



# **Southeastern Public Service Authority of Virginia**

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## **Financial Statements**

**Years Ended June 30, 2018 and 2017**

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## **Independent Auditors' Report**

The Board of Directors  
Southeastern Public Service Authority of Virginia  
Chesapeake, Virginia

We have audited the accompanying financial statements of Southeastern Public Service Authority of Virginia, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Southeastern Public Service Authority of Virginia'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 opinions 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 the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Authorities, Boards and Commissions* issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 Southeastern Public Service Authority of Virginia'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 Southeastern Public Service Authority of Virginia'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.

**Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Southeastern Public Service Authority of Virginia as of June 30, 2018, and the changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Prior Period Financial Statements**

The financial statements of Southeastern Public Service Authority of Virginia as of June 30, 2017, were audited by other auditors whose report dated November 28, 2017, expressed an unmodified opinion on those statements.

**Other Matters****Change in Accounting Principle**

As discussed in Note 2 to the financial statements, during 2018, the Southeastern Public Service Authority of Virginia implemented GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other than Pensions, which resulted in a cumulative effect adjustment to net position as of the beginning of the year. Our opinion is not modified with respect to these changes.

**Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis information on pages 3 through 8, and the Pension and OPEB information on pages 57 - 63 be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated December 10, 2018, on our consideration of the the Southeastern Public Service Authority of Virginia'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 Southeastern Public Service Authority of Virginia's internal control over financial reporting and compliance.



**Newport News, Virginia  
December 10, 2018**

## **Management's Discussion and Analysis**

This discussion and analysis of Southeastern Public Service Authority of Virginia (Authority or SPSA) provides an overview and analysis of the financial activities for the fiscal year ending June 30, 2018. This discussion and analysis should be read in conjunction with the basic financial statements.

### ***Financial and Operating Highlights***

- The net position of the Authority at the close of fiscal year 2018 was \$38,418,768 representing an increase of \$8,954,710 from fiscal year 2017.
- The municipal tipping fee was reduced from \$125 per ton to \$65 per ton effective January 25, 2018.
- The Authority experienced a slight decrease in the municipal waste stream of approximately 2,716 tons or 0.7%.
- New Use & Support Agreement with the Authority's member communities went into effect January 25, 2018.
- As of June 30, 2018, all outstanding debt was paid in full.

### ***Overview of the Financial Report***

The Southeastern Public Service Authority is a single enterprise fund and presents its financial statements using the economic resources measurement focus and accrual basis of accounting, which is the same measurement focus, and basis of accounting employed by private-sector business enterprises. This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements, which include comparative Statements of Net Position, Statements of Revenues, Expenses, and Changes in Net Position, Statements of Cash Flows, and notes to the financial statements.

The Statements of Net Position present information on the Authority's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

The Statements of Revenues, Expenses, and Changes in Net Position present information showing how the Authority's net position changed during the fiscal year. These statements measure the success of the Authority's operations and can be used to determine the Authority's profitability, credit worthiness, and whether it has successfully recovered all of its costs through user fees and other charges.

The Statements of Cash Flows present the change in the Authority's cash and cash equivalents during each fiscal year. This information can assist the user of the report in determining how the Authority financed its activities and how it met its cash requirements.

The notes to the financial statements provide additional information that is essential to a full understanding of the data in the financial statements. The notes present information about the Authority's accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies, and subsequent events, if any.

### ***Summary of Net Position***

As described earlier, the net position may serve over time as a useful indicator of the Authority's financial position. At the close of the fiscal year, the Authority's assets exceeded its liabilities by \$38,418,768 as compared to the previous year's net position of \$29,464,058, as restated. Capital assets shown below represent the acquisition cost less accumulated depreciation, not fair value.

# **Southeastern Public Service Authority of Virginia**

## **Management's Discussion and Analysis**

The Authority's unrestricted cash and investments increased by approximately \$7.5 million at the end of fiscal year 2018 from approximately \$18.0 million at the end of fiscal year 2017. The Authority is no longer required to keep \$4.5 million in a restricted sinking fund in order to meet its required financial assurance with the Department of Environmental Quality (DEQ) for closure and post-closure costs associated with the Regional Landfill and Transfer Stations. Another reason for the increase is due to incomplete capital projects and commitments that will be completed in fiscal year 2019.

The following table presents a condensed summary of net position as of June 30, 2018, 2017 and 2016.

	<b>2018</b>	<b>2017</b>	<b>2016</b>
Assets and deferred outflows of resources:			
Current and other assets	<b>\$ 35,930,178</b>	\$ 37,175,965	\$ 39,890,630
Capital assets - net	<b>27,980,604</b>	25,714,646	27,543,544
Deferred outflows of resources	<b>110,203</b>	1,283,844	904,382
Total assets and deferred outflows of resources	<b><u>\$ 64,020,985</u></b>	<b><u>\$ 64,174,455</u></b>	<b><u>\$ 68,338,556</u></b>
Liabilities and deferred inflows of resources:			
Current liabilities	<b>\$ 5,846,290</b>	\$ 16,226,602	\$ 16,793,653
Long-term liabilities	<b>18,497,468</b>	18,286,013	27,522,994
Deferred inflows of resources	<b>1,258,459</b>	136,317	1,269,015
Total liabilities and deferred inflows of resources	<b><u>25,602,217</u></b>	<b><u>34,648,932</u></b>	<b><u>45,585,662</u></b>
Net position:			
Invested in capital assets, net of related debt	<b>27,980,604</b>	15,881,172	7,070,375
Restricted	<b>5,616,079</b>	15,411,830	15,124,172
Unrestricted	<b><u>4,822,085</u></b>	<b><u>(1,767,479)</u></b>	<b><u>558,347</u></b>
Total net position	<b><u>38,418,768</u></b>	<b><u>29,525,523</u></b>	<b><u>22,752,894</u></b>
Total liabilities and deferred inflows of resources and net position	<b><u>\$ 64,020,985</u></b>	<b><u>\$ 64,174,455</u></b>	<b><u>\$ 68,338,556</u></b>

Net assets invested in capital assets, such as land, buildings and equipment, net of related debt is approximately \$28 million as compared to approximately \$15.9 million in the prior fiscal year. The significant increase is due to the payment of all outstanding debt. The Authority has no debt as of June 30, 2018.

In 2015, the Authority implemented GASB Statement 68. With the new reporting change, the Authority has allocated its proportionate share of the Virginia Retirement System's (VRS) net pension asset, deferred outflows of resources, deferred inflows of resources, and pension expense. Decisions regarding the allocations are made by VRS and not by the Authority's management. The Authority's proportionate share of the VRS is reflected as a Net Pension Asset versus a Net Pension Liability because the market value of the assets exceed the present value of future benefits. Please see Note 12 to the basic financial statements for more information.

In 2018, the Authority implemented GASB Statement 75. With the new reporting change, the Authority has allocated its proportionate share of the VRS' other postemployment benefits (OPEB) as it pertains to the Group Life Insurance Program and the Virginia Local Disability Program. Deferred outflows of resources, deferred inflows of resources, and related expenses have been recorded. Please see Note 14 to the basic financial statements for more information.

The unrestricted portion of net position increased to \$4,822,085 as compared to (\$1,767,479) in the prior year. This increase is largely due to elimination of a restricted sinking fund for DEQ outlined above and excess revenues over expenses.

**Southeastern Public Service Authority of Virginia**  
**Management's Discussion and Analysis**

***Summary of Revenues, Expenses and Changes in Net Position***

The Authority's net position increased in fiscal year 2018 by approximately \$9.0 million of which approximately \$5 million applies to the purchase of various assets and construction projects, \$1.7 million represents excess revenues over expenses and \$2.3 million is from non-operating revenue. The non-operating revenue includes \$1.5 million in pension income which is a portion of restricted assets.

Operating revenues declined nearly \$3 million as compared to the previous year. The municipal tip fees declined approximately \$8.1 million due to the decrease in the municipal tip fee from \$125 per ton to \$65 per ton effective January 25, 2018, when the new Use & Support Agreements with the Authority's member communities went into effect. Additionally, the Authority entered into two (2) separate contracts with private haulers: 1 with Tidewater Fibre Corporation and 1 with Waste Industries. The private hauler contracts were also effective January 25, 2018. The total other tipping fees increased approximately \$5 million as compared to the previous year.

The changes in the Authority's net position can be determined by reviewing the following condensed statements of revenues, expenses, and changes in net position:

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Operating revenue:			
Municipal tipping fees	\$ 34,740,972	\$ 42,861,141	\$ 44,029,345
Other tipping fees	8,016,267	3,010,843	2,619,052
Other operating revenue	<u>1,058,203</u>	<u>932,517</u>	<u>948,163</u>
Total operating revenue	<u>43,815,442</u>	<u>46,804,501</u>	<u>47,596,560</u>
Operating expenses:			
Personnel	8,563,764	8,521,470	8,083,027
Depreciation and amortization	2,558,058	2,859,285	3,975,772
Routine maintenance operations	3,140,280	3,124,831	2,878,016
Ash and residue agreement	-	-	5,046,780
Wheelabrator service contract	16,709,315	18,589,450	18,614,921
Other operating expenses	<u>6,167,417</u>	<u>6,484,922</u>	<u>2,937,155</u>
Total operating expenses	<u>37,138,834</u>	<u>39,579,958</u>	<u>41,535,671</u>
Operating income	<u>6,676,608</u>	<u>7,224,543</u>	<u>6,060,889</u>
Nonoperating revenue (expense)			
Gain on the sale of assets	118,648	10,080	51,426
Investment income	221,221	172,121	239,490
Interest and debt related expense	(217,753)	(1,314,474)	(1,274,817)
Other income, net	<u>2,155,986</u>	<u>680,359</u>	<u>971,337</u>
Total nonoperating revenue (expense)	<u>2,278,102</u>	<u>(451,914)</u>	<u>(12,564)</u>
Change in net position	8,954,710	6,772,629	6,048,325
Net Position:			
Beginning of year	29,525,523	22,752,894	16,704,569
Restatement	(61,465)	-	-
Beginning of year as restated	<u>29,464,058</u>	<u>22,752,894</u>	<u>16,704,569</u>
End of year	<u>\$ 38,418,768</u>	<u>\$ 29,525,523</u>	<u>\$ 22,752,894</u>

It is important to note that the municipal tipping fees reported in fiscal year 2016 exclude the rebate that was paid to the City of Virginia Beach for tipping fees paid in excess of a capped rate, as established in the ash and residue

## Southeastern Public Service Authority of Virginia Management's Discussion and Analysis

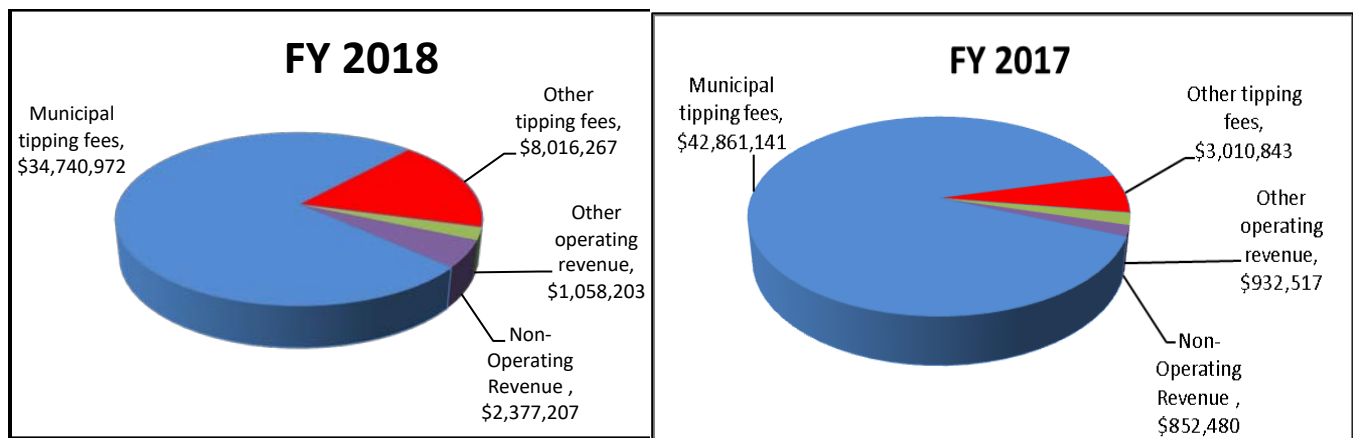
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agreement. The ash and residue agreement between the City and the Authority, which ended December 31, 2015, provided for maximum levels for the City of Virginia Beach's tipping fees. For the first six months of fiscal year 2016, the City of Virginia Beach's tipping fee was capped at \$65.35 per ton, however, beginning January 1, 2016 the City of Virginia Beach paid the full rate of \$125 per ton as did all other municipalities except the City of Suffolk which as host to the regional landfill paid no tipping fees until January 25, 2018. In accordance with Governmental Accounting Standards Board (GASB), the tipping fees paid by the City of Virginia Beach must be reported at the gross amount with the rebate illustrated as an expense.

Other tipping fees consist of construction, demolition and debris, solid waste received from the Navy, sludge, other waste accepted directly at the Regional Landfill and contract and non-contract waste received at the transfer stations.

Other operating revenue represents approximately 2% of total operating revenues during 2018 and includes charges for services to dispose of household hazardous waste, tires, white goods, sale of methane gas generated at the regional landfill, and other miscellaneous fees.

The following graph illustrates the major revenues by source for the fiscal years ending June 30, 2018 and 2017:



The Authority's operating expenses decreased approximately 6.2% or \$2.46 million in comparison to the prior fiscal year. This decrease is attributed to a change in the service agreement with Wheelabrator, a reduction in depreciation and amortization expense and a reduction in engineering professional services.

Personnel costs increased by \$42,294 primarily due to increased costs for employee health insurance. Depreciation expense decreased in fiscal year 2018 as a result of several assets being fully depreciated. Routine maintenance increased by \$15,449 from a combination of increased maintenance services netted with decreases in permit fees and reduced costs associated with the leachate pump stations at the Regional Landfill.

In January 2017, it was determined that there was an unusually high level of leachate in cells V and VI at the Regional Landfill. The Virginia Department of Environmental Quality was notified immediately and a corrective action plan was implemented shortly thereafter. A third party was contracted to temporarily pump and haul leachate from the landfill to various pump stations owned by the Hampton Roads Sanitation District (HRSD) at a cost of \$304,557. The Authority also incurred additional professional and legal expenses as a result of this unusual condition. The high levels were subsequently remedied by August 2017.

