900 Magazine Rd.
Petersburg, VA 23803
Office: (804) 861-0111
Fax: (804) 861-3254

South Central Wastewater Authority

Board of Directors Meeting

DATE: **November 17, 2016**

TIME: **2:00 PM**

LOCATION: **South Central Wastewater Authority**
Board Room, Administration Building
900 Magazine Road
Petersburg, Virginia 23803

AGENDA

1. Call to Order/Roll Call
2. Approval of Minutes: Minutes of the Regular Meeting of the Board on September 15, 2016 and Minutes of the Joint Special Meeting of the South Central Wastewater Authority and Appomattox River Water Authority Boards on October 20, 2016.
3. Public Comment
4. Executive Director's Report:
    - Potential U.S. EPA Regulatory Impact on the SCWWA
    - Presentation of Annual Financial Report: Dixon Hughes Goodman
    - Recommendation on Legal Services
    - Proposed 2017 Board Meeting Dates
    - Status Report: Ongoing Projects/Financials/I&I
    - Petersburg Budget Impact Update
    - Election of Authority Officers

      Present Chairman: Robert Wilson
      Vice-Chairman: Percy Ashcraft
      Secretary/Treasurer: Vacant
5. Items from Counsel
6. Closed Session
7. Other Items from Board Members/Staff Not on Agenda:
8. Adjourn

Cc:W. Dupler/G. Hayes, Chesterfield
D. Harrison, Petersburg Public Works
C. England, Prince George
W. Henley/W. Johnson/ C. Fisher, Colonial Heights
K. Massengill, Dinwiddie County
A. Anderson/D. Mullen, McGuire Woods

1. **Call to Order/Roll Call**

2. **Approval of Minutes: Minutes of the Regular Meeting of the Board on September 15, 2016 and Minutes of the Joint Special Meeting of the South Central Wastewater Authority and Appomattox River Water Authority Boards on October 20, 2016.**

   Following are the minutes of the Regular Meeting of the Board on September 15, 2016 and Minutes of the Joint Special Meeting of the South Central Wastewater Authority and Appomattox River Water Authority Boards on October 20, 2016.

   Absent any corrections or revisions, we recommend approval of the minutes as submitted.

BOARD OF DIRECTORS MEETING
South Central Wastewater Authority
September 15, 2016 at 2:00 p.m.
Location: South Central Wastewater Authority
900 Magazine Road, Petersburg, Virginia

PRESENT:
Robert B. Wilson, Chairman (Dinwiddie)
Percy Ashcraft, Vice-Chairman (Prince George)
George Hayes, (Alternate, Chesterfield)
Daniel Harrison, (Alternate, Petersburg)
William Johnson, (Alternate, Colonial Heights)
Charles England, (Alternate, Prince George)
Kevin Massengill, (Alternate, Dinwiddie)

ABSENT:
William Dupler, (Alternate, Chesterfield)
William Henley, (Colonial Heights)
Joseph Casey, (Chesterfield)
Dironna Belton, (Petersburg)

STAFF:
Robert C. Wichser, Executive Director, (ARWA & SCWWA)
James C. Gordon, Asst. Executive Director (ARWA & SCWWA)
Arthur Anderson, (McGuire Woods)
Melissa Wilkins, Accounting/Office Manager (ARWA & SCWWA)
Kathy Summerson, Administrative Assistant (SCWWA)

OTHERS:
Hugh P. Fisher, III, (City Attorney, Colonial Heights)
Roy Covington, (Arcadis)
Mary Sadler, (Hazen & Sawyer)
Chris Tabor, (Hazen & Sawyer)

Mr. Wilson, Chairman, called the Board of Directors meeting to order at 2:02 p.m.

1. **Call to Order/Roll Call.**

The roll was called.

2. **Approval of Minutes: Minutes of the Regular Meeting of the Board on August 18, 2016.**

Upon a motion made by Mr. Hayes and seconded by Mr. Harrison the following resolution was adopted:

RESOLVED, that the minutes of the Regular Meeting of the Board on August 18, 2016 are hereby approved:

For: 5 Against: 0 Abstain: 0

3. **Public Comment**

There were no public comments.

4. **Executive Director Report**

- **Local Limit Assessment for Fats, Oil, Grease and pH.**

Dr. Wichser introduced Mary Sadler of Hazen and Sawyer who gave a presentation regarding Local Limit Assessment for TPH, Fats Oil, Grease (FOG) and pH. Hazen's recommendation to the Authority is to modify the existing sewer use ordinance to allow for industrial use-specific pretreatment limits. The language should be non-specific such that any pollutant could be limited if pass-through interference were to occur in the collection or wastewater treatment system. Based on the recommendations of this assessment, the sewer use ordinance could be revised to allow industrial laundries a specific narrative pretreatment limit for Fats, Oils and Grease. Dr. Wichser asked the Board to accept and approve the Hazen recommendation and move forward and modify the existing SCWWA's numerical pretreatment standards for fats, oil and grease, adopting a qualitative narrative statement that is specific to the industrial laundry industry. Dr. Wichser stated that we would work through our Pretreatment Coordinator in coordination and approval by the City of Petersburg since we operate the pretreatment program for the City of Petersburg. He stated that we need to work through the City to have them actually make the change to their sewer use ordinance. He requested that the Board allow him to move forward and accomplish this action. Dr. Wichser stated that he wants to have this action item completed by December 31, 2016. In drafting the changes, we would be working with the City of Petersburg's Attorney and Mr. Harrison to implement adoption of this pre-treatment change. Two public notices would need to be issued and could be adopted at one of the upcoming City Council meetings to be held in October, November and December.

Upon a motion made by Mr. Hayes and seconded by Mr. Johnson the following resolution was adopted:

RESOLVED, that the Executive Director is authorized to implement the recommendations of the Hazen and Sawyer study:

For: 5 Against: 0 Abstain: 0

- **City of Petersburg's Expected Budget Impact**

Mr. Wilson explained that there are two parts to this agenda item. The first part is the status of the numbers that staff has figured out if we are not successful in receiving the money due from Petersburg and how that leaves SCWWA impacted financially and the update as far as we stood on the motion taken on August 18, 2016 that will be done later.

Dr. Wichser stated we had met with Mr. Wilson approximately two weeks ago and briefed him on our projections based on the 2016-2017 budget impacts related to the City of Petersburg's lack of revenue stream. Mr. Wilson developed a memorandum dated September 21, 2016 and has provided this to all Board members. Mr. Wilson stated the presentation that he mentioned in the cover email with the memorandum are include and that the last page of the attachment was added to provide estimates of the Petersburg impact on potential rate changes. Mr. Wilson stated that he had a discussion with Mr. Hayes about how potentially to appropriate the cost between the different members if Petersburg continued to default on paying their required revenue stream. The original numbers Mr. Wilson sent out were plant allocation based. He talked with Mr. Gordon about if we calculated the potential rate change based on the flows we actually used each year and those numbers are also available. Dr. Wichser stated projected budget impacts had been developed in a Power Point presentation by Ms. Wilkins. The Power Point presentation slides represent estimates based on not utilizing our $1.3 million reserve fund and also not utilizing our two million dollar equipment replacement and repair fund. The Power Point slides clearly shows that by the end of January we are not going to be able to make our account payables unless either additional cash is received or we tap our reserve fund. Account receivables will be impacted greatly to the amount of about $400,000 per month due to the lack of Petersburg's payment. If SCWWA fails to pay for electric and chemicals, our federal/state discharge permit would be impacted and we would not be able to effectively treat the wastewater. Mr. Wilson stated that we are not looking to vote on anything today. We are just trying to illustrate what the worst case scenario is because if we are not successful in any positive financial movement with the City of Petersburg prior to the next Board meeting, we are going to have some recommendations and put some resolutions on the table to move forward. Dr. Wichser stated that he and Mr. Wilson along with Mr. Gordon met with the Virginia Department of Environmental Quality's Division Director on Wastewater Permits and provided a briefing on the potential financial impacts by the end of this year on our VPDES discharge permit. Her response was that she was quite surprised and concerned and that they really had not considered this impact related to the City of Petersburg financial hardship. As a follow up to this discussion Dr. Wichser stated that he had talked to one of her staff on Tuesday and was told they most likely couldn't help us. Mr. Wilson further stated that as we propose to enter into a bare bones operations mode at SCWWA, it's basically covering chemicals, power and staff salary. We would not be funding reserves. He stated his recommendation is that we would not touch the existing reserves. Mr. Wilson stated that he had a couple of conversations with Mr. Henley and Mr. Henley indicated from Colonial Heights' standpoint we would have to spend every penny before they would consider a rate increase. Mr. Wilson stated that if we are not successful with getting any kind of financial movement from the City of Petersburg before the next meeting which is scheduled for November 17th, we are going to have to take action to move forward. A couple of things to consider are looking at how these numbers are going to affect our localities. Dr. Wichser said there is no scheduled normal Board of Directors October meeting and there is no scheduled December meeting. Mr. Wilson said being as this is so serious we are keeping the option open for a special meeting to be held. Dr. Wichser stated counsel has brought to our attention that we need to public notice at least twice to enable getting this done by the end of December which would potentially include the first public notice the first week of October and the second public notice the third week of October. This schedule would enable us to have the rate adjustment public meeting on the 17th of November, which is a normal scheduled Board meeting for SCWWA and if it's approved by Board vote on the 17th we could have the new rate adjustment effective January 1, 2017. Mr. Wilson said the two big issues from his standpoint are: (1) Are the jurisdictions going to agree to pay for a rate increase, and (2) How are we going to agree to pay for it and have the City of Petersburg responsible for ultimately paying back the rate change cost?

Mr. Gordon reported on the handout he gave the members. The spreadsheet calculated the rate impacts two different ways. He stated that one way was the budget as it was approved and then there is one that we call bare bones, which does not include the Equipment Repair & Replacement Fund monies, no reserve and no construction money included. The bare bones numbers presented reflect only what SCWWA needs to keep up the operations and maintain permit compliance. Mr. Gordon stated Mr. Wilson asked him to rerun this analysis based on a flow redistribution to the four members without factoring in the City of Petersburg and redistributing the flow and cost needed to continue operating. He did this for the approved budget and then a bare bones budget approach. Mr. Harrison said he had a lot of ideas to potentially help Petersburg's financial status. His problem is with the potential change in City of Petersburg's management, and he needed additional time. He asked the date to implement something like this and was told January 1, 2017. Mr. Harrison said when he finds out more what is going to happen that he will call Dr. Wichser directly. Dr. Wichser said very directly that the issue is SCWWA needs a cash revenue stream and we can't wait six months or eight months. Mr. Harrison said he understood and that he was not trying to knock one out of the park. This is just a solution to start to ease it so it goes in another direction to get some of the red back into green. Mr. Wilson said from his opinion, he would only consider if there was a way to find out from the City of Petersburg that they would at least get current with SCWWA charges. He stated that it's easier to track what's out there and work out a payment plan but if there is any way we can have the ability to start with current month payments by the City, he thinks that lessens the burden and at least gives us direction to move forward. Mr. Harrison said any payment has to go through the City Manager. Mr. Johnson stated the $84,000 which is the lowest increase to Colonial Heights in not using the reserves, is about a 42 percent increase impact to their base rate to their customers. Mr. Wilson said all localities are within that category.

Mr. Hayes asked Dr. Wichser how he calculates the rates for the annual budget. Is it based on flow or plant capacity? Mr. Gordon stated ERRF and reserves are plant allocation or capacity. O&M is based on a five year average flow. Mr. Hayes said if we decided not to contribute to reserves and not use reserves then typically it would be based on flows. At the end of the year when we do the true up then it's on the flows. He further stated that the unit rate that everyone pays right now is the same for O&M and was told yes. He asked Mr. Gordon to forward it to everyone electronically and Mr. Gordon replied he would.

Dr. Wichser stated the one concern he has is if we don't move forward within the next two to three weeks with our first public notice that will impact our ability of meeting a December deadline for approval. Mr. Gordon said in going back to the budget he guesses everyone just wants to go with the bare bones on it and Mr. Wilson said yes and not tap into the reserves. He stated we will have to have a conversation with Colonial Heights to resolve that and Mr. Hayes said that would be Chesterfield's position to not tap into the reserves, and not continuing contributing to the reserves. Mr. Wilson asked Dr. Wichser if something happens how long before you bring back up to where it needs to be. Dr. Wichser said he didn't think anyone at the table would put the permit compliance in jeopardy. Mr. Ashcraft had a question for Mr. Anderson. He stated when the public notice goes out, will it reflect a rate change or a contribution change. Mr. Anderson said it will reflect a rate change. Mr. Ashcraft asked if it would have language in there that this is a loan and was told yes. Mr. Anderson said we had a couple of options. Mr. Ashcraft said he wanted his public to understand that this is hopefully a short term stop gap kind of measure that one locality is not handing over money to another entity to make up for another locality. Mr. Anderson said when we were talking about this back in June he developed a way to basically lend the money to Petersburg and if we put a GO behind it we would have the ability to access state funds if there is a failure to pay. We could actually improve the position of the Authority. Mr. Ashcraft said that was internal operations but for any citizen who is not sitting here but reads the notice in the paper about the increase then he hopes it would say something to the effect that its borrowing, it's temporary. Mr. Wilson said it would be an emergency rate increase. Mr. Ashcraft said it should say what method of payback or whatever.

- **Status Report: Ongoing Projects/Financials**

  Mr. Gordon reported on the Ongoing Projects/Financials/I&I report.

5. Items from Counsel

There were no items from Counsel.

6. Closed Session

Mr. Anderson read the Resolution to go into Closed Session (attached).

Upon a motion made by Mr. Johnson and seconded by Mr. Harrison the Board went into Closed Session at 2:46 p.m.

For: 5 Against: 0 Abstain: 0

Upon a motion made by Mr. Harrison and seconded by Mr. Johnson the Board came out of Closed Session at 3:32 p.m.

For: 5 Against: 0 Abstain: 0

Mr. Anderson read the Certification regarding the Closed Session and, upon a motion made by Mr. Harrison and seconded by Mr. Johnson, it was approved by a unanimous roll call vote (attached).

Upon a motion made by Mr. Hayes and seconded by Mr. Johnson the following resolution was adopted:

RESOLVED, that the Board approved a 2.5 percent annual salary increase for Dr. Wichser retroactive to July 1, 2016:

For: 5 Against: 0 Abstain: 0

7. Other Items from Board Members/Staff Not on Agenda

There were no other items from Board Members/Staff Not on Agenda.

8. Adjourn

Upon a motion made by Mr. Hayes and seconded by Mr. Harrison the meeting was adjourned at 3:33 p.m.

There is no scheduled Board meeting at this time.

MINUTES APPROVED BY:

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Robert B. Wilson
Chairman

CLOSED MEETING RESOLUTION

SOUTH CENTRAL WASTEWATER AUTHORITY

September 15, 2016

I move that we go into a closed meeting for (i) consultation with legal counsel retained by the South Central Wastewater Authority and briefing by staff members regarding specific legal matters pertaining to actual or probable litigation, where such consultation and briefing in open meeting would adversely affect the Authority's negotiating posture, and consultation with legal counsel retained by the Authority regarding specific legal matters requiring the provision of legal advice by such counsel as permitted by Section 2.2-3711A.7.of the Virginia Freedom of Information Act and (ii) discussion and consideration of the assignment, appointment, promotion, performance, demotion, salaries, disciplining, or resignation of specific public officers, appointees, or employees of the Authority, as permitted by Section 2.2-3711A.1. of FOIA:

MOTION: Harrison

SECOND: Johnson

VOTE

Ashcraft	Aye
Hayes	Aye
Wilson	Aye
Johnson	Aye
Harrison	Aye

ABSENT DURING VOTE: None.

