PEPPER'S FERRY REGIONAL WASTEWATER TREATMENT AUTHORITY

FINANCIAL STATEMENTS

FOR THE YEAR ENDED
JUNE 30, 2015

PEPPER'S FERRY REGIONAL WASTEWATER TREATMENT AUTHORITY

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Michael B. Cooke, C.P.A., P.C.
Certified Public Accountants

6 Colony Park
2001 South Main Street
Blacksburg, Virginia 24060
(540) 953-1152

INDEPENDENT AUDITOR'S REPORT

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

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, 2015, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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, 2015, 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 on pages 6-10 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 14, 2015, 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, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Pepper's Ferry Regional Wastewater Treatment Authority's internal control over financial reporting and compliance.

Michael B. Cooke, CPA, PC

Michael B. Cooke, CPA, PC
Blacksburg, VA
October 14, 2015

Michael B. Cooke, C.P.A., P.C.
Certified Public Accountants

6 Colony Park
2001 South Main Street
Blacksburg, Virginia 24060
(540) 953-1152

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 and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, 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, 2015, 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 14, 2015.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Pepper's Ferry Regional Wastewater Treatment Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Pepper's Ferry Regional Wastewater Treatment Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of Pepper's Ferry Regional Wastewater Treatment Authority's internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Pepper's Ferry Regional Wastewater Treatment Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Michael B. Cooke, CPA, PC

Michael B. Cooke, CPA, PC
Blacksburg, VA
October 14, 2015

PEPPER'S FERRY REGIONAL WASTEWATER TREATMENT AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2015

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, 2015. It should be read in conjunction with the Authority's basic financial statements.

THE AUTHORITY AS A WHOLE

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

In February 2009, GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*; the objective of which is to enhance the usefulness of fund balance information and provide clearer fund balance classifications. The Authority implemented this standard beginning with the fiscal year ended June 30, 2011.

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 D, of the Notes to Basic Financial Statements.

The Authority's net assets for the year ended June 30, 2015 increased to $8,847,378 from $7,813,022 at June 30, 2014. *Nonspendable fund balance* increased to $6,215,991 at June 30, 2015 from $4,751,121 at June 30, 2014. *Committed fund balance* decreased to $1,479,527 at June 30, 2015 from $1,585,999 at June 30, 2014. *Assigned fund balance* decreased to $255,348 at June 30, 2015 from $255,369 at June 30, 2014. *Unassigned fund balance* decreased to $896,512 at June 30, 2015 from $1,220,533 at June 30, 2014.

Business-type Activities

The Authority is operated as a "business-type activity", or "enterprise fund activity." Business-type activities utilize the accrual basis of accounting and their statements provide both short and long-term financial information. Operating revenues for the Authority consist of two primary categories: wastewater treatment revenue and debt-service revenue. The discussion for debt service revenue will be presented later under "Debt." Wastewater treatment revenues for the year ended June 30, 2015 decreased by 9.65 percent ($3,749,934 compared to $4,150,634 as of June 30, 2014), while operating expenses decreased by 1.48 percent ($4,078,875 compared to $4,140,295 as of June 30, 2014). The factors driving these results are as follows:

Operating Revenue

Wastewater treatment revenue estimates used to develop the budget for the year ended June 30, 2015 were based on a five-year rolling flow average. Actual flows treated during the fiscal year were less than the five-year rolling flow average budgeted values by 1.3 percent, which accounts for a portion of the overall 9.65 percent decrease in revenues at June 30, 2015. The majority of the remaining decrease in wastewater treatment revenues is directly related to a 6.5 percent decrease in the treatment plant cost center rate when compared to the prior fiscal year, and a 7.4 percent decrease in the New River Pump Station cost center when compared to the prior fiscal year.

Operating Expenses

Generally, total operating expenses of the Authority for the year ended June 30, 2015 tracked closely with budgeted values, but did decrease by $61,420 overall when compared with actual expenditures for the year ended June 30, 2014; however, depreciation expense, which is included in the overall operating expense bottom line, decreased by $149,417 for the year ended June 30, 2015 ($1,496,064 compared to $1,645,481 as of June 30, 2014). Had depreciation expense not been a factor during the fiscal year ended June 30, 2015, overall operating expense would have been $87,997 more than actual expenditures for the prior fiscal year.

