VIRGINIA PENINSULAS PUBLIC SERVICE AUTHORITY

FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

As of and for the Year Ended June 30, 2017

And Report of Independent Auditor

Cherry Bekaert LLP
CPAs & Advisors

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Cherry Bekaert LLP
CPAs & Advisors

Report of Independent Auditor

The Board of Directors
Virginia Peninsulas Public Service Authority

Report on the Financial Statements

We have audited the accompanying financial statements of the Virginia Peninsulas Public Service Authority (the "Authority"), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority, as of June 30, 2017, and the changes in its financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

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

Other Supplementary Information
Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The schedule of revenues, expenses, and changes in net position by program/service is presented for purposes of additional analysis and is not a required part of the basic financial statements. This schedule is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*
In accordance with *Government Auditing Standards*, we have also issued our report dated September 29, 2017, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Cherry Bekaert LLP

Virginia Beach, Virginia
September 29, 2017

The following Management Discussion and Analysis ("MD&A") of Virginia Peninsulas Public Service Authority (the "Authority") provides a discussion and analysis of the Authority's financial performance for the fiscal year ended June 30, 2017. This MD&A should be read in conjunction with the basic financial statements and notes thereto, that follow this section.

Financial Highlights

- The assets and deferred outflows of resources of the Authority exceeded its liabilities and deferred inflow of resources at the close of the fiscal year by $5,567,859 (net position). Of this amount, $3,554,222 (unrestricted net position) may be used to meet the Authority's ongoing obligations to its member communities, customers, and creditors. Of the unrestricted net position, the Board has designed $1,775,312 to be set aside for the future replacement of equipment.

- The Authority's total net position at June 30, 2017 increased from $5,298,572 at June 30, 2016 to $5,567,859, or $ 269,287 (a 5% increase).

- Total liabilities at June 30, 2017 were $1,444,533 compared to $1,398,136 at June 30, 2016. The $46,397 increase, or 3%, is primarily attributable to timing of payments to vendors.

- Operating revenue of $6,673,728 was below the budgeted amount of $6,748,292 by $74,564, or 1%. This reduction in revenue was primarily due to not meeting sales goals at the Compost Facility, lower than anticipated landfill monitoring costs and a corresponding reduction in billings to the communities.

- Operating expenses of $6,599,013, compared to budgeted operating expenses of $6,748,292, were 2% or $149,279 below budget.

Overview of the Financial Statements

The Statement of Net Position presents information on the Authority's assets and liabilities. In addition to assets, the Statement of Net Position also reports a separate section for deferred outflows of resources, which represents a consumption of net position that applies to a future period and so will not be recognized as an expense until then. In addition to liabilities, the Statement of Net Position also reports a separate section for deferred inflows of resources, representing an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The Authority first reported deferred outflows and inflows for fiscal year 2015, as a result of the implementation of new pension accounting standards. The difference between the assets and deferred outflows of resources and liabilities and deferred inflows of resources is reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

The Statement of Revenues, Expenses, and Changes in Net Position presents information showing how net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods.

Notes to the financial statements are an integral part of the statements and should be read in conjunction with the financial statements and the Management's Discussion and Analysis.

Financial Analysis

The following table reflects the Authority's condensed summary of the Statement of Net Position at June 30, 2017 and 2016.

Statement of Net Position

	2017	2016
Current and other assets	$ 4,674,215	$ 5,800,779
Capital assets	2,013,637	620,397
Noncurrent assets	201,000	348,000
Total Assets	6,888,852	6,769,176
Deferred outflows of resources	181,540	93,532
Total Assets and Deferred Outflow of Resources	7,070,392	6,862,708
Current liabilities - total liabilities	1,444,533	1,398,136
Deferred inflows of resources	58,000	166,000
Total Liabilities and Deferred Inflow of Resources	1,502,533	1,564,136
Net investment in capital assets	2,013,637	620,397
Unrestricted	3,554,222	4,678,175
Total Net Position	$ 5,567,859	$ 5,298,572

At the close of the 2017 and 2016 fiscal years, the Authority's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by $5,567,859 and $5,298,572, respectively. The Authority's net position increased by $269,287 during fiscal year 2017. Three projects contributed nearly all of the net revenue over expenses for FY 17 - Administration, Compost Facility and Transfer System. Salaries were lower than budgeted for FY 17 because the Administrative function was not fully staffed for the entire year. Payments to Virginia Retirement System ("VRS") for retirement were significantly lower than budgeted. The actual rate for Plan 1 employees was significantly lower than the assumed rate used to develop the FY 17 budget. Rent payments for office space were significantly lower than budgeted as a result of a renegotiation of the office space lease. Revenue from the sale of white goods and scrap metal, corrugated cardboard and mixed paper was greater than the budgeted amount. Fuel expenses were significantly lower than budgeted. Health insurance payments for the Compost Facility for FY 17 were lower than budgeted due to the selection of programs. Fuel expenses were significantly lower than budgeted."

A portion of the Authority's unrestricted net position has been internally set aside as Board-designated equipment replacement funds that are available for future investments in capital assets, to provide services to our member communities and customers.

The results of the Authority's operations are reported in the following table. The table presents a condensed summary of this information for the years ended June 30, 2017 and 2016.