ABSENT DURING CLOSED MEETING: None.

SESSION DATE: September 15, 2016

CERTIFICATION OF CLOSED MEETING

WHEREAS, the Board of the South Central Wastewater Authority (the "Authority") convened a closed meeting on September 15, 2016, pursuant to an affirmative recorded vote and in accordance with the provisions of the Virginia Freedom of Information Act; and

WHEREAS, Section 2.2-3712 of the Code of Virginia requires a certification by this Board that such closed meeting was conducted in conformity with Virginia law;

NOW THEREFORE, BE IT RESOLVED that the Board of the Authority hereby certifies that, to the best of each member's knowledge, (i) only public business matters lawfully exempted from open meeting requirements by the Virginia Freedom of Information Act were discussed in the closed meeting to which this certification resolution applies, and (ii) only such public business matters as were identified in the motion convening the closed meeting were heard, discussed or considered by the Board.

MOTION: Wilson

SECOND: Harrison

VOTE

Ashcraft	Aye
Hayes	Aye
Wilson	Aye
Johnson	Aye
Harrison	Aye

ABSENT DURING VOTE: None.

ABSENT DURING CLOSED MEETING: None.

BOARD OF DIRECTORS SPECIAL MEETING
South Central Wastewater Authority and
Appomattox River Water Authority
October 20, 2016 at 2:00 p.m.
Location: South Central Wastewater Authority
900 Magazine Road, Petersburg, Virginia

PRESENT:
Robert B. Wilson, (SCWWA Chairman Dinwiddie)
Kevin Massengill, (ARWA Vice-Chairman, Dinwiddie)
William Henley, (Colonial Heights)
Joseph Casey, (Chesterfield)
Dironna Belton, (Petersburg)
George Hayes, (Alternate, Chesterfield)
William Johnson, (Alternate, Colonial Heights)

ABSENT:
William Dupler, (Alternate, Chesterfield)
Percy Ashcraft, SCWWA Vice-Chairman, ARWA Secretary/ Treasurer (Prince George)
Daniel Harrison, (Alternate, Petersburg)
Charles England, (Alternate, Prince George)

STAFF:
Robert C. Wichser, Executive Director, (ARWA & SCWWA)
James C. Gordon, Asst. Executive Director (ARWA & SCWWA)
Arthur Anderson, (McGuire Woods)
Dale Mullen, (McGuire Woods)
Melissa Wilkins, Accounting/Office Manager (ARWA & SCWWA)
Kathy Summerson, Administrative Assistant (SCWWA)

OTHERS:
Hugh P. Fisher, III, (City Attorney, Colonial Heights)
Michael Buettner, (Progress-Index)
Steve Micas, (Attorney, Prince George County)
Lee Byrd, (Attorney, Sands Anderson PC)
Mark Flynn, (Attorney)

Mr. Wilson, Chairman of SCWWA and Mr. Massengill, Vice-Chairman of ARWA, called the Board of Directors special meeting to order at 2:01 p.m.

- **Call to Order/Roll Call.**

  The roll was called for SCWWA and ARWA.

- **City of Petersburg to update the Boards on their present financial status.**

  Ms. Belton stated that currently Petersburg has a bank RFP out which closes on October 26, 2016. The RFP was for soliciting banks for $6.5 million in short-term financing. The short-term financing is to help with the cash flows so it would address namely their backfills, which are contributing to FY17 with their longer term debt package, which they are working on, and to work on some of their outstanding FY16. They do know that when they make some of the FY17 payments it could be applied to the FY16 back payments. That is how the approach to the receiving of those funds should be. The City is optimistic, and their Financial Advisors can't guarantee anything, but again they are hopeful that the outcome on the 26th when the RFP closes is to have submittals from banks interested in the short term debt for the public hearing set for November 1st. Currently as they came into this fiscal year from July they were still very much unstable and had issues with meeting some of their personnel payroll. During that time they did on August 15th release their first quarter real estate payments and they did collect on those real estate payments through the end of September. The City held a regional meeting with their Regional Partners assuring them that they would make some form of payments before October 31st. They have as of to date, minus South Central based on some of the legal issues that they are currently undergoing, have made all those regional payments to those Authorities that they promised before the October 31st date. One of their goals was to make sure that the City also placed their regional Authorities on their key obligations and that means moving forward with their key obligations that they need to meet. They do have all their regional authorities that are monthly, and those that are quarterly don't fall into their next November, but they hope to have budgeted to address their regional Authorities going forward. This yields at least their current monthly amounts due but it still does not address some of the past due amounts in some cases being much larger than they are able to address at this time. With things going on in the City, Ms. Belton did want to get those payments out, prepared these reports to hopefully move the City forward whichever direction they may go. They are waiting and anticipating the closure of their bank RFP for the 26th. They plan to meet their October 31st key Regional Partners obligations that they could identify for the month and now they are working to build towards their November key obligations.

- **CLOSED SESSION**

  Upon a motion made by Mr. Henley and seconded by Mr. Casey the SCWWA Board went into Closed Session at 2:07 p.m.

  Mr. Anderson read the Certificate to come out of Closed Session.

  Upon a motion made by Mr. Casey and seconded by Mr. Henley the SCWWA Board came out of Closed Session at 2:55 p.m.

  For: 4 Against: 0 Abstain: 0

Upon a motion made by Mr. Henley and seconded by Mr. Casey the ARWA Board went into Closed Session at 2:07 p.m.

Mr. Anderson read the Certificate to come out of Closed Session.

Upon a motion made by Mr. Casey and seconded by Mr. Henley the ARWA Board came out of Closed Session at 2:55 p.m.

- **Discussion of budget implications if the City does not pay SCWWA and the potential rate impacts to each jurisdiction. Discussion of using either Plant Allocation versus Flow Allocation assignment of these costs. Discussion of proposed schedule for emergency rate increase.**

Ms. Wilkins reported on the budget implications if the City does not pay SCWWA and the ensuing potential rate impact to each jurisdiction for covering the City of Petersburg's default on monthly payments. Ms. Wilkins provided a handout to all Board members present and stated that we reviewed and analyzed the 2016/17 FY O&M end forecast and the implications if there were no incoming payments from the City. Ms. Wilkins stated, the first page is the income statement which shows where we are predicting we would end come the end of June 2017. The cash flow projections that we are using are based on the increase in the septage revenue and the storm water trucks that are coming in based on an average of 10 truckloads per day. This estimate of septage and stormwater truck-loads are not guaranteed revenues. She stated that the second page shows SCWWA cash more transparent, which was a request of the Board members and shows the $996,000 that was carried forward and what effect it has on our current checking account. SCWWA does business with WellsFargo. Currently we have $1.4 million at the end of September in our Reserve Account, which is a requirement. We have $796,000 of regular everyday operating cash which is to pay the everyday bills (payroll, electricity, chemicals, etc.). The $996,000 (from FY 2015/16 nutrient credit sales and stormwater treatment) is what we requested we carry forward to use towards upcoming capital projects in FY 2016/17 along with collecting revenue of $2.3 million towards the ERRF Reserve. On the next page, the Cash Flow Projections unfortunately shows if we were unable to use the $996,000 that we carried forward and there were no payments coming in from the City mid-October, right now, SCWWA is broke. That is without tapping into the Reserve and not tapping into the ERRF fund. The next page shows by presently using the $996,000, SCWWA does not become negative on cash flow until mid-January 2017. The importance fact on the table today is to have the Board understanding and approval to continue using those $996,000 funds for O&M. In the event that the City does start making regular current payments, we expect our projections would change. Mr. Casey asked if the annual amount of $327,000 is consistent and was told that was the O&M portion of the invoice to Petersburg. He asked what the monthly payment is and was told it was $376,134.10. He further stated if we start in October and go forward then we break even. Ms. Wilkins said we would actually end the year with thirty-five dollars. She stated that if the City does begin making regular monthly payments with the first one being received October 31st, the projection shows we would close the year with thirty-five dollars to the good without having to tap into any of the Reserves; however that is with utilization of the $996,000. We would still have to utilize the $996,000 because of the carryforward of the $1.5 million in arrears. We would not have to tap the Reserves, which is a good thing. Mr. Casey said the $796,000 that is in the bank today and we go one more month into the $360,000, he would have said the $796,000 would have gone down by $360,000 and that would have been in our balance for the rest of the year. If you get $796,000 today and probably one more month of losing expenses with no revenue he would think that we would be $796,000 minus the $360,000 and then that's our bogie for the rest of the year without the $996,000. Dr. Wichser said we would have to re-run those numbers to better understand the ending balance. If something else is making this go down then there's another variable that we haven't discussed yet. Mr. Wilson stated that today's discussion is just presentation only, and no rate adjustments would be considered or approved.

- **Resolution to continue to utilize funds collected for Nutrient Credit sales and stormwater in FY 2015-16 toward FY 2016-17 SCWWA O&M daily operating expenses.**

Mr. Wilson said there was a question that came up with the Annual Audit formalizing the use of the $996,000 and supplementing that towards O&M costs instead of Construction Projects. The SCWWA Auditors asked that we formalize this matter in a Resolution. Mr. Anderson said in the FY 2016/17 we had $996,000 pegged for some construction projects. Mr. Gordon said it was to offset the costs of the Headworks Building repairs and grit classifier projects. Mr. Anderson stated those construction projects included the biggest thing, which was the Headworks Project. After development and adoption of the FY2016/2017 budget, the Board directed the Staff to postpone all non-regulatory construction projects and move the balance of the $996,000 to the operating fund account at Wells Fargo to pay daily operating expenses to the extent we needed to, due to Petersburg's invoice payment defaults. Additionally, if the Authority's cash problems were not resolved by June 30, 2017, that the Board wanted any remaining amount to be put into the Authority's Reserves. The Auditors wanted the Board to consider a Resolution to specifically approve this action so they could finish their annual auditing work. The meat of the Resolution was formalizing what the Executive Director has already recommended in the budget process, which is postpone all the non-regulatory construction projects, use the $996,000 for daily operating costs, and if those cash problems are not reversed, any remaining carry forward amount will be dedicated to Reserve. We are just going to adjust member jurisdictions contributions through the locality adjustment and it won't be a refund of that amount to the participating jurisdictions.

Mr. Gordon said our concern was that we have a $1 million ($996,000) liability hanging over our head. If we don't have our cash problems resolved because this was on a previous fiscal year, we'll still have that liability obligated to refund at the end of FY 2016/17. At the end of this fiscal year we may not have that money. Mr. Wilson said you are saying that the Board authorized you to use it and Mr. Gordon replied yes and this was saying that the reimbursement would go into a Reserve Fund and not be refunded as it's no longer a liability on the books. Mr. Wilson said he just wanted to confirm that if we are using it to offset payments, we are tracking that separately. That's part of the outstanding that goes into arrears and was told yes by Mr. Gordon and Ms. Wilkins. Mr. Casey asked if this was under methodology of flow based and was told yes by Mr. Gordon. Mr. Gordon said at the first of the year we estimate the flows and at the end of the year any excess funds or if we overspent everything, the excess or underspent revenue is reallocated back to the members based on the actual flow within that year. Mr. Henley asked that the $996,000 was or wasn't earmarked for any specific capital project. Dr. Wichser stated we planned to apply this carry-over revenue towards the Headworks Building rehab and/or the new grit classifier project. Our Engineers estimated a planning level cost of $1.1M to $1.2M to rehab the Headworks Building. Mr. Henley asked that once the remainder of the $996,000 is placed into a Reserve account would there have to be another action to use this somewhere in the future, and he was told yes. Mr. Anderson said you would basically have to reauthorize the project.

Upon a motion made by Mr. Casey and seconded by Mr. Henley the following resolution was adopted:

RESOLVED, that the Resolution is adopted as presented:

For: 4 Against: 0 Abstain: 0

- Dr. Wichser stated that when ARWA went out for funding to fifty-five banks in August towards the four in-plant capital projects, only two out of state banks responded most likely due to the issue with Petersburg. He also stated that SCWWA put together a table to show members the impacts comparing Plant Allocation versus Flow Allocation on the members covering for Petersburg's failure to pay. Mr. Wilson stated he talked with Staff and asked them to put this together for worst case and hopefully SCWWA O&M revenues wouldn't get to this point.

- Dr. Wichser said another item that we wanted to discuss was the FY 2015-16 expected true up at $491,870. Those funds are presently in our account and are being factored out of our O&M projections and are on hold right now. However, those funds could be available in an O&M revenue emergency. Mr. Wilson asked if we had a set policy in which that is handed out at the end of each true up and do we need to take action to hold that in Reserve. His suggestion is to hold that in Reserve. Dr. Wichser stated it's usually released after the Financial Report is presented at the end of November or December. Mr. Wilson asked if we needed to do anything on that now and was told no. Mr. Wilson said we would be discussing that in November or December.

- **Discussion of utilization of the $1.2 million reserve account that would provide for 6-8 weeks of meeting SCWWA operating debt**

  Dr. Wichser stated that the $1.2 million is un-restricted cash available. Mr. Wilson asked as we sit today this is a decision that doesn't have to be made today. He said his recommendation on that is do not utilize the Reserves. That is the only thing we have in the event of emergency. Dr. Wichser stated we were running about $650,000-$660,000 per month and based on cost cutting we are running approximately $620,000/month on spending. SCWWA has cut down costs however we can. Mr. Wilson asked if we are still paying our ERRF part and Mr. Gordon said yes and that does include annualizing the nutrient credits also. The required nutrient credit payments for FY2016/17 will be $1,016,828.

- **Adjourn**

  Upon a motion made by Mr. Henley and seconded by Mr. Casey the SCWWA meeting was adjourned at 3:21 p.m.

  Upon a motion made by Mr. Casey and seconded by Mr. Henley the ARWA meeting was adjourned at 3:21 p.m.

  The next scheduled Board meeting will be November 17, 2016 at South Central Wastewater Authority.

MINUTES APPROVED BY:

____
Robert B. Wilson
Chairman SCWWA

____
Percy Ashcraft
Secretary/Treasurer ARWA

CLOSED MEETING RESOLUTION

SOUTH CENTRAL WASTEWATER AUTHORITY

October 20, 2016

I move that we go into a closed meeting for consultation with legal counsel retained by the South Central Wastewater Authority and briefing by staff members regarding specific legal matters pertaining to actual or probable litigation, where such consultation and briefing in open meeting would adversely affect the Authority's negotiating posture, and consultation with legal counsel retained by the Authority regarding specific legal matters requiring the provision of legal advice by such counsel as permitted by Section 2.2-3711A.7.of the Virginia Freedom of Information Act:

MOTION: Henley

SECOND: Casey

VOTE

Belton	Aye
Casey	Aye
Henley	Aye
Wilson	Aye

ABSENT DURING VOTE: None.

ABSENT DURING CLOSED MEETING: None.