The costs associated with the Wheelabrator Service Contract reflect a decrease in costs of approximately \$1.9 million as compared to the prior year. The Authority receives various credits against its invoice to Wheelabrator. In September 2017, the Authority approved an Addendum #6 to the Service Agreement with Wheelabrator Technologies whereby extending the term through January 31, 2019. The addendum decreased the cost per ton

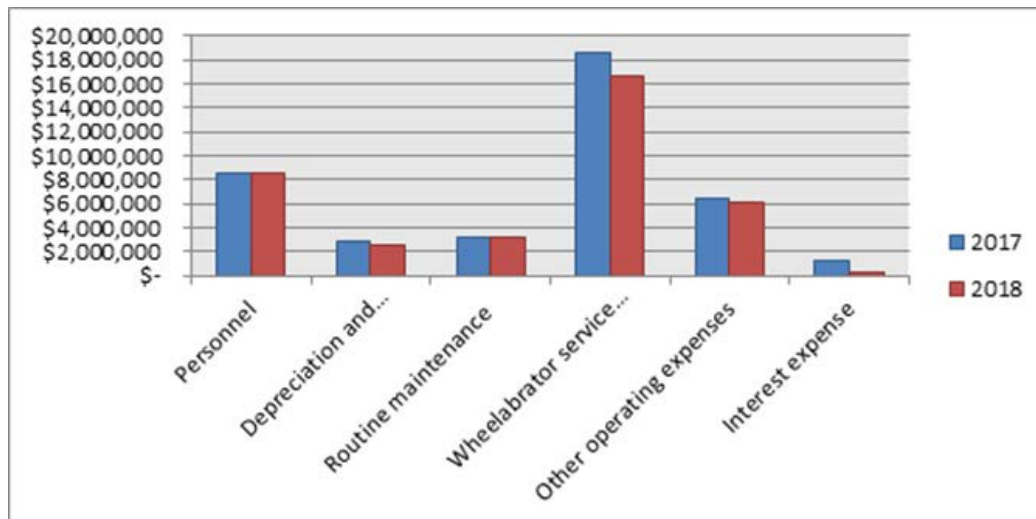


## Southeastern Public Service Authority of Virginia Management's Discussion and Analysis

for disposal from \$52 to \$36 and removed the revenue sharing components that were applied as credits. Please see Note 9 to the basic financial statements for more information.

Other operating expenses decreased by approximately \$318,000 through a combination of expenses but most notably due to no credits were provided to members from the tip fee stabilization fund as was conducted in fiscal year 2017.

The following graph illustrates the expenses by category for the fiscal years ending June 30, 2018 and 2017:



### Capital Assets

At the end of 2018, the Authority had \$27.98 million (net of accumulated depreciation and depletion) invested in a broad range of capital assets, including the regional landfill, transfer stations, heavy equipment, and rolling stock. This amount represents a net increase (net of additions and deductions) of approximately \$2.3 million, or approximately 9% more than last year primarily due to assets under construction and acquisition of new tractors and equipment. The assets under construction include a new SCADA system for the landfill leachate system and a permanent loadout for pumping and hauling leachate. The decrease in buildings represent the contractual transfer of the RDF tipping floor and scalehouse to Wheelabrator. The details of capital asset values for the various categories are included in Note 5 of the basic financial statements.

A summary of capital assets for fiscal years 2018 and 2017 is presented below:

	Balance July 1, 2017	Increases	Decreases	Balance June 30, 2018
Land	\$ 2,646,251	\$ -	\$ -	\$ 2,646,251
Assets under construction	11,314	1,789,403	-	1,800,717
Improvements (regional landfill)	64,415,852	-	-	64,415,852
Other land improvements	495,511	-	-	495,511
Buildings	42,659,798	-	(5,466,303)	37,193,495
Vehicles and equipment	30,946,883	3,048,006	(2,096,042)	31,898,847
Total capital assets	141,175,609	4,837,409	(7,562,345)	138,450,673
Accumulated depreciation	115,460,963	2,558,058	(7,548,952)	110,470,069
Net capital assets	\$ 25,714,646	\$ 2,279,351	\$ (13,393)	\$ 27,980,604

**Southeastern Public Service Authority of Virginia  
Management's Discussion and Analysis**

	<u>Balance July 1, 2016</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2017</u>
Land	\$ 2,646,251	\$ -	\$ -	\$ 2,646,251
Assets under construction	-	11,314	-	11,314
Improvements (regional landfill)	64,415,852	-	-	64,415,852
Other land improvements	495,511	-	-	495,511
Buildings	42,592,677	87,991	(20,870)	42,659,798
Vehicles and equipment	<u>31,905,103</u>	<u>931,082</u>	<u>(1,889,302)</u>	<u>30,946,883</u>
Total capital assets	142,055,394	1,030,387	(1,910,172)	141,175,609
Accumulated depreciation	<u>114,511,850</u>	<u>2,859,285</u>	<u>(1,910,172)</u>	<u>115,460,963</u>
Net capital assets	<u>\$ 27,543,544</u>	<u>\$ (1,828,898)</u>	<u>\$ -</u>	<u>\$ 25,714,646</u>

***Long Term Debt***

At year-end, the Authority had a total of \$0 in bonds outstanding, versus \$9,895,000 last year, a decrease of 100%, as bonds were paid off in 2018.

**Summary of Outstanding Long-Term Bonds**

	<u>2018</u>	<u>2017</u>
Guaranteed subordinated debt	\$ -	\$ 9,895,000
Total outstanding debt	<u>\$ -</u>	<u>\$ 9,895,000</u>

More detailed information about the Authority's debt is presented in Note 5 to the basic financial statements.

***Other Items of Interest***

The Use and Support Agreements with the member jurisdictions expired in January 24, 2018. The new Use & Support Agreement with the Authority's member communities went into effect January 25, 2018 with an initial term date of June 30, 2027, with an option to extend in 10 year increments

In order to insure long term waste disposal capacity for the Authority's members, a Good Neighbor and Host Agreement was executed with the City of Suffolk whereby certain rights and responsibilities are defined for both parties. In particular, the Authority applied for a new conditional use permit (CUP) for Cell VII at the landfill as well as requested the rezoning of the remaining parcel. In turn, the Authority has agreed to pay the City of Suffolk a host fee of \$4 per ton for waste disposed in the landfill beginning January 25, 2018. In August 2017, the City of Suffolk approved the CUP and rezoning of the remaining parcel.

During fiscal year 2018, the Authority issued a request for proposals for alternate methods of waste disposal (versus landfilling all municipal solid waste) to begin February 1, 2019. Following extensive negotiations, a contract was awarded to Wheelabrator Portsmouth. The contract ends June 30, 2027 with the option to renew for up to two five year periods.

***Contacting the Authority's Financial Management***

This financial report is designed to provide our customers and creditors with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the money it receives. If you have questions about this report or need additional financial information regarding the Authority, contact the Executive Director and Chief Financial Officer at 723 Woodlake Drive, Chesapeake, Virginia 23320.

## ***Basic Financial Statements***

**Southeastern Public Service Authority of Virginia**  
**Statements of Net Position**  
**June 30, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 2,139,631	\$ 3,820,233
Investments	23,403,674	14,210,418
Accounts receivable:		
Authority members	2,286,075	4,019,340
Other customers	984,653	346,418
Allowance for doubtful accounts	(5,000)	(5,000)
Accounts receivable, net	3,265,728	4,360,758
Prepaid expenses	231,607	208,177
Inventory, maintenance parts	137,443	116,635
Accrued interest receivable	51,838	39,214
Total current assets	<u>29,229,921</u>	<u>22,755,435</u>
Noncurrent assets:		
Restricted assets, investments	896,813	12,398,365
Capital assets, net of accumulated depreciation and depletion	27,980,604	25,714,646
Net pension asset	5,803,444	2,022,165
Total noncurrent assets	<u>34,680,861</u>	<u>40,135,176</u>
Total assets	<u>63,910,782</u>	<u>62,890,611</u>
Deferred outflows of resources:		
Deferred pension amounts	78,230	1,251,143
Deferred GLI OPEB contributions	26,245	-
Deferred VLDP OPEB contributions	5,728	-
Deferred charge on refunding	-	32,701
Total deferred outflow of resources	<u>110,203</u>	<u>1,283,844</u>
Total assets and deferred outflows of resources	<u>\$ 64,020,985</u>	<u>\$ 64,174,455</u>

See accompanying notes.

**Southeastern Public Service Authority of Virginia**  
**Statements of Net Position**  
**June 30, 2018 and 2017**

	<b>2018</b>	<b>2017</b>
<b>LIABILITIES AND NET POSITION</b>		
Liabilities:		
Current liabilities, payable from current assets:		
Accounts payable	\$ 3,997,683	\$ 4,639,611
Accrued expenses	1,442,865	1,477,830
Landfill closure and postclosure liability, current portion	405,742	152,161
Total current liabilities, payable from current assets	<u>5,846,290</u>	<u>6,269,602</u>
Current liabilities, payable from restricted assets:		
Current maturities of bonds payable	-	9,833,474
Accrued interest on revenue bonds	-	123,526
Total current liabilities, payable from restricted assets	<u>-</u>	<u>9,957,000</u>
Total current liabilities	<u>5,846,290</u>	<u>16,226,602</u>
Noncurrent liabilities:		
Other post employment benefits, REMB	1,569,802	1,991,508
Other post employment benefits, GLI	478,000	-
Other post employment benefits, VLDP	3,000	-
Landfill closure and postclosure care liability, noncurrent	16,446,666	16,294,505
Total noncurrent liabilities	<u>18,497,468</u>	<u>18,286,013</u>
Total liabilities	<u>24,343,758</u>	<u>34,512,615</u>
Deferred inflows of resources:		
Deferred pension amounts	1,165,136	136,317
Deferred REMB OPEB amounts	26,323	-
Deferred GLI OPEB amounts	67,000	-
Total deferred inflows of resources	<u>1,258,459</u>	<u>136,317</u>
Total liabilities and deferred inflows of resources	<u>25,602,217</u>	<u>34,648,932</u>
Net position:		
Net investment in capital assets	27,980,604	15,881,172
Restricted for debt service	-	7,442,102
Restricted for other purposes	5,616,079	7,969,728
Unrestricted	4,822,085	(1,767,479)
Total net position	<u>38,418,768</u>	<u>29,525,523</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 64,020,985</u>	<u>\$ 64,174,455</u>

See accompanying notes.

**Southeastern Public Service Authority of Virginia**  
**Statements of Revenues, Expenses, and Changes in Net Position**  
**Years Ended June 30, 2018 and 2017**

	<b>2018</b>	<b>2017</b>
Operating revenue:		
Municipal tipping fees	\$ 34,740,972	\$ 42,861,141
Other tipping fees	8,016,267	3,010,843
Charges for household waste and tire program	725,519	611,240
Sale of methane gas	327,931	319,202
Other revenue	4,753	2,075
Total operating revenues	<b>43,815,442</b>	<b>46,804,501</b>
Operating expenses:		
Compensation and related payroll costs	8,563,764	8,521,470
Depreciation, depletion and amortization of intangibles	2,558,058	2,859,285
Postage, printing and supplies	37,097	37,774
Rent and utilities	387,077	379,925
Equipment fuel	610,022	547,611
Routine maintenance and vehicle operations	3,140,280	3,124,831
Nonroutine maintenance and repairs	604,243	536,637
Insurance	185,792	179,761
Legal and professional services	810,085	1,317,016
Landfill closure and postclosure care cost accrual	405,742	152,161
Wheelabrator service contract	16,709,315	18,589,450
Waste Hauling & Disposal Contract	2,721,137	-
Host Community & Good Neighbor Agreement	218,658	-
Tip fee stabilization fund credits to localities	-	3,121,150
Other	187,564	212,887
Total operating expenses	<b>37,138,834</b>	<b>39,579,958</b>
Operating income	<b>6,676,608</b>	<b>7,224,543</b>
Nonoperating revenue (expense):		
Net gain on disposal of capital assets	118,648	10,080
Interest expense:		
Interest on long-term debt	(123,526)	(620,976)
Amortization of loss on defeasance	(61,526)	(135,305)
Amortization of deferred charge on refunding	(32,701)	(558,193)
Total nonoperating expense	<b>(217,753)</b>	<b>(1,314,474)</b>
Other revenue:		
Insurance recoveries	3,328	-
Investment income	221,221	172,121
Pension benefit	1,500,166	202,238
Other	652,492	478,121
Total other revenue	<b>2,377,207</b>	<b>852,480</b>
Net nonoperating revenue (expense)	<b>2,278,102</b>	<b>(451,914)</b>
Change in net position	<b>8,954,710</b>	<b>6,772,629</b>
Total net position, beginning of year:	<b>29,525,523</b>	<b>22,752,894</b>
Restatement	<b>(61,465)</b>	<b>-</b>
Total net position, beginning of year, restated	<b>29,464,058</b>	<b>22,752,894</b>
End of year	<b>\$ 38,418,768</b>	<b>\$ 29,525,523</b>

See accompanying notes.

**Southeastern Public Service Authority of Virginia**  
**Statements of Cash Flows**  
**Years Ended June 30, 2018 and 2017**

	<b>2018</b>	<b>2017</b>
Cash flows from operating activities:		
Receipts from customers	\$ 44,910,472	\$ 46,950,388
Payments to suppliers for operations	(26,297,436)	(27,358,529)
Payments to employees for compensation	(8,618,931)	(8,440,951)
Net cash provided by operating activities	<u>9,994,105</u>	<u>11,150,908</u>
Cash flows from capital and related financing activities:		
Purchase of capital assets	(4,837,408)	(1,030,387)
Proceeds from sale of capital assets	132,040	10,080
Proceeds from insurance recoveries	3,328	-
Principal payments on bonds payable	(9,895,000)	(10,775,000)
Interest paid	(247,052)	(747,850)
Other income	652,492	478,121
Net cash used in capital and related financing activities	<u>(14,191,600)</u>	<u>(12,065,036)</u>
Cash flows from investing activities:		
Proceeds from maturity and sale of investments	34,693,742	19,970,960
Payments for investments purchased	(32,385,446)	(19,251,842)
Interest and dividends received from investments	208,597	166,872
Net cash provided by investing activities	<u>2,516,893</u>	<u>885,990</u>
Decrease in cash and cash equivalents	<u>(1,680,602)</u>	<u>(28,138)</u>
Cash and cash equivalents, beginning of year	<u>3,820,233</u>	<u>3,848,371</u>
Cash and cash equivalents, end of year	<u>\$ 2,139,631</u>	<u>\$ 3,820,233</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 6,676,608	\$ 7,224,543
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation, depletion and amortization of intangibles	2,558,058	2,859,285
OPEB plan expense	58,028	66,510
Landfill closure and postclosure care cost accrual	405,742	152,161
Changes in operating assets and liabilities:		
Accounts receivable	1,095,030	145,887
Prepaid expenses	(23,430)	1,874
Inventory, maintenance parts	(20,808)	37,485
Accounts payable	(641,928)	649,154
Accrued expenses	(34,965)	94,712
Deferred pension contributions	(78,230)	(80,703)
Net cash provided by operating activities	<u>\$ 9,994,105</u>	<u>\$ 11,150,908</u>

See accompanying notes.