Statement of Revenues, Expenses, and Changes in Net Position

	2017	2016
Operating revenues	$ 6,673,728	$ 6,651,370
Operating expenses	6,599,013	6,433,328
Income from operations	74,715	218,042
Nonoperating revenues	194,572	124,955
Change in net position	269,287	342,997
Net position, beginning of year (restated)	5,298,572	4,955,575
Net position, end of year	$ 5,567,859	$ 5,298,572

Transfer System

The Authority operates 4 Transfer Stations and 14 Convenience Centers in 5 counties on the Middle Peninsula. The Transfer System handled 30,690 tons of solid waste in fiscal year 2017, which is a reduction of 5% compared to the previous year waste quantities. The reduction is due to the additional waste handled in fiscal year 2016 as a result of the tornado in Essex County.

The Transfer System recycled almost 1,000 tons of scrap metal generating $86,000 in revenue. The mixed paper program combined with the drop-off recycling program and the front load cardboard collection recycled an additional 1,400 tons generating $184,000 in revenue. Plastic, aluminum, and steel containers accounted for an additional 540 tons of recycled material which generated more than $11,000 in revenue.

Compost Facility

The Authority's Compost Facility, located at 145 Goodwin Neck Road in Yorktown, accepts vegetative waste from the cities of Hampton and Poquoson and from York County along with a growing number of commercial customers. Sales of compost and mulch were $404,000, which was $76,000 below the revenue target. Poor weather during peak sales periods contributed to the inability to reach the sales goal. Lower than anticipated fuel costs along with operational efficiencies contributed to keeping expenses below revenue.

A total of 22,768 tons of leaves, grass, and brush were received at the compost facility for fiscal year 2017, which was an increase of almost 1,700 tons compared to fiscal year 2016.

Household Chemical Project

The household chemical project provided 16 drop-off collection events for the residents of the City of Hampton, James City County, City of Poquoson, Town of Williamsburg, and York County to properly dispose of commonly used products from homeowners. This project is staffed by employees of the Middle Peninsula Transfer System and technical and disposal services are provided through a contract with Clean Harbors. The program provided disposal for almost 4,900 vehicles in the 5 communities that are serviced with this project.

Computer Recycling

The Authority provided collection at each of the 16 household chemical collection events. In fiscal year 2017, over 66,000 pounds of computers and related equipment for recycling was received from almost 2,900 vehicles. All recyclable materials were delivered to Computer Recycling of Virginia for processing.

Curbside Recycling Project

The Authority provides curbside recycling in James City County, City of Poquoson, Town of Williamsburg, and York County. Fiscal year 2017 marked the second full year with curbside recycling services provided to the four cities and counties with roll-out carts. During fiscal year 2017, more than 12,100 tons of material was recycled from 49,000 homes. The program accepts plastic bottles and jugs, other plastic containers, rigid plastics, aluminum and steel cans, cardboard, mixed paper, and glass bottles and jars.

Capital Assets

The following table presents a condensed summary of the Authority's capital assets, net of accumulated depreciation at June 30, 2017 and 2016.

	2017	2016
Building and improvements	$ 60,913	$ 61,716
Construction in Progress	12,602	-
Office equipment	5,114	6,818
Operating equipment	1,289,074	388,194
Vehicles	645,934	163,669
	$ 2,013,637	$ 620,397

During the year ended June 30, 2017, the Authority purchased the following equipment and vehicles at a total cost of $1,786,030, which is reflected above.

- Two pick-up trucks
- Two wheel loaders
- One passenger vehicle
- Three roll off trucks
- One front load truck
- Twelve stationary solid waste compactors
- Six 40-CY open top containers

This purchase netted against depreciation expense of $392,790, represents $1,380,638 of the net increase from fiscal year 2016 to 2017. The remaining net increase in capital assets is attributed to construction in progress during fiscal year 2017. Additional information can be found in Note 4 to the basic financial statements.

Request for Information

This financial report is designed to provide a general overview of the Authority's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed in writing to the Executive Director, Virginia Peninsulas Public Service Authority, 475 McLaws Circle, Suite 3B, Williamsburg, Virginia, 23185.

BASIC FINANCIAL STATEMENTS

VIRGINIA PENINSULAS PUBLIC SERVICE AUTHORITY
STATEMENT OF NET POSITION

JUNE 30, 2017

ASSETS		
Current Assets:		
Cash and cash equivalents	$	707,096
Investments		3,554,118
Accounts receivable:		
Member jurisdictions		323,051
Other		76,464
Prepaids		13,486
Total Current Assets		4,674,215
Noncurrent Assets:		
Capital assets, net		2,013,637
Net pension asset		201,000
Total Noncurrent Assets		2,214,637
Total Assets		6,888,852
DEFERRED OUTFLOWS OF RESOURCES		
Net difference between projected and actual earnings on pension plan investments	$	114,000
Deferred pension contributions		67,540
Total Assets and Deferred Outflow of Resources	$	7,070,392
LIABILITIES		
Current Liabilities:		
Accounts payable and accrued liabilities	$	351,851
Compensated absences and accrued salaries		318,741
Unearned revenue		773,941
Total Liabilities		1,444,533
DEFERRED INFLOWS OF RESOURCES		
Difference between expected and actual experience		58,000
Total Liabilities and Deferred Inflow of Resources		1,502,533
NET POSITION		
Net investment in capital assets		2,013,637
Unrestricted		3,554,222
Total Net Position		5,567,859
Total Liabilities, Deferred Inflows of Resources, and Net Position	$	7,070,392