SESSION DATE: October 20, 2016

CERTIFICATION OF CLOSED MEETING

WHEREAS, the Board of the South Central Wastewater Authority (the "Authority") convened a closed meeting on October 20, 2016, pursuant to an affirmative recorded vote and in accordance with the provisions of the Virginia Freedom of Information Act; and

WHEREAS, Section 2.2-3712 of the Code of Virginia requires a certification by this Board that such closed meeting was conducted in conformity with Virginia law;

NOW THEREFORE, BE IT RESOLVED that the Board of the Authority hereby certifies that, to the best of each member's knowledge, (i) only public business matters lawfully exempted from open meeting requirements by the Virginia Freedom of Information Act were discussed in the closed meeting to which this certification resolution applies, and (ii) only such public business matters as were identified in the motion convening the closed meeting were heard, discussed or considered by the Board.

MOTION: Henley

SECOND: Casey

VOTE

Belton	Aye
Casey	Aye
Henley	Aye
Wilson	Aye

ABSENT DURING VOTE: None.

ABSENT DURING CLOSED MEETING: None.

3. Public Comment

The Guidelines for Public Comment are:

GUIDELINES FOR PUBLIC COMMENT AT SCWWA/ARWA BOARD OF DIRECTORS MEETINGS

If you wish to address the SCWWA/ARWA Board of Directors during the time allocated for public comment, please raise your hand or stand when the Chairman asks for public comments.

Members of the public requesting to speak will be recognized during the specific time designated on the meeting agenda for "Public Comment Period." Each person will be allowed to speak for up to three minutes.

When two or more individuals are present from the same group, it is recommended that the group designate a spokesperson to present its comments to the Board and the designated speaker can ask other members of the group to be recognized by raising their hand or standing. Each spokesperson for a group will be allowed to speak for up to five minutes.

During the Public Comment Period, the Board will attempt to hear all members of the public who wish to speak on a subject, but it must be recognized that on rare occasion presentations may have to be limited because of time constraints. If a previous speaker has articulated your position, it is recommended that you not fully repeat the comments and instead advise the Board of your agreement. The time allocated for speakers at public hearings are the same as for regular Board meeting, although the Board can allow exceptions at its discretion.

Speakers should keep in mind that Board of Directors meetings are formal proceedings and all comments are recorded on tape. For that reason, speakers are requested to speak from the podium and wait to be recognized by the Chairman. In order to give all speakers proper respect and courtesy, the Board requests that speakers follow the following guidelines:

- Wait at your seat until recognized by the Chairman;
- Come forward and state your full name and address. If speaking for a group, state your organizational affiliation;
- Address your comments to the Board as a whole;
- State your position clearly and succinctly and give facts and data to support your position;
- Summarize your key points and provide the Board with a written statement or supporting rationale, when possible;
- If you represent a group, you may ask others at the meeting to be recognized by raising their hand or standing;
- Be respectful and civil in all interactions at Board meetings;
- The Board may ask speakers questions or seek clarification, but recognize that Board meetings are not a forum for public debate; Board Members will not recognize comments made from the audience and ask that members of the audience not interrupt the comments of speakers and remain silent while others are speaking so that other members in the audience can hear the speaker;
- The Board will have the opportunity to address public comments after the Public Comment Period has been closed;
- At the request of the Chairman, the Executive Director may address public comments after the session has been closed as well; and
- As appropriate, staff will research questions by the public and respond through a report back to the Board at the next regular meeting of the full Board. It is suggested that citizens who have questions for the Board or staff submit those questions in advance of the meeting to permit the opportunity for some research before the meeting.

4. **Executive Director's Report:**

- **Potential U.S. EPA Regulatory Impact on the SCWWA**

  Following is a memorandum concerning a Potential U.S. EPA Regulatory change that may drive the SCWWA into a Nutrient Upgrade Project.

MEMORANDUM

TO: **SOUTH CENTRAL WASTEWATER AUTHORITY**
BOARD OF DIRECTORS

FROM: **ROBERT C. WICHSER, EXECUTIVE DIRECTOR**
JAMES C. GORDON, ASSISTANT EXECUTIVE DIRECTOR

SUBJECT: **POTENTIAL U.S. EPA REGULATORY IMPACT DRIVING THE SCWWA INTO NUTRIENT UPGRADE PROJECT**

DATE: **NOVEMBER 17, 2016**

We are providing the Board an update related to the most important pending project with major financial impacts on your rates. We had updated this Board from time-to-time over the past four years on this matter. This is the Total Nitrogen (TN) and Total Phosphorus (TP) removal upgrade project that has been pending due to regulatory requirements impacting wastewater dischargers in the tidal fresh James River.

The current SCWWA Treatment Plant has a permitted waste-load allocation for total nitrogen of 350,239 pounds per year and for total phosphorus of 35,024 pounds per year. At the current average flow of 12.7 mgd, the corresponding concentration limits for total nitrogen is 9.1 mg/l TN and 0.9 mg/l TP. Under the current Virginia waste-load allocation and at the current permitted capacity of 23 mgd, the corresponding concentration limits are 5.0 mg/l for total nitrogen and 0.5 mg/l for total phosphorus. On January 1st of 2017, the waste-load allocation for total phosphorus will be dropped from 35,024 pounds per year to 28,404 pounds per year based on the expected change in the Virginia General Permit. The corresponding concentration limit for total phosphorus will drop to 0.4 mg/l and can be complied with by SCWWA by enhancing existing chemical addition.

On September 30, 2016 we were made aware by the Virginia Association of Municipal Wastewater Agency's (VAMWA) legal counsel, AquaLaw, that the U.S. EPA planned to proceed with severe cuts to wastewater facility nutrient allocations currently assigned to James River facilities, ,which includes the SCWWA. U.S. EPA's reduced nutrient allocations are over the objection of the Commonwealth of Virginia, VAMWA, localities and businesses. These cuts have been implemented based on a limited uncorroborated scientific basis related to nutrients causing chlorophyll *a* level in select segments of the James River with the end result of causing hazardous alga blooms.

EPA's WWTP effluent waste-load decreases would become the most stringently regulated facilities in the multi-state Chesapeake Bay Watershed even though the James River discharges do not impact the Bay. It is now estimated that every significant POTW and industrial facility in the James River basin would have to install nutrient removal technologies at or below limit of technology levels. This is considered at or below a TN and TP concentration level of 3.0 mg/l and 0.1 mg/l, respectively. This action will also impact future population growth along with economic development, both of which requires nutrient allocations.

James River wastewater treatment facilities (including the SCWWA) would be required to meet these levels by January 1, 2023 according to the Chesapeake Bay Program Total Maximum Daily Load (TMDL).

In November 2014, the SCWWA Board of Directors was presented conceptual level cost for upgrading the SCWWA treatment plant. To reach Level 3(LOT), TN of 3 mg/l and TP of 0.1 mg/l, the estimated project cost was $40.4M for regulatory driven cost for permit compliance (nutrients), $20.3M for aging plant infrastructure replacement and $17.3M for wet weather improvements (handle peak wastewater flows). **Expected planning level project costs compliance efforts could be at the $75-85M range.**

A couple related items that are to be recognized are:

1.) In 2017 the SCWWA will be renewing the VPDES permit, which opens the permit to U.S. EPA review and approval;
2.) The VA-DEQ's Water Quality Improvement Fund (WQIF) is expected to have a shortfall of $59M by June 30, 2018. In 2010 the SCWWA qualified for $19.6M in WQIF grant funds.

VAMWA has moved forward and requested to the U.S. EPA's Chesapeake Bay Program Office that they "revisit and revise the timelines established in the TMDL just for Stage 2 of the local program for the James River".

- **Presentation of Annual Financial Report: Dixon Hughes Goodman**

  Following is the Annual Comprehensive Financial Report prepared and presented by Dixon Hughes Goodman, LLP.

Report to the Board of Directors

South Central Wastewater Authority

June 30, 2016

DIXON HUGHES GOODMAN LLP

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DIXON HUGHES GOODMAN LLP

Contacts

Leslie F. Roberts, CPA
Partner
Dixon Hughes Goodman LLP
3700 Festival Park Plaza
Chester, VA 23831
804.425.2601
Leslie.Roberts@dhgllp.com

Stephen Huffman, CPA
Manager
Dixon Hughes Goodman LLP
3700 Festival Park Plaza
Chester, VA 23831
804.425.2601
Stephen.Huffman@dhgllp.com

DIXON HUGHES GOODMAN LLP

Communication with Those Charged with Governance

November 9, 2016

Board of Directors
South Central Wastewater Authority

We have audited the financial statements of South Central Wastewater Authority (the "Authority") for the year ended June 30, 2016, and have issued our report thereon dated November 9, 216. Professional standards require that we provide you with information about our responsibilities in accordance with auditing standards generally accepted in the United States of America, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated May 19, 2016. Professional standards also require that we communicate to you the following information related to our audit.

Qualitative Aspects of Accounting Practices
Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by South Central Wastewater Authority are described in Note 2 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2016. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Accounting estimates are an integral part of the financial statements prepared by management, and are based on management's knowledge and experience about past and current events, and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

> Management's estimate of the net pension liability and the related deferred inflows and outflows are based on a valuation performed by independent actuaries in accordance with generally accepted actuarial procedures and methods. We evaluated the key factors and assumptions used to develop the net pension liability and related deferred inflows and outflows in determining that they are reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were:

> The disclosure of Deposits and Investments in Note 4 to the financial statements as there is risk associated with deposits and investments that must be properly disclosed.
>
> The disclosures of Nutrient Credit Purchases, Sales and related Commitments in Notes 10 and 11 of the financial statements as there is risk associated with these nutrient credits in order for the Authority to remain in compliance with environmental regulations.
>
> The disclosure of the contingency in Note 12 related to the City of Petersburg as the Authority relies heavily on payments from Petersburg for its services.

Difficulties Encountered in Performing the Audit
We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements
Professional standards require us to accumulate all misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. There were no uncorrected misstatements and the one audit adjustment posted was immaterial ($ 2 beginning balance adjustment).

Disagreements with Management
For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations
We have requested certain representations from management that are included in the management representation letter included in Appendix A.

Management Consultations with Other Accountants
In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Authority's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Significant Matters, Findings, or Issues
We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Authority's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Board of Directors and management of South Central Wastewater Authority, and is not intended to be, and should not be, used by anyone other than these specified parties.

Sincerely,

Dixon Hughes Goodman LLP

Chester, Virginia

Appendix A
Management Representation Letter

DHG
DIXON HUGHES GOODMAN LLP

South Central Wastewater Authority
900 Magazine Road
Petersburg, VA 23803
(804) 861-0111

November 9, 2016

Dixon Hughes Goodman LLP
3700 Festival Park Plaza
Chester, Virginia 23831

This representation letter is provided in connection with your audits of the financial statements of South Central Wastewater Authority (the "Authority"), which comprise the balance sheet as of June 30, 2016 and the related statements of revenue, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, for the purpose of expressing an opinion on whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

We confirm that, to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves as of the date of this letter:

Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated May 19, 2016 for the preparation and fair presentation of the financial statements in accordance with U.S. GAAP.

2. We acknowledge our responsibility for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

3. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.

4. The following have been properly accounted for and disclosed in the financial statements:
   a. Related-party relationships and transactions, including sales, purchases, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties
   b. Guarantees, whether written or oral, under which the Authority is contingently liable
   c. Other liabilities or gain or loss contingencies

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5. Significant estimates that may be subject to a material change in the near term have been properly disclosed in the financial statements. We understand that "near term" means the period within one year of the date of the financial statements. In addition, we have no knowledge of concentrations existing at the date of the financial statements that make the Authority vulnerable to the risk of severe impact that have not been properly disclosed in the financial statements.

6. Significant assumptions we used in making accounting estimates, including estimates of fair value, are reasonable.

7. There were no uncorrected misstatements or omitted disclosures.

8. The effects of all known actual or possible litigation and claims have been accounted for and disclosed in accordance with U.S. GAAP.

Information Provided

9. We have provided you with:
   a. Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters.
   b. Additional information that you have requested from us for the purpose of the audit.
   c. Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

10. All transactions have been recorded in the accounting records and are reflected in the financial statements.

11. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

12. We have no knowledge of any fraud or suspected fraud affecting the Authority involving:
    a. Management.
    b. Employees who have significant roles in internal control.
    c. Others where the fraud could have a material effect on the financial statements.

13. We have no knowledge of any allegations of fraud or suspected fraud affecting the Authority's financial statements received in communications from employees, former employees, analysts, regulators, short sellers, or others.

14. There have been no communications from regulatory agencies concerning noncompliance with or deficiencies in financial reporting practices.

15. We have disclosed to you all known instances of noncompliance or suspected noncompliance with laws and regulations whose effects should be considered when preparing the financial statements.

16. We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware.

17. The Authority has no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.

DHG
DIXON HUGHES GOODMAN LLP

18. We have complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.

19. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements and we have not consulted legal counsel concerning litigation or claims.

20. The Authority has satisfactory title to all owned assets and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.

21. In regards to the nonattest services performed by you - financial statement preparation services and audit adjustments, if any, we have:
    a. Assumed all management responsibilities
    b. Overseen the service, by designating an individual, within senior management, who possess suitable skill, knowledge, or experience.
    c. Evaluated the adequacy and results of the services performed.
    d. Accepted responsibility for the results of the services.
    e. Evaluated and maintained internal controls, including monitoring ongoing activities.

22. The financial statements properly classify all funds and activities.

23. Net position components (net investment in capital assets; restricted; and unrestricted) are properly classified and, if applicable, approved.

24. Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.

25. Revenues are appropriately classified in the statement of activities within program revenues, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principal.

26. Deposits and investment securities are properly classified as to risk, and investments are properly valued.

27. Capital assets, including infrastructure assets, are properly capitalized, reported, and, if applicable, depreciated.

28. We have provided you all information in relation to the salary reimbursement transactions between the Authority and Appomattox River Water Authority as disclosed in Note 13 of the financial statements and believe the information to be complete and accurate.

29. No events, including instances of noncompliance, have occurred subsequent to the balance sheet date and through the date of this letter that would require adjustment to or disclosure in the aforementioned financial statements.

30. The information we have provided to you regarding commitments, specifically those disclosed in Note 11 of the financial statements, is complete and accurate.

31. The information we have provided to you regarding the contingency related to the City of Petersburg as disclosed in Note 12 of the financial statements is complete and accurate.

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32. We acknowledge our responsibility for presenting the required supplementary information (RSI) in accordance with U.S. GAAP, and we believe that the RSI, including its form and content is fairly presented in accordance with U.S. GAAP. The methods of measurement and presentation of the RSI have not changed from those used in the prior period, and we have disclosed to you any significant assumptions or interpretations underlying the measurement and presentation of the supplementary information.

We have evaluated subsequent events through the date of this letter, which is the date the financial statements were available to be issued. No events have occurred subsequent to the balance sheet date and through the date of this letter that would require adjustment to or disclosure in the aforementioned financial statements.