## **Notes to Financial Statements**

### **1. Nature of Business and Significant Accounting Policies**

#### ***Nature of business***

Southeastern Public Service Authority of Virginia (Authority or SPSA) is a public body politic and corporation created pursuant to the Virginia Water and Waste Authorities Act. The Authority is a special purpose government entity engaged in business-type activities with no component units. The members of the Authority are the cities of Chesapeake, Franklin, Norfolk, Portsmouth, Suffolk, and Virginia Beach and the counties of Isle of Wight and Southampton (collectively, the Members).

All eight of the Members have entered into Agreements for Use and Support of a Solid Waste Disposal System (Solid Waste Disposal Agreements) with the Authority. These operations are referred to as the Disposal System. More specifically, each Member community has agreed to deliver or cause to be delivered to the Authority at least 95% of all disposable solid waste generated within, collected by, or otherwise under the control of the contracting community. Each of the Members is assessed a per ton tipping fee (with the exception of the City of Suffolk), as established under fee schedules imposed by the Authority in accordance with the Virginia Water and Waste Authorities Act, for the disposal of solid waste delivered to any of the Authority's specified delivery points.

For seven of the Members, the Solid Waste Disposal Agreements became effective on January 22, 1985, the date on which the Authority's landfill (Regional Landfill) began accepting solid waste. In the case of the City of Virginia Beach, the Solid Waste Disposal Agreement became effective on the date fixed under a contract with the U.S. Navy that began in 1984 (the Navy Contract) as the start-up date of a Refuse Derived Fuel (RDF) plant. Under the Navy Contract, RDF produced at the RDF Plant was to be provided to the Navy to produce steam and electricity at the U.S. Navy's power plant (Power Plant). The RDF and Power Plants are collectively referred to as the waste to energy (WTE) facilities. The Solid Waste Disposal Agreements remain in effect until January 24, 2018.

Effective July 1, 1999, in a modification of the Navy Contract, the Navy transferred to the Authority all of the assets of the Power Plant. These assets included \$105.2 million of property and equipment, \$3.6 million of materials and supplies, and \$0.8 million of cash restricted for power plant improvements. In addition, unamortized costs related to the contract were eliminated and long-term obligations and payables were satisfied. These transactions resulted in \$100.1 million of capital contributions to the Authority's net position.

On April 29, 2010, the Authority sold its WTE facilities and related equipment to Wheelabrator Portsmouth, Inc. (Wheelabrator), formerly an affiliate of Waste Management Inc. The Authority's recycling services were terminated in May 2010.

In 2009, legislation was enacted, commonly referred to as House Bill 1872, which established a new board of directors and imposed a series of actions required by the Authority. Effective January 1, 2010 the governing board of directors consists of sixteen members of which eight (one representative of each member community) are appointed by the Governor and eight members are employed and appointed by the respective member community. Elected officials are no longer eligible to serve on the board of directors. Alternate board members may be selected in the same manner as board members. As of June 30, 2018, the Governor had not appointed any such alternates and each of the eight member communities had appointed alternate board members.

The Authority continues to operate nine transfer stations, the Regional Landfill located in Suffolk, a fleet maintenance facility, a household hazardous waste program, a tire shredder processing facility and a white goods program serving its purpose of the management of the safe and environmentally sound disposal of regional waste.



## **Southeastern Public Service Authority of Virginia**

### **Notes to Financial Statements**

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#### ***Basis of accounting***

The accompanying financial statements have been prepared on the accrual basis of accounting. The Authority reports as a special purpose government entity engaged in business-type activities, as defined by the Governmental Accounting Standards Board (GASB). Business-type activities are those that are financed in whole or in part by fees charged to external parties for goods or services.

The Authority's activities are accounted for similar to those often found in the private sector using the flow of economic resources measurement focus and the accrual basis of accounting. Assets, liabilities, net position, revenues, and expenses are accounted for through an enterprise fund with revenues recorded when earned and expenses recorded at the time liabilities are incurred. Current assets include cash and amounts convertible to cash during the next normal operating cycle, or one year. Current liabilities include those obligations to be liquidated with current assets. All expenses related to operating the Disposal System are reported as operating expenses. Charges for services provided by the Authority are reported as operating revenues. Interest expense and financing costs, loss on disposal of capital assets, write down of long-lived assets and net decrease in fair value of investments are reported as nonoperating expenses. Interest income, gain on disposal of capital assets, net increase in fair value of investments and nonrecurring items including insurance recoveries are reported as nonoperating revenue.

In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, the Authority applies all applicable GASB pronouncements, and has elected to apply only those Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principal Board Opinions and Accounting Research Bulletins issued on or before November 30, 1989, that do not conflict with or contradict GASB pronouncements.

Effective with the financial statements for the fiscal year ended June 30, 2013, the Authority has adopted GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*. This statement amends previous reporting requirements by incorporating the financial elements of deferred outflows of resources and deferred inflows of resources in the presentation of financial position. Under the provisions of this statement, net position, rather than net assets, represents the difference between all other elements on an entity's statement of financial position, or balance sheet. Accordingly, the Authority's financial statements, items on the balance sheet are now classified as assets, deferred outflows of resources, liabilities, deferred inflows of resources, or net position.

The Authority implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27* ("GASB No. 68") and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68* ("GASB No. 71") during fiscal year 2015. GASB No. 68 provides accounting and financial reporting guidance for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures related to pensions and related disclosures. GASB No. 71 provides accounting and financial reporting guidance for contributions, if any, made by the employer to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The accounting changes required by GASB No. 68 and No. 71 are applied retroactively by reclassifying the statement of net position, results of operations, and cash flows.

Effective for the fiscal year ended June 30, 2018, the Authority adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. Statement No. 75 replaces the requirements of Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and Statement No. 57, *OPEB Measurement by Agent Employers and Agent Multiple-Employer Plans*.

## **Southeastern Public Service Authority of Virginia**

### **Notes to Financial Statements**

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Statement No. 75 addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. The Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB are also discussed.

The Authority could not practically determine the period-specific details of the change on all prior periods presented; therefore, the cumulative effect of the change was applied to the beginning balance of the current year.

#### ***Net position***

Net position represents the residual interest in the Authority's assets after liabilities are deducted and consist of three sections: invested in capital assets; restricted; and unrestricted. Invested in capital assets includes capital assets, net of accumulated depreciation and depletion, reduced by outstanding debt attributable to capital expenditures, net of unspent bond proceeds. Net position is reported as restricted when constraints are imposed by third parties or enabling legislation. The Authority's restricted net positions are expendable and relate to amounts restricted for debt service and amounts restricted for environmental trust funds and landfill closure and the net effects of net pension asset, deferred pension contributions and deferred pension investment experience. Unrestricted amounts may be designated for specific purposes by action of management or the board of directors.

#### ***Cash and cash equivalents***

Cash and cash equivalents are defined as being cash and short-term, interest-bearing investments consisting of certificates of deposit and other income producing securities of less than or equal to three months maturity when purchased. These investments are readily convertible to cash, and are stated at cost, which approximates fair value.

#### ***Investments***

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, the Authority reports its investment securities at fair value. Fair value is determined as of the statement of net position date, based on quoted market prices.

#### ***Restricted assets***

Restricted assets are principally restricted for the payment of obligations under the Authority's bond agreements, environmental trust funds (see Note 4) and landfill closure (see Note 7) and are recorded as noncurrent assets in the accompanying financial statements. When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first.

#### ***Inventory, maintenance parts***

Inventory, maintenance parts are valued at the lower of cost (determined on the average-cost basis) or market.

#### ***Capital assets***

Capital assets are recorded at cost. No interest costs were capitalized in 2018 and 2017. Assets are depreciated by using the straight-line method over the estimated useful lives of the various classes as follows:

Land improvements	15 years
Buildings	30 years
Equipment and motor vehicles	3 - 30 years

The Regional Landfill is recorded at cost and depleted based upon estimated usage of capacity.

Expenditures that extend the useful lives of capital assets beyond their initial estimated useful lives or improve their efficiency or capacity are capitalized, whereas expenditures for repairs and maintenance are expensed. When an asset is retired, replaced or otherwise disposed of, the related cost and accumulated depreciation are eliminated from the accounts and any resulting gain or loss is reflected as nonoperating income or expense.

***Deferred charges on refunding***

Deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded debt or the reacquired.

***Payables***

The accounts payable balances in the accompanying basic financial statements are payable to vendors for operating expenses. The accrued expense balances in the accompanying basic financial statements are payable to employees or for employee-related expenses, including accrued annual leave. Employees accrue annual and sick leave on a bi-weekly basis in amounts, which vary depending on years of service. A liability for unused annual leave and sick leave is recorded as accrued by each employee.

***Deferred loss on defeasance of debt***

The Authority records the loss on defeasance of debt as an offset to bonds payable. Deferred losses on defeasance of debt are amortized as a component of interest expense over the shorter of the life of the new bonds or the old bonds. (See Note 6).

***Landfill closure and postclosure care liability***

In accordance with GASB Statement No. 18, *Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Costs*, the Authority records landfill closure and postclosure care costs as an operating expense based on the landfill capacity used as of the balance sheet date and the current estimated costs for closure and postclosure care. (See Note 7).

***Accounts receivable***

Provisions for uncollectible accounts receivable are based on specifically identified accounts that management believes may not be collectible as well as a percentage of delinquent accounts in the year-end accounts receivable balance.

***Use of estimates***

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

***Revenue recognition***

Disposal revenues are based on quantity and weight of disposable solid waste delivered to the Authority and are recognized when billed. Unbilled revenues through June 30 of each fiscal year are accrued at year-end.

***Subsequent events***

The Authority has evaluated subsequent events from the statements of net position date through December 10, 2018, the date at which the statements were issued and determined there are no other items to disclose.

**Southeastern Public Service Authority of Virginia**  
**Notes to Financial Statements**

**2. Restatement**

As stated in Note 1, the Authority adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, in fiscal year 2018. The Authority could not practically determine the period-specific details of the change on all prior periods presented; therefore, the cumulative effect of the change was applied to the beginning balances of the current year as follows:

	<u>Previously Reported June 30, 2017</u>	<u>Restatement</u>	<u>As Restated June 30, 2017</u>
Deferred outflows of resources:			
Contributions subsequent to measurement date:			
Group life insurance (GLI) Program	\$ -	\$ 29,000	\$ 29,000
Virginia local disability program (VLDP)	\$ -	\$ 2,000	\$ 2,000
Liabilities:			
Other post-employment benefit liabilities:			
Group life insurance (GLI) Program	\$ -	\$ 572,000	\$ 572,000
Post-employment medical benefits (PEMB)	\$ 1,991,508	\$ (480,535)	\$ 1,510,973
Virginia local disability program (VLDP)	\$ -	\$ 1,000	\$ 1,000
Net position	\$ 29,525,523	\$ (61,465)	\$ 29,464,058

**3. Cash and Cash Equivalents**

At June 30, 2018 and 2017, the Authority's cash and cash equivalents balance was \$2,139,631 and \$3,820,233, respectively. The deposits are covered by federal depository insurance or collateralized in accordance with the Virginia Security for Public Deposits Act (Act). Under the Act, banks and savings institutions holding public deposits in excess of the amount insured by the FDIC must pledge collateral to the Commonwealth of Virginia Treasury Board. Financial institutions may choose between two collateralization methodologies and depending upon that choice, will pledge collateral that ranges in the amounts from 50% to 130% of excess deposits in the form of federal agency obligations with a third party trustee in the name of the Treasurer of the Commonwealth of Virginia. In the event that the banking institution fails, the Treasurer will take possession of the collateral, liquidate it and reimburse the Authority up to the value of its deposits. The State Treasury Board is responsible for monitoring compliance with the collateralization and reporting requirements of the Act and for notifying local governments of compliance by banks. Accordingly, all deposits are considered fully collateralized.

Total investments including restricted and designated assets amounted to \$24,300,487 and \$26,608,783 at June 30, 2018 and 2017, respectively, and are held for the purposes and in the respective accounts described below:

	<u>2018</u>	
	<u>Accrued Interest Receivable</u>	<u>Total</u>
Unrestricted (a)	\$ 6,551,266	\$ 6,603,104
Landfill closure fund (designated) (c)	16,852,408	16,852,408
Environmental trust fund accounts (restricted) (d)	896,813	896,813
	<u>\$ 24,300,487</u>	<u>\$ 24,352,325</u>

**Southeastern Public Service Authority of Virginia**  
**Notes to Financial Statements**

**4. Investments**

		<b>2017</b>	
	<b>Investments</b>	<b>Accrued Interest Receivable</b>	<b>Total</b>
Unrestricted (a)	\$ 11,713,752	\$ 39,214	\$ 11,752,966
Bond accounts (b)	7,565,628	-	7,565,628
Landfill closure fund (designated) (c)	2,496,666	-	2,496,666
Landfill closure fund (restricted) (c)	3,950,000	-	3,950,000
Environmental trust fund accounts (restricted) (d)	<u>882,737</u>	<u>-</u>	<u>882,737</u>
	<u>\$ 26,608,783</u>	<u>\$ 39,214</u>	<u>\$ 26,647,997</u>

*(a) Unrestricted Accounts*

These funds represent a combination of operating funds and the operating reserve account as required by the Authority's bond resolutions.

*(b) Bond Accounts*

The Authority's bond resolutions require monthly deposits to Bond Accounts equal to one-sixth of the semi-annual interest and one twelfth of the principal payments next becoming due.

*(c) Landfill Closure Fund (designated and restricted)*

This account holds funds designated and restricted for the closure and post closure costs for the Regional Landfill to be drawn down when funds are dispersed for closure or post closure costs. See Note 7 for more information.

