

Southeastern Public Service Authority of Virginia

Financial Statements

Years Ended June 30, 2017 and 2016

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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 (Authority) of Virginia, as of and for the years ended June 30, 2017 and 2016, 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.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits 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 Authority'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 Authority'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 Authority as of June 30, 2017 and 2016, and the changes in financial position and cash flows for the years 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 information on pages 3 through 9, Schedule of Funding Progress on page 46, and the Schedule of Changes in Net Pension Liability and related ratios and Schedule of Contributions on pages 47 - 49 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 November 28, 2017, on our consideration of the the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Dixon Hughes Goodman LLP

**Newport News, Virginia
November 28, 2017**

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, 2017. 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 2017 was \$29,525,523 representing an increase of \$6,772,629 from fiscal year 2016.
- The municipal tipping fee remains at \$125 per ton.
- The Authority experienced a slight decrease in the municipal waste stream of approximately 2,749 tons or 0.7%.
- As of June 30, 2017, the principal of bonded debt outstanding was approximately \$9.9 million compared to the \$20.67 million outstanding at the end of the previous fiscal year.

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 \$29,525,523 as compared to the previous year's net position of \$22,752,894. 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 decreased slightly to approximately \$18 million at the end of fiscal year 2017 from approximately \$18.7 million at the end of fiscal year 2016. The decrease is due to an increase in the restricted portion of cash as it relates to the landfill closure financial assurance requirements. These amounts include a \$10 million operating reserve in each fiscal year.

The following table presents a condensed summary of net position as of June 30, 2017, 2016 and 2015.

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Assets and deferred outflows of resources:			
Current and other assets	\$ 37,175,965	\$ 39,890,630	\$ 37,149,254
Capital assets - net	25,714,646	27,543,544	29,626,836
Deferred outflows of resources	1,283,844	904,382	996,162
Total assets and deferred outflows of resources	<u>\$ 64,174,455</u>	<u>\$ 68,338,556</u>	<u>\$ 67,772,252</u>
Liabilities and deferred inflows of resources:			
Current liabilities	\$ 16,226,602	\$ 16,793,653	\$ 10,646,504
Long-term liabilities	18,286,013	27,522,994	37,600,947
Deferred inflows of resources	136,317	1,269,015	2,820,232
Total liabilities and deferred inflows of resources	<u>34,648,932</u>	<u>45,585,662</u>	<u>51,067,683</u>
Net position:			
Invested in capital assets, net of related debt	15,881,172	7,070,375	5,976,704
Restricted	15,411,830	15,124,172	9,097,328
Unrestricted	(1,767,479)	558,347	1,630,537
Total net position	<u>29,525,523</u>	<u>22,752,894</u>	<u>16,704,569</u>
Total liabilities and deferred inflows of resources and net position	<u>\$ 64,174,455</u>	<u>\$ 68,338,556</u>	<u>\$ 67,772,252</u>

Net assets invested in capital assets, such as land, buildings and equipment, net of related debt is approximately \$15.9 million as compared to approximately \$7 million in the prior fiscal year. The increase is due to the paydown of bonds associated with capital assets.

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 10 to the basic financial statements for more information.

The unrestricted portion of net position decreased to (\$1,767,479) as compared to \$558,347 in the prior year. This decrease is largely due to the reduction in the tip fee stabilization fund discussed herein.

Summary of Revenues, Expenses and Changes in Net Position

The Authority's net position increased in fiscal year 2017 by approximately \$6.8 million generally due to an overall decrease in expenses primarily due to the end of the Ash & Residue Agreement with Virginia Beach and its corresponding rebate in tip fees paid which are recorded as an expense. It is important to note that a large portion of the \$6.8 million increase is restricted for future debt service payments. The Authority pays its annual debt service in equal monthly installments to the bond trustee in advance of the due date to bondholders. Operating revenues decreased \$792,059 as compared to the previous year due to a decline in municipal waste. 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:

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Operating revenue:			
Municipal tipping fees	\$ 42,861,141	\$ 44,029,345	\$ 42,869,861
Other tipping fees	3,010,843	2,619,052	2,246,759
Other operating revenue	<u>932,517</u>	<u>948,163</u>	<u>1,025,891</u>
Total operating revenue	<u>46,804,501</u>	<u>47,596,560</u>	<u>46,142,511</u>
Operating expenses:			
Personnel	8,521,470	8,083,027	8,445,184
Depreciation and amortization	2,859,285	3,975,772	4,257,597
Routine maintenance operations	3,124,831	2,878,016	2,953,534
Ash and residue agreement	-	5,046,780	9,790,243
Wheelabrator service contract	18,589,450	18,614,921	15,491,594
Other operating expenses	<u>6,484,922</u>	<u>2,937,155</u>	<u>2,848,211</u>
Total operating expenses	<u>39,579,958</u>	<u>41,535,671</u>	<u>43,786,363</u>
Operating income	<u>7,224,543</u>	<u>6,060,889</u>	<u>2,356,148</u>
Nonoperating revenue (expense):			
Gain on the sale of assets	10,080	51,426	110,950
Investment income	172,121	239,490	109,037
Interest and debt related expense	(1,314,474)	(1,274,817)	(2,023,381)
Other income (expense), net	<u>680,359</u>	<u>971,337</u>	<u>811,846</u>
Total nonoperating expense	<u>(451,914)</u>	<u>(12,564)</u>	<u>(991,548)</u>
Change in net position	<u>6,772,629</u>	<u>6,048,325</u>	<u>1,364,600</u>
Net Position:			
Beginning of year	<u>22,752,784</u>	<u>16,704,569</u>	<u>15,339,969</u>
End of year	<u>\$ 29,525,523</u>	<u>\$ 22,752,894</u>	<u>\$ 16,704,569</u>