Robert Wichser, Executive Director

Jamie Gordon, Assistant Executive Director

Melissa Wilkins, Accounting/Office Manager

South Central Wastewater Authority

Financial Statements

Year Ended June 30, 2016

DIXON HUGHES GOODMAN LLP

South Central Wastewater Authority

Petersburg, Virginia

(A Public Body Politic and Corporation Chartered July, 1996)

- Board of Directors -

Robert B. Wilson, Chairman
Dinwiddie County Water Authority

Percy C. Ashcraft, Vice-Chairman
Prince George County

William E. Johnson III, Secretary/Treasurer
City of Petersburg

James J.L. Stegmaier, Member
Chesterfield County

Thomas L. Mattis, Member
City of Colonial Heights

- Officials -

Robert C. Wichser, Executive Director

James C. Gordon, Assistant Executive Director

McGuire Woods, Counsel

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Independent Auditors' Report

Board of Directors
South Central Wastewater Authority
Petersburg, Virginia

We have audited the accompanying financial statements of the business-type activities of the South Central Wastewater Authority as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the South Central Wastewater Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; Specifications for Audits of Authorities, Boards and Commissions, issued by the Auditor of Public Accounts of the Commonwealth of Virginia; and the U.S. Department of Agriculture Rural Development Water and Waste Program Audit Guide, issued by the Office of Inspector General. Those standards, specifications and the Guide 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.

DIXON HUGHES GOODMAN LLP

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the South Central Wastewater Authority as of June 30, 2016, and the changes in net assets thereof for the year then ended in conformity 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 3 – 6 and schedule of changes in net pension liability and related ratios and schedule of contributions on pages 33 – 35 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government Auditing 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 audits of the 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 November 9, 2016, on our consideration of South Central Wastewater 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 the 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 the South Central Wastewater Authority's internal control over financial reporting and compliance.

Dixon Hughes Goodman LLP

Chester, Virginia
November 9, 2016

Management's Discussion and Analysis

As management of the South Central Wastewater Authority (Authority), we offer readers of the South Central Wastewater Authority's financial statements this narrative overview and analysis of the financial activities of South Central Wastewater Authority for the fiscal year ended June 30, 2016.

Overview of the financial statements

The Authority's basic financial statements are comprised of two components: (1) financial statements, and (2) notes to the financial statements.

The financial statements of the Authority offer both short and long-term financial information about its activities. The statement of net position provides information about the nature and amounts of the Authority's cash, investments and receivables (assets), and its obligations to creditors (liabilities). All of the Authority's current fiscal year revenues and expenses are accounted for in the statement of revenues, expenses, and changes in net position. This statement measures whether the Authority successfully recovered all of its costs through user charges from the jurisdictions served.

The statement of cash flows provides information on the Authority's cash receipts, cash payments, and net changes in cash resulting from operating, investing, capital, and noncapital financial activities. It also provides insight on the source of cash, the use of cash, and cash changes during the reporting period.

Summary of South Central Wastewater Authority Operations

The South Central Wastewater Authority (SCWWA) staff includes thirty-five (35) full-time employees and contributes to the salaries of the Executive Director, Assistant Executive Director, Office/Business Manager, Laboratory Manager, Maintenance Manager, Chief of Maintenance, and Painter/Carpenter who are shared employees with the Appomattox River Water Authority. The Authority operates a 23 million gallon per day (mgd) wastewater treatment plant located on Pocahontas Island in the City of Petersburg. The Authority treats flow from the cities of Colonial Heights and Petersburg as well as portions of Chesterfield, Dinwiddie, and Prince George counties. Wastewater from the cities is pumped directly to the Authority through five (5) pumping stations. Wastewater from the counties is conveyed through the collection systems of the cities by conveyance agreements executed in 1996.

	2016	2015
Total Annual Flow (mg)	**4,867**	4,259
Minimum Day (mgd)	**8.495 (Sept. 2015)**	.329 (Oct. 2014)
Maximum Day (mgd)	**36.658 (Dec. 2015)**	35.008 (June 2015)
Annual Average Day (mgd)	**13.322**	11.668

Financial Highlights

- Selected financial information for 2016 and 2015 is as follows:

	2016	2015
Total capital assets, net	**$ 18,187,291**	$ 17,785,223
Total assets and deferred outflows of resources	**$ 25,135,069**	$ 22,287,677
Total liabilities and deferred inflows of resources	**$ 1,774,272**	$ 1,299,827
Total operating revenues	**$ 6,421,058**	$ 6,152,573
Total operating expenses	**$ 5,388,192**	$ 5,014,114
Change in net position	**$ 2,393,947**	$ (1,051,189)
Ending net position	**$ 23,381,797**	$ 20,987,850

- Operating revenues increased from fiscal year 2015 to fiscal year 2016 by $268,485. Total septage revenues increased as a result of continuing to accept and treat landfill stormwater from Atlantic Waste Management. Electrical credit revenues from EnerNoc (peak-shaving program) ended in May 2016 due to Clean Air Act generator requirements.

- Operating expenses increased by $374,078 from fiscal year 2015 to fiscal year 2016. Equipment repair ($76,500), Salaries ($55,352-based on ARWA salary split true-up), and Equipment Replacement ($295,000). Decreased costs were seen in some categories such as Nutrient Credit Costs, Utilities, Fuel, Sludge Disposal, and Laboratory Services.

- The Authority had paid off all debt service in October 2014.

- Fiscal year 2016 was the fifth year that nutrient credit purchases were due to the Virginia Nutrient Exchange. These credits were for calendar year 2015 and were due in April 2016. The credits are to offset excess nutrients (Total Nitrogen and Total Phosphorus) generated and released in the facility effluent above the permitted annual waste-load allocation. The Authority spent $564,874 on nutrient credits during 2016.

- Also, during 2016, the Authority was able to sell $390,865 in nutrient credits to other governmental entities.

Authority Highlights

- The treatment facility discharge effluent quality met all VPDES permit limits during the fiscal year and no significant problems were encountered with operating the plant.

- The average flow for fiscal year 2016 was 1.654 mgd higher than for fiscal year 2015. Rainfall in fiscal year 2016 (49.68 inches) was slightly lower than in fiscal year 2015 (50.77 inches). Fiscal year 2016 was moderately wet at the treatment plant's rain gauge with the maximum facility flow occurring on December 23, 2015 during a rain event. The treatment plant recorded 8.86 inches of rain for December 2015.

- Authority staff developed and implemented private exchanges of nutrient credits for the 2016 through contracts with Chesterfield and Henrico counties and contracts for 2017, 2018, and 2019 through Chesterfield. These credits cost less than credits purchased through the Virginia Nutrient Credit Exchange Association and provide both Chesterfield and Henrico counties (who have excess nutrient credits to sell at this time) more revenue than they would have received through the Virginia Nutrient Credit Exchange Association.

The Authority is also maintaining an active watch on regulatory issues such as the potential for point source nutrient waste-load changes in the James River Estuary. The following provides more detail.

Nutrients

The Virginia Department of Environmental Quality (DEQ) finalized regulations establishing reduced limits for nitrogen and phosphorus discharges into the Chesapeake Bay and its tributaries in November 2005. The allocations for the Authority adopted by the Virginia State Water Control Board are based on concentrations of 5 milligrams per liter of total nitrogen and 0.5 milligrams per liter of total phosphorus.

In December 2010, U.S. EPA finalized the Chesapeake Bay Total Maximum Daily Load (TMDL). This is a Bay-wide program that could result in further reductions to wastewater treatment facility allocations of nutrients. The individual states in the Bay watershed will be responsible for compliance with these mandates from the U.S. EPA. One of the requirements of the TMDL is that each state submits Watershed Implementation Plans (WIP's) detailing how they intend to meet the nutrient load caps imposed by U.S. EPA. States including Virginia also will need to develop two-year milestone reports and submit these bi-annual progress reports to U.S. EPA showing what progress had been made.

Facilities within the James River watershed are facing the possibility of additional annual nutrient waste-load reductions. One of the issues raised during the TMDL was the harmful and toxic algae blooms in the middle segment of the James River. The end result was that DEQ adopted the task of conducting a detailed and scientifically acceptable study on algae chlorophyll within the middle segment of the James River to determine if further reductions to nutrient loads within the James River basin are necessary to prevent and control harmful and toxic algae blooms. The results of this study and any potential reductions to nutrient allocations will not be known until 2017. Such consequences may include reductions to wastewater plant nutrient allocations to be based on current actual flows rather than design flows. Such reductions would have a significant impact on wastewater plants discharging into the James River, including SCWWA.

The SCWWA Board of Directors elected to defer the nutrient reduction upgrade project at this time and instead purchase nutrient credits. In February 2012, the Board gave indication that constructing a nutrient reduction project would probably not be approved by their various governing bodies until the cost of debt service was less than the purchase of nutrient credits. Given current project cost estimates and credit costs, this is expected to take place no earlier than 2022. It is possible, however, that regulatory drivers that would eliminate surplus credits available (such as a reduction in middle James River point-source allocations or localities using excess nutrient credits to offset non-point loads) would require the project be on-line by 2022 or perhaps even earlier..

Wet Weather Infiltration & Inflow (I&I)

The wastewater facility biological treatment process is very vulnerable to upsets due to high influent flows during wet-weather events. The base design of the SCWWA plant allows for a peak day flow of 57.5 MGD (2.5 times average) and a peak hour flow of 69.0 MGD (3.0 times average). The Authority does not own the wastewater collection systems transporting the influent to the SCWWA facility. From the regulatory perspective, there is the potential that the contributing jurisdictions will be responsible for finding and eliminating I & I sources in their collection systems. The jurisdictions may also need to consider constructing and operating flow equalization facilities to mitigate the I & I that is not practicable to eliminate to prevent surges to the Authority treatment plant. The City of Petersburg has installed a wastewater equalization (holding) basin at their Poor Creek Pump Station to mitigate peak flows from this sewer-shed. In recent years, the Authority has begun noting that U.S. EPA has begun compliance actions in Virginia against facilities/jurisdictions with flows in the range of 10 to 100 MGD that have noted sewer system overflows in the collection system.

Biosolids Handling

South Central Wastewater Authority utilizes land application for disposal of generated biosolids. Revised Virginia biosolids regulations were approved by the Virginia State Water Control Board in September 2011 and while not all aspects of the regulatory changes were favorable, the regulations do not constitute any significant additional regulatory burden for South Central's biosolids land application program. The Authority presently has an agreement with the Hopewell Regional Wastewater Facility (HRWWF) for back-up incineration of SCWWA biosolids at the HRWWF should the need arise. As of June 30, 2016, SCWWA had not encountered the need to send biosolids to HRWWF for disposal by incineration.

Economic conditions

The Authority continues to operate under sound management current working capital and positive cash flows from operations. Overall finances for the Authority for fiscal year 2016 as viewed by management, including the Board of Directors, is considered sound.

Contacting the Authority

Questions concerning this report or requests for additional information should be directed to the Executive Director, 21300 Chesdin Road, Petersburg, Virginia 23803, telephone (804) 590-1145.

South Central Wastewater Authority
Statement of Net Position
June 30, 2016

		Business-Type Activities
ASSETS		
Unrestricted current assets:		
Cash and cash equivalents	$	3,807,791
Accounts receivable		436,968
Inventories		538,664
Total unrestricted current assets		4,783,423
Restricted current assets:		
Board restricted - cash and cash equivalents for equipment repair and replacement		2,027,965
Total current assets		6,811,388
Property, plant and equipment - net		18,187,291
DEFERRED OUTFLOW OF RESOURCES		
Deferred pension contributions		136,390
Total assets and deferred outflows	$	25,135,069
LIABILITIES		
Current liabilities payable from unrestricted assets:		
Accounts payable	$	350,869
Compensated absences payable		179,905
Total current liabilities		530,774
Long-term liabilities:		
Net pension liability		526,652
Other post-employment benefit obligations		59,700
Total long-term liabilities		586,352
Total liabilities		1,117,126

See accompanying notes.

	Business-Type Activities
DEFERRED INFLOW OF RESOURCES	
Refunds due to member localities	491,870
Deferred pension investment experience	165,276
Total deferred inflow of resources	657,146
Total liabilities and deferred inflows	1,774,272
NET POSITION	
Invested in capital assets, net of related debt	18,187,291
Unrestricted	5,173,506
Total net position	23,360,797
	$ 25,135,069

South Central Wastewater Authority
Statement of Revenues, Expenses and Changes in Net Position
Year Ended June 30, 2016

	Business-Type Activities
Revenues - charges for services - intergovernmental	$ 6,421,058
Operating expenses:	
Salaries and benefits	2,360,385
Equipment rental, repair and replacement	650,030
Nutrient credit purchases	564,874
Chemicals	519,798
Utilities	409,935
Sludge disposal	291,811
Professional fees	200,110
Laboratory	93,545
Training and meetings	77,750
Office supplies and software	72,691
Insurance	55,705
Fuel	34,022
Machinery tax	31,773
Supplies	25,763
Total operating expenses	5,388,192
Operating income before depreciation	1,032,866
Depreciation expense	961,959
Net operating income	70,907
Nonoperating revenues	
Intergovernmental:	
Equipment repair and replacement	577,514
Operations and maintenance reserves	488,086
Total intergovernmental expenses	1,065,600
Miscellaneous income - primarily septage revenue	835,075
Sale of nutrient credits	390,865
Gain on sale of equipment	10,500
Total nonoperating revenue	2,302,040
Change in net position	2,372,947
Net position - beginning of year	20,987,850
Net position - end of year	$ 23,360,797

See accompanying notes.

South Central Wastewater Authority
Statement of Cash Flows
Year Ended June 30, 2016

	Business-Type Activities
Cash flows from operating activities:	
Cash receipts from localities	$ 7,090,183
Cash payments to employees for services	(2,340,683)
Cash payments for goods and services	(2,785,117)
Net cash provided by operating activities	1,964,383
Cash flows from noncapital financing activities:	
Operations and maintenance reserves	488,086
Sale of nutrient credits	390,865
Miscellaneous income	835,075
Net cash provided by noncapital financing activities	1,714,026
Cash flows from capital and related financing activities:	
Cash received from localities for equipment repair and replacement	577,514
Proceeds from sale of equipment	10,500
Plant and equipment purchases/disposals (net)	(1,364,027)
Net cash used by capital and related financial activities	(776,013)
Net change in cash and cash equivalents	2,902,396
Cash and cash equivalents, beginning of year	2,933,360
Cash and cash equivalents, end of year	$ 5,835,756
Cash and cash equivalents - as shown on the statement of net position:	
Cash and cash equivalents	$ 3,807,791
Cash and cash equivalents - board restricted for equipment repair and replacement	2,027,965
	$ 5,835,756
Reconciliation of net operating loss to net cash from operating activities:	
Operating income	$ 70,907
Adjustments to reconcile to net cash from operating activities:	
Depreciation	961,959
Change in:	
Accounts receivable	354,520
Inventories	102,421
Accounts payable	140,269
Net pension liability and related deferred inflows/outflows of resources	(71,998)
Compensated absences payable	23,072
Refunds due to member localities	378,733
Other post employment benefit obligations	4,500
Net cash provided by operating activities	$ 1,964,383

See accompanying notes.

Notes to Financial Statements

1. Organization and Nature of Business

The South Central Wastewater Authority (Authority) is a public body organized under the provisions of the Virginia Water and Sewer Authorities Act, by the governing bodies of the City of Petersburg, Virginia, the City of Colonial Heights, Virginia, and the Counties of Chesterfield, Dinwiddie, and Prince George, Virginia. The purpose of the Authority is to operate and maintain wastewater treatment and related facilities for the members of the Authority.

2. Summary of Significant Accounting Policies

Reporting entity

The Authority's governing body is comprised of one member appointed by each of the five participating jurisdictions. These governmental entities have an ongoing financial responsibility to the Authority because its continued existence depends on continued funding by the participants. The Authority is a legally separate entity from the participating governments and no participating government has access to its resources or surpluses, nor is any participant liable for the Authority's debts or deficits. The Authority also has the ability to finance its capital projects through user charges or the sale of revenue bonds.