*(d) Environmental Trust Fund Accounts*

These accounts were established through agreements between the Authority and the Member cities of Suffolk and Virginia Beach. The Environmental Trust Fund Accounts include the Suffolk Environmental Trust Fund and the Virginia Beach Environmental Trust Fund. The purpose of these accounts is to provide for all costs relating to legal suits and other similar claims activity relating to environmental pollution that are made against the Regional Landfill and the Virginia Beach Landfill during a 30-year period after cessation of each landfill's operations. The Authority must contribute a minimum of \$5,000 annually to the Suffolk Environmental Trust Fund. Annual contributions to the Virginia Beach Environmental Trust Fund ended simultaneously with the expiration of the Ash & Residue Agreement on December 31, 2015. Upon expiration of the 30-year period, all remaining amounts will be proportionately distributed to each of the Members using the Disposal System during the terms of the Environmental Trust Funds, based upon the tipping fees generated by such Members. The Members' proportionate shares of the Environmental Trust Funds at June 30, 2018 and 2017, are as follows:

A reconciliation of restricted net position follows:

	<b>2018</b>	<b>2017</b>
Restricted for debt service:		
Bond accounts	\$ -	\$ 7,565,628
Accrued interest payable	<u>-</u>	<u>(123,526)</u>
	<u>-</u>	<u>7,442,102</u>

**Southeastern Public Service Authority of Virginia**  
**Notes to Financial Statements**

Restricted for other purposes:

Landfill closure funds	-	3,950,000
Environmental trust fund accounts	<b>896,813</b>	882,737
Net pension asset and related deferred outflows/inflows	<b>4,716,538</b>	3,136,991
Net VLDP OPEB liability and related deferred outflows/inflows	<b>2,728</b>	-
	<b><u>5,616,079</u></b>	<b><u>7,969,728</u></b>
Total restricted net position	<b><u>\$ 5,616,079</u></b>	<b><u>\$ 15,411,830</u></b>

	<b>2018</b>		<b>2017</b>	
	<b>Suffolk Environmental Trust Fund</b>	<b>Virginia Beach Environmental Trust Fund</b>	<b>Suffolk Environmental Trust Fund</b>	<b>Virginia Beach Environmental Trust Fund</b>
Cities:				
Chesapeake	\$ 109,865	\$ 113,664	\$ 107,237	\$ 112,430
Franklin	5,877	6,005	5,848	6,055
Norfolk	101,603	104,313	100,251	104,285
Portsmouth	45,112	46,465	44,268	46,200
Suffolk	2,028	2,113	1,597	1,687
Virginia Beach	144,812	150,940	140,964	148,944
Counties:				
Isle of Wight	19,817	20,620	19,317	20,374
Southampton	11,585	11,994	11,360	11,920
	<b><u>\$ 440,699</u></b>	<b><u>\$ 456,114</u></b>	<b><u>\$ 430,842</u></b>	<b><u>\$ 451,895</u></b>

**Investment policy**

In accordance with the Code of Virginia and other applicable law, including regulations, SPSA's investment policy (Policy) permits investments in U.S. government obligations (including Government Sponsored Enterprise Obligations), obligations of the Commonwealth of Virginia or political subdivisions thereof, repurchase agreements, commercial paper, bankers acceptances, corporate notes, negotiable certificates of deposit, bank deposit notes, mutual funds that invest exclusively in securities specifically permitted under the Policy, and the State Treasurer's Local Government Investment Pool (the State of Virginia LGIP, a 2a-7 like pool, as defined by GASB 31).

The Policy establishes limitations on the holdings of non-U.S. government obligations. The maximum percentage of the portfolio (book value at the date of acquisition) permitted in each security is as follows:

	<u>Maximum Percentage</u>
U.S. government obligations	100%
Federal agency or government sponsored enterprise obligations	50
Registered money market mutual funds	100
State of Virginia Local Government Investment Pool (LGIP)	75
Repurchase agreements	50
Bankers' acceptances	40
Commercial paper	35
Negotiable certificates of deposit/bank notes	20
Bank deposits	25
Corporate notes	15

**Southeastern Public Service Authority of Virginia**  
**Notes to Financial Statements**

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Further, the combined amount of bankers' acceptances, commercial paper, negotiable certificates of deposit/bank notes and corporate notes may not exceed fifty percent (50%) of the total book value of the portfolio at the date of acquisition.

***Credit risk***

As required by state statute, the Policy requires that commercial paper have a short-term debt rating of no less than "A-1" (or its equivalent) from at least two of the following; Moody's Investors Service, Standard & Poor's and Fitch's Investors Service. Corporate notes, negotiable Certificates of Deposit and bank deposit notes maturing in less than one year must have a short-term debt rating of at least "A-1" by Standard & Poor's and "P-1" by Moody's Investors Service. Notes having a maturity of greater than one year must be rated at least "AA" by Standard & Poor's and "Aa" by Moody's Investors Service.

Although state statute does not impose credit standards on repurchase agreement counterparties, bankers' acceptances or money market mutual funds, SPSA has established certain credit standards for these investments to minimize portfolio risk.

At June 30, 2018, the credit risk of the total investments were:

	<u>Rating</u>	<u>Percentage</u>
TowneBank Money Market	No rating	14.1
Certificate of Deposit	No rating	45.4
PFM Funds - Prime Series Money Market Fund includes		
Institutional Class	AAAm	2.1
Raymond James & Associates, Corporate Bonds	AA-	20.3
Federated Treasury Obligations Funds	AAAm	1.6
Virginia Investment Pool Money Market Deposit Account	AAAm	16.5

At June 30, 2017, the credit risk of the total investments were:

	<u>Rating</u>	<u>Percentage</u>
TowneBank Money Market	No rating	7.7
Certificate of Deposit	No rating	34.5
PFM Funds - Prime Series Money Market Fund includes		
Institutional Class	AAAm	1.9
Raymond James & Associates, Corporate Bonds	AA-	18.6
Raymond James & Associates, Government Bonds	AA+	7.5
Federated Treasury Obligations Funds	AAAm	1.4
U.S. Bank Money Market Deposit Account	No rating	28.4

**Southeastern Public Service Authority of Virginia**  
**Notes to Financial Statements**

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***Concentration of credit risk***

The Policy establishes limitations on portfolio composition by issuer in order to control concentration of credit risk. SPSA's policy limits the amount that may be invested in the securities of a single issuer to 5% of the portfolio with the following exceptions:

U.S. Treasury	100% maximum
Each registered money market mutual fund	100% maximum
State of Virginia LGIP	75% maximum
Each federal agency or government sponsored enterprise obligation	50% maximum
Each repurchase agreement counterparty	25% maximum
Each bank depository	25% maximum

At June 30, 2018 and 2017, SPSA's total investments were diversified in accordance with its investment policy and fully collateralized in accordance with the Virginia Security for Public Deposits Act.

***Interest rate risk***

As a means of limiting exposure to fair value losses arising from rising interest rates, SPSA's Policy limits the investment of operating funds to investments with a stated maturity of no more than five years from the date of purchase. The average maturity of the investment portfolio may not exceed 24 months.

Reserve funds and other funds with longer-term investment horizons may be invested in securities exceeding five (5) years if the maturity of such investment is made to coincide as nearly as practicable with the expected use of funds.

Proceeds from the sale of bonds must be invested in compliance with the specific requirements of the bond covenants and may be invested in securities with longer maturities.

At June 30, 2018, SPSA had the following investments and maturities (excluding accrued interest):

	<b>Investment Maturity (in years)</b>			
	<b>Fair Value</b>	<b>Less than 1 year</b>	<b>1-3 years</b>	<b>3-5 years</b>
Registered money market mutual fund - PFM Funds - Prime Series - Institutional	\$ 518,320	\$ 518,320	\$ -	\$ -
Federated Treasury Obligations				
Money market	378,493	378,493	-	-
TowneBank Money Market	3,436,975	3,436,975	-	-
Certificate of deposit	11,025,036	7,518,327	3,506,709	-
Raymond James & Associates				
Corporate Bonds	4,923,584	3,773,755	1,149,829	-
Raymond James & Associates				
Money Market	1,826	1,826	-	-
Virginia Investment Pool				
Money Market	4,016,253	4,016,253	-	-
	<u>\$ 24,300,487</u>	<u>\$ 19,643,949</u>	<u>\$ 4,656,538</u>	<u>\$ -</u>



**Southeastern Public Service Authority of Virginia**  
**Notes to Financial Statements**

At June 30, 2017, SPSA had the following investments and maturities (excluding accrued interest):

	<u>Fair Value</u>	<u>Investment Maturity (in years)</u>		
		<u>Less than 1 year</u>	<u>1-3 years</u>	<u>3-5 years</u>
Registered money market mutual fund - PFM Funds - Prime Series - Institutional	\$ 512,299	\$ 512,299	\$ -	\$ -
Federated Treasury Obligations Money market	370,438	370,438	-	-
U.S. Bank money market Deposit account	7,565,628	7,565,628	-	-
TowneBank Money Market	2,038,601	2,038,601	-	-
Certificate of deposit	9,178,569	7,685,049	1,493,520	-
Raymond James & Associates Corporate Bonds	4,943,548	1,149,103	3,794,445	-
Raymond James & Associates Governmental Bonds	<u>1,999,700</u>	<u>1,999,700</u>	<u>-</u>	<u>-</u>
	<u>\$ 26,608,783</u>	<u>\$ 21,320,818</u>	<u>\$ 5,287,965</u>	<u>\$ -</u>

***Custodial credit risk***

The Policy requires that all investment securities purchased by SPSA or held as collateral on deposits or investments shall be held by SPSA or by a third-party custodial agent who may not otherwise be counterparty to the investment transaction. At June 30, 2018 and 2017, all of SPSA's restricted asset investments were held in a bank's trust department in SPSA's name.

***Fair Value Measurement***

SPSA categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

SPSA has determined that all investments within its portfolio are valued using quoted market prices (Level 1 inputs).

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**5. Capital Assets**

Capital assets of the Authority as a whole as of June 30, 2018 and 2017, consist of the following:

	<b>Balance July 1, 2017</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance June 30, 2018</b>
Capital assets not being depreciated or depleted:				
Assets under construction	\$ 11,314	\$ 1,789,403	\$	\$ 1,800,717
Land	<u>2,646,251</u>	<u>-</u>	<u>-</u>	<u>2,646,251</u>
	<u>2,657,565</u>	<u>1,789,403</u>	<u>-</u>	<u>4,446,968</u>
Other capital assets:				
Improvements (regional landfill)	64,415,852	-	-	64,415,852
Other land improvements	495,511	-	-	495,511
Buildings	42,659,798	-	(5,466,303)	37,193,495
Equipment	18,795,056	1,731,163	(975,007)	19,551,212
Motor vehicles	<u>12,151,827</u>	<u>1,316,843</u>	<u>(1,121,035)</u>	<u>12,347,635</u>
Total other capital assets	<u>138,518,044</u>	<u>3,048,006</u>	<u>(7,562,345)</u>	<u>134,003,705</u>
Accumulated depreciation and depletion:				
Improvements (regional landfill)	50,581,149	489,398	-	51,070,547
Other land improvements	495,511	-	-	495,511
Buildings	37,862,656	789,567	(5,466,303)	33,185,920
Equipment	15,482,743	771,816	(975,007)	15,279,552
Motor vehicles	<u>11,038,904</u>	<u>507,277</u>	<u>(1,107,642)</u>	<u>10,438,539</u>
Total accumulated depreciation and depletion	<u>115,460,963</u>	<u>2,558,058</u>	<u>(7,548,952)</u>	<u>110,470,069</u>
Other capital assets, net	<u>23,057,081</u>	<u>489,948</u>	<u>(13,393)</u>	<u>23,533,636</u>
	<u>\$ 25,714,646</u>	<u>\$ 2,279,351</u>	<u>\$ (13,393)</u>	<u>\$ 27,980,604</u>

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	<b>Balance July 1, 2016</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance June 30, 2017</b>
Capital assets not being depreciated or depleted:				
Assets under construction	\$ -	\$ 11,314	\$ -	\$ 11,314
Land	<u>2,646,251</u>	<u>-</u>	<u>-</u>	<u>2,646,251</u>
	<u>2,646,251</u>	<u>11,314</u>	<u>-</u>	<u>2,657,565</u>
Other capital assets				
Improvements (regional landfill)	64,415,852	-	-	64,415,852
Other land improvements	495,511	-	-	495,511
Buildings	42,592,677	87,991	(20,870)	42,659,798
Equipment	20,036,920	647,438	(1,889,302)	18,795,056
Motor vehicles	<u>11,868,183</u>	<u>283,644</u>	<u>-</u>	<u>12,151,827</u>
Total other capital assets	<u>139,409,143</u>	<u>1,019,073</u>	<u>(1,910,172)</u>	<u>138,518,044</u>
Accumulated depreciation and depletion:				
Improvements (regional landfill)	50,429,096	152,053	-	50,581,149
Other land improvements	495,511	-	-	495,511
Buildings	36,701,216	1,182,310	(20,870)	37,862,656
Equipment	16,346,147	1,025,898	(1,889,302)	15,482,743
Motor vehicles	<u>10,539,880</u>	<u>499,024</u>	<u>-</u>	<u>11,038,904</u>
Total accumulated depreciation and depletion	<u>114,511,850</u>	<u>2,859,285</u>	<u>(1,910,172)</u>	<u>115,460,963</u>
Other capital assets, net	<u>24,897,293</u>	<u>(1,840,212)</u>	<u>-</u>	<u>23,057,081</u>
	<u>\$ 27,543,544</u>	<u>\$ (1,828,898)</u>	<u>\$ -</u>	<u>\$ 25,714,646</u>

## 6. Long-Term Debt

### ***Bonds payable***

Bonds payable at June 30, 2018 and 2017, consist of the following:

	<b>2018</b>	<b>2017</b>
Guaranteed Subordinated Refunding Bonds, dated June 17, 2009, and issued in the original amount of \$71,985,000, due November 2017 (held by VRA).	<u>\$ -</u>	<u>\$ 9,895,000</u>
Deferred loss on defeasance	<u>-</u>	<u>(61,526)</u>
Current maturities of bonds payable	<u>-</u>	<u>(9,833,474)</u>

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In October 2010, the Authority used excess cash on hand to call for redemption \$3,665,000 of its Senior Revenue Bonds, Series 2007A and defease the remaining Series 1998 Senior Revenue Refunding Bonds in an aggregate total of \$11,920,000. A consequence of the defeasance was the liquidation of the Senior Debt Service Reserve Account by \$3,356,361, which was applied to the defeasance. The excess cash on hand and the balance of the Senior Reserve Account in the total amount of \$14,060,780 were deposited into an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1998 Senior Revenue Refunding Bonds. As a result, the Authority's 1998 Senior Revenue Refunding Bonds are considered defeased and the liability for those bonds has been removed from the balance sheet.

The refunding resulted in a loss on defeasance of \$2,501,170 that has been deferred and is being amortized as a component of interest expense over the life of the old debt.

Due to various restrictions in the Authority's bond resolutions, the Authority obtained the consents of its three lenders; the VRA, Wells Fargo and the bond insurance company (AMBAC) prior to executing the debt retirement plan. As part of the VRA's consent, the proceeds from the sale were to be applied proportionately amongst the lenders resulting in a residual level debt service. Additionally, the VRA required the eight member communities' guarantee, by general obligation, repayment of the remaining VRA bonds outstanding. Previous guarantee agreements with the communities were rescinded. The member community guarantees percentages were calculated based on a three-year average of proportional municipal tonnages. As of June 30, 2018, the Authority's debt was paid in full.

<b>Member Community</b>	<b>Guarantee percentage</b>	<b>Principal guarantee</b>
City of Chesapeake	22.49%	\$ -
City of Franklin	0.97	-
Isle of Wight County	3.98	-
City of Norfolk	16.98	-
City of Portsmouth	10.27	-
Southampton County	2.10	-
City of Suffolk	12.87	-
City of Virginia Beach	30.34	-
	<u>100.00%</u>	<u>\$ -</u>

The Authority and VRA also entered into a closing agreement with the Internal Revenue Service, the terms of which generally provide that the IRS will not challenge the tax-exempt status of such bonds on account of the sale of the waste to energy facilities provided (i) the facilities continue to be operated as "qualifying solid waste disposal facilities" within the meaning of Section 141 of the Internal Revenue Code of 1986. Wheelabrator has covenanted to cause the WTE Facilities to be operated as "qualifying solid waste disposal facilities" so long as any of SPSA's or VRA's tax-exempt bonds remains outstanding, and (ii) the Authority obtained an allocation from the Governor of the Commonwealth of volume cap equal to the principal amount of certain SPSA and VRA tax-exempt bonds portions of the proceeds of which SPSA determined were spent on the waste to energy facilities.