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

VIRGINIA PENINSULAS PUBLIC SERVICE AUTHORITY

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

YEAR ENDED JUNE 30, 2017

Operating Revenues:	
Fees from member jurisdictions for:	
Curbside recycling program	$ 960,144
Drop-off recycling program	123,585
Transfer system operations	1,573,565
Landfill disposal	769,281
Compost facility operations	597,667
Material sales	501,925
Computer recycling services	10,185
Groundwater monitoring	181,428
Tire recycling services	3,115
Convenience centers operations	673,080
Household chemical services	317,122
Administrative	115,000
Project overhead	551,439
Miscellaneous and other fees	296,192
Total Operating Revenues	6,673,728
Operating Expenses:	
Curbside recycling program	960,144
Drop-off recycling program	104,743
Transfer system operations	1,970,582
Landfill disposal	769,281
Compost facility operations	1,052,332
Special projects	201,646
Convenience centers operations	638,930
Household chemical services	316,674
Administrative services	584,681
Total Operating Expenses	6,599,013
Operating Income	74,715
Nonoperating Revenues (Expense):	
Gain on disposal of capital assets	169,018
Investment income	25,695
Interest expense	(141)
Total Nonoperating Revenues	194,572
Change in net position	269,287
Net position, beginning of year	5,298,572
Net position, end of year	$ 5,567,859

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

VIRGINIA PENINSULAS PUBLIC SERVICE AUTHORITY
STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2017

Cash flows from operating activities:		
Receipts from customers and users	$	6,687,138
Payments to suppliers for goods and services		(3,841,346)
Payments to employees		(2,408,154)
Net cash provided by operating activities		437,638
Cash from capital and related financing activities:		
Proceeds from disposal of capital assets		169,018
Purchase of capital asset		(1,786,030)
Interest paid		(141)
Net cash used in capital and related financing activities		(1,617,153)
Cash flows from investing activities:		
Net increase in investments		(379,028)
Investment income		25,695
Net cash used in investing activities		(353,333)
Net decrease in cash and cash equivalents		(1,532,848)
Cash and cash equivalents, beginning of year		2,239,944
Cash and cash equivalents, end of year	$	707,096
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$	74,715
Adjustments:		
Depreciation		392,790
Change in:		
Accounts receivable		(27,151)
Prepaids		(105)
Net pension asset and related deferrals		(49,008)
Accounts payable and accrued liabilities		(168)
Compensated absences and accrued salaries		6,004
Unearned revenue		40,561
Net cash provided by operating activities	$	437,638

Note 1—Organization and nature of business

Virginia Peninsulas Public Service Authority (the "Authority") was created pursuant to the Virginia Water and Sewer Authorities Act, Chapter 28, Title 15.1, Code of Virginia (1950), as amended (the "Act"). The Authority is governed by a board consisting of 10 members, appointed by the governing body of his or her political subdivision. The political subdivisions, which are members of the Authority, the Cities of Hampton, Poquoson, and Williamsburg, and the Counties of Essex, James City, King and Queen, King William, Mathews, Middlesex, and York.

The Authority was formed to develop regional refuse collection, waste reduction, and disposal alternatives with the ultimate goal of acquiring, financing, constructing and/or operating, and maintaining a regional residential, commercial, and industrial garbage and refuse collection and disposal system or systems, and to develop and maintain a regional information base pertaining to solid waste issues, all pursuant to the provisions of the Act. Specific projects will be identified by the Authority and implemented through the agreements with and among the member jurisdictions. Each member jurisdiction shall have the option of participating in a particular project of the Authority, and only the jurisdictions participating in such project shall be obligated to fund it.

Note 2—Summary of significant accounting policies

Financial Reporting Entity - These financial statements present the financial position and activities of Virginia Peninsulas Public Service Authority. The Authority's services are classified as business-type activities (Proprietary Fund). Therefore, the measurement focus is upon the determination of operating income, changes in net position, and cash flows. Generally accepted accounting principles applicable to the Authority are those similar to those used in the private sector.

Credit Risk and Concentrations - Financial instruments which potentially subject the Authority to concentration of credit risk consist principally of cash and cash equivalents, investments and accounts receivable from member jurisdictions. The Authority places its cash and cash equivalents and investments with two high credit quality institutions and limits the amount of credit exposure to any one of those financial institutions. At June 30, 2017, there was approximately $456,000 of the Authority's cash and cash equivalents in excess of the insurance provided by the Federal Deposit Insurance Corporation (FDIC), on deposit in the Authority's bank accounts. These funds, and the Authority's investments, however, were properly collateralized in accordance with the Virginia Security for Public Deposits Act. With respect to accounts receivable from member jurisdictions, the Authority's members are cities and counties throughout the middle and south peninsulas of Virginia. Historically, all receivables have been collected.

A substantial portion of the Authority's 2017 revenue and receivables was derived from contracts with the political subdivisions, which are members of the Authority. Therefore, the Authority is vulnerable to the economic and political conditions within the market in which it operates.

At June 30, 2017, the Authority had a concentration with three member jurisdictions that made up approximately 60% of all accounts receivable. Also, at June 30, 2017, the Authority had a concentration with three vendors that made up approximately 46% of all accounts payable.

Basis of Accounting - The Authority's operations are accounted for as a proprietary fund, using the economic resources measurement focus. The financial statements are presented on the accrual basis of accounting, and under this accounting method, revenues are recognized when earned and expenses are recorded when liabilities are incurred without regard to receipt or disbursement of cash. Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Authority's principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Note 2—Summary of significant accounting policies (continued)

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

Cash and Cash Equivalents - The Authority considers all highly liquid investments (including restricted assets) with an initial maturity of three months or less to be cash and cash equivalents.