The Authority has been determined to be a joint venture of the five participating jurisdictions. The Authority is not a component unit of any of the participating governments. There are no component units to be included in the Authority's financial statements.

Basis of accounting

The Authority utilizes the economic resources management focus and the accrual basis of accounting in preparing its financial statements where revenues are recognized when earned and expenses when incurred. The Authority has adopted allowable standard set by the Governmental Accounting Standards Board (GASB).

The Statement of Net Assets presents the Authority's assets and liabilities, with the difference reported as net assets. Net assets are categorized into three components:

> **Invested in capital assets, net of related debt** - represents the Authority's total investment in capital assets, net of accumulated depreciation reduced by outstanding balances for bonds, notes and other debt that are attributed to the acquisition, construction or improvement of those assets.
>
> **Restricted net assets** - result when constraints placed on net asset use are either externally imposed by law through constitutional provisions or enabling legislation.
>
> **Unrestricted net assets** - consist of net assets which do not meet the definition of the two preceding categories.

Cash and cash equivalents and restricted cash and cash equivalents

Cash and cash equivalents and restricted cash and cash equivalents include amounts in demand deposits as well as short-term investments, stated at cost which approximates fair value, with original maturity dates within three months of the dates acquired by the Authority. Restricted cash as presented in the Statement of Net Position is comprised of board restricted funds to be used for the future repair and replacement of equipment throughout the plant. This is not included in restricted net assets as it is not externally imposed by law through constitutional provisions or enabling legislation.

Accounts receivable

The Authority determined that no allowance for doubtful accounts is necessary at June 30, 2016, due to substantially all of the receivables being due from member localities and considered to be fully collectable.

Inventories

Inventories are valued at cost using the first-in, first-out method. Inventories consist of expendable supplies held for consumption and are recorded as expenses when used (consumption method).

Property, plant and equipment

Property, plant and equipment received at the Authority's inception were reported at the net depreciable value, which approximated market value.

Purchased property, plant and equipment with a value of $5,000 or greater is recorded at cost. Maintenance and repairs are expensed in the period incurred; major renewals and betterments are capitalized. When items of property are sold or retired, the related costs are removed from the accounts and any gain or loss is included in current year's operations. Depreciation is charged as an expense against operations and has been provided generally using the straight-line method over the following estimated useful lives:

Sewer system and plant	40 years
Plant machinery	15 years
Equipment and vehicles	5 years

Compensated absences payable

Authority employees are granted vacation and sick leave in varying amounts. In the event of termination other than retirement, Authority employees are paid for accumulated vacation days based on years of service and are not paid for accumulated sick leave. Upon retirement, Authority employees are paid for accumulated vacation days and a portion of accumulated sick leave. The unused vested portion of vacation and sick leave is recorded as a liability at year end.

Credit risk

Financial instruments that potentially subject the Authority to concentrations of credit risk consist principally of cash, cash equivalents, investments, and trade accounts receivable. The Authority places its cash and cash equivalents with high credit quality financial institutions whose credit ratings are monitored by management to minimize credit risk. Investments of the Authority are comprised of obligations of the United States or agencies thereof to minimize credit risk. The concentration of credit risk for accounts receivable is limited due to the fact that almost all of the receivables being due from member localities.

Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses and disclosure of contingent assets and liabilities for the reported periods. Actual results could differ from those estimates and assumptions.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Political Subdivision's Retirement Plan and the additions to/deductions from the Political Subdivision's Retirement Plan's net fiduciary position have been determined on the same basis as they were reported by the Virginia Retirement System (VRS). For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Subsequent events

In preparing these financial statements, the Authority has evaluated events and transactions for potential recognition or disclosure through November 9, 2016, the date the financial statements were available to be issued.

3. Deposits and Investments

Deposits

The Authority follows a deposit policy in accordance with statutes of the Commonwealth of Virginia. $6,517,435 of the Authority's deposits were insured by federal depository insurance or the provisions of the Commonwealth of Virginia Security for Public Deposits Act (Act). Under the Act, banks holding public deposits in excess of the amounts insured by federal depository insurance must pledge collateral in the amount of 50 percent of excess deposits to a collateral pool in the name of the State Treasury Board. Savings and loan institutions are required to collateralize 100 percent of deposits in excess of federal depository insurance limits. The State Treasury Board has the authority to assess additional collateral from participating financial institutions to cover collateral shortfalls in the event of default and is responsible for monitoring compliance with the collateralization and reporting requirements of the Act and for notifying local governments of compliance by banks and savings and loan institutions. At June 30, 2016, the carrying amount of the Authority's deposits was $5,835,756 and the associated bank balance was $6,517,435. Differences between the Authority's carrying value of deposits and the bank balance were due to outstanding checks, deposits in transit and other reconciling items.

Investment policy

In accordance with the Code of Virginia (1950), as amended, and other applicable laws and regulations, the Authority's investment policy (Policy) permits investments in U.S. government obligations, obligations of the Commonwealth of Virginia or political subdivisions thereof, negotiable certificates of deposit, negotiable bank deposit notes, repurchase agreements, bankers' acceptances, prime quality commercial paper, corporate notes, mortgage or asset-backed securities, money market funds, guaranteed investment contracts (GICs), and the State Treasurer's Local Government Investment Pool.

Concentration of credit risk

The Policy establishes limitations on portfolio composition by issuer in order to control concentration of credit risk. No more than 5% of the Authority's portfolio will be invested in the securities of any one issuer with the exception of: (1) the U.S. government or agencies thereof, (2) fully insured/collateralized certificates of deposit or repurchase agreements that are collateralized by the U.S. government or agencies thereof, and (3) mutual funds whereby the portfolio is limited to U.S. government or agency securities.

As of June 30, 2016, the Authority held no investments.

4. Property, Plant and Equipment

Property, plant and equipment owned by the Authority consist of the following:

	Balance July 1, 2015	Increases	Decreases	Balance June 30, 2016
Capital assets not being depreciated:				
Land	$ 92,968	$ -	$ -	**$ 92,968**
Construction in progress	1,961,618	1,121,633	(1,058,416)	**2,024,835**
Total capital assets not being depreciated	2,054,586	1,121,633	(1,058,416)	**2,117,803**
Other capital assets:				
Sewer system and plant	31,393,912	1,024,080	-	**32,417,992**
Plant machinery	7,184,207	135,435	-	**7,319,642**
Equipment and vehicles	2,707,320	141,295	(12,852)	**2,835,763**
Total other capital assets at historical cost	41,285,439	1,300,810	(12,852)	**42,573,397**
Accumulated depreciation for:				
Sewer system and plant	(17,654,090)	(682,564)	-	**(18,336,654)**
Plant machinery	(5,672,129)	(170,109)	-	**(5,842,238)**
Equipment and vehicles	(2,228,583)	(109,286)	12,852	**(2,325,017)**
Total accumulated depreciation	(25,554,802)	(961,959)	12,852	**(26,503,909)**
	$ 17,785,223	$ 1,460,484	$ (1,058,416)	**$ 18,187,291**

6. Defined Benefit Pension Plan

The Authority contributes to the Virginia Retirement System (VRS), an agent and cost-sharing multiple-employer defined benefit pension plan administered by the VRS.

Plan description

All full-time, salaried permanent (professional) 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. The Political Subdivision Retirement Plans are an agent, multiple-employer plan. Members earn one month of service credit for each month they are employed and they and their employer are paying contributions to VRS. Members are eligible to purchase prior public 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 below:

VRS PLAN 1:

About VRS Plan 1

VRS 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 VRS Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.

Eligible members

Employees are in VRS 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 VRS 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 VRS Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as VRS Plan 1 or ORP.

Retirement contributions

Members contribute up to 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some school divisions and political subdivisions elected to phase in the required 5% member contribution; 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. Beginning July 1, 2012, the Authority opted for employees to pay the entire 5% member contribution.

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.

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.

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.

Average final compensation

A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.

Service retirement multiplier

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 1.7%. The retirement multiplier for sheriffs and regional jail superintendents is 1.85%. The retirement multiplier of eligible political subdivision hazardous duty employees other than sheriffs and regional jail superintendents is 1.7% or 1.85% as elected by the employer.

Normal retirement age

Age 65 with credit of 5 years of service.

Earliest unreduced retirement eligibility

Members who are not in hazardous duty positions are eligible for an unreduced retirement benefit at age 65 with at least five years (60 months) of creditable service or at age 50 with at least 30 years of creditable service.

Hazardous duty members are eligible for an unreduced retirement benefit at age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service.

Earliest reduced retirement eligibility

Members who are not in hazardous duty positions may retire with a reduced benefit as early as age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service.

Hazardous duty members are eligible for a reduced retirement benefit at age 50 with at least five years of creditable service.

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%.

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.

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.

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.

Most state employees are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement.

VSDP members 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.

VRS PLAN 2:

About VRS Plan 2

VRS 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 VRS 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.

Eligible members

Employees are in VRS 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

VRS 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 VRS 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 VRS Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as VRS Plan 2 or ORP.

Retirement contributions

Same as VRS Plan 1.

Creditable service

Same as VRS Plan 1.

Vesting

Same as VRS Plan 1.

Calculating the benefit

See definition under VRS Plan 1.

Average final compensation

A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.

Service retirement multiplier

Same as Plan1 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.

Normal retirement age

Normal Social Security retirement age. Political subdivisions hazardous duty employees: same as Plan 1.

Earliest unreduced retirement eligibility

Members are eligible for an unreduced retirement benefit when they reach normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90.

Earliest reduced retirement eligibility

Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service.

Hazardous duty members are eligible for a reduced retirement benefit at age 50 with at least five years of creditable service.

Cost-of-living adjustment (COLA) in retirement

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%.

Eligibility

Same as VRS Plan 1
Exceptions to COLA Effective Dates:
Same as VRS Plan 1

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.

Most state employees are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement.

VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.

Purchase of prior service

Same as VRS Plan 1.

HYBRID RETIREMENT PLAN

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 VRS Plan 1 and VRS 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.

Eligible members

Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes:

- State employees*
- School division employees
- Political subdivision employees*
- Judges appointed or elected to an original term on or after January 1, 2014

  Members in VRS Plan 1 or VRS 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:

- • Members of the State Police Officers' Retirement System (SPORS)
- • Members of the Virginia Law Officers' Retirement System (VaLORS)
- • 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 VRS Plan 1 or VRS Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select VRS Plan 1 or VRS Plan 2 (as applicable) or ORP.

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.

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. VRS Plan 1 or VRS 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.

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.

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.

Calculating the benefit

Defined benefit component

See definition under VRS 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

Same as VRS Plan 2. It is used in the retirement formula for the defined benefit component of the plan.

Service retirement multiplier

The retirement multiplier is 1.0%.

For members that opted into the Hybrid Retirement Plan from VRS Plan 1 or VRS Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans.

Normal retirement age

Defined benefit component

Same as VRS Plan 2.

Defined contribution component

Members are eligible to receive distributions upon leaving employment, subject to restrictions.

Earliest unreduced retirement eligibility

Defined benefit component

Members are eligible for an unreduced retirement benefit when they reach normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90.

Defined contribution component

Members are eligible to receive distributions upon leaving employment, subject to restrictions.

Earliest reduced retirement eligibility

Defined benefit component

Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service.

Defined contribution component

Members are eligible to receive distributions upon leaving employment, subject to restrictions.

Cost-of-living adjustment (COLA) in retirement

Cost of living adjustment (COLA) in retirement

Defined benefit component

Same as VRS Plan 2.

Defined contribution component

Not applicable.

Eligibility

Same as VRS Plan 1 and VRS Plan 2.

Exceptions to COLA effective dates

Same as VRS Plan 1 and VRS Plan 2.

Disability coverage

Eligible political subdivision and school division (including VRS Plan 1 and VRS 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.

State employees (including VRS Plan 1 and VRS Plan2 opt-ins) participating in the Hybrid Retirement Plan are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement.

Hybrid members (including VRS Plan 1 and VRS Plan 2 opt-ins) covered under VSDP or VLDP are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.

Purchase of prior service

Defined benefit component

Same as VRS 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 the one-year period, the rate for most categories of service will change to actuarial cost

Defined contribution component

Not applicable.

Employees covered by benefit terms

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

	Number
Inactive members or their beneficiaries currently receiving benefits	18
Inactive members:	
Vested	3
Non-vested	18
Active elsewhere in VRS	10
Total inactive members	31
Active members	33
Total	82

Contributions

Plan members are required by Title 51.1 of the Code of Virginia (1950), as amended, to contribute 5% of their compensation toward retirement. All or part of the 5% member contribution may be 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% member contribution. This could be phased in over a period 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. In addition, the Authority is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the Code of Virginia and approved by the VRS Board of Trustees. The Authority's contribution rate for the fiscal year ended June 30, 2016 was 8.84% of annual covered payroll.

Net pension liability

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

Actuarial assumptions

The total pension liability for General Employees in the Authority's Retirement Plan was based on an actuarial valuation as of June 30, 2014, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2015.

Inflation	2.5%
Salary increases, including inflation	3.5% - 5.35%
Investment rate of return	7.0%, net of pension plan investment expenses, Including inflation*

* Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 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

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, 2014. 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

Long-term expected rate of return

The long-term expected rate of return on pension 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 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%

*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%.

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.

Changes in net pension liability (asset)

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) – (b)
Balances at June 30, 2015	$ 3,742,577	$ 3,170,606	$ 571,971
Changes for the year:			
Service cost	171,384	-	171,384
Interest	257,015	-	257,015
Difference between expected and actual results	(116,926)	-	(116,926)
Contributions – employer	-	134,611	(134,611)
Contributions – employee	-	76,008	(76,008)
Net investment income	-	148,134	(148,134)
Benefit payments, including refunds of employee contributions	(141,873)	(141,873)	-
Administrative expense	-	(1,930)	1,930
Other changes	-	(31)	(31)
Net changes	169,600	214,919	(45,319)
Balances at June 30, 2016	$ 3,912,177	$ 3,385,525	$ 526,652

Sensitivity of the net pension liability to changes in the discount rate

The following represents the net pension liability calculated using the stated discount rate, as well as what the net position liability would be if it were calculated using a stated discount rate that is one-percentage-point lower or one-percentage-point higher than the current rate:

	1% Decrease 6.00%	Current Discount Rate 7.00%	1% Increase 8.00%
Plan's Net Pension Liability (Asset)	$ 1,040,837	$ 526,652	$ 100,440

Pension expense and deferred outflows of resources and deferred inflows of resources related to pensions

For the year ending June 30, 2016, the Authority recognized pension expense of $93,783. At June 30, 2016, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred of Outflows of Resources	Deferred Inflows of Resources
Employer contributions made subsequent to the measurement date	$ 136,390	$ -
Differences between expected and actual experience	-	82,127
Net difference between projected and actual earnings on plan investments	-	83,149
	$ 136,390	$ 165,276

Amounts reported as deferred inflows of resources related to pensions as of June 30, 2016, will be recognized in pension expense as follows:

2017	$	(67,591)
2018		(67,591)
2019		(45,323)
2020		15,229
Total	$	(165,276)

8. Other Post-Employment Benefits Plan

The Authority implemented GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions (GASB 45), for the fiscal year ended June 30, 2016. This implementation required the Commission to report an actuarially determined liability for the present value of projected future other than postemployment benefits (OPEB) for retired and active employees on the financial statements.