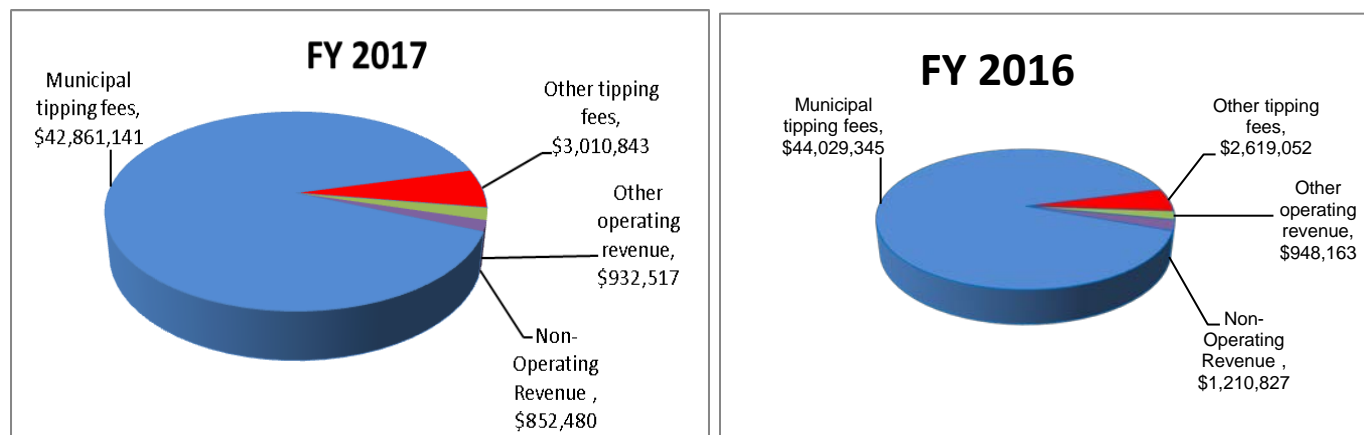
Municipal tip fees declined approximately \$1.2 million due to a decline in tons. It is important to note that the municipal tipping fees exclude the rebate that was paid to the City of Virginia Beach for tipping fees paid in excess of a capped rate, as established in the ash and residue agreement. The City of Virginia Beach is the largest of the Authority's eight member communities, providing approximately 33% of the municipal waste quantities. 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 pays no tipping fee). 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. Please see Note 6 to the basic financial statements for more details on the ash and residue agreement.

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

Other operating revenue represents approximately 2% of total operating revenues during 2017 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.

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

The following graph illustrates the major revenues by source for the fiscal years ending June 30, 2017 and 2016:



The Authority's operating expenses decreased approximately 4.7% or \$1.96 million in comparison to the prior fiscal year. This decrease is attributed to the end of the Ash & Residue Agreement with the City of Va. Beach and a reduction in depreciation and amortization expenses netted against credits provided to member communities from the tip fee stabilization fund.

Personnel costs increased by \$438,443 primarily due to an increase in overtime and increased costs for employee health insurance. Depreciation expense decreased in fiscal year 2017 as a result of several assets being fully depreciated. Routine maintenance increased by \$246,815 for increased maintenance costs associated with the leachate pump stations at the Regional Landfill.