Investments - Investments are valued at the amortized cost method, which due to their nature and duration approximates fair value.

Allowance for Doubtful Accounts - The Authority evaluates its accounts receivable individually. A charge to income to absorb possible credit losses is provided when, in the opinion of management, it is appropriate. No allowance for doubtful accounts existed at June 30, 2017.

Capital Assets - Capital assets are recorded at historical cost. Capital acquisitions and improvements exceeding $5,000 are capitalized. Maintenance, repairs, and minor equipment are charged to operations when incurred. Expenses that materially change capacities or extend useful lives are capitalized. The cost of assets sold, retired, or otherwise disposed of and the related accumulated depreciation is eliminated from the account and any resulting gain or loss is included in other income on the Statement of Revenues, Expenses, and Changes in Net Position. Depreciation is provided on the straight-line method over the estimated useful lives of the related assets. Estimated useful lives are as follows:

	Years
Building and improvements	5 - 20
Office equipment	5 - 7
Operating equipment	5 - 20
Vehicles	5 - 7

Deferred Outflows and Inflows of Resources - Deferred outflows of resources represent a consumption of net position that applies to a future period and so will not be recognized as an expense until then. The Authority's deferred outflow of resources consists of pension contributions to the pension plan that were made subsequent to the measurement of the net pension asset and before the end of the reporting period. The Authority's deferred outflow of resources also includes the net difference between projected and actual earnings on pension plan investments.

Deferred inflows of resources represent an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The Authority's deferred inflow of resources represents amounts remaining to be recognized as a reduction of pension expense as a result of changes to the net pension asset for the difference between expected and actual experience. This amount is required to be recognized in the computation of pension expense using a systematic and rational method over a closed period, which will be five years.

Note 2—Summary of significant accounting policies (continued)

Compensated Absences - Authority employees are granted vacation and sick pay in varying amounts as services are provided. They may accumulate, subject to certain limitations, unused vacation and sick pay earned and, upon retirement, termination, or death, may be compensated up to 25% of accumulated sick pay and 100% of accumulated vacation pay at their then current rates of pay. The cost of accumulated accrued compensated absences including associated benefits is accounted for as a current liability on the Statement of Net Position.

Use of Restricted/Unrestricted Net Position - When an expense is incurred for purposes for which both restricted an unrestricted net position is available, the Authority’s policy is to apply restricted net position first.

Note 3—Cash and cash equivalents and investments

The Authority’s cash and investments at June 30, 2016 consisted of:

Deposits:	
Demand deposits	$ 706,546
Cash on hand	550
	707,096
Investments:	
Commonwealth's Local Government Investment Pool (LGIP) - rated AAAm by *Standard & Poor's*	3,554,118
Total deposits and investments	$ 4,261,214

Reconciliation to statement of net position

Current:	
Cash and cash equivalents	$ 707,096
Investments	3,554,118
	$ 4,261,214

Deposits with banks are covered by the FDIC and collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.2-4400 et. seq. of the Code of Virginia.

Statutes authorize local governments and other public bodies to invest in obligations of the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, obligations of the International Bank for Reconstruction and Development (World Bank), the Asian Development Bank, the African Development Bank, “prime quality” commercial paper and certain corporate notes, banker‘s acceptances, repurchase agreements, and the State Treasurer‘s LGIP. LGIP is managed in accordance with the “2a7 like pool” risk limiting requirements of GAAP with the portfolio securities valued by the amortized cost method. The fair value of the Authority’s position in the LGIP is the same as the pool shares and is measured in accordance with GAAP at amortized costs.

Note 4—Capital assets

Capital asset activity consisted of the following:

	Balance, July 1, 2016	Additions	Reductions	Balance, June 30, 2017
Capital assets not being depreciated:				
Construction in progress	$ -	$ 12,602	$ -	$ 12,602
Total capital assets not depreciated	-	12,602	-	12,602
Capital assets being depreciated:				
Building and improvements	2,614,868	7,263	-	2,622,131
Office equipment	34,695	-	(26,108)	8,587
Operating equipment	4,039,451	1,125,486	(583,309)	4,581,628
Vehicles	1,666,344	640,679	(348,713)	1,958,310
Total capital assets being depreciated	8,355,358	1,773,428	(958,130)	9,170,656
Less accumulated depreciation:				
Building and improvements	2,553,152	8,066	-	2,561,218
Office equipment	27,877	1,704	(26,108)	3,473
Operating equipment	3,651,257	224,606	(583,309)	3,292,554
Vehicles	1,502,675	158,414	(348,713)	1,312,376
Total accumulated depreciation	7,734,961	392,790	(958,130)	7,169,621
Total capital assets being depreciated, net	620,397	1,380,638	-	2,001,035
Capital assets - net	$ 620,397	$ 1,393,240	$ -	$ 2,013,637

Depreciation expense was charged as follows:

Operating activities:	
Administrative services	$ 3,886
Compost facility operations	178,959
Convenience centers operations	42,909
Household chemical services	2,208
Transfer stations operations	164,828
Total depreciation expense	$ 392,790

Note 5—Unearned revenue

Unearned revenue consists of prepayments of fees by participating jurisdictions as follows:

Landfill disposal fees	$	469,057
Recycling fees		261,349
Household chemical disposal fees		43,535
Total unearned revenue	$	773,941

Note 6—Operating lease

The Authority leases land and the use of a weigh scale under a ground lease agreement with York County for operation of a yard waste composting facility. The lease expires on July 1, 2023. The lease provides for an annual rent increase in an amount equal to the previous lease year's annual rent, multiplied by a percentage equal to the average percentage change from the prior year in the assessed value of all real property located in York County as determined by the York County Real Estate Assessment Department. Due to the volatility of this calculation, only the base amount of the lease is disclosed below. Under the terms of related facility operating agreements, the three jurisdictions participating in the facility are required to pay all operating costs of the facility, including land rent and financing costs, in the form of tipping fees.