Plan description

General employees can purchase health insurance at published rates if they retire under the VRS general employees plan. Reduced retirement under the VRS plan is at the earlier of age 50 with 10 years of service or age 55 with 5 years of service. If hired after July 1, 2010 and do not have 5 years of vested service by January 1, 2013 then the earlier retirement age is the earlier of age 60 with 5 years of service or 90 combined age and service points for other employees.

Funding policy

These benefits are financed on a pay-as-you-go basis.

Annual OPEB cost and net OPEB obligation

The Authority's annual other post-employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (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 the unfunded actuarial liabilities (or funding excess) over a period not exceed thirty years. The following table shows the components of the Authority's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Authority's net OPEB obligation.

Annual required contribution	$	18,100
Interest on net OPEB obligation		1,900
Adjustment to annual required contribution		(2,500)
Annual OPEB cost (expense)		17,500
Contributions made		(13,000)
Increase in net OPEB obligation		4,500
Net OPEB obligation, beginning of year		55,200
Net OPEB obligation, end of year	$	59,700

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. 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.

For the fiscal year ended June 30, 2016, the annual OPEB cost was $17,500, the percentage of annual OPEB cost contributed to the plan was 74.30% and the net OPEB liability was $59,700. The net OPEB liability at June 30, 2016 of $59,700 is included in the accompanying statement of net assets.

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded (Unfunded) Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as % Payroll
July 1, 2015	$ -	$ 176,000	$ 176,000	0.00%	$ 1,637,239	10.75%
July 1, 2014	$ -	$ 172,000	$ 172,000	0.00%	$ 1,589,883	11.07%
July 1, 2013	$ -	$ 166,800	$ 166,800	0.00%	$ 1,522,352	10.96%

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 the 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 member to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2013 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 3.50% investment rate of return (net of administrative expenses), which is expected long-term investment returns on the employer's own investments calculated, and an annual healthcare cost trend rate of 7.5% initially, gradually decreasing over time. By 2030 the rate of increase is 5.70%, and by 2050 5.0 percent. The rates include a 2.5% inflation assumption. The UAAL is being amortized as a level percentage of projected payroll on a closed basis over thirty years.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, so actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

9. Deferred Compensation Plan

Eligible employees of the Authority may participate in a deferred compensation plan in accordance with Internal Revenue Code section 457. The plan permits participants to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination of employment, retirement, death or an unforeseen emergency. The Authority has no fiduciary responsibility for the plan, has no liability for losses incurred under the plan as the plan is administered by the U.S. Conference of Mayors and the plan is not accessible by the Authority's creditors; therefore, any related assets and liabilities are not reflected in the financial statements.

10. Nutrient Credit Purchases and Sales of Excess Nutrient Credits

During the current year, the Authority was required to purchase nutrient credits in order to remain in compliance with environmental regulations. The total cost of these credits in the current year was $564,874 and these credits will be required to be purchased in future years to continue to meet environmental regulations until the Authority completes the nutrient upgrade project (see Note 11) to reduce the levels of nitrogen and phosphorus. The SCWWA Board committed to purchase credits from the Virginia Nutrient Credit Exchange Association or from the counties of Chesterfield and Henrico through calendar year 2017.

During the current year, the Authority was able to sell excess nutrient credits through the Virginia Nutrient Credit Exchange Association. The total sale price of these credits in the current year was $390,865.

11. Commitments

The Authority is still in the initial stages of an approximately $55,000,000 (in 2010 dollars – year in which estimate was established) plant improvement to reduce nitrogen and phosphorus in the effluent, as required by the Chesapeake Bay restoration standards. This improvement will be primarily financed by obtaining grant funding and through the issuance of bonds. The bonds will be repaid by the member localities based on their share of the plant capacity. The Board originally deferred this upgrade for at least 10 years due to the cost of debt service versus nutrient credits. However, regulatory drivers may require it to be done in 2017.

12. Contingency

The Authority relies on its member localities' dues for operating income as well as certain reserves. The City of Petersburg is the Authority's largest member locality as it has historically accounted for over 50% of total wastewater flow. During the year ended June 30, 2016, Petersburg accounted for 57.85% of the Authority's wastewater flow. The City of Petersburg has faced significant financial difficulties in recent years, including an operating deficit of $57,998,939 for 2015 (most recently audited fiscal year). As of June 30, 2016, Petersburg was behind on their payments to the Authority by two months, totaling $367,681. Also, Petersburg was delinquent by up to six months during 2016 and has continued to fall behind on payments subsequent to year-end. Petersburg's inability to pay its member dues would have a significant effect on the Authority's earnings and ability to fund operations without using reserve funds.

13. Related Party Transactions

During 2014, the Authority entered into an agreement for the partial reimbursement of salaries with Appomattox River Water Authority (ARWA), which shares a common Board of Directors with the Authority. There are certain employees that split their time equally between the Authority and ARWA and, as such, each party is liable for half of the related payroll expense. At June 30, 2016, amounts included in accounts receivable from ARWA is $66,446 for the reimbursement of these expenses. The Authority's total reimbursement for these expenses during the year was $96,904. At June 30, 2016, amounts included in accounts payable owed to ARWA is $103,374 for the reimbursement of these expenses. The Authority's total portion of the expense during the year was $128,104.

In addition, ARWA shares a health insurance policy with the Authority. All invoices are paid to the insurance provider by the Authority and they then bill ARWA for their portion of the expenditure. At June 30, 2016, there were no amounts included in accounts receivable for the reimbursement of these insurance expenses.

During 2013, the Authority entered into an agreement with Chesterfield County (the “County”), a member locality, to begin purchasing nitrogen and phosphorus credits from the County to remain in compliance with environmental regulations as discussed in Note 10. This agreement was set to begin for compliance year 2015 and for each year thereafter through and including compliance year 2016. During 2014, the Authority executed an agreement with the County to further extend this agreement for compliance years 2017 and 2018. Subsequent to June 30, 2016, the Authority again extended this agreement through compliance year 2019.

During 2014, the Authority entered into an agreement with Henrico County (the “County”), a non-member locality, to begin purchasing nitrogen and phosphorus credits from the County to remain in compliance with environmental regulations as discussed in Note 10. This agreement was set to begin for compliance year 2015 and for each year thereafter through and including compliance year 2016.

14. Commitments

The Authority enters into contracts throughout the year in order to complete various projects. As of June 30, 2016, the Authority had three outstanding contracts totaling $1,671,126 related to electrical upgrades and waste water treatment plant upgrades. As of June 30, 2016, the Authority has incurred expenses of $817,578 related to these contracts, with a remaining amount of $853,548 to be completed in 2017.

South Central Wastewater Authority

Compliance Report

June 30, 2016

DIXON HUGHES GOODMAN LLP

Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

Board of Directors
South Central Wastewater Authority
Petersburg, Virginia

We have audited, 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, the financial statements of the business-type activities of South Central Wastewater Authority as of and for the year ended June 30, 2016 and the related notes to the financial statements, which collectively comprise the South Central Wastewater Authority's basic financial statements, and have issued our report thereon dated November 9, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements we considered South Central Wastewater 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 South Central Wastewater Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the entity'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 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 combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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 that we consider to be a significant deficiency (see IC 16-01 on page 32).

Compliance and Other Matters

As part of obtaining reasonable assurance about whether South Central Wastewater Authority's financial statements are free of 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.

South Central Wastewater Authority's Response to the Finding
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 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 result 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.

Dixon Hughes Goodman LLP

Chester, Virginia
November 9, 2016

Schedule of Findings and Responses - Financial Statements

Finding No. IC 16-01

Comment	Management relies on the auditors to prepare financial statements compliant with Generally Accepted Accounting Principles (GAAP) and the Governmental Accounting Standards Board (GASB) and related disclosures.
Condition and Criteria	Auditors assist in the preparation of GAAP and GASB compliant financial statements and footnotes. These financial statements are reviewed and approved by management; however, auditors feel that this review would only detect material misstatements, and that a misstatement that is more than inconsequential may not be prevented or detected.
Effect	Financial statements and related disclosures may be misstated by an amount that is more than inconsequential.
Cause	Due to the small size of the Authority, there is a limited accounting staff, which does not allow for the hiring of an accountant with the background needed to prepare GAAP and GASB compliant financial statements and related disclosures.
Recommendation	Management will meet regularly with the auditors to keep up to date on changes in GAAP and GASB and continue to review the draft GAAP and GASB compliant financial statements and related disclosures prior to issuance.
View of Management and Planned Corrective Action	Recommendations made by auditors will be implemented.

South Central Wastewater Authority

Required Supplementary Information

June 30, 2016

South Central Wastewater Authority
Schedule of Changes in Net Pension Liability and Related Ratios
Year Ended June 30,

	2016	2015
Total pension liability		
Service cost	$ 171,384	164,219
Interest	257,015	238,485
Change in assumptions	(116,926)	-
Benefit payments	(141,873)	(134,116)
Net change in total pension liability	169,600	268,588
Total pension liability - beginning	3,742,577	3,473,989
Total pension liability - ending (a)	3,912,177	3,742,577
Plan fiduciary net position:		
Contributions - employer	134,611	136,218
Contributions - employee	76,008	73,798
Net investment income	148,134	429,411
Benefit payments	(141,873)	(134,116)
Administrative expenses	(1,930)	(2,224)
Other changes	(31)	22
Net change in plan fiduciary net position	214,919	503,109
Plan fiduciary net position - beginning	3,170,606	2,667,497
Plan fiduciary net position - ending (b)	3,385,525	3,170,606
Authority's net pension liability (asset) - ending (a) - (b)	$ 526,652	$ 571,971
Plan fiduciary net position as a percentage of the total pension liability	86.5%	84.7%
Covered payroll	1,660,130	1,738,361
Net pension liability as a percentage of covered payroll	31.7%	32.9%

*Covered payroll reprsents the total pensionable payroll for emplyees covered under the pension plan, in accordance with GASB 82

Note: Information in this schedule is presented for the year in which information is available. Information will be added each year until a full 10-year trend is presented.

South Central Wastewater Authority
Schedule of Contributions
Year Ended June 30,

		2016		2015		2014
Actuarially determined contribution	$	136,390	$	134,611	$	136,218
Contributions in relation to the actuarially determined contribution		136,390		134,611		136,218
Contribution deficiency (excess)	$	-	$	-	$	-
Covered payroll	$	1,660,130	$	1,738,361	$	1,602,262
Contributions as a percentage covered payroll		8.2%		7.7%		8.5%

Notes to Schedule:

Actuarily determined contribution rates are based on the most recent valuation date, which was June 30, 2014. Methods and assumptions used to determine contribution

Actuarial cost method	Entry age normal
Amortization method	Level percent closed
Remaining amortization period	30 years
Asset valuation method	5-year smoothed market
Actuarial assumptions:	5-years for investment gains and losses
Investment rate of return*	7.00%
Projected salary increases*	3.50% - 5.35%
Cost-of-living adjustments	2.25% - 2.50%

*Includes inflation at 2.50%

*Covered payroll reprsents the total pensionable payroll for emplyees covered under the pension plan, in accordance with GASB 82

Note: Information in this schedule is presented for the year in which information is available. Information will be added each year until a full 10-year trend is presented.

Changes of 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 reflect the hybrid plan since new members have joined the System since implementation. However, the impact on the liabilities as of the measurement date of June 30, 2016 are minimal.

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

- **Recommendation on Legal Services**

  Following is a memorandum concerning the Recommendation on Legal Services Provider for the Authority.

MEMORANDUM

TO: **APPOMATTOX RIVER WATER AUTHORITY: BOARD OF DIRECTORS**
SOUTH CENTRAL WASTEWATER AUTHORITY: BOARD OF DIRECTORS

FROM: **ROBERT C. WICHSER, EXECUTIVE DIRECTOR**
JAMES C. GORDON, ASSIST. EXECUTIVE DIRECTOR

SUBJECT: **RECOMMENDATION ON LEGAL SERVICES PROVIDER**

DATE: **NOVEMBER 17, 2016**

The Authorities developed a detailed Request for Proposals for Legal Service that had been reviewed and edited by Attorneys from Prince George County, Chesterfield County and the City of Colonial Heights. Robert Wilson, Executive Director of the Dinwiddie County Water Authority also provided review and comments on the RFP. The Legal Services RFP was advertised on Sunday June 26, 2016 in the Richmond Times Dispatch, the Progress Index and on both Authorities' web sites. Proposals were accepted up until August 19, 2016 at 2 PM.

SCWWA and ARWA received a total of three proposals from the following legal firms: Hunton & Williams, Troutman Sanders and McGuire Woods. The Authorities' selection committee was made up of the attorneys from Prince George County, Chesterfield County and the City of Colonial Heights along with Robert Wilson, Jamie Gordon, and Robert Wichser. The selection committee reviewed the proposals, and then ranked them based on the Evaluation Criteria in the RFP. A conference call was subsequently held that resulted in the unanimous decision to only interview McGuire Woods based on the information presented in their proposal, the firms overall experience of working with members of the Selection Committee, and after the committee's consideration of background information on McGuire Woods.

- Hunton & Williams had submitted only to provide bond counsel services.
- Troutman Sanders showed limited Utility Authority experience in their proposal and their primary clients were private sector. Troutman intended to subcontract out any financially related legal needs (bond counsel) to Hawkins Delafield & Wood.

McGuire Woods was interviewed in-person on October 6, 2016 by the selection committee.

Board Action Requested:

The ARWA and SCWWA desire to hire McGuire Woods to a three year contract to complement our legal service needs. Based on the selection committee's findings, it is recommended that McGuire Woods be selected based on their capability of providing the most complete in-depth legal services to both Authorities. Staff recommends that the ARWA Board of Directors authorize the Executive Director of ARWA and SCWWA to enter into a Legal Services Contract with McGuire Woods for a three year period with the option for an annual extension up to two additional years at the determination of both ARWA and SCWWA.

- **Proposed 2017 Board Meeting Dates**

  Following is a Proposed 2017 Schedule for the Board of Directors Meeting Dates

MEMORANDUM

TO: SOUTH CENTRALWASTEWATER AUTHORITY: BOARD OF DIRECTORS

FROM: ROBERT C. WICHSER, EXECUTIVE DIRECTOR
JAMES GORDON, ASSISTANT EXECUTIVE DIRECTOR

SUBJECT: PROPOSED SCHEDULE FOR 2017 BOARD OF DIRECTORS:
SOUTH CENTRAL WASTEWATER AUTHORITY MEETINGS
APPOMATTOX RIVER WATER AUTHORITY MEETINGS

DATE: NOVEMBER 17, 2016

Staff is proposing a similar schedule as followed in 2016 for the Board of Directors meetings. The South Central Wastewater Authority-based meetings are held at 900 Magazine Road, Petersburg, Virginia, unless otherwise notified as to an alternative location. The Appomattox River Water Authority-based meetings will be held in the Appomattox River Water Authority Board Room located at 21300 Chesdin Road, Petersburg, Virginia, unless otherwise notified as to an alternative location. Special Board Meetings may be called based on specific needs. The proposed 2017 Board meeting schedule is as follows:

MONTH/DAY	LOCATION
January 19	Appomattox River Water Authority
March 16	South Central Wastewater Authority
May 18	Appomattox River Water Authority
June 15	Appomattox River Water Authority
July 20	Appomattox River Water Authority
August 17	Appomattox River Water Authority
September 21	South Central Wastewater Authority
November 16	South Central Wastewater Authority

BOARD ACTION REQUESTED:

Staff recommends that the Board approve the proposed schedule of regular meeting dates for 2017 as presented above.