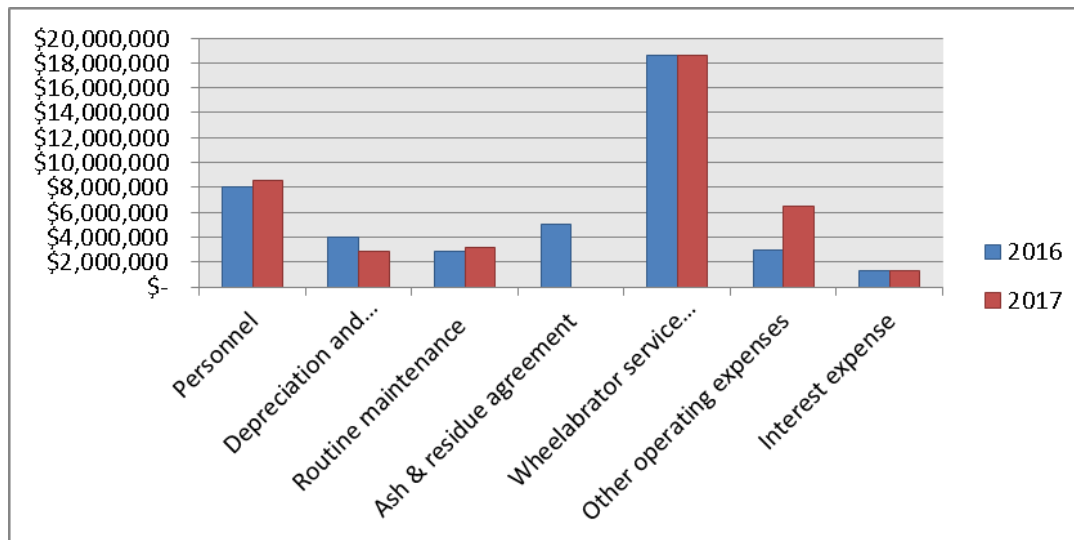
In January 2017, it was determined that there was an unusually high level of leachate in cells V and VI at the Regional Landfill. The Virginia Department of Environmental Quality was notified immediately and a corrective action plan was implemented shortly thereafter. A third party was contracted to 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 \$25,417 as compared to the prior year. The Authority receives various credits against its invoice to Wheelabrator. In FY 2017, the Authority received approximately \$635,000 in credits for accepting diverted waste at the Regional Landfill. Please see Note 9 to the basic financial statements for more information.

Other operating expenses increased by approximately \$3.5 million primarily due to the distribution of the tip fee stabilization fund which was applied as credits to member communities' monthly invoices.

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

The following graph illustrates the expenses by category for the fiscal years ending June 30, 2017 and 2016:



Capital Assets

At the end of 2017, the Authority had \$25.7 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 decrease (net of additions and deductions) of approximately \$1.8 million, or approximately 7% less than last year, primarily due to the disposition of the fully depreciated equipment previously used in a metals recovery program operated by the Bi-Metals Corporation. This program ended in June 2015. The details of capital asset values for the various categories are included in Note 4 of the basic financial statements.

A summary of capital assets for fiscal years 2017 and 2016 is presented below:

	Balance July 1, 2016	Increases	Decreases	Balance June 30, 2017
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	31,905,103	931,082	(1,889,302)	30,946,883
Total capital assets	142,055,394	1,030,387	(1,910,172)	141,175,609
Accumulated depreciation	114,511,850	2,859,285	(1,910,172)	115,460,963
Net capital assets	<u>\$ 27,543,544</u>	<u>\$ (1,828,898)</u>	<u>\$ -</u>	<u>\$ 25,714,646</u>

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

	Balance July 1, 2015	Increases	Decreases	Balance June 30, 2016
Land	\$ 2,646,251	\$ -	\$ -	\$ 2,646,251
Improvements (regional landfill)	64,415,852	-	-	64,415,852
Other land improvements	495,511	-	-	495,511
Buildings	42,592,677	-	-	42,592,677
Vehicles and equipment	<u>31,178,871</u>	<u>2,017,514</u>	<u>(1,290,982)</u>	<u>31,905,103</u>
Total assets	141,328,862	2,017,514	(1,290,982)	142,055,394
Accumulated depreciation	<u>111,702,026</u>	<u>3,975,772</u>	<u>(1,165,948)</u>	<u>114,511,850</u>
Total assets - less depreciation	<u>\$ 29,626,836</u>	<u>\$ (1,958,258)</u>	<u>\$ (125,034)</u>	<u>\$ 27,543,544</u>

Long Term Debt

At year-end, the Authority had a total of \$9,895,000 in bonds outstanding, versus \$20,670,000 last year, a decrease of 52%.

Summary of Outstanding Long-Term Bonds

	2017	2016
Guaranteed subordinated debt	<u>\$ 9,895,000</u>	<u>\$ 20,670,000</u>
Total outstanding debt	<u>\$ 9,895,000</u>	<u>\$ 20,670,000</u>

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

Post 2018 Developments

The Use and Support Agreements with the member jurisdictions expire in January 2018 as does the Service Agreement with Wheelabrator Portsmouth, Inc. A Post 2018 Technical Committee was formed comprised of employees from each of the eight member jurisdictions, SPSA staff and staff of the Hampton Roads Planning District Commission. As a result of the meetings, the eight member jurisdictions have each adopted a resolution supporting the continued operation of SPSA post 2018 based on certain principles. In the fall of 2014, a Use and Support Agreement Committee was formed consisting of 4 members of the Authority's Board of Directors tasked with drafting a new Use and Support Agreement in consultation with the Authority's Executive Staff and legal counsel. Following several meetings and receiving of comments from each of the member jurisdictions a final form Use & Support Agreement was adopted by the Board of Directors in May 2016 and subsequently executed by all member localities. The initial term is the later of (i) June 30, 2027 or (ii) the last day of the initial term of the Waste Disposal Agreement with RePower South (explained below), which is 15 years from the RePower commence date currently projected to end on or about March 31, 2033.

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.