Under the terms of the operating lease, future minimum rent payments are as follows:

2018	$	115,075
2019		115,075
2020		115,075
2021		115,075
2022		115,075
2023		115,075
	$	690,450

Land and weigh scale rent expense for 2017 was $153,123 and is included in compost facility operations as host fees.

Note 7—Board-designated equipment reserve

During 2017, the Board designated an additional $280,000 of unrestricted net position for use in vehicle and equipment replacement for the Authority. Interest earned on the underlying investment was $24,408 and is included in additions to the reserve. Additional funds in the amount of $3,335 were added from the sale of old equipment and vehicles and are included in additions to the reserve. A total of $1,580,841 was withdrawn from the reserves to pay for new equipment in the current year for the transfer system and is included in reductions to the reserve. Such funds are invested as described in Note 3. Activity in the Board-designated equipment reserve fund is summarized as follows:

	Balance, July 1, 2016	Additions	Reductions	Balance, June 30, 2017
Administrative services	$ 43,453	$ 329	$ -	$ 43,782
Compost facility operations	1,304,856	150,574	(400,249)	1,055,181
Convenience centers operations	495,786	31,393	(186,685)	340,494
Transfer station operations	893,939	123,102	(993,907)	23,134
Vehicle maintenance facility fund	310,378	2,345	-	312,723
	$ 3,048,412	$ 307,743	$ (1,580,841)	$ 1,775,314

Note 8—Contingent liability

The Virginia Department of Environmental Quality (the “Department”) has determined that the Authority must comply with the requirements pursuant to the Virginia Financial Assurance Regulations for Solid Waste Disposal, Transfer and Treatment Facilities (the “Regulation”). Under the Regulation, owners or operators of compost facilities must provide and maintain a financial mechanism or combination of mechanisms demonstrating financial assurance for the closure costs, if applicable, the post closure care and corrective action costs associated with these facilities. The intent of the Regulation is to ensure that in the event such facilities are abandoned, the costs associated with closure, post closure, or corrective action are borne by the operator abandoning the facility and not the Commonwealth of Virginia. The Department requires the operator to submit a detailed written cost estimate, in current dollars, of the costs of closing the facility in accordance with the requirements. At June 30, 2017, the Authority has estimated these costs to be $39,222. Funding of these costs will come from current year operating revenues.

Note 9—Pension plan

Plan Description - The Authority participates in an agent multiple employer plan administered by the Virginia Retirement System ("VRS"). All full-time, salaried permanent employees of participating employers are automatically covered by the VRS Retirement Plan upon employment. Members earn one month of service credit for each month they are employed and they and their employer are paying contributions to VRS. Members are eligible to purchase prior public service, based on specific criteria 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.

VRS administers three different benefit structures for covered employees – Plan 1, Plan 2, and Hybrid. Each of these benefit structures has 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:

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

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

VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
Creditable Service Credible 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 credible service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.	**Creditable Service** Same as VRS Plan 1.	**Creditable Service** **Defined Benefit Component:** Under the defined benefit component of the plan, credible 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 credible service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit. **Defined Contributions Component:** Under the defined contribution component, credible service is used to determine vesting for the employer contribution portion of the plan.
Vesting Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least five years (60 months) of creditable service. Vesting means members are eligible to qualify for retirement if they meet the age and service requirements for their plan. Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund. Members are always 100% vested in the contributions that they make.	**Vesting** Same as VRS Plan 1.	**Vesting** **Defined Benefit Component:** Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years (60 months) of creditable service. VRS Plan 1 or VRS Plan 2 members with at least five years (60 months) of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component. **Defined Contributions Component:** Defined contribution vesting refers to minimum length of service a

VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
		member needs to be eligible to withdraw the employer contributions from the defined contribution component of plan. Members are always 100% vested in contributions they make. Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service. • After two years, a member is 50% vested and may withdraw 50% of employer contributions. • After three years, a member is 75% vested and may withdraw 75% of employer contributions. • After four or more years, a member is 100% vested and may withdraw 100% of employer contributions. Distribution is not required by law until age 70½.
Calculating the Benefit The Basic Benefit is calculated based on a formula using the member's average final compensation, a retirement multiplier and total service credit at retirement. It is one of the benefit payout options available to a member at retirement. An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit.	**Calculating the Benefit** See definition under VRS Plan 1.	**Calculating the Benefit** **Defined Benefit Component:** See definition under VRS Plan 1 **Defined Contribution Component:** The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions.
Average Final Compensation A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.	**Average Final Compensation** A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.	**Average Final Compensation** Same as VRS Plan 2. It is used in the retirement formula for the defined benefit component of the plan.

VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
Service Retirement Multiplier The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.7%.	**Service Retirement Multiplier** Same as Plan1 for service earned, purchased or granted prior to January 1, 2013. For non-hazardous duty members the retirement multiplier is 1.65% for creditable service earned, purchased or granted on or after January 1, 2013.	**Service Retirement Multiplier** **Defined Benefit Component:** The retirement multiplier is 1.0%. For members that opted into the Hybrid Retirement Plan from VRS Plan 1 or VRS Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans. **Defined Contribution Component:** Not applicable.
Normal Retirement Age VRS: Age 65.	**Normal Retirement Age VRS:** Normal Social Security retirement age.	**Normal Retirement Age VRS:** **Defined Benefit Component:** Same as Plan 2. **Defined Contribution Component:** Members are eligible to receive distributions upon leaving employment, subject to restrictions.
Earliest Unreduced Retirement Eligibility VRS: Age 65 at least 5 years (60 months) of creditable service or at age 50 with at least 30 years of creditable service.	**Earliest Unreduced Retirement Eligibility VRS:** Normal Social Security retirement age with at least five years (60 months) of creditable service or when their age and service equal 90.	**Earliest Unreduced Retirement Eligibility** **Defined Benefit Component:** **VRS:** Normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90. **Defined Contribution Component:** Members are eligible to receive distributions upon leaving employment, subject to restrictions.
Earliest Reduced Retirement Eligibility **VRS:** Age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service.	**Earliest Reduced Retirement Eligibility** **VRS:** Age 60 with at least five years (60 months) of creditable service.	**Earliest Reduced Retirement Eligibility** **Defined Benefit Component:** **VRS:** As early as age 60 with at least five years (60 months) of creditable service. **Defined Contribution Component:** Members are eligible to receive distributions upon leaving employment, subject to restrictions.

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

VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins.		
Disability Coverage Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.7% on all service, regardless of when it was earned, purchased or granted. Virginia Sickness and Disability Program (VSDP) members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.	**Disability Coverage** Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service, regardless of when it was earned, purchased or granted. VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.	**Disability Coverage** Employees of political subdivisions (including VRS Plan 1 and VRS Plan2 opt-ins) participate in the Virginia Local Disability Program (VLDP) unless their local governing body provides and employer-paid comparable program for its members. Hybrid members (including VRS Plan 1 and VRS Plan 2 opt-ins) covered under VLDP are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.
Purchase of Prior Service Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as creditable service in their plan. Prior creditable service counts toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. When buying service, members must purchase their most recent period of service first. Members also may be eligible to purchase periods of leave without pay.	**Purchase of Prior Service** Same as VRS Plan 1.	**Purchase of Prior Service** **Defined Benefit Component:** Same as VRS Plan 1, with the following exceptions: • Hybrid Retirement Plan members are ineligible for ported service. • The cost for purchasing refunded service is the higher of 4% of creditable compensation or average final compensation. • Plan members have one year from their date of hire or return from leave to purchase all but refunded prior service at approximate normal cost. After that one-year period, the rate for most categories of service will change to actuarial cost. **Defined Contribution Component:** Not applicable.

VRS issues a publicly available Comprehensive Annual Financial Report (CAFR) that includes financial statements and required supplementary information for the plans administered by VRS. A copy of the most recent report may be obtained from the VRS website at http://www.varetire.org, or by writing to VRS' Chief Financial Officer at P.O. Box 2500, Richmond, Virginia, 23218-2500.

Note 9—Pension plan (continued)

Employees Covered by Benefit Terms - As of June 30, 2015, the most recent actuarial valuation, the following employees of the Authority were covered by the benefit terms of the pension plan:

	Number
Inactive members or their beneficiaries currently receiving benefits	13
Inactive members:	
Vested	8
Non-vested	30
Active elsewhere in VRS	7
Total inactive members	45
Active members	45
Total covered employees	103

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.

The Authority's contractually required contribution rate for the year ended June 30, 2017 was 4.45% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2016. This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the Authority were $67,540 for the year ended June 30, 2017.

Net Pension Asset - The Authority's net pension asset, measured as of June 30, 2016, was $201,203 as of June 30, 2017. The total pension asset/liability used to calculate the net pension asset was determined by an actuarial valuation performed as of June 30, 2015, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2016.

Note 9—Pension plan (continued)

Actuarial Assumptions - The total pension asset/liability for the plan was based on an actuarial valuation as of June 30, 2015, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2016.

	General Employees
Investment rate of return*	7.00%
Projected salary increases	3.50% – 5.35%
Includes inflation at	2.50%
Mortality rates: percentage of deaths to be service related	14.00%
Pre-retirement	RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set forward 2 years and females set back 3 years.
Post-retirement	RP-2000 Combined Mortality Table Projected with Scale AA to 2020 with females set back 1 year.
Post-disablement	RP-2000 Disability Life Mortality Table Projected to 2020 with males set back 3 years and no provision for future mortality improvement.
The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period from July 1, 2008 through June 30, 2012. The following are the changes to the actuarial assumptions as a result of the experience study.	Updated mortality table Decrease in rates of service retirement Decrease in rates of disability retirement Reduced rate of salary increase by 0.25% per year

**Investment rate of return is reflected net of pension plan investment expense, including inflation.*

Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GAAP purposes of slightly more than the assumed 7.00%. However, since the difference was minimal, and a more conservative 7.00% 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 7.00% to simplify preparation of pension liabilities.

Note 9—Pension plan (continued)

Long-Term Expected Rate of Return - The long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which the best-estimate ranges of expected future real rates of return (expected returns, net of pension plan 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:

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

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

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

Note 9—Pension plan (continued)

Changes in Net Pension Asset - The following tables represent the changes in net pension asset through the plan's measurement date of June 30, 2016 for the Authority.