SOUTH CENTRAL WASTEWATER AUTHORITY
HOLIDAY SCHEDULE 2017

The Authority's Holiday Schedule for the year 2017 is as follows:

New Year's Day	**Monday**	**January 2, 2017**
Martin Luther King	**Monday**	**January 16, 2017**
Easter	**Monday**	**April 17, 2017**
Memorial Day	**Monday**	**May 29, 2017**
Independence Day	**Tuesday**	**July 4, 2017**
Labor Day	**Monday**	**September 4, 2017**
Columbus Day	**Monday**	**October 9, 2017**
Veterans Day	**Friday**	**November 10, 2017**
Thanksgiving Day	**Thursday**	**November 23, 2017**
Day after Thanksgiving	**Friday**	**November 24, 2017**
Christmas Eve	**Monday**	**December 25, 2017**
Christmas Day	**Tuesday**	**December 26, 2017**

The above listed Holidays are observed in accordance with the Policy and Procedures Manual Policy No. 1-04, 3.1 Holidays. Only essential personnel shall be required to work on the above listed Holidays. All full-time employees shall be entitled to two (2) floating Holidays from July 1, 2016 – June 30, 2017. New floater holidays start on July 1 of each year.

- **Status Report: Ongoing Projects / Financials / I&I**

  Following are memoranda concerning the status of Ongoing Projects, Financials, and Inflow and Infiltration.

MEMORANDUM

TO: **SOUTH CENTRAL WASTEWATER AUTHORITY BOARD OF DIRECTORS**

FROM: **ROBERT C. WICHSER, EXECUTIVE DIRECTOR**
JAMES C. GORDON, ASSISTANT EXECUTIVE DIRECTOR

SUBJECT: **STATUS REPORT – ON-GOING PROJECTS**

DATE: **NOVEMBER 17, 2016**

The following projects are underway. This report includes sections on Capital projects and large replacement projects.

Electrical Project Phase 2

- A progress meeting was held on October 26, 2016.
- Scheduled outages for this project were successfully coordinated with staff.
- Substantial Completion is anticipated in November 2016

Wastewater Treatment Plant Improvements Project

- A progress meeting was held on October 26, 2016.
- Launder covers on Final Clarifiers 3 and 4 have been installed.
- Scum Troughs have been installed and are operational on Primary Tanks 1 and 2. Anticipate the installation of Tank 3 the week of November 7th.
- Retractable fabric covers are being installed at the ends of the Primary Tanks. Covers on Tanks 1 and 2 have been installed. The covers for Tank 3 will be installed after the scum trough in that tank is installed.

MEMORANDUM

TO: SOUTH CENTRAL WASTEWATER AUTHORITY BOARD OF DIRECTORS

FROM: ROBERT C. WICHSER, EXECUTIVE DIRECTOR
JAMES C. GORDON, ASST. EXECUTIVE DIRECTOR

SUBJECT: OPERATING & FINANCIAL STATUS REPORT

DATE: NOVEMBER 17, 2016

Operating Status Report:

General:

- The next scheduled Board of Directors Meeting (if approved) is at 2:00 PM on Thursday January 19, 2016 at the Appomattox River Water Authority
- The plant is currently accepting up to 18 loads of storm water and potentially 4 loads of leachate from Waste Management's Atlantic Landfill in Sussex.
- The stormwater from Atlantic Waste dried up November 4th. Staff has made arrangements with Waste Management to accept leachate from Amelia, Charles City, and Sussex (Atlantic) Landfills. A plan is in place to gradual begin accepting these loads so we can effectively monitor the impact on our process.
- Staff is in the process of preparing the FY17/18 Budget. A review with the Utility Engineers was held on November 15th.

Status of Nutrient Waste-load

- Total Phosphorus (TP)
  - Waste-load allocation Total Phosphorus: 35,024 lbs. on a calendar basis
  - Proportional waste-load through October 2016 = 29,187 lbs.
  - Total actual waste-load through October 2016 was 24,037 lbs. (At this time, the SCWWA is 5,150 lbs. of TP under our expected waste-load allocation for this point in the year)
  - Note: The SCWWA is locked-in to purchasing an additional 17,576 credits for 2016.
- Total Nitrogen (TN)
  - Waste-load allocation Total Nitrogen: 350,239 lbs. on a calendar basis
  - Proportional waste-load through October 2016 = 291,867 lbs.
  - Total actual waste-load through August 2016 was 381,109 lbs. (At this time, the SCWWA is 89,242 lbs. of TN over our expected waste-load allocation for this point in the year.)
  - Note: The SCWWA is locked-in to purchasing an additional 283,352 credits for 2016

Operations:

- Plant effluent met all discharge permit requirements for the month of September and October. Copies of the discharge monitoring reports (DMR's) for the VPDES permit and the general permit are available if anyone would like to see them.
- Staff is evaluating a new chlorine monitor to better track residuals in the effluent.
- Staff has been and continues to work with WACO to rotate Primary basins in and out of service for the scum trough and cover replacements.

Maintenance:

- Staff continues to work with our NPW strainer supplier to address issues with the product.
- Final touches in improvements to the Admin bathroom are being completed.
- Staff has assisted contractors with ongoing projects.

Instrumentation

- Staff is modifying the generator controls to simplify the switchover process
- Worked with vendors to finalize a VPN tunnel between the ARWA and SCWWA. This enables shared employees secure and efficient access to information at either location.

Laboratory

- Continuing Industrial Pretreatment Sampling, Inspections, and Data Review required for the annual report
- Arranging HRSD sampling for Permit required testing.

Financial Status Report:

Following is the Executive Summary of the Monthly Financial Statement that includes the YTD Budget Performance and the Financial Statement for October 2016.

South Central Wastewater Authority
Monthly Financial Statements-October 2016

Wastewater Rate Center
Revenues and Expenses Summary

Operating Budget vs. Actual

	Budget FY 16/17	*Budget Year-to-Date*	*Actual Year-to-Date*	*Budget vs. Actual*	*Variance Percentage*
Revenues					
Septage/Misc Revenue	$ 435,000	$ 145,000	$ 515,614	$ 370,614	255.60%
O&M Revenue	$ 7,098,900	$ 2,366,300	$ 2,366,300	$ -	0.00%
Reserve Policy	$ 676,801	$ 225,601	$ 225,600	$ (1)	0.00%
ER&RF Revenue	$ 426,495	$ 142,165	$ 142,165	$ 0	0.00%
Total Operating Revenues	**$ 8,637,196**	**$ 2,879,066**	**$ 3,249,679**	**$ 370,613**	**12.87%**
Expenses					
Personnel Cost	$ 2,581,000	$ 865,000	$ 782,288	$ (82,712)	-9.56%
Contractual/Professional Services	$ 326,000	$ 133,000	$ 80,268	$ (52,732)	-39.65%
Utilities	$ 488,000	$ 162,667	$ 126,357	$ (36,310)	-22.32%
Communication	$ 17,500	$ 5,833	$ 4,603	$ (1,230)	-21.09%
Office/Lab/Purification Supplies	$ 74,500	$ 24,833	$ 15,155	$ (9,678)	-38.97%
Insurance	$ 70,000	$ 29,167	$ 31,104	$ 1,937	6.64%
Lease/Rental Equipment	$ 11,000	$ 3,667	$ 1,671	$ (1,995)	-54.42%
Travel/Training/Dues	$ 59,900	$ 19,967	$ 18,163	$ (1,804)	-9.03%
Safety/Uniforms	$ 41,500	$ 13,833	$ 18,420	$ 4,587	33.16%
Chemicals/Sludge Disposal	$ 920,000	$ 306,667	$ 200,836	$ (105,830)	-34.51%
Repair/Maintenance Parts & Supplies	$ 480,500	$ 160,167	$ 122,194	$ (37,973)	-23.71%
Total Operating Expenses	**$ 5,069,900**	**$ 1,724,800**	**$ 1,401,060**	**$ (323,740)**	**-18.77%**
Operating Suplus/(Deficit)	**$ 3,567,296**	**$ 1,154,266**	**$ 1,848,619**	**$ 694,353**	**60.16%**

Replacement Outlay Budget vs. Actual

Machinery & Equipment	$ 60,000	$ 20,000	$ 12,998	$ (7,002)	-35.01%
Instrumentation	$ 35,000	$ 11,667	$ 3,789	$ (7,878)	-67.53%
SCADA	$ 15,000	$ 5,000	$ -	$ (5,000)	-100.00%
Computer Equipment	$ 15,000	$ 5,000	$ 663	$ (4,337)	-86.75%
Construction FY15/16	$ 770,956	$ 770,956	$ 680,745	$ (90,211)	-11.70%
Construction FY16/17	$ 2,315,000	$ 771,667	$ -	$ (771,667)	-100.00%
Total Replacement Outlay	**$ 3,210,956**	**$ 1,584,289**	**$ 698,195**	**$ (886,095)**	**-55.93%**

Other Income/Expense Budget vs. Actual

Nutrient Credit Purchases (Expense)	**$ 1,020,000**	**$ 340,000**	**$ 281,307**	**$ (58,693)**	**-17.26%**
Nutrient Reduction	**$ -**	**$ -**	**$ 1,272**	**$ 1,272**	**#DIV/0!**
Interest-Jurisdictions (Income)	**$ -**	**$ -**	**$ 101,559**	**$ 101,559**	**#DIV/0!**

South Central Wastewater Authority

For Month Ending October 31, 2016

Assets			
Current Assets			
	Petty Cash	$	250
	Wells Fargo Operating Account	$	1,275,984
	Wells Fargo FY 15/16 Carryover	$	996,000
	Total Unrestricted Cash	**$**	**2,272,234**
	Wells Fargo Reserve	$	1,438,609
	ERRF	$	2,095,493
	Total Restricted Cash	**$**	**3,534,102**
	Total Checking/Savings	**$**	**5,806,336**
	Accounts Receivable	**$**	**1,597,527**
Total Current Assets		**$**	**7,403,863**
Fixed Assets			
	Sewer System Plant	$	32,400,354
	Equipment & Vehicles	$	2,835,761
	Plant Machinery	$	7,319,643
	Construction in Progress	$	2,024,835
	Land	$	92,968
	Accumulated Depreciation	$	(26,503,908)
Total Fixed Assets		**$**	**18,169,654**
Other Assets			
	Inventory	$	538,664
	Pension	$	136,390
Total Other Assets		**$**	**675,054**
Total Assets		**$**	**26,248,571**
Liabilities & Equity			
Current Liabilities			
	Accounts Payable	$	225,305
Total Current Liabilities		**$**	**225,305**
Other Current Liabilities			
	Payroll Accruals	$	162,797
	Retainage Payable	$	5,999
	Suspense-Clearing Account	$	278,182
	Refunds Due Member Localities	$	491,870
Total Other Current Liabilities		**$**	**938,847**
Long Term Liabilities			
	Net OPEB Obligation	$	59,700
	Def Inf Res-Net Dif Pension Inv	$	165,276
	Net Pension Liability	$	526,652
Total Long-Term Liabilities		**$**	**751,628**
Total Liabilities		**$**	**1,915,780**
Equity			
	Retained Earnings	$	9,193,994
	Initial Locality Contribution Cap.	$	14,166,822
	Net Income	$	971,975
Total Equity		$	24,332,791
Total Liabilities & Equity		**$**	**26,248,571**

MEMORANDUM

TO: SOUTH CENTRAL WASTEWATER AUTHORITY BOARD OF DIRECTORS

FROM: ROBERT C. WICHSER, EXECUTIVE DIRECTOR
JAMES C. GORDON, ASSISTANT EXECUTIVE DIRECTOR

SUBJECT: INFLOW AND INFILTRATION

DATE: NOVEMBER 17, 2016

September 2016 was a very wet month with rain event spread throughout the month. The most significant rain event occurred on 9/28/2016. The flow two days prior to this event was 9.6 mgd and increased to 26.5 two days after this rain event. October 2016 was a fairly average month as it related to precipitation totals but of the 3.80" of rain in October, 3.65" was received on 10/8/2016. Flows From the 9/28/2016 event had just decreased to approximately 11.5 mgd and increased to 36.437 mgd on 10/9/2016.

Month	Rainfall (inches)	Average Flow (mgd)
October 2015	3.43	10.908
November 2015	4.72	11.575
December 2015	5.57	14.116
January 2016	2.66	15.309
February 2016	5.31	20.289
March 2016	1.43	12.667
April 2016	2.55	10.379
May 2016	8.86	15.369
June 2016	4.21	12.560
July 2016	4.21	11.300
August 2016	0.64	9.030
September 2016	8.45	10.565
October 2016	3.65	14.198

October	2016	2015	2014	2013	2012	2011	2010
Minimum (mgd)	8.130	8.854	7.329	8.876	9.438	10.575	9.202
Maximum (mgd)	10.663	22.241	13.982	19.356	19.863	18.943	17.808
Average (mgd)	14.198	10.908	9.242	10.773	10.913	12.332	10.591
Rainfall (inches)	3.65	3.43	2.6	5.22	3.99	3.13	2.27

- **Petersburg Budget Impact Update**

  Following is the Year to Date Financial Performance and Projections update for the South Central Wastewater Authority as of October 31, 2016.