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

In the fall of 2014, the Authority issued a Request for Proposal (RFP) for alternate methods of waste disposal for post 2018 versus strictly landfilling waste beginning in January 2018. The Authority received 3 responses and began negotiations with each of the proposers. In May 2016, the Authority executed a Waste Disposal Agreement with RePower South to begin January 25, 2018. RePower South will construct and operate a facility in Chesapeake, Virginia where it will accept and process the Authority's waste by reclaiming recyclable material and process the remaining waste into pellets which can be burned as a substitute fuel source in coal powered plants. The facility is being financed 100% by RePower South with no contribution, guarantee or liability from the Authority. Per the contract, RePower was to have their financing in place by the end of January 2017 or the Authority could terminate the contract. Due to continued delays, the Authority terminated the contract with RePower South in August 2017 for failure to obtain financing.

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 Authority will be issuing a new request for proposals for alternate methods of waste disposal (versus landfilling all municipal solid waste) to begin February 1, 2019.

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 Deputy 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, 2017 and 2016

	<u>2017</u>	<u>2016</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 3,820,233	\$ 3,848,371
Investments	14,210,418	14,807,458
Accounts receivable:		
Authority members	4,019,340	4,207,063
Other customers	346,418	304,582
Allowance for doubtful accounts	(5,000)	(5,000)
Accounts receivable, net	4,360,758	4,506,645
Prepaid expenses	208,177	210,051
Inventory, maintenance parts	116,635	154,120
Accrued interest receivable	39,214	33,885
Total current assets	<u>22,755,435</u>	<u>23,560,530</u>
Noncurrent assets:		
Restricted assets		
Investments	12,398,365	12,520,443
Accrued interest receivable	-	80
Total restricted assets	<u>12,398,365</u>	<u>12,520,523</u>
Capital assets, net of accumulated depreciation and depletion	25,714,646	27,543,544
Net pension asset	2,022,165	3,809,577
Total noncurrent assets	<u>40,135,176</u>	<u>43,873,644</u>
Total assets	<u>62,890,611</u>	<u>67,434,174</u>
Deferred outflow of resources:		
Deferred pension contributions	1,251,143	313,487
Deferred charge on refunding	32,701	590,895
Total deferred outflow of resources	<u>1,283,844</u>	<u>904,382</u>
	<u>\$ 64,174,455</u>	<u>\$ 68,338,556</u>

See accompanying notes.

Southeastern Public Service Authority of Virginia
Statements of Net Position
June 30, 2017 and 2016

(Continued)

	<u>2017</u>	<u>2016</u>
LIABILITIES AND NET POSITION		
Liabilities:		
Current liabilities, payable from current assets:		
Accounts payable	\$ 4,639,611	\$ 3,990,457
Accrued expenses	1,477,830	1,383,118
Landfill closure and postclosure liability, current portion	152,161	394,678
Total current liabilities, payable from current assets	<u>6,269,602</u>	<u>5,768,253</u>
Current liabilities, payable from restricted assets:		
Current maturities of bonds payable	9,833,474	10,775,000
Accrued interest on revenue bonds	123,526	250,400
Total current liabilities, payable from restricted assets	<u>9,957,000</u>	<u>11,025,400</u>
Total current liabilities	<u>16,226,602</u>	<u>16,793,653</u>
Noncurrent liabilities:		
Bonds payable	-	9,698,169
Other post employment benefits	1,991,508	1,924,998
Landfill closure and postclosure care liability, noncurrent	16,294,505	15,899,827
Total noncurrent liabilities	<u>18,286,013</u>	<u>27,522,994</u>
Total liabilities	<u>34,512,615</u>	<u>44,316,647</u>
Deferred inflow of resources:		
Deferred pension investment experience	136,317	1,269,015
	<u>34,648,932</u>	<u>45,585,662</u>
Net position:		
Net investment in capital assets	15,881,172	7,070,375
Restricted for debt service	7,442,102	8,085,000
Restricted for other purposes	7,969,728	7,039,172
Unrestricted	(1,767,479)	558,347
Total net position	<u>29,525,523</u>	<u>22,752,894</u>
Total liabilities and net position	<u>\$ 64,174,455</u>	<u>\$ 68,338,556</u>

See accompanying notes.

Southeastern Public Service Authority of Virginia
Statements of Revenues, Expenses, and Changes in Net Position
Years Ended June 30, 2017 and 2016