Other operating expenses worthy of note include the following: Payroll expenses, including wages, taxes, and employee benefits, increased $12,315 for the year ended June 30, 2015, due to cost of living and merit increases during the fiscal year ($1,674,768 compared to $1,662,453 as of June 30, 2014); Electricity costs, increased $18,635 for the fiscal year ended June 30, 2015 ($368,124 compared to $349,489 as of June 30, 2014); Fuel and fluids costs, decreased $14,416 for the fiscal year ended June 30, 2015 ($20,283 compared to $34,699 as of June 30, 2014); and Repairs and Maintenance, which increased $49,349 for the year ended June 30, 2015 ($137,763 compared to $88,414 as of June 30, 2014).

THE AUTHORITY'S FUNDS

Operational Fund Budgetary Highlights

The Authority continues to scrutinize the overall operations of the Authority so as to optimize fund usage through operational cost savings measures wherever possible. For the year ended June 30, 2015, the change in net assets of the Authority was $1,034,356, as compared to $981,642 for the year ended June 30, 2014. Net assets at June 30, 2015 totaled $8,847,378, an increase of $1,034,356 as compared to June 30, 2014. 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, 2015 ($45,540 and $19,299 respectively). These surplus funds were deposited into dedicated reserve accounts for future use in those cost centers as determined and approved by the Board of Directors. The Authority continued to maintain a sulfate allocation and surcharge program for the jurisdictions served by the Authority. Through this program, participating jurisdictions may acquire excess sulfate allocation for industrial applications through a surcharge program. The Authority then holds the funds collected through the surcharge in a reserve account for any future treatment plant repairs due to corrosion, as well as for media replacement in the digester gas scrubbers that remove sulfate from the digester gas.

Capital Fund Budgetary Highlights

The capital fund is supported by a separate rate structure than the operational budget. The Authority continued its focus toward replacement and enhancement of its capital assets during the fiscal year ended June 30, 2015. The primary capital fund project scheduled for the fiscal year was the construction of a new generator that replaced the existing two generators at the main treatment plant, the construction of the electrical switchgear that in essence is the brain of the electrical system at the main treatment plant, and construction of a new records storage and retention center located at the main treatment plant. The design and bidding phases for construction of these facilities was completed during the fiscal year ended June 30, 2014, and construction began late last fiscal year. Construction continued throughout the fiscal year ended June 30, 2015, with approximately $1,832,000 of the $2,000,000 project completed and booked as plant and equipment at year-end. The remainder of the project is anticipated to be complete and closed by mid-September 2015.

A second scheduled capital fund project completed at June 30, 2015 was the Supervisory Control and Data Acquisition (SCADA) system upgrade, which was necessary due to Microsoft no longer supporting the Windows XP platform after April 2015. All four dedicated SCADA computers were replaced, as well as all associated software. Additionally, the Authority installed new redundant DC voltage power supplies for all Programmable Logic Control (PLC) units, and replaced all Uninterruptable Power Supplies (UPS) for all SCADA computers and all PLC units. The Authority pre-purchased the hardware and software for this project, and obtained a systems integration firm to install and program the equipment, resulting in an overall savings of $40,000 or 32% of the budgeted $165,000.

A third scheduled capital fund project completed at June 30, 2015 was the replacement of the potable water supply water main, meter and valve vault, and fire hydrant assembly at the New River Pump Station. This was a relatively small capital project that was necessitated by frequent leaks in the old water main and was accomplished on budget.

One capital fund project that was accomplished but not budgeted was the replacement of approximately 340 feet of 36 inch diameter outfall pipe that transports treated effluent from the main treatment plant to the New River. A sink hole developed above the pipe, which alerted staff of a potential failure of the outfall pipe. The project required the stabilization of soil below the outfall pipe by injecting flowable cementitious grout below the existing pipe, then excavating the old concrete pipe and replacing it with new high density poly-ethylene (HDPE) pipe in between manholes 23 and 24 of the outfall pipe. The Authority incurred approximately $315,000 in expenses to accomplish this unanticipated capital project, which was funded through the use of unassigned fund balance ($1,220,533 at June 30, 2014, and subsequently $896,512 at June 30, 2015).

