Authority's contractually required contribution rate for the year ended June 30, 2017 was 10.25% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015.

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 \$110,464 and \$123,465 for the years ended June 30, 2017 and June 30, 2016, respectively.

D. Net Pension Liability

The Authority's net pension liability was measured as of June 30, 2016. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2015, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2016.

E. 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, 2015, 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, 2016.

Inflation	2.50%
Salary increases, including inflation	3.5% - 5.35%
Investment rate of return	7.0% , net of pension plan investment expense, including inflation *

* Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 7.0% . However, since the difference was minimal, and a more conservative 7.0% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 7.0% to simplify preparation of pension liabilities.

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

Largest 10 – Non-LEOS:

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

PEPPER'S FERRY REGIONAL WASTEWATER TREATMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

6. PENSION PLAN (continued)

E. Actuarial Assumptions - General Employees (continued)

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

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

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period from July 1, 2008 through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follows:

Largest 10 – Non-LEOS:

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

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

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

F. Long-Term Expected Rate of Return

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

Asset Class (Strategy)	Target Allocation	Arithmetic Long-Term Expected Rate of Return	Weighted Average Long-Term Expected Rate of Return
U.S. Equity	19.50%	6.46%	1.26%
Developed Non-U.S. Equity	16.50%	6.28%	1.04%
Emerging Market Equity	6.00%	10.00%	0.60%
Fixed Income	15.00%	0.09%	0.01%
Emerging Debt	3.00%	3.51%	0.11%
Rate Sensitive Credit	4.50%	3.51%	0.16%
Non Rate Sensitive Credit	4.50%	5.00%	0.23%
Convertibles	3.00%	4.81%	0.14%
Public Real Estate	2.25%	6.12%	0.14%
Private Real Estate	12.75%	7.10%	0.91%
Private Equity	12.00%	10.41%	1.25%
Cash	1.00%	-1.50%	-0.02%
Total	100.00%		5.83%
		Inflation	2.50%
		* Expected arithmetic nominal return (see next page for *)	8.33%

PEPPER'S FERRY REGIONAL WASTEWATER TREATMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

6. PENSION PLAN (continued)

F. Long-Term Expected Rate of Return (continued)

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

G. Discount Rate

The discount rate used to measure the total pension liability was 7.00% . The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2018, the rate contributed by the employer for the Authority Retirement Plan will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2018 on, participating employers are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

H. Changes in Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at June 30, 2015	\$ 3,303,395	\$ 2,582,346	\$ 721,049
Changes for the year:			
Service Cost	126,823	-	126,823
Interest	226,731	-	226,731
Differences between expected and actual experience	10,993	-	10,993
Contributions - employer	-	122,768	(122,768)
Contributions - employee	-	55,883	(55,883)
Net investment income	-	47,114	(47,114)
Benefit payments, including refunds of employee contributions	(128,759)	(128,759)	-
Administrative expenses	-	(1,554)	1,554
Other changes	-	(20)	20
Net Changes	235,788	95,432	140,356
Balances at June 30, 2016	\$ 3,539,183	\$ 2,677,778	\$ 861,405

I. 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 7.00% , 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 (6.00%) or one percentage point higher (8.00%) than the current rate:

	1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
Authority's Net Pension Liability	\$ 1,304,354	\$ 861,405	\$ 488,768

PEPPER'S FERRY REGIONAL WASTEWATER TREATMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

6. PENSION PLAN (continued)

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

For the year ended June 30, 2017, the Authority recognized pension expense of \$150,648. At June 30, 2017, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 57,210	\$ -
Change in assumptions	\$ -	\$ -
Net difference between projected and actual earnings on pension plan investments	\$ 70,262	\$ -
Employer contributions subsequent to the measurement date	\$ 110,464	\$ -
Total	\$ 237,936	\$ -

\$110,464 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 ended June 30, 2018. 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>		
2018	\$	33,858
2019	\$	25,528
2020	\$	41,017
2021	\$	27,069
2022	\$	-
Thereafter	\$	-

K. Pension Plan Data

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

7. OTHER POSTEMPLOYMENT BENEFITS - VRS HEALTH INSURANCE CREDIT

A. Plan Description

The Authority participates in the Health Insurance Credit Program, a plan designed to assist retirees with the cost of health insurance coverage. This program is an agent and cost sharing, multiple-employer defined benefit plan administered by the Virginia Retirement System (VRS). The Virginia General Assembly establishes the dollar amount of the health insurance credit for each year of creditable service. The credit amount and eligibility differs for state, school division, political subdivision, local officer, local social services department, and general registrar retirees.

An employee of the Authority, who retires under VRS with at least 15 years of total creditable service under the System and is enrolled in a health insurance plan, is eligible to receive a monthly health insurance credit of \$1.50 per year of creditable service. However, such credit shall not exceed the health insurance premium for the retiree. Disabled retirees are eligible to receive a maximum monthly health insurance credit of \$45.