A portion of the investment income on certain of the Authority's bonds may be subject to Internal Revenue Service arbitrage rebate requirements, but based on its current calculations, management believes that the effect on the Authority is insignificant.

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Per the Guaranteed Subordinated Bond Resolution adopted May 14, 2009, as amended March 24, 2010 Authorizing and securing up to \$72,000,000 Guaranteed Subordinated Revenue Bonds, Refunding Series 2009 (Taxable) Section 502 Rate Covenant:

*"The Authority further covenants that it will at all times fix, charge and collect reasonable rates and charges for the use of, and for the services and facilities furnished by, the Disposal System and that from time to time, and as often as it shall appear necessary, it will adjust such rates and charges so that the Net Revenues in each Fiscal Year be sufficient to provide, together with any other funds available therefor, during such Fiscal Year an amount at least equal to one hundred percent (100%) of the Net Accrued Debt Service in such Fiscal Year on all outstanding Indebtedness and any other obligations of the Authority payable from Net Revenues.*

*The Authority further covenants that, subject to the provisions of Section 714(b), if the moneys available for the payment of the sum of the amounts set forth in the preceding paragraph shall be less than the amount required for any Fiscal Year, it will revise the rates and charges for the services and facilities furnished by the Disposal System, including the tipping fees payable under the Contracts, and, if necessary, it will revise its plan of operation in relation to the collection of bills for such services and facilities, so that such deficiency will be made up before the end of the next ensuing Fiscal Year. Should any deficiency not be made up in such next ensuing Fiscal Year, the requirement therefor shall be cumulative and the Authority shall continue to revise such rates until such deficiency shall have been completely made up."*

The Authority met its required debt service ratio requirements.

The following presents the changes in bonds payable for the Authority as a whole for the years ended June 30, 2018 and 2017:

Balances as of June 30, 2016	\$ 20,670,000
Principal paid and defeased	<u>(10,775,000)</u>
Balances as of June 30, 2017	9,895,000
Principal paid and defeased	<u>(9,895,000)</u>
Balances as of June 30, 2018	<u>\$ -</u>

## **7. Landfill Closure and Postclosure Care Costs**

State and federal laws and regulations require a final cover to be placed on a landfill when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for 30 years after closure. Although closure and postclosure care costs are paid only near or after the date that each discrete Section of the landfill stops accepting waste and closure activities commence, the Authority reports a portion of these closure and postclosure care costs as an operating expense in each period based on landfill capacity used as of each balance sheet date, in accordance with GASB Statement No. 18. The total landfill closure and postclosure care liabilities at June 30, 2018 and 2017, are \$16,852,408 and \$16,446,666, respectively. The three components are described as follows:

The first component of the liability relates to Cells I-IV, which was \$2,741,647 and \$2,819,042 at June 30, 2018 and 2017, respectively, and is based upon the use of all of the capacity of Cells I-IV of the Regional Landfill. The closure process of Cells I-IV was completed in 2009. The remaining amounts for Cells I-IV are based on estimates of what it would cost to perform postclosure care as of June 30, 2018 and 2017, respectively.

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The second and third components relate to Cells V and VI. The cumulative amount of liabilities reported to date based upon the use of approximately 100% of the estimated capacity of Cell V and approximately 52% of Cell VI of the Regional Landfill is \$14,110,761 and \$13,627,624 at June 30, 2018 and 2017, respectively. Cell V of the Regional Landfill stopped accepting waste in 2007. The amounts for Cell V and Cell VI are based on what it would cost to perform all closure and postclosure care at June 30, 2018 and 2017, respectively.

Actual closure and postclosure care costs for the Regional Landfill may differ from estimates due to inflation, changes in technology, or changes in regulations. The Authority currently plans to finance the landfill closure and postclosure care costs with operating revenues. In fiscal years 2018 and 2017, the Authority demonstrated its closure and postclosure care financial assurance requirements through the corporate financial test and local government financial test, respectively, as defined in the waste regulations issued by the State of Virginia, supplemented by a restricted sinking fund.

The following presents the changes in the combined landfill closure and postclosure care liability for the year ended June 30, 2018 and 2017:

Balances as of June 30, 2016	\$ 16,294,505
Revision of estimate	278,581
Payments made	<u>(126,420)</u>
Balances as of June 30, 2017	16,446,666
Revision of estimate	533,880
Payments made	<u>(128,138)</u>
Balances as of June 30, 2018	16,852,408
Current portion	<u>(405,742)</u>
Noncurrent portion	<u>\$ 16,446,666</u>

## **8. Commitments**

In the normal course of operations, the Authority enters into various contracts for the purchase of goods and/or services. At June 30, 2018 and 2017, total commitments under these contracts were \$2,023,218 and \$422,842, respectively.

## **9. Service Fee Paid to Wheelabrator**

During 2010, the Authority entered into an agreement engaging Wheelabrator to process solid waste of the Authority's Member communities at the WTE facilities. The Authority is obligated under this agreement through January 2019 as a result of Addendum 6 which was effective January 25, 2018. Under Addendum 6, SPSA paid a flat fee of \$36 per ton for waste disposal and no longer received any credits. Additionally, Wheelabrator pays \$19 per ton to dispose of ash residue at the landfill, which is recorded as revenue effective January 25, 2018. The net service fee paid to Wheelabrator for fiscal years 2018 and 2017, was comprised of the following:

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	<u>2018</u>	<u>2017</u>
Service fee	\$ 19,817,887	\$ 24,500,000
10% of steam revenue	(540,177)	(887,394)
SPSA hauling fee	(1,695,360)	(2,974,244)
Loading fee	(167,805)	(319,829)
10% of proprietary waste revenue	(71,206)	(102,739)
Fuel surcharge	(85,549)	(67,430)
Extended hours at transfer station	(30,473)	(52,519)
Residue disposal fee	(507,266)	(872,100)
Waste diverted from transfer stations and hauled by SPSA to Regional Landfill	<u>(10,736)</u>	<u>(634,295)</u>
Net service fee paid	<u>\$ 16,709,315</u>	<u>\$ 18,589,450</u>

In fiscal years 2018 and 2017, Wheelabrator chose to divert some processible waste and the Authority agreed to accept and haul the diverted waste to the regional landfill at the agreed upon price plus increased transportation costs. This charge of \$10,736 and \$634,295, respectively, was applied as a credit against the service fee.

Approximately 45% and 47% of the Authority's operating expenses were related to the Wheelabrator Service Fee for the fiscal years ended June 30, 2018 and 2017, respectively.

## **10. Waste Hauling and Disposal Services Agreement**

Following a Request for Proposal process, the Authority entered into an agreement with Wheelabrator Portsmouth, Inc. to haul and dispose of non-municipal waste received at the Authority's transfer stations effective January 25, 2018. In fiscal year 2018, the Authority paid Wheelabrator Portsmouth \$2,721,137 to haul and dispose of approximately 65,897 tons.

## **11. Host Community and Good Neighbor Agreement**

In order to insure long term waste disposal capacity for the Authority's members, a Good Neighbor and Host Agreement was executed with the City of Suffolk whereby certain rights and responsibilities are defined for both parties. In particular, the Authority applied for a new conditional use permit (CUP) for Cell VII at the landfill as well as requesting the rezoning of the remaining parcel. In turn, the Authority has agreed to pay the City of Suffolk a host fee of \$4 per ton for waste disposed in the landfill beginning January 25, 2018. In August 2017, the City of Suffolk approved the CUP and rezoning of the remaining parcel. In fiscal years 2018 and 2017, the Authority paid the City of Suffolk \$218,658 and \$0, respectively.

## **12. Pension Plans**

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

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**Plan Description**

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

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

RETIREMENT PLAN PROVISIONS		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p><b>About Plan 1</b>  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.</p>	<p><b>About Plan 2</b>  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.</p>	<p><b>About the Hybrid Retirement Plan</b>  The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan.</p> <ul style="list-style-type: none"> <li>• The defined benefit is based on a member's age, creditable service and average final compensation at retirement using a formula.</li> <li>• 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.</li> <li>• 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.</li> </ul>



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

<p><b>Vesting</b>  Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least five years (60 months) of creditable service. Vesting means members are eligible to qualify for retirement if they meet the age and service requirements for their plan. Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund.</p> <p>Members are always 100% vested in the contributions that they make.</p>	<p><b>Vesting</b>  Same as Plan 1.</p>	<p><b>Vesting</b>  <b><u>Defined Benefit Component:</u></b>  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.</p> <p>Plan 1 or Plan 2 members with at least five years (60 months) of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component.</p> <p><b><u>Defined Contributions Component:</u></b>  Defined contribution vesting refers to the minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined contribution component of the plan.</p> <p>Members are always 100% vested in the contributions that they make.</p> <p>Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service.</p> <ul style="list-style-type: none"> <li>• After two years, a member is 50% vested and may withdraw 50% of employer contributions.</li> <li>• After three years, a member is 75% vested and may withdraw 75% of employer contributions.</li> <li>• After four or more years, a member is 100% vested and may withdraw 100% of employer contributions.</li> </ul> <p>Distribution is not required by law until age 70½.</p>
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<p><b>Calculating the Benefit</b>  The Basic Benefit is calculated based on a formula using the member's average final compensation, a retirement multiplier and total service credit at retirement. It is one of the benefit payout options available to a member at retirement.</p> <p>An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit.</p>	<p><b>Calculating the Benefit</b>  See definition under Plan 1.</p>	<p><b>Calculating the Benefit</b>  <u><b>Defined Benefit Component:</b></u>  See definition under Plan 1</p> <p><u><b>Defined Contribution Component:</b></u>  The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions</p>
<p><b>Average Final Compensation</b>  A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.</p>	<p><b>Average Final Compensation</b>  A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.</p>	<p><b>Average Final Compensation</b>  Same as Plan 2. It is used in the retirement formula for the defined benefit component of the plan.</p>
<p><b>Service Retirement Multiplier</b>  <b>VRS:</b> The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.70%.</p> <p><b>Sheriffs and regional jail superintendents:</b> The retirement multiplier for sheriffs and regional jail superintendents is 1.85%.</p> <p><b>Political subdivision hazardous duty employees:</b> The retirement multiplier of eligible political subdivision hazardous duty employees other than sheriffs and regional jail superintendents is 1.70% or 1.85% as elected by the employer.</p>	<p><b>Service Retirement Multiplier</b>  <b>VRS:</b> Same as Plan 1 for service earned, purchased or granted prior to January 1, 2013. For non-hazardous duty members the retirement multiplier is 1.65% for creditable service earned, purchased or granted on or after January 1, 2013.</p> <p><b>Sheriffs and regional jail superintendents:</b> Same as Plan 1.</p> <p><b>Political subdivision hazardous duty employees:</b> Same as Plan 1.</p>	<p><b>Service Retirement Multiplier</b>  <u><b>Defined Benefit Component:</b></u>  <b>VRS:</b> The retirement multiplier for the defined benefit component is 1.00%.</p> <p>For members who opted into the Hybrid Retirement Plan from Plan 1 or Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans.</p> <p><b>Sheriffs and regional jail superintendents:</b> Not applicable.</p> <p><b>Political subdivision hazardous duty employees:</b> Not applicable.</p> <p><u><b>Defined Contribution Component:</b></u>  Not applicable.</p>

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

<p><b>Cost-of-Living Adjustment (COLA) in Retirement</b>  The Cost-of-Living Adjustment (COLA) matches the first 3% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4%) up to a maximum COLA of 5%.</p> <p><b><u>Eligibility:</u></b>  For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full calendar year from the retirement date.</p> <p>For members who retire with a reduced benefit and who have less than 20 years of creditable service, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date.</p> <p><b><u>Exceptions to COLA Effective Dates:</u></b>  The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances:</p> <ul style="list-style-type: none"> <li>• The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013.</li> <li>• The member retires on disability.</li> <li>• The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP).</li> <li>• 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.</li> </ul>	<p><b>Cost-of-Living Adjustment (COLA) in Retirement</b>  The Cost-of-Living Adjustment (COLA) matches the first 2% increase in the CPI-U and half of any additional increase (up to 2%), for a maximum COLA of 3%.</p> <p><b><u>Eligibility:</u></b>  Same as Plan 1</p> <p><b><u>Exceptions to COLA Effective Dates:</u></b>  Same as Plan 1</p>	<p><b>Cost-of-Living Adjustment (COLA) in Retirement</b>  <b><u>Defined Benefit Component:</u></b>  Same as Plan 2.</p> <p><b><u>Defined Contribution Component:</u></b>  Not applicable.</p> <p><b><u>Eligibility:</u></b>  Same as Plan 1 and Plan 2.</p> <p><b><u>Exceptions to COLA Effective Dates:</u></b>  Same as Plan 1 and Plan 2.</p>
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<ul style="list-style-type: none"> <li>• 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.</li> </ul>		
<p><b>Disability Coverage</b>  Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.7% on all service, regardless of when it was earned, purchased or granted.</p>	<p><b>Disability Coverage</b>  Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service, regardless of when it was earned, purchased or granted.</p>	<p><b>Disability Coverage</b>  Employees of political subdivisions (including Plan 1 and Plan2 opt-ins) participate in the Virginia Local Disability Program (VLDP) unless their local governing body provides and employer-paid comparable program for its members.</p> <p>Hybrid members (including Plan 1 and Plan 2 opt-ins) covered under VLDP are subject to a one- year waiting period before becoming eligible for non-work-related disability benefits.</p>
<p><b>Purchase of Prior Service</b>  Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as creditable service in their plan. Prior creditable service counts toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. When buying service, members must purchase their most recent period of service first. Members also may be eligible to purchase periods of leave without pay.</p>	<p><b>Purchase of Prior Service</b>  Same as Plan 1.</p>	<p><b>Purchase of Prior Service</b>  <u><b>Defined Benefit Component:</b></u>  Same as Plan 1, with the following exceptions:</p> <ul style="list-style-type: none"> <li>• Hybrid Retirement Plan members are ineligible for ported service.</li> </ul> <p><u><b>Defined Contribution Component:</b></u>  Not applicable.</p>

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***Employees covered by benefit terms***

As of the June 30, 2016, actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

	<u>Number</u>
Inactive members or their beneficiaries currently receiving benefits	<u>189</u>
Inactive members:	
Vested	87
Non-vested	173
Active elsewhere in VRS	<u>69</u>
Total inactive members	<u>329</u>
Active members	<u>127</u>
Total	<u><u>645</u></u>

***Contributions***

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

SPSA's contractually required contribution rate for the year ended June 30, 2018, was 1.55% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employee during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the Authority were \$78,230 and \$81,855 for the years ended June 30, 2018 and 2017, respectively.