	2017	2016
Operating revenue:		
Municipal tipping fees	\$ 42,861,141	\$ 44,029,345
Other tipping fees	3,010,843	2,619,052
Charges for household waste and tire program	611,240	582,238
Sale of methane gas	319,202	365,488
Other revenue	2,075	437
Total operating revenues	<u>46,804,501</u>	<u>47,596,560</u>
Operating expenses:		
Compensation and related payroll costs	8,521,470	8,083,027
Depreciation, depletion and amortization of intangibles	2,859,285	3,975,772
Postage, printing and supplies	37,774	37,319
Rent and utilities	379,925	369,305
Equipment fuel	547,611	484,930
Routine maintenance and vehicle operations	3,124,831	2,878,016
Nonroutine maintenance and repairs	536,637	191,052
Insurance	179,761	189,810
Virginia Beach ash disposal agreement costs	-	5,046,780
Legal and professional services	1,317,016	1,076,543
Bad debts	-	14,941
Landfill closure and postclosure care cost accrual	152,161	394,678
Wheelabrator service contract	18,589,450	18,614,921
Tip fee stabilization fund credits to localities	3,121,150	-
Other	212,887	178,577
Total operating expenses	<u>39,579,958</u>	<u>41,535,671</u>
Operating income	<u>7,224,543</u>	<u>6,060,889</u>
Nonoperating revenue (expense):		
Net gain on disposal of capital assets	10,080	51,426
Interest expense:		
Interest on long-term debt	(620,976)	(1,037,342)
Amortization of loss on defeasance	(135,305)	(158,037)
Amortization of deferred charge on refunding, discounts and premiums, net	(558,193)	(79,438)
Total nonoperating expense	<u>(1,314,474)</u>	<u>(1,274,817)</u>
Other revenue:		
Insurance recoveries	-	6,214
Investment income	172,121	239,490
Pension benefit	202,238	540,365
Other	478,121	424,758
Total other revenue	<u>852,480</u>	<u>1,210,827</u>
Net nonoperating expense	<u>(451,914)</u>	<u>(12,564)</u>
Change in net position	<u>6,772,629</u>	<u>6,048,325</u>
Total net position, beginning of year:	<u>22,752,894</u>	<u>16,704,569</u>
End of year	<u><u>\$ 29,525,523</u></u>	<u><u>\$ 22,752,894</u></u>

See accompanying notes.

Southeastern Public Service Authority of Virginia
Statements of Cash Flows
Years Ended June 30, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Receipts from customers	\$ 46,950,388	\$ 47,213,085
Payments to suppliers for operations	(27,358,529)	(30,337,458)
Payments to employees for compensation	(8,440,951)	(8,347,398)
Net cash provided by operating activities	<u>11,150,908</u>	<u>8,528,229</u>
Cash flows from capital and related financing activities:		
Purchase of capital assets	(1,030,387)	(2,017,514)
Proceeds from sale of capital assets	10,080	176,460
Proceeds from insurance recoveries	-	6,214
Principal payments on bonds payable	(10,775,000)	(3,335,000)
Interest paid	(747,850)	(1,073,084)
Other income	478,121	424,758
Net cash used in capital and related financing activities	<u>(12,065,036)</u>	<u>(5,818,166)</u>
Cash flows from investing activities:		
Proceeds from maturity and sale of investments	19,970,960	17,918,136
Payments for investments purchased	(19,251,842)	(20,013,323)
Interest and dividends received from investments	166,872	245,300
Net cash used in investing activities	<u>885,990</u>	<u>(1,849,887)</u>
Increase (decrease) in cash and cash equivalents	<u>(28,138)</u>	860,176
Cash and cash equivalents, beginning of year	<u>3,848,371</u>	<u>2,988,195</u>
Cash and cash equivalents, end of year	<u><u>\$ 3,820,233</u></u>	<u><u>\$ 3,848,371</u></u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 7,224,543	\$ 6,060,889
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation, depletion and amortization of intangibles	2,859,285	3,975,772
Postretirement medical benefit plan expense	66,510	60,787
Provision for bad debts	-	14,941
Landfill closure and postclosure care cost accrual	152,161	394,678
Changes in operating assets and liabilities:		
Accounts receivable	145,887	(383,475)
Prepaid expenses	1,874	(89,916)
Inventory, maintenance parts	37,485	(18,395)
Accounts payable	649,154	(1,161,894)
Accrued expenses	94,712	(11,670)
Deferred pension contributions	(80,703)	(313,488)
Net cash provided by operating activities	<u><u>\$ 11,150,908</u></u>	<u><u>\$ 8,528,229</u></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, 2017, 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

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.

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.

Southeastern Public Service Authority of Virginia

Notes to Financial Statements

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 3) 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 2017 and 2016. 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 5).

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 November 28, 2017, the date at which the statements were issued and determined there are no other items to disclose.

2. Cash and Cash Equivalents

At June 30, 2017 and 2016, the Authority's cash and cash equivalents balance was \$3,820,233 and \$3,848,371, 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.

Southeastern Public Service Authority of Virginia
Notes to Financial Statements

3. Investments

Total investments including restricted and designated assets amounted to \$26,608,783 and \$27,327,901 at June 30, 2017 and 2016, respectively, and are held for the purposes and in the respective accounts described below:

	2017		
	Investments	Accrued Interest Receivable	Total
Unrestricted (a)	\$ 11,713,752	\$ 39,214	\$ 11,752,966
Tip Fee Stabilization Fund (designated) (b)	-	-	-
Bond accounts (c)	7,565,628	-	7,565,628
Landfill closure fund (designated) (d)	2,496,666	-	2,496,666
Landfill closure fund (restricted) (d)	3,950,000	-	3,950,000
Environmental trust fund accounts (e)	882,737	-	882,737
	<u>\$ 26,608,783</u>	<u>\$ 39,214</u>	<u>\$ 26,647,997</u>
	2016		
	Investments	Accrued Interest Receivable	Total
Unrestricted (a)	\$ 8,996,308	\$ 33,885	\$ 9,030,193
Tip Fee Stabilization Fund (designated) (b)	3,121,150	-	3,121,150
Bond accounts (c)	8,335,400	-	8,335,400
Landfill closure fund (designated) (d)	2,690,000	-	2,690,000
Landfill closure fund (restricted) (d)	3,310,000	-	3,310,000
Environmental trust fund accounts (e)	875,043	80	875,123
	<u>\$ 27,327,901</u>	<u>\$ 33,965</u>	<u>\$ 27,361,866</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) Tip Fee Stabilization Fund

These funds represent money set aside in order to maintain a level municipal tip fee in future years. In 2017, this fund was returned to certain member localities in the form of credits to monthly invoices.