PEPPER'S FERRY REGIONAL WASTEWATER TREATMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

7. OTHER POSTEMPLOYMENT BENEFITS - VRS HEALTH INSURANCE CREDIT (continued)

A. Plan Description (continued)

Benefit provisions and eligibility requirements are established by Title 51.1, Chapter 14 of the Code of Virginia. The VRS actuarially determines the amount necessary to fund all credits provided, reflects the cost of such credits in the applicable employer contribution rate pursuant to §51.1-145, and prescribes such terms and conditions as are necessary to carry out the provisions of the health insurance credit program. VRS issues separate financial statements as previously discussed in Note 6.

B. Funding Policy

As a participating local political subdivision, the Authority is required to contribute the entire amount necessary to fund participation in the program using the actuarial basis specified by the Code of Virginia and the VRS Board of Trustees. The Authority's contribution rate for the fiscal year ended June 30, 2017 was 0.31% of annual covered payroll.

C. Annual OPEB Cost and Net OPEB Obligation

The annual cost of OPEB under Governmental Accounting Standards Board (GASB) 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*, is based on the annual required contribution (ARC). The Authority is required to contribute the ARC, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

For 2017, the Authority's contribution of \$3,262 was equal to the ARC and OPEB cost. The Authority's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2017 and the preceding two years are as follows:

Fiscal Year Ending	Annual OPEB Cost (ARC)	Percentage of ARC Contributed	Net OPEB Obligation
6/30/2017	\$ 3,262	100.00%	\$ -
6/30/2016	\$ 3,844	100.00%	\$ -
6/30/2015	\$ 3,772	100.00%	\$ -

D. Funded Status and Funding Progress

The funded status of the plan as of June 30, 2016, the most recent actuarial valuation date, is as follows:

Actuarial accrued liability (AAL)	\$ 62,202
Actuarial value of plan assets	\$ 27,705
Unfunded actuarial accrued liability (UAAL)	\$ 34,497
Funded ratio (actuarial value of plan assets/AAL)	44.54%
Covered payroll (active plan members)	\$ 1,101,000
UAAL as a percentage of covered payroll	3.13%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future and reflect a long-term perspective. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

PEPPER'S FERRY REGIONAL WASTEWATER TREATMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

7. OTHER POSTEMPLOYMENT BENEFITS - VRS HEALTH INSURANCE CREDIT (continued)

E. Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used included techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The entry age normal cost method was used to determine the plan's funding liabilities and costs. The actuarial assumptions included a 7% investment rate of return, compounded annually, including an inflation component of 2.5% , and a payroll growth rate of 3% . The UAAL is being amortized as a level percentage of pay on a closed basis. The remaining amortization period at June 30, 2016 was 18 - 27 years.

The Retiree Health Insurance Credit benefit is based on a member's employer eligibility and his or her years of service. The monthly maximum credit amount cannot exceed the member's actual health insurance premium costs. The actuarial valuation for this plan assumes the maximum credit is payable for each eligible member. Since this benefit is a flat dollar amount multiplied by years of service and the maximum benefit is assumed, no assumption relating to healthcare cost trend rates is needed or applied.

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PEPPER'S FERRY REGIONAL WASTEWATER TREATMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

8. RISK MANAGEMENT

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

9. MEMBER TRANSACTIONS

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

Charges for services	\$ 3,821,540
Debt service payments	1,009,314
Balances due from members	395,993

See Note 1A for a description of members.

10. NEW ACCOUNTING STANDARDS

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

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

GASB Statement No. 81, *Irrevocable Split-Interest Agreements*, requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period. This Statement will be effective for the year ending June 30, 2018.

GASB Statement No. 83, *Certain Asset Retirement Obligations*, addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. This Statement requires that recognition occur when the liability is both incurred and reasonably estimable. This Statement will be effective for the year ending June 30, 2019.

GASB Statement No. 85, *Omnibus 2017*, addresses practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits). This Statement will be effective for the year ending June 30, 2018.

GASB Statement No. 86, *Certain Debt Extinguishment Issues*, improves consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. This Statement will be effective for the year ending June 30, 2018.

PEPPER'S FERRY REGIONAL WASTEWATER TREATMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

10. NEW ACCOUNTING STANDARDS (continued)

GASB Statement No. 87, *Leases*, increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. This Statement will be effective for the year ending June 30, 2021.

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

11. SUBSEQUENT EVENTS

In preparing the financial statements, Pepper's Ferry Regional Wastewater Treatment Authority has evaluated events and transactions for potential recognition or disclosure through October 20, 2017, the date the financial statements were available to be issued. Management is not aware of any subsequent events that occurred or other matters that should be disclosed.