***Net pension asset***

SPSA's net pension liability was measured as of June 30, 2017. The total pension liability used to calculate the net pension asset was determined by an actuarial valuation performed as of June 30, 2016, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2017.



## **Southeastern Public Service Authority of Virginia**

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#### ***Actuarial assumptions***

The total pension liability for Employees in SPSA's Retirement Plan was based on an actuarial valuation as of June 30, 2015, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2017.

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:

Largest 10 - Non-Hazardous Duty: 20% of deaths are assumed to be service related

Pre-Retirement:

RP-2014 Employee Rates to age 80, Health Annuitant Rates at ages 81 and older projected with scale BB to 2020; males 95% of rates; females 105% of rates.

Post-Retirement:

RP-2014 Employee Rates to age 49, Health Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 3 years; females 1.0% increase compounded from ages 70 to 90.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with scale BB to 2020; males set forward 2 years, 110% of rates; females 125% of rates.

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

Pre-Retirement:

RP-2014 Employee Rates to age 80, Health Annuitant Rates at ages 81 and older projected with scale BB to 2020; males 95% of rates; females 105% of rates.

Post-Retirement:

RP-2014 Employee Rates to age 49, Health Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 3 years; females 1.0% increase compounded from ages 70 to 90.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with scale BB to 2020; males set forward 2 years, 110% of rates; females 125% of rates.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

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Largest 10 - Non-Hazardous Duty:

- Mortality Rates: Update to a more current mortality table - RP-2014 projected to 2020
- Retirement Rates: Lowered rates at older ages and changed final retirement from 70 to 75
- Withdrawal Rates: Adjusted rates to better fit experience at each year age and service through 9 years of service
- Disability Rates: Lowered rates
- Line of Duty Disability: Increase rate from 14% to 20%

All Others (Non 10 Largest) - Non-Hazardous Duty:

- Mortality Rates: Update to a more current mortality table - RP-2014 projected to 2020
- Retirement Rates: Lowered rates at older ages and changed final retirement from 70 to 75
- Withdrawal Rates: Adjusted rates to better fit experience at each year age and service through 9 years of service
- Disability Rates: Lowered rates
- Line of Duty Disability: Increase rate from 14% to 15%

***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:

<b>Asset Class (Strategy)</b>	<b>Target Allocation</b>	<b>Arithmetic Long-Term Expected Rate of Return</b>	<b>Weighted Average Long-Term Expected Rate of Return</b>
Public Equity	40.00%	4.54%	1.82%
Fixed Income	15.00%	0.69%	0.10%
Credit Strategies	15.00%	3.96%	0.59%
Real Assets	15.00%	5.76%	0.86%
Private Equity	15.00%	9.53%	1.43%
Total	100.00%		4.80%
Inflation			2.50%
*Expected arithmetic nominal return			7.30%

\*The above allocation provides a one-year return of 7.30%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a return of 6.83%, including expected inflation of 2.5%.

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***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, 2019, 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, 2019 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)***

	<b>Total Pension Liability (a)</b>	<b>Plan Fiduciary Net Position (b)</b>	<b>Net Pension Liability (Asset) (a) - (b)</b>
Balances at June 30, 2016	\$ 43,496,250	\$ 45,518,415	\$ (2,022,165)
Changes for the year:			
Service cost	569,856	-	569,856
Interest	2,972,463	-	2,972,463
Change in assumptions	(160,511)	-	(160,511)
Difference between expected and actual experience	(1,334,317)	-	(1,334,317)
Contributions - employer	-	81,855	(81,855)
Contributions - employee	-	319,579	(319,579)
Net investment income	-	5,464,712	(5,464,712)
Benefit payments, including refunds of employee contributions	(2,064,980)	(2,064,980)	-
Administrative expense	-	(32,560)	32,560
Other changes	-	(4,816)	4,816
Net changes	(17,489)	3,763,790	(3,781,279)
Balances at June 30, 2017	\$ 43,478,761	\$ 49,282,205	\$ (5,803,444)

***Sensitivity of the net pension liability (asset) to changes in the discount rate***

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

	<b>1% Decrease 6.00%</b>	<b>Current Discount Rate 7.00%</b>	<b>1% Increase 8.00%</b>
Plan's Net Pension Liability (Asset)	\$ (664,530)	\$ (5,803,444)	\$ (10,123,889)

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

For the year ended June 30, 2018, SPSA recognized a pension benefit of \$1,500,166. At June 30, 2018, SPSA reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between projected and actual earnings on plan investments	\$ -	\$ 694,163
Change in assumptions	-	50,572
Differences between expected and actual experience	-	420,401
Employer contributions subsequent to the measurement date	<u>78,230</u>	<u>-</u>
	<u>\$ 78,230</u>	<u>\$ 1,165,136</u>

\$78,230 reported as deferred outflows of resources related to pensions resulting from the SPSA's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the fiscal year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in future reporting periods as follows:

<u>Year Ending June 30,</u>	
2019	\$ (944,326)
2020	231,704
2021	15,077
2022	<u>(467,591)</u>
	<u>\$ (1,165,136)</u>

***Pension plan data***

Information about the VRS Political Subdivision Retirement Plan's is also available in the separately issued VRS 2017 Comprehensive Annual Financial Report (CAFR). A copy of the 2017 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2017-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA 23218-2500.

***Payables to the pension plan***

The Authority had \$35,456 and \$36,517 as short term payables to VRS for legally or contractually required contributions outstanding as of June 30, 2018 and 2017, respectively, and included in accounts payable on the statements of net position.

**13. Employee Contribution Plan**

During fiscal 1993, SPSA established a deferred compensation plan through Hartford Life Insurance Company (the Company). In 2012, Massachusetts Mutual Life Insurance Company (MassMutual) acquired the Hartford's Retirement Plans Group. The plan was established under the guidelines of Section 457 of the Internal Revenue Code (IRC). The plan is a voluntary employee contribution plan in which employees elect a certain dollar amount to be withheld each pay period.

All of the Authority's full time employees are eligible to participate with a minimum contribution of \$10 per pay period. Maximum contributions made by an employee are subject to IRC limitations.

The plan is funded by Authority's employees. All underlying funds charge an investment management fee that varies according to the funds selected by the employee.

#### **14. Other Post-Employment Benefits (OPEB) Liability – Group Life Insurance, Virginia Local Disability Program and Post-Employment Medical Benefit Plan.**

##### ***Group Life - Plan description***

All full-time salaried permanent employees of the state agencies, teachers and employees of participating political subdivisions are automatically covered by the VRS Group Life Insurance Program upon employment. This plan is administered by the Virginia Retirement System (the System), along with pensions and other OPEB plans, for public employer groups in the Commonwealth of Virginia.

In addition to the Basic Group Life Insurance benefit, members are also eligible to elect additional coverage for themselves as well as a spouse or dependent children through the Optional Group Life Insurance Program. For members who elect the optional group life insurance coverage, the insurer bills employers directly for the premiums. Employers deduct these premiums from members' paychecks and pay the premiums to the insurer. Since this is a separate and fully insured program, it is not included as part of the Group Life Insurance Program OPEB.

The specific information for Group Life Insurance Program OPEB, including eligibility, coverage and benefits is set out in the tables below:

##### ***Eligible Employees:***

The Group Life Insurance Program was established July 1, 1960, for state employees, teachers and employees of political subdivisions that elect the program, including the following employers that do not participate in VRS for retirement:

- City of Richmond
- City of Portsmouth
- City of Roanoke
- City of Norfolk
- Roanoke City Schools Board

Basic group life insurance coverage is automatic upon employment. Coverage ends for employees who leave their position before retirement eligibility or who take a refund of their member contributions and accrued interest.

##### ***Benefit Amounts:***

The benefits payable under the Group Life Insurance Program have several components.

- **Natural Death Benefit** – The natural death benefit is equal to the employee's covered compensation rounded to the next highest thousand and then doubled.
- **Accidental Death Benefit** – The accidental death benefit is double the natural death benefit.

- **Other Benefit Provisions** – In addition to the basic natural and accidental death benefits, the program provides additional benefits provided under specific circumstances. These include:
  - Accidental dismemberment benefit
  - Safety belt benefit
  - Repatriation benefit
  - Felonious assault benefit
  - Accelerated death benefit option

***Reduction in Benefit amounts***

The benefit amounts provided to members covered under the Group Life Insurance Program are subject to a reduction factor. The benefit amount reduces by 25% on January 1 following one calendar year of separation. The benefit amount reduces by an additional 25% on each subsequent January 1 until it reaches 25% of its original value.

***Minimum Benefit Amount and Cost of Living Adjustment (COLA)***

For covered members with at least 30 years of creditable service, there is a minimum benefit payable under the Group Life Insurance Program. The minimum benefit was set at \$8,000 by statute. This amount is increased annually based on the VRS Plan 2 cost-of-living adjustment and is currently \$8,111.

***Contributions***

The contribution requirements for the Group Life Insurance Program are governed by §51.1-506 and §51.1-508 of the Code of Virginia, as amended, but may be impacted as a result of funding provided to state agencies and school divisions by the Virginia General Assembly. The total rate for the Group Life Insurance Program was 1.31% of covered employee compensation. This was allocated into an employee and an employer component using a 60/40 split. The employee component was 0.79% (1.31 x 60%) and the employer component was 0.52% (1.31% x 40%). Employers may elect to pay all or part of the employee contribution, however, the employer must pay all of the employer contribution. Each employer's contractually required employer contribution rate for the year ended June 30, 2018 was 0.52% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015. The actuarially determined rate, when combined with employee contributions, was expected to finance any unfunded accrued liability. Contribution to the Group Life Insurance Program from the Authority were \$76,840 and \$76,702 for the years ended June 30, 2018 and June 30, 2017, respectively. The contributions include \$50,595 and \$47,702 in employee contributions that have been assumed by the Authority.

***GLI OPEB Liabilities, GLI OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the Group Life Insurance Program OPEB***

At June 30, 2018, the Authority reported a liability of \$478,000 for its proportionate share of the Net GLI OPEB Liability. The Net GLI OPEB Liability was measured as of June 30, 2017 and the total GLI OPEB is used to calculate the Net GLI OPEB Liability was determined by an actuarial valuation as of that date. The covered employer's proportion of the NET GLI OPEB Liability was based on the covered employer's actuarially determined employer contributions to the Group Life Insurance Program for the year ended June 30, 2017 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2017, the participating employer's proportion was 0.03173% as compared to 0.03271% at June 30, 2016.

For the year ended June 30, 2018, the participating employer recognized GLI OPEB expense of \$2,000. Since there was a change in proportionate share measurement dates, a portion of the GLI OPEB expense was related to deferred amounts from changes in proportion.

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At June 30, 2018, the employer reported deferred outflows of resources and deferred inflows of resources related to the GLI OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between projected and actual earnings on plan investments	\$ -	\$ 18,000
Differences between expected and actual experience	-	10,000
Change of assumptions	-	25,000
Change in proportionate share	-	14,000
Employer contributions subsequent to the measurement date	\$ 26,245	-
	<u>\$ 26,245</u>	<u>\$ 67,000</u>

\$26,245 reported as deferred outflows of resources related to the GLI OPEB resulting from the employer's contributions subsequent to the measurement date will be recognized as a reduction of the Net GLI OPEB Liability in the Fiscal Year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the GLI OPEB will be recognized in the GLI OPEB expense in future reporting periods as follows:

<u>Year Ended June 30</u>	
FY 2019	\$ (14,000)
FY 2020	(14,000)
FY 2021	(14,000)
FY 2022	(14,000)
FY 2023	(8,000)
Thereafter	(3,000)
	<u>\$ (67,000)</u>

**Actuarial Assumptions**

The total GLI OPEB liability was based on an actuarial valuation as of June 30, 2016, 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, 2017.

Inflation	2.5 percent
Salary increases, including inflation -	
General state employees	3.5 percent - 5.35 percent
Teachers	3.5 percent - 5.95 percent
SPORS employees	3.5 percent - 4.75 percent
VaLORS employees	3.5 percent - 4.75 percent
JRS employees	4.5 percent
Locality - General employees	3.5 percent - 5.35 percent
Locality - Hazardous Duty employees	3.5 percent - 4.75 percent
Investment rate of return	7.0 Percent, 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 the OPEB liabilities.

***Mortality rates – Largest Ten Locality Employers – General Employees***

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with Scale BB to 2020; males 95% of rates; females 105% of rates.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males set forward 3 years; females 1.0% increase compounded from ages 70 to 90.

Post-Disablement:

RP-2014 Disability Life Mortality Table projected with scale BB to 2020; males set forward 2 years, 110% of rates; females 125% of rates.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

- Mortality Rates (Pre-retirement, post-retirement healthy, and disabled): Updated to a more current mortality table – RP-2014 projected to 2020
- Retirement Rates: Lowered retirement rates at older ages and extended final retirement age from 70 to 75
- Withdrawal Rates: Adjusted termination rates to better fit experience at each age and service year
- Disability Rates: Lowered disability rates
- Salary Scale: No Change
- Line of Duty Disability: Increased rate from 14% to 20%

***Mortality rates – Non-Largest Ten Locality Employers – General Employees***

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with Scale BB to 2020; males 95% of rates; females 105% of rates.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males set forward 3 years; females 1.0% increase compounded from ages 70 to 90.

Post-Disablement:

RP-2014 Disability Life Mortality Table projected with scale BB to 2020; males set forward 2 years, 110% of rates; females 125% of rates.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

- Mortality Rates (Pre-retirement, post-retirement healthy, and disabled): Updated to a more current mortality table – RP-2014 projected to 2020
- Retirement Rates: Lowered retirement rates at older ages and extended final retirement age from 70 to 75
- Withdrawal Rates: Adjusted termination rates to better fit experience at each age and service year
- Disability Rates: Lowered disability rates
- Salary Scale: No Change
- Line of Duty Disability: Increased rate from 14% to 15%



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***Net GLI OPEB Liability***

The net OPEB liability (NOL) for the Group Life Insurance Program represents the program's total OPEB liability determined in accordance with GASB Statement No. 74, less the associated fiduciary net position. As of June 30, 2017, NOL amounts for the Group Life Insurance Program is as follows (amounts expressed in thousands):

	<b>Group Life Insurance OPEB Program</b>
Total GLI OPEB Liability	\$ 2,942,426
Plan Fiduciary Net Position	<u>1,437,586</u>
Employers' Net GLI OPEB Liability (Asset)	<u>\$ 1,504,840</u>
Plan fiduciary Net Position as a Percentage of the Total GLI OPEB Liability	48.86%

The total GLI OPEB liability is calculated by the System's actuary, and each plan's fiduciary net position is reported in the System's financial statements. The net GLI OPEB liability is disclosed in accordance with the requirements of GASB Statement No. 74 in the System's notes to the financial statements and required supplementary information.