(c) 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.

(d) Landfill Closure Fund (designated and restricted)

This account holds funds designated and restricted for the closure and post closure costs for both, the Regional Landfill and the Authority's share of the Virginia Beach landfill, to be drawn down when funds are dispersed for closure or post closure costs. See Note 7 for more information.

Southeastern Public Service Authority of Virginia
Notes to Financial Statements

(e) *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, 2017 and 2016, are as follows:

A reconciliation of restricted net assets follows:

	<u>2017</u>	<u>2016</u>
Restricted for debt service:		
Bond accounts	\$ 7,565,628	\$ 8,335,400
Accrued interest payable	<u>(123,526)</u>	<u>(250,400)</u>
	<u>7,442,102</u>	<u>8,085,000</u>
Restricted for other purposes:		
Landfill closure funds	3,950,000	3,310,000
Environmental trust fund accounts	882,737	875,123
Net pension asset and related deferred outflows/inflows	<u>3,136,991</u>	<u>2,854,049</u>
	<u>7,969,728</u>	<u>7,039,172</u>
Total restricted net assets	<u>\$ 15,411,830</u>	<u>\$ 15,124,172</u>

	<u>2017</u>		<u>2016</u>	
	Suffolk Environmental Trust Fund	Virginia Beach Environmental Trust Fund	Suffolk Environmental Trust Fund	Virginia Beach Environmental Trust Fund
Cities:				
Chesapeake	\$ 107,237	\$ 112,430	\$ 105,400	\$ 112,115
Franklin	5,848	6,055	5,881	6,176
Norfolk	100,251	104,285	99,545	105,035
Portsmouth	44,268	46,200	44,052	46,641
Suffolk	1,597	1,687	1,581	1,695
Virginia Beach	140,964	148,944	137,152	147,083
Counties:				
Isle of Wight	19,317	20,374	19,083	20,426
Southampton	<u>11,360</u>	<u>11,920</u>	<u>11,952</u>	<u>11,952</u>
	<u>\$ 430,842</u>	<u>\$ 451,895</u>	<u>\$ 423,920</u>	<u>\$ 451,123</u>

Southeastern Public Service Authority of Virginia
Notes to Financial Statements

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

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, 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

At June 30, 2016, the credit risk of the total investments were:

	<u>Rating</u>	<u>Percentage</u>
TowneBank Money Market	No rating	7.3
Certificate of Deposit	No rating	34.1
PFM Funds - Prime Series Money Market Fund includes		
Institutional Class	AAAm	1.9
Raymond James & Associates, Corporate Bonds	AA-	18.2
Raymond James & Associates, Governmental Bonds	AA+	7.4
Federated Treasury Obligations Funds	AAAm	0.6
U.S. Bank Money Market Deposit Account	No rating	30.5

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, 2017 and 2016, 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.

Southeastern Public Service Authority of Virginia
Notes to Financial Statements

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

	Investment Maturity (in years)			
	Fair Value	Less than 1 year	1-3 years	3-5 years
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	1,999,700	1,999,700	-	-
	<u>\$ 26,608,783</u>	<u>\$ 21,320,818</u>	<u>\$ 5,287,965</u>	<u>\$ -</u>

At June 30, 2016, SPSA had the following investments and maturities in its restricted assets portfolio (excluding accrued interest):

	Investment Maturity (in years)			
	Fair Value	Less than 1 year	1-3 years	3-5 years
Registered money market mutual fund - PFM Funds - Prime Series - Institutional	\$ 510,197	\$ 510,197	\$ -	\$ -
Federated Treasury Obligations Money market	174,166	174,166	-	-
U.S. Bank money market Deposit account	8,335,400	8,335,400	-	-
TowneBank Money Market	1,988,237	1,988,237	-	-
Certificate of deposit	9,327,205	1,195,032	8,132,173	-
Raymond James & Associates Corporate Bonds	4,983,021	1,151,288	3,831,733	-
Raymond James & Associates Governmental Bonds	2,009,675	-	2,009,675	-
	<u>\$ 27,327,901</u>	<u>\$ 13,354,320</u>	<u>\$ 13,973,581</u>	<u>\$ -</u>

Southeastern Public Service Authority of Virginia
Notes to Financial Statements

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, 2017 and 2016, 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).