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Asset
Balance, July 1, 2015	$ 3,860,448	$ 4,208,871	$ (348,423)
Changes for the year:			
Service cost	159,710	-	159,710
Interest	267,669	-	267,669
Difference between expected and actual experience	(39,883)	-	(39,883)
Contributions - employer	-	93,258	(93,258)
Contributions - employee	-	72,078	(72,078)
Net investment income	-	77,521	(77,521)
Benefit payments, including refunds of employee contributions	(73,212)	(73,212)	-
Administrative expense	-	(2,549)	2,549
Other changes	-	(32)	32
Net changes	314,284	167,064	147,220
Balance, June 30, 2016*	$ 4,174,732	$ 4,375,935	$ (201,203)

**Figures have been rounded on the statement of net position*

Sensitivity of the Net Pension Asset to Changes in the Discount Rate - The following table presents the net pension asset of the Authority, calculated using the plan's current discount rate, as well as what the respective plan's net pension asset would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate.

	1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
Net pension (asset) liability	$ 361,766	$ (201,203)	$ (673,260)

Note 9—Pension plan (continued)

Pension Expense and Deferred Outflows/(Inflows) of Resources - Pension expense recognized for the year ended June 30, 2017, and the reported deferred outflows and inflows of resources related to pensions at June 30, 2017, were as follows:

Pension expense	$	18,657
Deferred inflows:		
Difference between expected and actual experience	$	58,000
Net difference between projected and actual earnings on pension plan investments	$	119,000
Deferred outflows:		
Net difference between projected and actual earnings on pension plan investments	$	233,000
Employer contributions subsequent to the measurement date	$	67,540

Deferred outflows of resources resulting from contributions made subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported in the deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30,		Amount
2018	$	(41,000)
2019		(9,000)
2020		62,000
2021		44,000
	$	56,000

Payables to the Pension Plan - At June 30, 2017, the Authority had no outstanding payables for required contributions to the pension for the year ended June 30, 2017.

Note 10—Deferred compensation plan

The Authority offers a deferred compensation plan covering substantially all full-time employees. The purpose of the plan is to provide retirement income and other deferred benefits to employees in accordance with the provisions of Section 457 of the Internal Revenue Code. The Authority did not contribute to the plan in 2017.

REQUIRED SUPPLEMENTARY INFORMATION

VIRGINIA PENINSULAS PUBLIC SERVICE AUTHORITY
SCHEDULES OF CHANGES IN NET PENSION ASSET AND RELATED RATIOS AND EMPLOYER CONTRIBUTIONS (UNAUDITED) - VIRGINIA RETIREMENT SYSTEM

JUNE 30, 2017

Schedules of Changes in Net Pension Asset and Related Ratios

	June 30, 2017	June 30, 2016	June 30, 2015
Total Pension Liability			
Service cost	$ 159,710	$ 167,557	$ 172,445
Interest	267,669	250,316	226,970
Difference between expected and actual experience	(39,883)	(95,373)	-
Benefit payments, including refunds of member contributions	(73,212)	(76,000)	(55,777)
Net change in total pension liability	314,284	246,500	343,638
Plan total pension liability - beginning	3,860,448	3,613,948	3,270,310
Plan total pension liability - ending	4,174,732	3,860,448	3,613,948
Plan Fiduciary Net Pension			
Contributions - employer	93,258	90,274	118,560
Contributions - employee	72,078	69,839	74,872
Net investment income	77,521	184,457	531,210
Benefit payments, including refunds of member contributions	(73,212)	(76,000)	(55,777)
Administrative expense	(2,549)	(2,406)	(2,718)
Other changes	(32)	(40)	28
Net change in plan fiduciary net position	167,064	266,124	666,175
Plan fiduciary net position - beginning	4,208,871	3,942,747	3,276,572
Plan fiduciary net position - ending	4,375,935	4,208,871	3,942,747
Plan net pension asset - ending	$ (201,203)	$ (348,423)	$ (328,799)
Covered-employee payroll	$ 1,519,405	$ 1,464,479	$ 1,419,616
Plan net position asset as a percentage of covered-employee payroll	-13.24%	-23.79%	-23.16%

Notes to Schedule:
There have been no significant changes to the benefit provisions since the prior actuarial valuation.

Schedules of Employer Contributions

	June 30, 2017	June 30, 2016	June 30, 2015
Actuarially determined contribution	$ 93,258	$ 90,274	$ 90,274
Contribution in relation to actuarially determined contribution	93,258	90,274	90,274
Contribution excess	$ -	$ -	$ -
Covered-employee payroll	$ 1,519,405	$ 1,464,479	$ 1,419,616
Contributions as a percentage of covered-employee payroll	6.14%	6.16%	6.36%

Notes to Schedule:
Actuarially determined contributions are developed using the entry age normal actuarial cost method. There have been no changes to the benefit provisions since the prior actuarial valuation.