The Authority Board of Directors has adopted a long-term approach to the replacement of the Authority's capital assets. 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, 2015, the Authority has $14.2 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 increase in capital assets of $886,887 when compared with the capital assets value for the year ended June 30, 2014. The value of the Authority's capital assets increased primarily due to: asset acquisitions in the amount of $2,383,208; depreciation expense of $1,496,064 and disposition of plant and equipment with a book value of $257; for a total increase of depreciable assets in the amount of $886,887, as compared to the decrease of $1,125,372 for the year ended June 30, 2014. Considering depreciation expense during the fiscal year ended June 30, 2015, was $1,496,064 and the asset acquisitions were $2,383,208, reinvestment in capital assets outpaced depreciation. At June 30, 2015, construction in progress totaled $49,377, 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, 2015:

Land	$	441,841
Plant and Equipment	$	50,164,157
Subtotal	$	50,605,998
Accumulated Depreciation	$	(36,446,216)
Total	$	14,159,782

It should also be noted that $370,517 in depreciable assets (plant and equipment) were removed from the books for the year ended June 30, 2015 due to disposal and/or retirement of assets no longer in use by the Authority; these disposals resulted in a net loss of $257 and were mentioned previously regarding calculation of the overall decrease in capital assets above.

Debt

As of June 30, 2015, the Authority has $8.0 million in outstanding debt, compared to $8.9 million at year ended June 30, 2014. The Authority's long-term debt was structured across four separate bond issues; 2002a series (retired), 2002b series, 2003 series (retired), 2006 series (retired). The 2002a series bonds were retired in the year 2012. The 2003 series bonds were retired in the year 2010. The 2002b series bonds carry a fixed interest rate of 1.00% and are scheduled to be retired in the year 2024 (annual P & I payment of $657,556 through 2010, then $801,556 through 2024). The 2006 series bonds were retired in the fiscal year ended June 30, 2014 by issuing the 2014 series bond refunding. The 2014 series bond refunding, a fifth separate bond issue, carries an interest rate of 1.85% with principal and interest paid monthly and is scheduled to be retired in April 2021.

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

Current Fiscal Year

The Board of Directors evaluated the existing treatment and pump station rate structure, as well as other rates, fees, and direct charges during the year ended June 30, 2014. That evaluation resulted in the establishment of new rates effective July 1, 2014 for the three primary cost centers, with one minor cost center rate remaining unchanged. The Board reconsiders the adequacy of the Authority's treatment and pump station rate structure during the budget process each fiscal year. Based on current trends associated with various cost indices, the Authority realizes that future increases in rates, fees, and direct charges may be necessary so as to keep pace with increased costs to operate the system.

Effective July 1, 2013, realizing the future requirements of GASB 68 related to financial reporting for pension plans, the Authority began disclosing the Net Pension Liability (NPL) for its Virginia Retirement System (VRS) pension plan on its balance sheet ($841,442 at July 1, 2013). Concurrent with this liability disclosure, the Authority also established an offset reserve asset account (included in the Committed Fund Balance under Net Assets on "Exhibit A") with an initial deposit of $100,000 to partially fund the liability. Additional deposits into this account were made throughout the years ended June 30, 2014 and 2015. For the fiscal year ended June 30, 2015, the balance in this offset account was $205,172. At June 30, 2015, the VRS pension plan NPL was $563,989. Therefore, at June 30, 2015 the Authority had funded the VRS retirement NPL to the level of 36.379 percent ($205,172 divided by $563,989). The Authority uses the most recent actuarial report provided by the VRS; for the Authority's year ended June 30, 2015, the most recent VRS actuarial report is dated June 30, 2014. The Authority Board of Directors may consider additional funding of the VRS NPL in the future, at its discretion, as funds and rate structures allow.

Next Fiscal Year

The Authority is currently experiencing a relatively flat five-year average flow volume received at the treatment plant. As such, it is anticipated that modest rate increases in future budgets may be necessary to fund the ever increasing costs to operate the Authority's facilities. For the fiscal year beginning July 1, 2015, the treatment plant cost center rate was increased by 3.1 percent; however, given the net surplus conditions experienced at the pump station costs centers in recent years, the New River Pump Station cost center rate was reduced by 3.4 percent, and the Radford Pump Station cost center rate was reduced by 2.5 percent. All other rates are proposed to remain virtually flat for the year beginning

July 1, 2015. It is anticipated these rate changes will result in level funding of the Authority's operations for the upcoming year.