4. Capital Assets

Capital assets of the Authority as a whole as of June 30, 2017 and 2016, consist of the following:

	Balance July 1, 2016	Increases	Decreases	Balance June 30, 2017
Capital assets not being depreciated or depleted:646,251				
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>

Southeastern Public Service Authority of Virginia
Notes to Financial Statements

	<u>Balance July 1, 2015</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2016</u>
Capital assets not being depreciated or depleted:				
Land	\$ 2,646,251	\$ -	\$ -	\$ 2,646,251
Other capital assets				
Improvements (regional landfill)	64,415,852	-	-	64,415,852
Other land improvements	495,511	-	-	495,511
Buildings	42,592,677	-	-	42,592,677
Equipment	19,460,678	1,727,256	(1,151,014)	20,036,920
Motor vehicles	11,717,893	290,258	(139,968)	11,868,183
Total other capital assets	<u>138,682,611</u>	<u>2,017,514</u>	<u>(1,290,982)</u>	<u>139,409,143</u>
Accumulated depreciation and depletion:				
Improvements (regional landfill)	49,608,830	820,266	-	50,429,096
Other land improvements	495,511	-	-	495,511
Buildings	35,425,899	1,275,317	-	36,701,216
Equipment	16,155,674	1,216,453	(1,025,980)	16,346,147
Motor vehicles	10,016,112	663,736	(139,968)	10,539,880
Total accumulated depreciation and depletion	<u>111,702,026</u>	<u>3,975,772</u>	<u>(1,165,948)</u>	<u>114,511,850</u>
Other capital assets, net	<u>26,980,585</u>	<u>(1,958,258)</u>	<u>(125,034)</u>	<u>24,897,293</u>
	<u>\$ 29,626,836</u>	<u>\$ (1,958,258)</u>	<u>\$ (125,034)</u>	<u>\$ 27,543,544</u>

5. Long-Term Debt

Bonds payable

Bonds payable at June 30, 2017 and 2016, consist of the following:

	<u>2017</u>	<u>2016</u>
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>\$ 9,895,000</u>	<u>\$ 20,670,000</u>
Deferred loss on defeasance	<u>(61,526)</u>	<u>(196,831)</u>
Current maturities of bonds payable	<u>(9,833,474)</u>	<u>(10,775,000)</u>
Noncurrent portion of bonds payable	<u>\$ -</u>	<u>\$ 9,698,169</u>

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Rates of interest on the bonds outstanding and payable range from 4.64% to 4.85% for the years ended June 30, 2017 and 2016.

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. Accordingly, the member jurisdictions guarantees as of June 30, 2017, were as follows:

Member Community	Guarantee percentage	Principal guarantee
City of Chesapeake	22.49%	\$ 2,225,385
City of Franklin	0.97	95,982
Isle of Wight County	3.98	393,821
City of Norfolk	16.98	1,680,171
City of Portsmouth	10.27	1,016,217
Southampton County	2.10	207,795
City of Suffolk	12.87	1,273,486
City of Virginia Beach	30.34	3,002,143
	<u>100.00%</u>	<u>\$ 9,895,000</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 it's required debt service ratio requirements as outlined above.

The following presents the changes in bonds payable for the Authority as a whole for the years ended June 30, 2017 and 2016:

Balances as of June 30, 2015	\$ 24,005,000
Principal paid and defeased	<u>(3,335,000)</u>
Balances as of June 30, 2016	20,670,000
Principal paid and defeased	<u>(10,775,000)</u>
Balances as of June 30, 2017	<u>\$ 9,895,000</u>

Aggregate maturities of bonds payable (principal and interest) at June 30, 2017, are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	<u>\$ 9,895,000</u>	<u>\$ 247,052</u>	<u>\$ 10,142,052</u>

6. Agreement with the City of Virginia Beach (Virginia Beach)

Ash and residue disposal agreement

The Authority entered into an agreement with Virginia Beach for disposal of ash generated from the Power Plant and the residue generated in the production of RDF. The Authority has acquired the right to use land located in Virginia Beach for disposal of the materials. Virginia Beach incurred costs in developing the land for use as a landfill and the Authority reimbursed Virginia Beach for its share of these costs. Prior to expiration of the agreement on December 31, 2015, the Authority was required to reimburse Virginia Beach for operating and maintenance costs incurred by Virginia Beach in the operation of the Virginia Beach Landfill. Additionally, the rate at which Virginia Beach paid for municipal tipping fees was capped per the agreement. During fiscal years 2017 and 2016, the Authority recorded \$-0- and \$5,046,780, respectively, for expenses related to reimbursements to Virginia Beach in accordance with the ash disposal agreement.

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There was no per ton capped rate in fiscal year 2017 and 2016 the per ton capped rate was \$65.35 for 6 months of the fiscal year. Pursuant to the underlying agreement, excess tipping fees paid by Virginia Beach convert to an expense of the Authority and are reimbursed to Virginia Beach on a monthly basis.

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, 2017 and 2016, are \$16,446,666 and \$16,294,505, respectively. The three components are described as follows:

The first component of the liability relates to Cells I-IV, which was \$2,819,042 and \$2,907,662 at June 30, 2017 and 2016, 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, 2017 and 2016, respectively.