***Long-Term Expected Rate of Return***

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

<b><u>Asset Class (Strategy)</u></b>	<b><u>Target Allocation</u></b>	<b><u>Arithmetic Long-Term Expected Rate of Return</u></b>	<b><u>Weighted Average Long-Term Expected Rate of Return</u></b>
Public Equity	40.00%	4.54%	1.82%
Fixed Income	15.00%	0.69%	0.10%
Credit Strategies	15.00%	3.96%	0.59%
Real Assets	15.00%	5.76%	0.86%
Private Equity	<u>15.00%</u>	<u>9.53%</u>	<u>1.43%</u>
	<u>100.00%</u>		<u>4.80%</u>
		Inflation	<u>2.50%</u>
			<u>7.30%</u>

\*Expected arithmetic nominal return

\* The above allocation provides a one-year return of 7.30%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 6.83%, including expected inflation of 2.50%.

***Discount Rate***

The discount rate used to measure the total GLI OPEB liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that member contributions will be made per the VRS guidance and the employer contributions will be made in accordance with the VRS funding policy 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, 2019, the rate contributed by the entity for the GLI OPEB will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2019 on, employers are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the GLI OPEB's fiduciary net position was projected to be available to make all projected future benefit payments of eligible employees. Therefore, the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total GLI OPEB liability.

***Sensitivity of the Employer's Proportionate Share of the Net GLI OPEB Liability to Changes in the Discount Rate***

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

	<b>1% Decrease 6.00%</b>	<b>Current Discount Rate 7.00%</b>	<b>1% Increase 8.00%</b>
Employer's proportionate share of the net GLI OPEB liability	<u>\$ 618,000</u>	<u>\$ 478,000</u>	<u>\$ 364,000</u>

***Group Life Insurance Program Fiduciary Net Position***

Detailed information about the Group Life Insurance Program's Fiduciary Net Position is available in the separately issued VRS 2017 Comprehensive Annual Financial Report (CAFR). A copy of the 2017 VRS CAFR may be downloaded from the VRS website at <https://www.varetire.org/Pdf/Publications/2017-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

***Payables to the pension plan***

The Authority had \$6,338 and \$6,383 as short term payables to VRS for legally or contractually required contributions outstanding as of June 30, 2018 and 2017, respectively, and included in accounts payable on the statements of net position.

***Plan Description – Virginia Local Disability Program (VLDP)***

All full-time, salaried general employees; including local law enforcement officers, firefighters, or emergency medical technicians of political subdivisions who do not provide enhanced hazardous duty benefits; who are in the VRS Hybrid Retirement Plan benefit structure and whose employer has not elected to opt out of the VRS-sponsored program are automatically covered by the VRS Political Subdivision Employee Virginia Local Disability Program. This plan is administered by the Virginia Retirement System (the System), along with pension and other OPEB plans, for eligible public employer groups in the Commonwealth of Virginia. Political subdivisions are required by Title 51.1 of the Code of Virginia, as amended to provide short-term and long-term disability benefits for their Hybrid employees either through a local plan or through the Virginia Local Disability Program (VLDP).

The specific information for each plan and the eligibility for covered groups within each plan are set out in the table below:

<p align="center"><b>POLITICAL SUBDIVISION EMPLOYEE VIRGINIA LOCAL DTSABILITY PROGRAM (VLDP) PLAN PROVISIONS</b></p>
<p><b>Eligible Employees</b></p> <p>The Political Subdivision Employee Virginia Local Disability Program was implemented January 1, 2014 to provide short-term and long-term disability benefits for non-work-related and work-related disabilities for employees with Hybrid retirement benefits</p> <p>Eligible employees are enrolled automatically upon employment, unless their employer has elected to provide comparable coverage. They include:</p> <ul style="list-style-type: none"> <li>• Full-time general employees; including local law enforcement officers, firefighters, or emergency medical technicians who do not have enhanced hazardous duty benefits; of public political subdivisions covered under VRS.</li> </ul>
<p><b>Benefit Amounts</b></p> <p>The Political Subdivision Employee Virginia Disability Local Program (VLDP) provides the following benefits for eligible employees:</p> <p><b><u>Short-Term Disability -</u></b></p> <ul style="list-style-type: none"> <li>• The program provides a short-term disability benefit beginning after a seven-calendar-day waiting period from the first day of disability. Employees become eligible for non-work-related short-term disability coverage after one year of continuous participation in VLDP with their current employer.</li> <li>• During the first five years of continuous participation in VLDP with their current employer, employees are eligible for 610/o of their pre-disability income if they go out on non-work-related of work-related disability.</li> <li>• Once the eligibility period is satisfied, employees are eligible for higher income replacement levels</li> </ul> <p><b><u>Long-Term Disability -</u></b></p> <ul style="list-style-type: none"> <li>• The VLDP program provides a long-term disability benefit beginning after 125 workdays of short-term disability. Members are eligible if they are unable to work at all or are working fewer than 20 hours per week.</li> <li>• Members approved for long-term disability will receive 60% of their pre-disability income. If approved for work-related long-term disability, the VLDP benefit will be offset by the workers'compensation benefit. Members will not receive a VLDP benefit if their workers' compensation benefit is greater than the VLDP benefit.</li> </ul>
<p><b>Virginia Local Disability Program Notes:</b></p> <ul style="list-style-type: none"> <li>• Members approved for short-term or long-term disability at age 60 or older will be eligible for a benefit, provided they remain medically eligible.</li> <li>• VLDP Long-Term Care Plan is a self-funded program that assists with the cost of covered long-term care services.</li> </ul>

***Contributions***

The contribution requirement for active Hybrid employees is governed by §51.1-1178(C) of the Code of Virginia, as amended, but may be impacted as a result of funding provided to political subdivisions by the Virginia General Assembly. Each political subdivision's contractually required employer contribution rate for the year ended June 30, 2018 was 0.60% of covered employee compensation for employees in the VRS Political Subdivision Employee Virginia Local Disability Program. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015. The actuarially determined rate was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions from the political subdivision to the VRS Political Subdivision Employee Virginia Local Disability Program were \$5,728 and \$4,449 for the years ended June 30, 2018 and 2017, respectively.

***Political Subdivision Employee Virginia Local Disability Program OPEB Liabilities, Political Subdivision Employee Virginia Local Disability Program OPEB Expense, and Deferred Outflows of Resources und Deferred Inflows of Resources Related to Political Subdivision Employee Virginia Local Disability Program OPEB***

At June 30, 2018, the political subdivision reported a liability of \$3,000 for its proportionate share of the VRS Political Subdivision Employee Virginia Local Disability Program Net OPEB Liability. The Net VRS Political Subdivision Employee Virginia Local Disability Program OPEB Liability was measured as of June 30, 2017 and the total VRS Political Subdivision Employee Virginia Local Disability Program OPEB liability used to calculate the Net VRS Political Subdivision Employee Virginia Local Disability Program OPEB Liability was determined by an actuarial valuation as of that date. The political subdivision's proportion of the Net VRS Political Subdivision Employee Virginia Local Disability Program OPEB Liability was based on the political subdivision's actuarially determined employer contributions to the VRS Political Subdivision Employee Virginia Local Disability Program OPEB plan for the year ended June 30, 2017 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2017, the political subdivision's proportion of the VRS Political Subdivision Employee Virginia Local Disability Program was 0.40378% as compared to 0.35791%.

For the year ended June 30, 2018, the political subdivision recognized VRS Political Subdivision Employee Virginia Local Disability Program OPEB expense of \$4,000. Since there was a change in proportionate share between June 30, 2016 and June 30, 2017 a portion of the VRS Political Subdivision Employee Virginia Local Disability Program Net OPEB expense was related to deferred amounts from changes in proportion.

At June 30, 2018, the political subdivision reported deferred outflows of resources and deferred inflows of resources related to the VRS Political Subdivision Employee Virginia Local Disability Program OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Employer contributions subsequent to the measurement date	\$ 5,728	\$ -

\$5,728 reported as deferred outflows of resources related to the Political Subdivision Employee VLDP OPEB resulting from the political subdivision's contributions subsequent to the measurement date will be recognized as a reduction of the Net Political Subdivision Employee VLDP OPEB Liability in the fiscal year ending June 30, 2019.

***Actuarial Assumptions***

The total Political Subdivision Employee VLDP OPEB liability for the VRS Political Subdivision Employee Virginia Local Disability Program was based on an actuarial valuation as of June 30, 2016, 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, 2017.

Inflation	2.5 percent
Salary increases, including inflation -	
Political Subdivision Employees	3.5 percent - 5.35 percent
Investment rate of return	7.0 percent, net of plan investment expenses, including the 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 OPEB liabilities.

***Mortality rates - Largest Ten locality Employers - General and Non-Hazardous Duty Employees***

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with Scale BB to 2020; males 95% of rates; females 105% of rates.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males set forward 3 years; females 1.0% increase compounded from ages 70 to 90.

Post-Disablement:

RP-2014 Disability Life Mortality Table projected with scale BB to 2020; males set forward 2 years, 110% of rates; females 125% of rates

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

- Mortality Rates (Pre-retirement, postretirement healthy, and disabled): Updated to a more current mortality table - RP2014 projected to 2020
- Retirement Rates: Lowered retirement rates at older ages and extended final retirement age from 70 to 75
- Withdrawal Rates: Adjusted termination rates to better fit experience at each year age and service year
- Disability Rates: Lowered disability rates
- Salary Scale: No change
- Line of Duty Disability: Increased rate from 14%to 20%

***Mortality rates - Non-Largest Ten Locality Employers - General and Non-Hazardous Duty Employees***

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with Scale BB to 2020; males 90% of rates; females set forward 1 year.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males set forward 1 year with 1.0% increase compounded from ages 70 to 90; females set forward 3 years.

Post-Disablement:

RP-2014 Disability Life Mortality Table projected with scale BB to 2020; males set forward 2 years, unisex using 100% male.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

## **Southeastern Public Service Authority of Virginia**

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- Mortality Rates (Pre-retirement, postretirement healthy, and disabled): Updated to a more current mortality table - RP2014 projected to 2020
- Retirement Rates: Lowered retirement rates at older ages and extended final retirement age from 70 to 75
- Withdrawal Rates: Adjusted termination rates to better fit experience at each year age and service year
- Disability Rates: Lowered disability rates
- Salary Scale: No change
- Line of Duty Disability: Increased rate from 14% to 15%

#### ***Net Political Subdivision Employee VLDP OPEB Liability***

The net OPEB liability (NOL) for the Political Subdivision Employee Virginia Local Disability Program represents the program's total OPEB liability determined in accordance with GASB Statement No. 74, less the associated fiduciary net position. As of June 30, 2017, NOL amounts for the VRS Political Subdivision Employee Virginia Local Disability Program is as follows (amounts expressed in thousands):

	<b>Political Subdivision Employee VLDP OPEB Plan</b>
Total Political Subdivision VLDP OPEB Liability	\$ 914
Plan Fiduciary Net Position	<u>351</u>
Political Subdivision net VLDP OPEB Liability (Asset)	\$ 563
Plan fiduciary Net Position as a Percentage of the Total Political Subdivision VLDP OPEB Liability	38.40%

The total Political Subdivision Employee VLDP OPEB liability is calculated by the System's actuary, and the plan's fiduciary net position is reported in the System's financial statements. The net Political Subdivision Employee VLDP OPEB liability is disclosed in accordance with the requirements of GASB Statement No. 74 in the System's notes to the financial statements and required supplementary information.

#### ***Long-Term Expected Rate of Return***

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

**Southeastern Public Service Authority of Virginia**  
**Notes to Financial Statements**

<u>Asset Class (Strategy)</u>	<u>Target Allocation</u>	<u>Arithmetic Long-Term Expected Rate of Return</u>	<u>Weighted Average Long-Term Expected Rate of Return</u>
Public Equity	40.00%	4.54%	1.82%
Fixed Income	15.00%	0.69%	0.10%
Credit Strategies	15.00%	3.96%	0.59%
Real Assets	15.00%	5.76%	0.86%
Private Equity	15.00%	9.53%	1.43%
	100.00%		<u>4.80%</u>
		Inflation	<u>2.50%</u>
			<u>7.30%</u>

\*Expected arithmetic nominal return

\* The above allocation provides a one-year return of 7.30%o. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 6.83%, including expected inflation of 2.50%.

***Discount Rate***

The discount rate used to measure the total Political Subdivision Employee VLDP OPEB was 7.00%. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made in accordance with the VRS funding policy at rates equal to the actuarially determined contribution rates adopted by the VRS Board of Trustees. Through the fiscal year ending June 30, 2019, the rate contributed by the political subdivision for the VRS Political Subdivision Employee Virginia Local Disability Program will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2019 on, all agencies are assumed to contribute 100%o of the actuarially determined contribution rates. Based on those assumptions, the Political Subdivision Employee VLDP OPEB 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 Political Subdivision Employee VLDP OPEB liability.

***Sensitivity of the Political Subdivision's Proportionate Share of the Political Subdivision Employee VLDP Net OPEB Liability to Changes in the Discount Rate***

The following presents the political subdivision's proportionate share of the VRS Political Subdivision Employee Virginia Local Disability Program net VLDP OPEB liability using the discount rate of 7.00%, as well as what the political subdivision's proportionate share of the net VLDP OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate:

	<u>1% Decrease 6.00%</u>	<u>Current Discount Rate 7.00%</u>	<u>1% Increase 8.00%</u>
Political subdivision's proportionate share of the VRS Political Subdivision VLDP OPEB Plan Net VLDP OPEB Liability	<u>\$ 3,000</u>	<u>\$ 3,000</u>	<u>\$ 2,000</u>

## **Southeastern Public Service Authority of Virginia**

### **Notes to Financial Statements**

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#### ***Political Subdivision Employee VLDP OPEB Fiduciary Net Position***

Detailed information about the VRS Political Subdivision Employee Virginia Local Disability Program's Fiduciary Net Position is available in the separately issued VRS 2017 Comprehensive Annual Financial Report (CAFR). A copy of the 2017 VRS CAFR may be downloaded from the VRS website at <https://www.varetire.org/Pdf/Publications/2017-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

#### ***Payables to the Political Subdivision Employee Virginia Local Disability Program OPEB Plan***

The Authority had \$507 and \$403 as short term payables to VRS for legally or contractually required contributions outstanding as of June 30, 2018 and 2017, respectively, and included in accounts payable on the statements of net position.

#### ***Plan Description - SPSA Post-Retirement Medical Benefit Plan***

At its sole discretion, SPSA offers a Postretirement Medical Benefit Plan (PEMP) subject to eligibility. The plan is administered by the Authority. Under the plan, SPSA will pay part of the retiree's monthly health insurance premium up through age 65. Effective July 1, 2011, to be eligible for SPSA's contribution, the retiree must be approved for service or disability retirement through the VRS; must have been employed with SPSA at least ten years; and must have been enrolled in one of SPSA's health care plans for the last five consecutive years immediately preceding retirement.