South Central Wastewater Authority

FY 16/17

YTD Financial Performance and Projections

as of October 31, 2016

Key Figures: Income Statement

	Oct	Budget	% of Budget	Jul - Oct 16	YTD Budget	% of Budget	Annual Budget	Nov thru Jun	Forecast
Ordinary Income/Expense									
Income									
40200 · Septage/Misc Revenue	137,363.73	34,583.33	397.2%	509,231.10	138,333.36	368.12%	415,000.00	687,266.64	1,196,497.74
40300 · Electricity - Credit	0.00	1,666.66	0.0%	5,177.42	6,666.64	77.66%	20,000.00	-	5,177.42
40700 · O&M Revenue	591,575.00	591,575.00	100.0%	2,366,300.00	2,366,300.00	100.0%	7,098,900.00	4,732,600.00	7,098,900.00
40710 · Reserve Policy (Reserve Policy)	56,400.10	56,400.00	100.0%	225,600.40	225,601.00	100.0%	676,801.00	451,200.60	676,801.00
40720 · ER&RF Revenue (ER & RF Revenue)	35,541.26	35,541.25	100.0%	142,165.04	142,165.00	100.0%	426,495.00	284,329.96	426,495.00
47000 · Purchase Discounts	28.85			1,205.44				-	1,205.44
Total Income	820,908.94	719,766.24	114.05%	3,249,679.40	2,879,066.00	112.87%	8,637,196.00	6,155,397.20	9,405,076.60
Gross Profit	820,908.94	719,766.24	114.05%	3,249,679.40	2,879,066.00	112.87%	8,637,196.00	6,155,397.20	9,405,076.60
Expense									
51000 · Salary	141,678.97	152,916.67	92.65%	564,208.64	611,666.64	92.24%	1,835,000.00	1,270,791.36	1,835,000.00
Total 52000 · Employee Benefits	52,641.44	61,583.33	85.48%	218,079.26	253,333.36	86.08%	746,000.00	527,920.74	746,000.00
Total 53000 · Contractual Services	13,339.24	23,750.00	56.17%	13,339.24	23,750.00	56.17%	321,500.00	308,160.76	321,500.00
Total 55000 · Other Charges	68,824.66	77,241.66	89.1%	253,352.53	338,133.41	74.93%	996,900.00	743,547.47	996,900.00
Total 56000 · Materials and Supplies	94,835.29	97,541.67	97.23%	223,558.95	292,624.97	76.4%	1,170,500.00	946,941.05	1,170,500.00
57000 · Equipment Replacement									
57010 · Machinery and Equipment	0.00	5,000.00	0.0%	12,998.00	15,000.00	86.65%	60,000.00	47,002.00	60,000.00
57020 · Instrumentation	-26.16	2,916.67	-0.9%	3,788.72	8,749.97	43.3%	35,000.00	31,211.28	35,000.00
57030 · SCADA	0.00	1,250.00	0.0%	0.00	3,750.00	0.0%	15,000.00	15,000.00	15,000.00
57040 · Computer Software & Hardware	0.00	1,250.00	0.0%	662.53	3,750.00	17.67%	15,000.00	14,337.47	15,000.00
57060 · Construction- FY 15/16	282,829.41	0.00	100.0%	397,915.95	770,956.00	51.61%	770,956.00	373,040.05	770,956.00
57060 · Construction- FY 16/17	0.00	192,916.67	0.0%	0.00	771,666.67	0.0%	2,315,000.00	365,000.00	365,000.00
Total 57000 · Equipment Replacement	282,803.25	203,333.34	139.08%	415,365.20	1,573,872.64	26.39%	3,210,956.00	845,590.80	1,260,956.00
70500 · NutrientCreditPurchases-ExhC	92,727.27	85,000.00	109.09%	281,306.81	340,000.00	82.74%	1,020,000.00	738,693.19	1,020,000.00
Total Expense	746,850.12	701,366.67	106.49%	1,969,210.63	3,433,381.02	57.36%	9,300,856.00	5,381,645.37	7,350,856.00
Net Ordinary Income	74,058.82	18,399.57	402.5%	1,280,468.77	-554,315.02	-231.0%	-663,660.00	773,751.83	2,054,220.60

The forecasted revenues for Septage/Misc. Revenue is based on an average of 10 Waste Management storm-water trucks per day.

SCWWA's Operates using Accrual Basis for Accounting; Accrual accounting is an accounting method that measures the performance and position of a company by recognizing economic events regardless of when cash transactions occur

Key Figures: Balance Sheet

	Oct 31, 16
ASSETS	
Current Assets	
Checking/Savings	
10000 · Petty Cash	250.00
10200 · Operating Checking Account - WF	
10200a · Reserve Account	1,438,609.45
10200b · FY 15/16 Carryover	996,000.00
10200 · Operating Checking Account - WF - Other	1,275,983.74
Total 10200 · Operating Checking Account - WF	3,710,593.19
10400 · ERRF	2,095,492.93
Total Checking/Savings	5,806,336.12
Accounts Receivable	
11000 · Accounts Receivable	1,597,526.82
Total Accounts Receivable	1,597,526.82
Total Current Assets	7,403,862.94
Total Fixed Assets	18,169,654.24
Other Assets	
12000 · Inventory	538,663.71
18100 · Def Out Res-Post ER Pension Con	136,390.00
Total Other Assets	675,053.71
TOTAL ASSETS	**26,248,570.89**
LIABILITIES & EQUITY	
Liabilities	
Current Liabilities	
Accounts Payable	
20000 · Accounts Payable	225,304.97
Total Accounts Payable	225,304.97
Total Other Current Liabilities	938,847.15
Total Current Liabilities	1,164,152.12
Long Term Liabilities	
27500 · Net OPEB Obligation	59,700.00
28000 · Def Inf Res-Net Dif Pension Inv	165,276.00
28100 · Net Pension Liability	526,652.00
Total Long Term Liabilities	751,628.00
Total Liabilities	1,915,780.12
Equity	
32000 · Retained Earnings (Undistributed earnings of the corpora	9,193,993.63
39003 · Initial Locality Contrib. Cap.	14,166,822.00
Net Income	971,975.14
Total Equity	24,332,790.77
TOTAL LIABILITIES & EQUITY	**26,248,570.89**

Key Figures: Cash Flow Projections

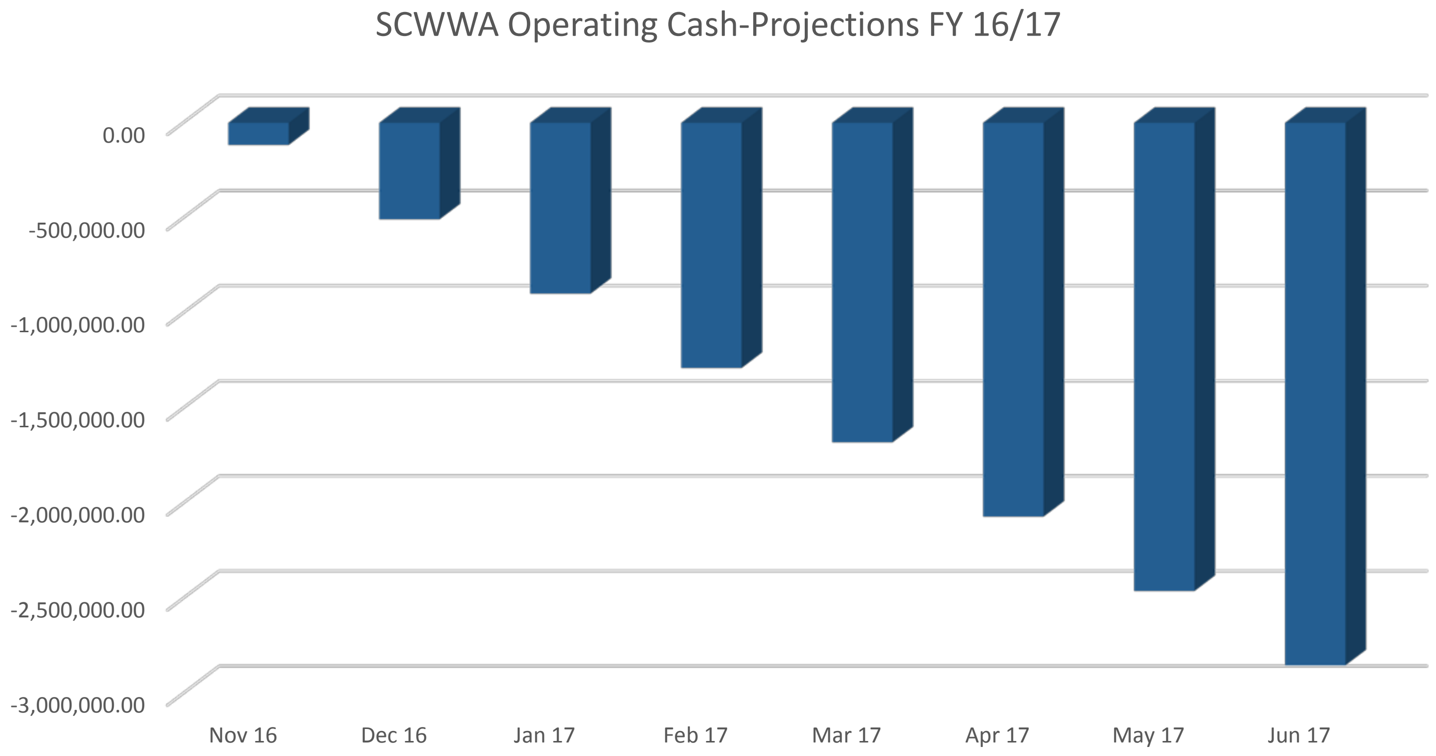
SCWWA: O&M Cash Flow Projections for FY 16/17 without using $996K Carryover from FY15/16

	Accts. Receivable	Accts Payable	Thereof Petgs	Petgs Cumulative	Operating Cash-Projections
Beginning Balance	1,597,526.82	1,001,355.50	1,596,092.65		1,275,983.74
Nov 16	609,735.00	672,705.67	327,864.90	1,923,957.55	-116,207.33
Dec 16	609,735.00	672,705.67	327,864.90	2,251,822.45	-507,042.90
Jan 17	609,735.00	672,705.67	327,864.90	2,579,687.35	-897,878.47
Feb 17	609,735.00	672,705.67	327,864.90	2,907,552.25	-1,288,714.04
Mar 17	609,735.00	672,706.67	327,864.90	3,235,417.15	-1,679,550.61
Apr 17	609,735.00	672,706.67	327,864.90	3,563,282.05	-2,070,387.18
May 17	609,735.00	672,706.67	327,864.90	3,891,146.95	-2,461,223.75
Jun 17	609,735.00	672,706.67	327,864.90	4,219,011.85	-2,852,060.32
Oct 1, 16 - Jun 30, 17	4,877,880.00	5,381,649.36	2,622,919.20		**$ (2,852,060.32)**
Totals	**6,475,406.82**	**6,383,004.86**	**4,219,011.85**		

Projections are based on only having access to Operating Cash Flow, no reserves and 10 stormwater trucks per day.

Cash flow projections are based on only having access to collected O&M revenue deposits and does not include using the $.9M Approved Carryover or tapping the $1.4M RESERVE ACCOUNT or $2.0M ERRF ACCOUNT

Key Figures: Cash Flow Projections



Cash flow projections are based on only having access to collected O&M revenue deposits and does not include using the $.9M Approved Carryover or tapping the $1.4M RESERVE ACCOUNT or $2.0M ERRF ACCOUNT

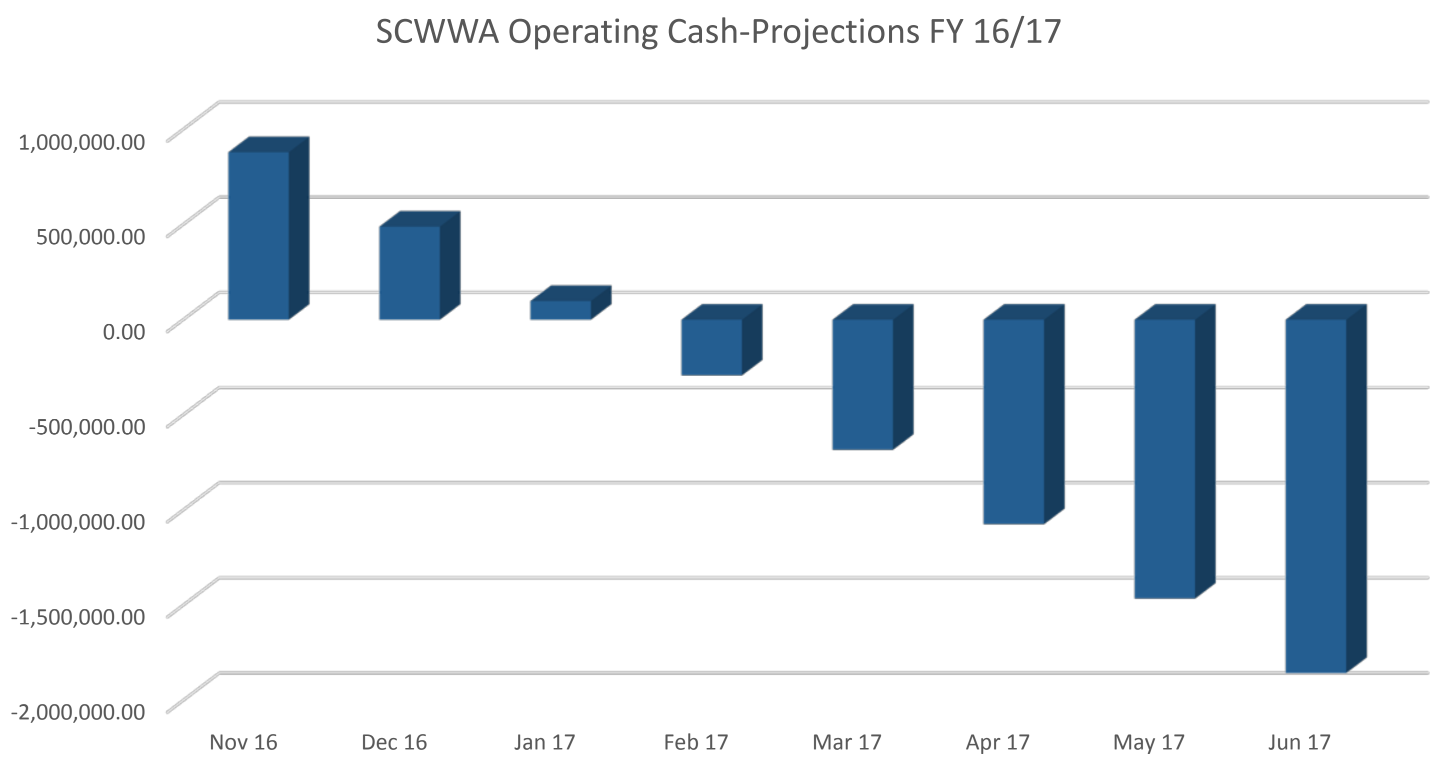
Key Figures: Cash Flow Projections

SCWWA: O&M Cash Flow Projections for FY 16/17 using $996K Carryover from FY15/16					
	Accts. Receivable	Accts Payable	Thereof Petgs	Petgs Cumulative	Operating Cash-Projections
Beginning Balance	1,597,526.82	1,001,355.50	1,596,092.65		2,271,983.74
Nov 16	609,735.00	672,705.67	327,864.90	1,923,957.55	879,792.67
Dec 16	609,735.00	672,705.67	327,864.90	2,251,822.45	488,957.10
Jan 17	609,735.00	672,705.67	327,864.90	2,579,687.35	98,121.53
Feb 17	609,735.00	672,705.67	327,864.90	2,907,552.25	-292,714.04
Mar 17	609,735.00	672,706.67	327,864.90	3,235,417.15	-683,550.61
Apr 17	609,735.00	672,706.67	327,864.90	3,563,282.05	-1,074,387.18
May 17	609,735.00	672,706.67	327,864.90	3,891,146.95	-1,465,223.75
Jun 17	609,735.00	672,706.67	327,864.90	4,219,011.85	-1,856,060.32
Oct 1, 16 - Jun 30, 17	4,877,880.00	5,381,649.36	2,622,919.20		$ (1,856,060.32)
Totals	6,475,406.82	6,383,004.86	4,219,011.85		

Projections are based on only having access to Operating Cash Flow, no reserves and 10 stormwater trucks per day.

Cash flow projections are based on only having access to collected O&M revenue deposits and does not include tapping the $1.4M RESERVE ACCOUNT or $2.0M ERRF ACCOUNT

Key Figures: Cash Flow Projections



Cash flow projections are based on only having access to collected O&M revenue deposits and does not include tapping the $1.4M RESERVE ACCOUNT or $2.0M ERRF ACCOUNT

- **Election of Authority Officers**

  Present Chairman: Robert Wilson
  Vice-Chairman: Percy Ashcraft
  Secretary/Treasurer: Vacant

5. Items from Counsel

6. Closed Session

7. Other Items from Board Members/Staff Not on Agenda:

8. Adjourn