The Authority will complete the scheduled capital project during the fiscal year ending June 30, 2016, which is the professional engineering evaluation and design of the solids handling equipment upgrades at the treatment plant. Additionally, an evaluation of the administration building at the treatment plant is scheduled, with consideration being made for upgrades and possible expansion of that building. Lastly, a professional engineering firm will evaluate the New River and Radford pumping station for consideration of capital project needs. These evaluation and design projects will be funded through direct CIP charges to the member jurisdictions throughout the fiscal year, with any unused funds being set aside for future CIP projects.

Financial goals for the fiscal year ending June 30, 2016 are as follows:

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

CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

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

PEPPER'S FERRY REGIONAL WASTEWATER TREATMENT AUTHORITY Exhibit A

STATEMENT OF NET ASSETS
AT JUNE 30, 2015

ASSETS	
CURRENT ASSETS:	
Cash and cash equivalents	$ 2,759,592
Trust funds - current	255,348
Accounts receivable	23,154
Accounts receivable - members	338,285
Total current assets	3,376,379
FIXED ASSETS:	
Land	441,841
Plant and equipment (net of accumulated depreciation of $36,446,216)	13,717,941
Construction in Progress	49,377
Total fixed assets	14,209,159
OTHER ASSETS:	
Bond costs (net of $4,914 amortization)	18,836
Total other assets	18,836
TOTAL ASSETS	$ 17,604,374
LIABILITIES	
CURRENT LIABILITIES:	
Accounts payable	32,423
Accrued vacation and compensation payable	109,530
Accrued payroll and payroll taxes	27,583
Payroll liabilities	11,384
Accrued interest payable	18,919
Current portion of refunding bonds payable	184,335
Current portion of VA revolving fund loan payable	734,563
Total current liabilities	1,118,737
NONCURRENT LIABILITIES:	
VRS retirement Net Pension Liability	563,989
Refunding bonds payable	926,363
VA revolving fund loan	6,147,907
Total noncurrent liabilities	7,638,259
TOTAL LIABILITIES	8,756,996
NET ASSETS	
Nonspendable fund balance	6,215,991
Restricted fund balance	-
Committed fund balance	1,479,527
Assigned fund balance	255,348
Unassigned fund balance	896,512
TOTAL NET ASSETS	8,847,378
TOTAL LIABILITIES AND NET ASSETS	$ 17,604,374

See notes to financial statements.

PEPPER'S FERRY REGIONAL WASTEWATER TREATMENT AUTHORITY Exhibit B

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2015

OPERATING REVENUES	
Charges for Services	
Waste treatment charges	$ 3,749,934
Debt service revenue	1,008,773
Miscellaneous revenues	58,521
Total operating revenues	4,817,228
OPERATING EXPENSES	
Salaries and wages	1,155,596
Payroll taxes	89,293
Employee benefits	429,879
Chemical supplies	84,519
Computer expenses	6,211
Dues, licenses, and subscriptions	21,607
Electricity	368,124
Equipment rental	3,593
Food, travel, and lodging	8,763
Fuel and fluids	20,283
Insurance and bonding	44,843
Office supplies, postage, and advertising	8,355
Other materials and supplies	14,061
Professional fees	73,056
Repairs and maintenance	137,763
Telephone and communications	13,151
Training and education	6,878
Water	30,684
Other operating costs	66,152
Depreciation	1,496,064
Total operating expenses	4,078,875
OPERATING INCOME (LOSS)	738,353
NON-OPERATING REVENUES (EXPENSES)	
Dividend and interest income	48,632
Gain (loss) on sale of assets	59,568
Interest expense	(94,553)
Amortization of bond costs and discounts	(3,276)
Trustee fees	(4,005)
(Increase) decrease to VRS Net Pension Liability	289,637
Total non-operating revenues (expenses)	296,003
CHANGE IN NET ASSETS	1,034,356
NET ASSETS, JULY 1, 2014	7,813,022
NET ASSETS, JUNE 30, 2015	$ 8,847,378

See notes to financial statements.