#### ***Employees Covered by Plan***

As of June 30, 2016 actuarial valuation, the following employees were covered by the PEMP:

Inactive members (and spouse if applicable)	
currently receiving benefits	8
Active participants	<u>126</u>
Total covered participants	<u>134</u>

#### ***Contributions***

For employees that retired prior to July 1, 2011, SPSA contributes up to 50% of the amount it normally pays for active employees with the same level of coverage. The amount is calculated based on 5% per year of completed service with SPSA.

For employees that retired after July 1, 2011, SPSA contributes 50% of the amount it normally pays for active employees for the lowest tier of coverage on the least expensive plan.

#### ***Net PEMP Liability***

The Authority's net PEMP liability was measured as of June 30, 2018. The PEMP liability was determined by an actuarial valuation date as of June 30, 2016, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2018.



**Southeastern Public Service Authority of Virginia**  
**Notes to Financial Statements**

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***Actuarial Assumptions***

The Authority does not pre-fund PEMP. Instead, it pays benefits directly from general assets on a pay-as-you-go basis. The PEMP OPEB liability was based on an actuarial valuation as of June 30, 2016, using the Entry Age Normal, level percentage of pay method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date as of June 30, 2018.

Inflation	2.5 percent
Salary increases	Ranging between 5.35% and 3.65% for the next 20 years, 3.50% thereafter
Age-Related Claims Costs	Milliman's <i>Health Cost Guidelines</i> and actuarial judgment, consistent with the Getzen Trend Model
Healthcare Trend Rates	Based on long term healthcare trend rates generated by the Getzen Model
Retirement, Withdrawal and Disability	Consistent with assumptions used in the June 30, 2015 valuation of the Virginia Retirement System.

***Mortality Rates***

Pre-Retirement	RP-2000 Employee Mortality Tables projected to 2020 using Scale AA with Males set forward 2 years and Females set back 3 years
Post-Retirement	RP-2000 Combined Healthy Mortality tables projected to 2020 using Scale AA with Females set back 1 year.
Post-Disablement	RP-2000 Disabled Life mortality tables with Males set back 3 years and no provision for future mortality improvement

***Discount Rate***

The discount rate used to measure the total PEMP OPEB liability was 3.87%. The discount rates are based on the Bond Buyer 20-Year Bond GO Index as of their respective measurement dates.

***Changes in Net PEMP OPEB Liability:***

	<b><u>Increase or (Decrease)</u></b>
Balance of June 30, 2017	\$ 1,510,973
Changes during Year:	
Service Cost	104,151
Interest on Total OPEB Liability	55,321
Effect on Plan Changes	-
Effect on Economic/Demographic Gains or Losses	-
Effect of Assumptions Changes or Inputs	(31,024)
Benefit Payments	<u>(69,619)</u>
Balance as of June 30, 2018	<u><u>\$ 1,569,802</u></u>

**Southeastern Public Service Authority of Virginia**  
**Notes to Financial Statements**

***Sensitivity of the Political Subdivision PEMP OPEB Liability to Changes in the Discount Rate:***

The following presents the Authority's Total OPEB Liability, calculated using the discount rate of 3.87%. It also represents what the Authority's Total OPEB Liability would be if it were calculated using a discount rate one percentage point lower (2.87%) and one percentage point higher (4.87%) than the current rate.

	<b>1% Decrease 2.87%</b>	<b>Current Discount Rate 3.87%</b>	<b>1% Increase 4.87%</b>
Total PEMP OPEB Liability	\$ 1,654,089	\$ 1,569,802	\$ 1,487,200

***Sensitivity of the Political Subdivision PEMP OPEB Liability to Changes in the Healthcare Trend Rate:***

The following presents the Authority's Total OPEB Liability, calculated using the current healthcare trend rate. It also represents what the Authority's Total OPEB Liability would be if it were calculated using a healthcare trend rate one percentage point lower and one percentage point higher than the current rate.

	<b>1% Decrease</b>	<b>Current Discount Rate</b>	<b>1% Increase</b>
Total PEMP OPEB Liability	\$ 1,406,594	\$ 1,569,802	\$ 1,757,471

***PEMP OPEB Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to PEMP OPEB***

For the year ended June 30, 2018, the Authority recognized a PEMP expense \$154,771. At June 30, 2018, the Authority reported deferred outflows of resources and deferred inflows of resources related to the Authority's PEMP from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Change of assumptions	\$ -	\$ 26,323

\$26,323 reported as deferred inflows of resources related to the PEMP OPEB will be recognized in OPEB expense as follows:

<b>Year Ending June 30,</b>	
2019	\$ (4,701)
2020	(4,701)
2021	(4,701)
2022	(4,701)
2023	(4,701)
Thereafter	(2,818)
	<u>\$ (26,323)</u>

***PEMP Data***

Information about the Authority's PEMP is available in a separately issued report. A copy of the report may be requested in writing to the Authority's Chief Financial Officer at 723 Woodlake Drive, Chesapeake, Virginia 23320.

## **15. Contingencies**

SPSA is exposed to asserted and unasserted potential claims encountered in the normal course of business. The Authority intends to defend itself against these complaints and management believes the Authority will prevail and that the final resolution of these complaints will not have a material adverse effect on the Authority's financial position.

The Authority is also exposed to various risks of loss related to theft of, damage to, and destruction of assets and natural disasters for which it carries commercial insurance.

***Required Supplementary Information (Unaudited)***

**Southeastern Public Service Authority of Virginia**  
**Schedule of Changes in Net Pension Liability and Related Ratios**  
**For the Years Ended June 30, 2014 through 2017**

	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
Total pension liability				
Service cost	\$ 569,856	\$ 599,791	\$ 617,774	\$ 606,013
Interest	2,972,463	2,899,576	2,805,786	2,711,110
Changes of benefit terms	-	-	-	-
Differences between expected and actual experience	(1,334,317)	(363,513)	(59,513)	-
Changes in assumptions	(160,511)	-	-	-
Benefit payments, including refunds of employee contributions	(2,064,980)	(2,124,248)	(1,924,126)	(2,005,095)
Net change in total pension liability	(17,489)	1,011,606	1,439,921	1,312,028
Total pension liability, beginning	43,496,250	42,484,644	41,044,723	39,732,695
Total pension liability, ending	<u>\$ 43,478,761</u>	<u>\$ 43,496,250</u>	<u>\$ 42,484,644</u>	<u>\$ 41,044,723</u>
Plan fiduciary net position				
Contributions - employer	\$ 81,855	313,487	325,830	297,584
Contributions - employee	319,579	291,602	323,735	309,452
Net investment income	5,464,712	773,053	2,058,962	6,320,734
Benefit payments, including refunds of employee contributions	(2,064,980)	(2,124,248)	(1,924,126)	(2,005,095)
Administrative expense	(32,560)	(29,366)	(29,072)	(34,912)
Other	(4,816)	(334)	(430)	333
Net change in plan fiduciary net position	3,763,790	(775,806)	754,899	4,888,096
Plan fiduciary net position, beginning	45,518,415	46,294,221	45,539,322	40,651,226
Plan fiduciary net position, ending	<u>\$ 49,282,205</u>	<u>\$ 45,518,415</u>	<u>\$ 46,294,221</u>	<u>\$ 45,539,322</u>
Authority's net pension liability (asset), ending	<u>\$ (5,803,444)</u>	<u>\$ (2,022,165)</u>	<u>\$ (3,809,577)</u>	<u>\$ (4,494,599)</u>
Plan fiduciary net position as a percentage of the total pension liability	113%	105%	109%	111%
Covered-employee payroll	\$ 5,280,968	\$ 5,783,893	\$ 6,011,624	\$ 6,085,562
Authority's net pension liability as a percentage of covered-employee payroll	(110%)	(35%)	(63%)	(74%)

\* Covered payroll represents the total pensionable payroll for covered employees covered under the pension plan, in accordance with GASB Statement No. 82.

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

**Southeastern Public Service Authority of Virginia**  
**Schedule of Employer Contributions - Pension**  
**For the Years Ended June 30, 2014 through 2018**

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<b>Date</b>	<b>Contractually Required Contribution (1)</b>	<b>Contributions in Relation to Contractually Required Contribution (2)</b>	<b>Contribution Deficiency (Excess) (3)</b>	<b>Employer's Covered Employee Payroll (4)</b>	<b>Contributions as a % of Covered Employee Payroll (5)</b>
2018	\$ 78,230	\$ 78,230	\$ -	\$ 5,047,097	1.55%
2017	\$ 81,855	\$ 81,855	\$ -	\$ 5,280,968	1.55%
2016	\$ 313,487	\$ 313,487	\$ -	\$ 5,783,893	5.42%
2015	\$ 325,830	\$ 325,830	\$ -	\$ 6,011,624	5.42%
2014	\$ 297,584	\$ 297,584	\$ -	\$ 6,085,562	4.89%

\* Covered payroll represents the total pensionable payroll for covered employees covered under the pension plan, in accordance with GASB Statement No. 82.

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

**Southeastern Public Service Authority of Virginia**  
**Schedule of Authority's Share of Net OPEB Liability and Related Ratios**  
**For the Year Ended June 30, 2017**

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**Group Life Insurance (GLI) Program**

Employer's Proportion of the Net GLI OPEB Liability		0.03173%
Employer's Proportionate Share of the Net GLI OPEB Liability	\$	478,000
Employer's Covered Payroll	\$	5,280,968
Employer's Proportionate Share of the Net GLI OPEB Liability as a Percentage of its Covered Payroll		9.05%
Plan Fiduciary Net Position as a Percentage of the Total GLI OPEB Liability		48.86%

**Virginia Local Disability Program (VLDP)**

Employer's Proportion of the Net VLDP OPEB Liability		0.40378%
Employer's Proportionate Share of the Net VLDP OPEB Liability	\$	3,000
Employer's Covered Payroll	\$	5,280,968
Employer's Proportionate Share of the Net VLDP OPEB Liability as a Percentage of its Covered Payroll		0.06%
Plan Fiduciary Net Position as a Percentage of the Total VLDP OPEB Liability		38.40%

\*The amounts presented have a measurement date of the previous fiscal year.

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

**Southeastern Public Service Authority of Virginia**  
**Schedule of Employer Contributions - OPEB GLI**  
**For the Years Ended June 30, 2017 through 2018**

<b>Date</b>	<b>Contractually Required Contribution (1)</b>	<b>Contributions in Relation to Contractually Required Contribution (2)</b>	<b>Contribution Deficiency (Excess) (3)</b>	<b>Employer's Covered Employee Payroll (4)</b>	<b>Contributions as a % of Covered Employee Payroll (5)</b>
Group Life Insurance (GLI) Program					
2018	\$ 26,245	\$ 26,245	\$ -	\$ 5,047,097	0.52%
2017	\$ 29,000	\$ 29,000	\$ -	\$ 5,280,968	0.55%
Virginia Local Disability Program (VLDP)					
2018	\$ 5,728	\$ 5,728	\$ -	\$ 954,634	0.60%
2017	\$ 4,449	\$ 4,449	\$ -	\$ 741,500	0.60%

\* Covered payroll represents the total pensionable payroll for covered employees covered under the pension plan, in accordance with GASB Statement No. 82.

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



**Southeastern Public Service Authority of Virginia**  
**Schedule of Changes in the Authority's Total OPEB Post-Employment Medical**  
**Benefit Plan (PEMB) and Related Ratios**  
**For the Year Ended June 30, 2018**

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Total PEMB OPEB liability	
Service cost	\$ 104,151
Interest	55,321
Changes of benefit terms	-
Differences between expected and actual experience	-
Changes in assumptions	(31,024)
Benefit payments, including refunds of employee contributions	<u>(69,619)</u>
Net change in total PEMB OPEB liability	58,829
Total PRMB liability - beginning	<u>\$ 1,510,973</u>
Total PRMB liability - ending (a)	<u><u>\$ 1,569,802</u></u>
Covered-employee payroll (b)	\$ 5,852,100
Authority's total PEMB OPEB liability as a percentage of covered-employee payroll (a) / (b)	27%

\*The amounts presented have a measurement date of the previous fiscal year.

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

## **Notes to Required Supplementary Information**

### **1. Pension Plan**

#### ***Changes of Benefit Terms***

There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation. The 2014 valuation includes Hybrid Retirement Plan members for the first time. The hybrid plan applies to most new employees hired on or after January 1, 2014, and not covered by enhanced hazardous duty benefits. Because this was a new benefit, and the number of participants was relatively small, the impact on the liabilities as of the measurement date of June 30, 2017, are not material.

#### ***Changes of assumptions***

The following changes in actuarial assumptions were made effective June 30, 2016, based on the most recent experience study of the System for the four-year period ending June 30, 2016:

Largest 10 Locality Employers - Non-Hazardous Duty:

- Update to a more current mortality table
- Lowered retirement rates at older ages and changed final retirement from 70 to 75
- Adjusted withdrawal rates to better fit experience at each year age and service through 9 years of service
- Lowered disability rates
- No change in salary scale
- Increase in rates for line of duty disability from 14% to 20%

All Others (Non 10 Largest Locality Employers) - Non-Hazardous Duty:

- Update to a more current mortality table
- Lowered retirement rates at older ages and changed final retirement from 70 to 75
- Adjusted withdrawal rates to better fit experience at each year age and service through 9 years of service
- Lowered disability rates
- No change in salary scale
- Increase in rates for line of duty disability from 14% to 15%

### **2. Other Post-Employment Benefit Plan - Group Life Insurance Program**

#### ***Changes of benefit terms***

There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation.

#### ***Changes of assumptions***

The following changes in actuarial assumptions were made effective June 30, 2016, based on the most recent experience study of the System for the four-year period ending June 30, 2016:

Largest 10 Locality Employers - Non-Hazardous Duty:

- Update mortality table
- Lowered retirement rates at older ages and changed final retirement from 70 to 75
- Adjusted termination rates to better fit experience at each age and service year
- Lowered disability rates
- No change in salary scale
- Increase in rates for line of duty disability from 14% to 20%

All Others (Non 10 Largest Locality Employers) - Non-Hazardous Duty:

- Update mortality table
- Lowered retirement rates at older ages and extended final retirement from 70 to 75
- Adjusted termination rates to better fit experience at each age and service year
- Lowered disability rates
- No change in salary scale
- Increase in rates for line of duty disability from 14% to 15%

### **3. Other Post-Employment Benefit Plan - Virginia Local Disability Program**

#### ***Changes of benefit terms***

There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation.

#### ***Changes of assumptions***

Same as Group Life Insurance Program above.

## **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**

The Board of Directors  
Southeastern Public Service Authority of Virginia  
Chesapeake, Virginia

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the accompanying financial statements of Southeastern Public Service Authority of Virginia, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Southeastern Public Service Authority of Virginia's basic financial statements, and have issued our report thereon dated December 10, 2018.

### ***Internal Control over Financial Reporting***

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

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

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

***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the Southeastern Public Service Authority of Virginia'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 in accordance with *Government Auditing Standards*.

***Purpose of this Report***

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Southeastern Public Service Authority of Virginia'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 Southeastern Public Service Authority of Virginia's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Brown, Edwards & Company, L.L.P.*

**Newport News, Virginia  
December 10, 2018**