SCHEDULE OF CHANGES IN THE AUTHORITY'S NET PENSION
LIABILITY AND RELATED RATIOS
YEAR ENDED JUNE 30, 2017

	2016	2015	2014
Total pension liability:			
Service cost	\$ 126,823	\$ 131,743	\$ 129,313
Interest	226,731	204,669	190,862
Changes of benefit terms	-	-	-
Differences between expected and actual experience	10,993	106,532	-
Changes in assumptions	-	-	-
Benefit payments, including refunds of employee contributions	(128,759)	(126,795)	(119,063)
Net change in total pension liability	235,788	316,149	201,112
Total pension liability - beginning	3,303,395	2,987,246	2,786,134
Total pension liability - ending (a)	\$ 3,539,183	\$ 3,303,395	\$ 2,987,246
Plan fiduciary net position:			
Contributions - employer	\$ 122,768	\$ 119,563	\$ 130,817
Contributions - employee	55,883	54,633	54,005
Net investment income	47,114	113,188	326,618
Benefit payments, including refunds of employee contributions	(128,759)	(126,795)	(119,063)
Administrative expense	(1,554)	(1,476)	(1,686)
Other	(20)	(24)	18
Net change in plan fiduciary net position	95,432	159,089	390,709
Plan fiduciary net position - beginning	2,582,346	2,423,257	2,032,548
Plan fiduciary net position - ending (b)	\$ 2,677,778	\$ 2,582,346	\$ 2,423,257
Authority's net pension liability - ending (a) - (b)	\$ 861,405	\$ 721,049	\$ 563,989
Plan fiduciary net position as a percentage of the total Pension liability	75.661%	78.172%	81.120%
Covered payroll	\$ 1,101,000	\$ 1,113,811	\$ 1,083,131
Authority's net pension liability as a percentage of the covered payroll	78.238%	64.737%	52.070%

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

SCHEDULE OF EMPLOYER CONTRIBUTIONS
YEAR ENDED JUNE 30, 2017

Date	Contractually Required Contribution (1)	Contributions in Relation to Contractually Required Contribution (2)	Contribution Deficiency (Excess) (3)	Employer's Covered Employee Payroll (4)	Contributions as a % of Covered Employee Payroll (5)
2017	\$ 150,648	\$ 150,648	\$ -	\$ 1,140,897	\$ 13.20%
2016	\$ 119,765	\$ 119,765	\$ -	\$ 1,101,000	\$ 10.88%
2015	\$ 123,201	\$ 123,201	\$ -	\$ 1,113,811	\$ 11.06%

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

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2017

1. Changes to Benefit Terms

There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation. The 2014 valuation includes Hybrid Retirement Plan members for the first time. The hybrid plan applies to most new employees hired on or after January 1, 2014 and not covered by enhanced hazardous duty benefits. Because this is a fairly new benefit and the number of participants was relatively small, the impact on the liabilities as of the measurement date of June 30, 2016 are not material.

2. Changes of Assumptions

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

Largest 10 – Non-LEOS:

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

Largest 10 – LEOS:

- Update mortality table
- Decrease in male rates of disability

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

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

All Others (Non 10 Largest) – LEOS:

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

SCHEDULE OF OPEB FUNDING PROGRESS
YEAR ENDED JUNE 30, 2017

Actuarial Valuation as of	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL) (3) - (2)	Funded Ratio (2)/(3)	Covered Payroll	UAAL as a Percent of Covered Payroll (4)/(6)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
6/30/2016	\$ 27,705	\$ 62,202	\$ 34,497	44.54%	\$ 1,101,000	3.13%
6/30/2015	\$ 26,594	\$ 63,296	\$ 36,702	42.02%	\$ 1,113,811	3.30%
6/30/2014	\$ 24,504	\$ 54,547	\$ 30,043	44.92%	\$ 1,083,131	2.77%
6/30/2013	\$ 19,207	\$ 49,697	\$ 30,490	38.65%	\$ 1,050,210	2.90%
6/30/2012	\$ 14,897	\$ 45,815	\$ 30,918	32.52%	\$ 971,140	3.18%
6/30/2011	\$ 12,779	\$ 45,149	\$ 32,370	28.30%	\$ 915,505	3.54%

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the *Specifications for Audits of Authorities, Boards, and Commissions*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the business-type activities of Pepper's Ferry Regional Wastewater Treatment Authority, as of and for the year ended June 30, 2017, 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 October 20, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Pepper's Ferry Regional Wastewater Treatment Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a deficiency in internal control, described in the accompanying schedule of findings and responses as item 2017-001 that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Pepper's Ferry Regional Wastewater Treatment Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts,

and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as item 2017-001.

The Authority's Response to Findings

The Authority's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

A handwritten signature in black ink that reads "Michael B. Cooke, CPA, PC". The signature is written in a cursive, flowing style.

Michael B. Cooke, CPA, PC
Blacksburg, Virginia
October 20, 2017

PEPPER'S FERRY REGIONAL WASTEWATER TREATMENT AUTHORITY

SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2017

SECTION I - FINANCIAL STATEMENT AUDIT FINDINGS

2017-001 Significant Deficiency - Pension Plan Contributions

Condition: Seven payments for Virginia Retirement System pension plan contributions were not submitted by the 10th of the following month being certified.

Criteria: The Virginia Retirement System requires pension plan contributions to be scheduled immediately following the contribution confirmation process which must occur by the 10th of the month following the month being certified. The payment must also be received by the 10th of the month following the month being certified.

Effect: The Authority was not in compliance with Virginia Retirement System requirements.

Recommendation: The Authority should implement internal control procedures to ensure payments are submitted by the 10th of the month.

Management Response: Management is aware of this compliance issue and will take the steps necessary to improve internal controls over pension plan contributions.

SECTION II - STATUS OF PRIOR AUDIT FINDINGS

None