PEPPER'S FERRY REGIONAL WASTEWATER TREATMENT AUTHORITY Exhibit C

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2015

CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received From:		
Customers	$	4,836,606
Cash Paid to/for:		
Employees		(1,673,359)
Suppliers		(894,227)
Net Cash Flows from Operating Activities		2,269,020
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
None		-
Net Cash Flows from Non-Capital Financing Activities		-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of capital assets		(2,003,619)
Proceeds from sale of capital assets and scraps		59,825
Construction in progress		(49,377)
Payment of principal		(908,195)
Interest on debt		(96,650)
Trustee fees		(4,005)
Net Cash Flows from Capital and Related Financing Activities		(3,002,021)
CASH FLOWS FROM INVESTING ACTIVITIES		
Change in trust funds		21
Interest and dividends received		48,632
Net Cash Flows from Investing Activities		48,653
NET CHANGE IN CASH AND CASH EQUIVALENTS		(684,348)
Cash and Cash Equivalents, July 1, 2014		3,443,940
Cash and Cash Equivalents, June 30, 2015	$	2,759,592

RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FLOWS FROM OPERATING ACTIVITIES		
Operating income (loss)	$	738,353
Add: Depreciation		1,496,064
Change in Current Assets and Current Liabilities		
(Increase) Decrease in Current Assets:		
Accounts receivable		(2,220)
Accounts receivable - members		21,598
Increase (Decrease) in Current Liabilities:		
Accounts payable		13,816
Accrued vacation and compensation payable		1,352
Accrued payroll and payroll taxes		72
Payroll liabilities		(15)
Net Cash Flows from Operating Activities	$	2,269,020

NON-CASH ACTIVITIES		
Amortization of bond issue costs	$	3,276
Depreciation	$	1,496,064
Loss on disposal of fixed assets	$	257
(Increase) decrease to VRS Net Pension Liability	$	289,637

See notes to financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Background of Authority

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

B. Financial Statement Presentation

In February 2009, Governmental Accounting Standards Board (GASB) issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The objective of GASB Statement No. 54 is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund-type definitions. Beginning with year end June 30, 2011, fund balance is displayed using the following classifications:

1) Nonspendable fund balance - Amounts that are not in a spendable form or are required to be maintained intact.

2) Restricted fund balance - Amounts constrained to specific purposes by their providers, through constitutional provisions, or by enabling legislation.

3) Committed fund balance - Amounts constrained to specific purposes by a government itself, using its highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest-level action to remove or change the constraint.

4) Assigned fund balance - Amounts a government *intends* to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority.

5) Unassigned fund balance - Amounts that are available for any purpose.

In June 1999, Governmental Accounting Standards Board (GASB) issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments.* GASB Statement No. 34 established new requirements and a new reporting model for the annual financial reports of state and local governments. GASB Statement No. 34 was developed to make annual reports easier to understand and more useful to people who use governmental financial information to make decisions. GASB Statement No. 34 includes:

1) Management's Discussion and Analysis (MD&A) - MD&A introduces the basic financial statements and provides an analytical overview of the Authority's financial activities in a narrative format. An analysis of the Authority's overall financial position and results of operations is included to assist users in assessing whether financial position has improved or deteriorated as a result of the year's activities.

2) Statement of Net Assets - Presents business-type activities on the full accrual, economic resource basis, which incorporates long-term assets and long-term debt and obligations.

3) Proprietary Fund - Accounts for operations that are financed and operated in a manner similar to private business enterprises. The proprietary fund's measurement focus is on the flow of economic resources. Operating revenues include charges for services. Operating expenses include personnel services, as well as materials and supplies, depreciation, and other expenses used in the normal course of operations.

   a) Enterprise Fund - Finances and accounts for the acquisition, operation, and maintenance of facilities and services that are supported by user charges.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

B. Financial Statement Presentation, continued

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Authority has selected one of the two options available for proprietary fund reporting. The Authority applies all applicable GASB pronouncements and all Financial Accounting Research Bulletins (ARB) issued on or after November 30, 1989, unless they conflict with or contradict GASB pronouncements.

C. Estimates

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

D. Retirement Plan Funding

GASB Statement No. 68, *Accounting and Financial Reporting for Pension Plans* replaces the requirement of GASB Statements No. 27 and No. 50 as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. The Statement requires governments providing defined benefit pensions to recognize the long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The Statement also enhances accountability and transparency through revised and new note disclosures and required supplementary information, including disclosing descriptive information about the types of benefits provided, how contributions to the pension plan are determined, and assumptions and methods used to calculate the pension liability. The Statement is effective for the year-ended June 30, 2015.