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial cost method	Entry age normal
Amortization method	Level percent closed
Amortization period	30 years
Asset valuation method	5-year smoothed market
Inflation rate	2.50%
Projected salary increases	3.5% - 5.35% per annum, compounded annually
Investment rate of return	7.0% per annum, compounded annually

**GASB 68 requires 10-year trend information, As fiscal year 2015 was the year of implementation, additional years will be displayed as the information becomes available.*

OTHER SUPPLEMENTARY INFORMATION

VIRGINIA PENINSULAS PUBLIC SERVICE AUTHORITY
SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION BY PROGRAM/SERVICE

YEAR ENDED JUNE 30,2017

	Curbside Recycling Program	Drop-off Recycling Program	Transfer System Operations	Landfill Disposal	Compost Facility Operations	Special Projects	Convenience Centers Operations	Household Chemical Services	Commercial Waste Collection	Vehicle Maintenance Facility	Administrative Services	Total
Operating Revenues:												
Fees from member jurisdictions:												
Curbside recycling program	$ 960,144	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 960,144
Drop-off recycling program	-	123,585	-	-	-	-	-	-	-	-	-	123,585
Transfer system operations	-	-	1,573,565	-	-	-	-	-	-	-	-	1,573,565
Landfill disposal	-	-	-	769,281	-	-	-	-	-	-	-	769,281
Compost facility operations	-	-	-	-	597,667	-	-	-	-	-	-	597,667
Material sales	-	10,962	86,089	-	404,874	-	-	-	-	-	-	501,925
Computer recycling services	-	-	-	-	-	10,185	-	-	-	-	-	10,185
Groundwater monitoring	-	-	-	-	-	181,428	-	-	-	-	-	181,428
Tire recycling services	-	-	-	-	-	3,115	-	-	-	-	-	3,115
Convenience centers operations	-	-	-	-	-	-	673,080	-	-	-	-	673,080
Household chemical services	-	-	-	-	-	-	-	317,122	-	-	-	317,122
Administrative	-	-	-	-	-	-	-	-	-	-	115,000	115,000
Project overhead	-	-	-	-	-	-	-	-	-	-	551,439	551,439
Miscellaneous and other fees	-	13,690	198,237	-	71,650	-	13	-	-	12,602	-	296,192
Total Operating Revenues	960,144	148,237	1,857,891	769,281	1,074,191	194,728	673,093	317,122	-	12,602	666,439	6,673,728
Operating Expenses:												
Advertising	510	-	4,072	-	6,102	1,166	1,610	3,263	-	-	2,003	18,726
Contracted services	894,989	-	12,680	722,870	1,329	179,694	-	226,887	-	-	49	2,038,498
Depreciation	-	-	164,828	-	178,959	-	42,909	2,208	-	-	3,886	392,790
Equipment and vehicle	-	36,000	151,114	-	81,083	-	(7,075)	11,994	-	-	7,874	280,990
Host fees	-	-	-	-	153,123	-	-	-	-	-	-	153,123
Insurance	-	77	17,357	-	13,189	5,973	-	1,337	-	-	6,871	44,804
Material processing	-	-	-	-	-	-	-	-	-	-	-	-
Miscellaneous	-	-	3,904	-	3,693	380	537	-	-	-	12,478	20,992
Office	-	-	4,366	-	2,569	-	1,209	477	-	-	14,917	23,538
Professional services	-	-	-	-	21,812	-	-	-	-	-	48,370	70,182
Project overhead	64,645	16,639	197,247	46,411	126,781	14,433	75,261	22,145	-	-	-	563,562
Rent and utilities	-	-	26,693	-	5,645	-	20,741	550	-	-	40,636	94,265
Repairs and maintenance	-	-	271,051	-	81,325	-	15,515	1,613	-	-	501	370,005
Returned funds	-	-	35,000	-	-	-	-	-	-	-	-	35,000
Recycling - oil and antifreeze	-	-	7,285	-	-	-	8,936	-	-	-	-	16,221
Salaries and benefits	-	44,027	1,034,885	-	345,310	-	466,602	44,475	-	-	429,851	2,365,150
Telephone	-	-	16,953	-	6,140	-	6,492	79	-	-	10,388	40,052
Travel	-	-	1,990	-	990	-	136	456	-	-	2,680	6,252
Uniforms and supplies	-	8,000	21,157	-	24,282	-	6,057	1,190	-	-	4,177	64,863
Total Operating Expenses	960,144	104,743	1,970,582	769,281	1,052,332	201,646	638,930	316,674	-	-	584,681	6,599,013
Operating Income (Loss)	-	43,494	(112,691)	-	21,859	(6,918)	34,163	448	-	12,602	81,758	74,715
Nonoperating Revenues (Expense):												
Gain on sale of capital asset	-	-	76,789	-	87,380	-	4,849	-	-	-	-	169,018
Interest income	-	-	9,637	-	15,335	-	-	-	-	-	723	25,695
Interest expense	-	-	(10)	-	-	-	-	-	-	-	(131)	(141)
Total Nonoperating Revenues, net	-	-	86,416	-	102,715	-	4,849	-	-	-	592	194,572
Change in net position	-	43,494	(26,275)	-	124,574	(6,918)	39,012	448	-	12,602	82,350	269,287
Net position, beginning of year	(46,288)	135,575	574,156	76,501	2,798,420	3,381	791,277	153,873	5,285	-	806,392	5,298,572
Net position, end of year	$ (46,288)	$ 179,069	$ 547,881	$ 76,501	$ 2,922,994	$ (3,537)	$ 830,289	$ 154,321	$ 5,285	$ 12,602	$ 888,742	$ 5,567,859

COMPLIANCE SECTION

Cherry Bekaert LLP
CPAs & Advisors

Report of Independent Auditor 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
Virginia Peninsulas Public Service Authority

We have audited, in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and *Specifications for Audits of Authorities, Boards, and Commissions* issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the Virginia Peninsulas Public Service Authority (the "Authority"), as of and for the year ended June 30, 2017, and the related notes to the financial statements and have issued our report thereon dated September 29, 2017.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Cherry Bekaert LLP

Virginia Beach, Virginia
September 29, 2017