The Authority's Board of Directors elected early implementation, in the previous year-ended June 30, 2014, and recognizes the full amount of the Virginia Retirement System Net Pension Liability (VRS NPL) using VRS actuarial assumptions presented in the schedule of changes in the net pension liability; the most recent actuarial measurement date is used to determine this liability. For the fiscal year-ended June 30, 2015, the most recent actuarial measurement date is June 30, 2014.

During the fiscal year-end June 30, 2015, a decrease to the NPL, in the amount of $289,637, was recognized as non-operating inome. At June 30, 2015, the balance of the Net Pension Liability is $563,989 and is recorded as a long-term liability. See Note 10 for full VRS disclosure, and required supplementary information for schedule of changes in the net pension liability and employer's contributions.

In 2013, the Authority's Board of Directors also elected to partially fund the NPL through an offset account as funds and rate structures allow; at June 30, 2015, the established reserve offset account balance is $205,172. This reserve offset account and the associated NPL, are classified as committed fund balance within the net assets; at June 30, 2015 the NPL liability is in excess of the reserve offset account balance by an amount of $358,817.

2. CASH AND CASH EQUIVALENTS

All cash of the Authority is maintained in accounts collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.1-359 et. seq., of the Code of Virginia or covered by Federal Deposit Insurance Corporation.

The authority considers the following as cash and cash equivalents: checking account deposits, interest bearing demand deposits, and certificates of deposit.

2. CASH AND CASH EQUIVALENTS, continued...

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.

Cash and cash equivalents at June 30, 2015 consisted of bank accounts as follows:

1) Plant operations and maintenance	$ 716,076
2) Treatment plant, capital improvements projects	137,145
3) Improvement fund	216,823
4) Sulfate corrosion fund	326,889
5) Treatment plant reserves	805,941
6) Radford PS reserves	214,156
7) New River PS reserves	137,390
8) Retirement NPL reserve offset	205,172
Total cash and cash equivalents	$ 2,759,592

3. TRUST FUNDS

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.

These funds, in accordance with the Master Trust Agreement, are held in the following accounts or trust funds at June 30, 2015 (see note 4 for definitions of categories):

	Category 1	Category 2	Category 3	Fair Value
Trust funds - current:				
1) Bond interest trust fund	$ -	$ 22,189	$ -	$ 22,189
2) Bond redemption escrow fund	-	233,159	-	233,159
Trust funds - noncurrent:				
None	-	-	-	-
Total Trust Funds, current and noncurrent	$ -	$ 255,348	$ -	$ 255,348

4. INVESTMENTS

Statutes authorize the local governments and other public bodies to invest in obligations of the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, obligations of the International Bank for Reconstruction and Development (World Bank), and Asian Development Bank, "prime quality" commercial paper and certain corporate notes, banker's acceptances, repurchase agreements, and the State Treasurer's Local Government Investment Pool (LGIP).

4. INVESTMENTS, continued...

Investments are categorized below to give an indication of the level of risk assumed by the entity at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the government or its safekeeping agent in the government's name. Category 2 includes unregistered investments for which the securities are held by the broker's or dealer's trust department or safekeeping agent in the government's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its trust department or safekeeping agent but not in the government's name.

At June 30, 2015, the Authority's investment balances were as follows:

	Category 1	Category 2	Category 3	Fair Value
None	$ -	$ -	$ -	$ -

5. ACCOUNTS RECEIVABLE

There is no allowance for doubtful accounts, as management estimates receivables to be 100.0% collectible.

6. RELATED PARTY TRANSACTIONS

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

Charges for services	$ 3,749,934
Debt service payments	1,008,773
Balances due from members	338,285

7. COMPENSATED ABSENCES

It is the Authority's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the Authority does not have a policy to pay any amounts when employees separate from service with the Authority. All vacation pay is accrued when incurred in the proprietary fund financial statements.

8. LAND, PLANT AND EQUIPMENT

Land and plant and equipment are recorded at cost. Capitalization threshold for assets is $1,500. Depreciation is calculated using the straight-line method over the assets' estimated useful lives as follows:

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

Components of the Authority's capital assets at June 30, 2015 are summarized as follows:

Land	$ 441,841
Plant and equipment	50,164,157
Subtotal	50,605,998
Accumulated depreciation	(36,446,216)
Capital assets, net	$ 14,159,782

During the fiscal year-end June 30, 2015, the Authority disposed of plant and equipment with an original cost of $670,517; these dispositions resulted in a loss of $257.

Depreciation expense for the fiscal year-end June 30, 2015 was $1,496,064.

8. LAND, PLANT AND EQUIPMENT, continued...

The Authority's capital asset activity for the year-end June 30, 2015 is as follows:

	Balance 6/30/14	Increases	Decreases	Balance 6/30/15
Capital assets not being depreciated:				
Land	$ 441,841	-	-	$ 441,841
Total nondepreciable assets	441,841	-	-	441,841
Depreciable assets:				
Plant and equipment	48,451,466	2,383,208	(670,517)	50,164,157
Total depreciable assets	48,451,466	2,383,208	(670,517)	50,164,157
Less accumulated depreciation:				
Plant and equipment	(35,620,412)	(1,496,064)	670,260	(36,446,216)
Total accumulated depreciation	(35,620,412)	(1,496,064)	670,260	(36,446,216)
Business-type activities capital assets, net	$ 13,272,895	887,144	(257)	$ 14,159,782

9. BONDS PAYABLE

A. 2002b VA Revolving Loan Fund

In December 2002, the Authority issued bonds of $13,400,000; proceeds were used for construction purposes. The bonds bear interest at an annual rate not to exceed 1.00% and are payable in semi-annual installments of combined principal and interest beginning on April 1, 2005 and ending April 1, 2024. As of June 30, 2015, the outstanding balance was $6,882,470. The following is a breakdown of annual principal and interest payments:

Year ending June 30,	Principal	Interest
2016	734,563	66,993
2017	741,927	59,629
2018	749,365	52,191
2019	756,878	44,679
2020	764,465	37,091
2021-2024	3,135,272	70,954
	$ 6,882,470	$ 331,537

Interest expense for the fiscal year ended June 30, 2015 was $74,284.

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, 2015, the outstanding balance was $1,110,698. The following is a breakdown of annual principal and interest payments:

Year ending June 30,	Principal	Interest
2016	184,335	18,990
2017	187,870	15,550
2018	191,220	12,047
2019	194,877	8,478
2020	198,432	4,843
2021	153,964	1,209
	$ 1,110,698	$ 61,117

Interest expense for the fiscal year ended June 30, 2015 was $22,366.

10. PENSION PLAN

A. Plan Description

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

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

RETIREMENT PLAN PROVISIONS

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

10. PENSION PLAN, continued…

A. Plan Description, continued…

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

10. PENSION PLAN, (continued)

A. Plan Description, (continued)

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

10. PENSION PLAN, continued…

A. Plan Description, continued…

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

10. PENSION PLAN, continued…

A. Plan Description, continued…

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

10. PENSION PLAN, continued...

A. Plan Description, continued...

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

10. PENSION PLAN, continued...

A. Plan Description, continued...

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

10. PENSION PLAN, continued…

A. Plan Description, continued…

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

B. Employees Covered by the Benefit Terms

As of the June 30, 2013 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

	Number
Inactive members or their beneficiaries currently receiving benefits	11
Inactive members:	
Vested inactive members	2
Non-vested inactive members	7
Inactive members active elsewhere in VRS	7
Total inactive members	16
Active members	21
Total covered employees	48

10. PENSION PLAN, continued…

C. Contributions

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

The political subdivision’s contractually required contribution rate for the year ended June 30, 2015 was 10.96% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2013.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the political subdivision were $123,201 and $132,173 for the years ended June 30, 2015 and June 30, 2014, respectively.

D. Net Pension Liability

The political subdivisions net pension liability was measured as of June 30, 2014. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2013, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2014.

E. Actuarial Assumptions - General Employees

The total pension liability for General Employees in the Political Subdivision’s Retirement Plan was based on an actuarial valuation as of June 30, 2013, 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, 2014.

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

10. 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, 2013 valuation were based on the results of an actuarial experience study for the period from July 1, 2008 through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follows:

Largest 10 – Non-LEOS:
- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

All Others (Non 10 Largest) – Non-LEOS:
- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

F. Long-Term Expected Rate of Return

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

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

(see next page for *)

10. PENSION PLAN, continued…

F. Long-Term Expected Rate of Return, continued

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

G. Discount Rate

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

H. Changes in Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at June 30, 2013	$ 2,786,134	$ 2,032,548	$ 753,586
Changes for the year:			
Service Cost	129,313	-	129,313
Interest	190,862	-	190,862
Differences between expected and actual experience			
Contributions - employer	-	130,817	(130,817)
Contributions - employee	-	54,005	(54,005)
Net investment income	-	326,618	(326,618)
Benefit payments, including refunds of employee contributions	(119,063)	(119,063)	-
Administrative expenses	-	(1,686)	1,686
Other changes	-	18	(18)
Net Changes	201,112	390,709	(189,597)
Balances at June 30, 2014	$ 2,987,246	$ 2,423,257	$ 563,989

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

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

	1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
Political subdivision's Net Pension Liability	$ 948,011	$ 563,989	$ 241,988

11. FUND BALANCES CLASSIFICATION POLICIES AND PROCEDURES

At June 30, 2015, Net Assets consist of the following:

A. Nonspendable fund balance		
Invested in fixed assets	$ 14,209,159	
Less: Related debt	(7,993,168)	
Total nonspendable fund balance		$ 6,215,991
B. Restricted fund balance		
None	$ -	
Total restricted fund balance		$ -
C. Committed fund balance		
Treatment plant, capital improvements projects	$ 137,145	
Improvement fund	216,823	
Sulfate corrosion fund	326,889	
Treatment plant reserves	805,941	
Radford PS reserves	214,156	
New River PS reserves	137,390	
Retirement Net Pension Liability reserve offset	205,172	
VRS retirement Net Pension Liability	(563,989)	
Total committed fund balance		$ 1,479,527
D. Assigned fund balance		
Bond interest trust fund	$ 22,189	
Bond redemption escrow fund	233,159	
Total assigned fund balance		$ 255,348
E. Unassigned fund balance		
All remaining funds	$ 896,512	
Total unassigned fund balance		$ 896,512
Total Net Assets, at June 30, 2015		$ 8,847,378

Committed fund balance - The government's highest level of decision-making authority is the board of directors. The formal action required to establish (and modify or rescind) a fund balance commitment is a majority vote of the board of directors.

Assigned fund balance - The board of directors is authorized to assign amounts to a specific purpose, such as principal and interest bond funds held by the Trustee. The Master Trust Agreement, as mentioned in Note 3, governs the means and methods by which trust funds are received and disbursed by the Trustee and/or the Authority.

12. 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.

13. 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 9, 2015, 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.

PEPPER'S FERRY REGIONAL WASTEWATER TREATMENT AUTHORITY — Exhibit D

SCHEDULE OF CHANGES IN THE EMPLOYER'S NET PENSION LIABILITY AND RELATED RATIOS

		2014
Total pension liability:		
Service cost	$	129,313
Interest		190,862
Changes of benefit terms		-
Differences between expected and actual experience		-
Changes in assumptions		-
Benefit payments, including refunds of employee contributions		(119,063)
Net change in total pension liability		201,112
Total pension liability - beginning		2,786,134
Total pension liability - ending (a)	$	2,987,246
Plan fiduciary net position:		
Contributions - employer	$	130,817
Contributions - employee		54,005
Net investment income		326,618
Benefit payments, including refunds of employee contributions		(119,063)
Administrative expense		(1,686)
Other		18
Net change in plan fiduciary net position		390,709
Plan fiduciary net position - beginning		2,032,548
Plan fiduciary net position - ending (b)	$	2,423,257
Political subdivision's net pension liability - ending (a) - (b)	$	563,989
Plan fiduciary net position as a percentage of the total Pension liability		81.120%
Covered-employee payroll	$	1,083,131
Political subdivision's net pension liability as a percentage of the covered-employee payroll		52.070%

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

SCHEDULE OF CHANGES IN THE EMPLOYER'S CONTRIBUTIONS

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)
2015	$ 123,201	$ 123,201	$ -	$ 1,153,962	$ 10.68%

Notes to the Schedule

Valuation date:

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

Methods and assumptions used to determine contribution rates:

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

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

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

1. Changes to Benefit Terms

There have been no significant changes to the System benefit provisions since the prior actuarial valuation. A hybrid plan with changes to the defined benefit plan structure and a new defined contribution component were adopted in 2012. The hybrid plan applies to most new employees hired on or after January 1, 2014 and not covered by enhanced hazardous duty benefits. The liabilities presented do not reflect the hybrid plan since it covers new members joining the System after the valuation date of June 30, 2013.and the impact on the liabilities as of the measurement date of June 30, 2014 are minimal.

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