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 50% of Cell VI of the Regional Landfill is \$13,626,624 and \$13,386,843 at June 30, 2017 and 2016, 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, 2017 and 2016, 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 2017 and 2016, the Authority demonstrated its closure and postclosure care financial assurance requirements through the local government financial test, 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, 2017 and 2016:

Balances as of June 30, 2015	\$ 15,899,827
Revision of estimate	519,781
Payments made	<u>(125,103)</u>
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
Current portion	<u>(152,161)</u>
Noncurrent portion	<u>\$ 16,294,505</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, 2017 and 2016, total commitments under these contracts were \$422,842 and \$108,304, 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 2018. The net service fee paid to Wheelabrator for fiscal years 2017 and 2016 was comprised of the following:

	<u>2017</u>	<u>2016</u>
Service fee	\$ 24,500,000	\$ 23,820,000
10% of steam revenue	(887,394)	(892,893)
SPSA hauling fee	(2,974,244)	(2,819,625)
Loading fee	(319,829)	(312,582)
10% of proprietary waste revenue	(102,739)	(111,464)
Fuel surcharge	(67,430)	(40,693)
Extended hours at transfer station	(52,519)	(51,952)
Residue disposal fee	(872,100)	(877,994)
Waste diverted from transfer stations and hauled by SPSA to Regional Landfill	<u>(634,295)</u>	<u>(87,876)</u>
Net service fee paid	<u>\$ 18,589,450</u>	<u>\$ 18,614,921</u>

In fiscal years 2017 and 2016, 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 \$634,295 and \$87,876, respectively, was applied as a credit against the service fee.

Approximately 47% and 44% of the Authority's operating expenses were related to the Wheelabrator Service Fee for the fiscal years ended June 30, 2017 and 2016, respectively.

10. Pension Plans

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.

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

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

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

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

<p>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%.</p> <p><u>Eligibility:</u> For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full calendar year from the retirement date.</p> <p>For members who retire with a reduced benefit and who have less than 20 years of creditable service, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date.</p> <p><u>Exceptions to COLA Effective Dates:</u> The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances:</p> <ul style="list-style-type: none"> • The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013. • The member retires on disability. • The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP). • The member is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program. 	<p>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%.</p> <p><u>Eligibility:</u> Same as Plan 1</p> <p><u>Exceptions to COLA Effective Dates:</u> Same as Plan 1</p>	<p>Cost-of-Living Adjustment (COLA) in Retirement <u>Defined Benefit Component:</u> Same as Plan 2.</p> <p><u>Defined Contribution Component:</u> Not applicable.</p> <p><u>Eligibility:</u> Same as Plan 1 and Plan 2.</p> <p><u>Exceptions to COLA Effective Dates:</u> Same as Plan 1 and Plan 2.</p>
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<ul style="list-style-type: none"> • The member dies in service and the member's survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins. 		
<p>Disability Coverage Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.7% on all service, regardless of when it was earned, purchased or granted.</p> <p>VSDP members are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.</p>	<p>Disability Coverage Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service, regardless of when it was earned, purchased or granted.</p> <p>VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.</p>	<p>Disability Coverage Employees of political subdivisions (including Plan 1 and 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>Purchase of Prior Service Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as creditable service in their plan. Prior creditable service counts toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. When buying service, members must purchase their most recent period of service first. Members also may be eligible to purchase periods of leave without pay.</p>	<p>Purchase of Prior Service Same as Plan 1.</p>	<p>Purchase of Prior Service Defined Benefit Component: Same as Plan 1, with the following exceptions:</p> <ul style="list-style-type: none"> • Hybrid Retirement Plan members are ineligible for ported service. • The cost for purchasing refunded service is the higher of 4% of creditable compensation or average final compensation. • Plan members have one year from their date of hire or return from leave to purchase all but refunded prior service at approximate normal cost./ After that on- year period, the rate for most categories of service will change to actuarial cost. <p>Defined Contribution Component: Not applicable.</p>

Southeastern Public Service Authority of Virginia
Notes to Financial Statements

Employees covered by benefit terms

As of the June 30, 2017, 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>181</u>
Inactive members:	
Vested	90
Non-vested	170
Active elsewhere in VRS	<u>76</u>
Total inactive members	<u>336</u>
Active members	<u>133</u>
Total	<u><u>650</u></u>

Contributions

The contributions 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, 2017, 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 \$367,017 and \$602,725 for the years ended June 30, 2017 and 2016, respectively.

Net pension asset

SPSA's net pension liability was measured as of June 30, 2016. The total pension 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.

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, 2016.

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

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

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

Largest 10 - Non-LEOS:

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

Southeastern Public Service Authority of Virginia
Notes to Financial Statements

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

Largest 10 - Non-LEOS:

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

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

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

Long-term expected rate of return

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

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

*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%.

Southeastern Public Service Authority of Virginia
Notes to Financial Statements

Discount rate

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

Changes in net pension liability (asset)

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) - (b)
Balances at June 30, 2015	\$ 42,484,644	\$ 46,294,221	\$ (3,809,577)
Changes for the year:			
Service cost	599,791	-	599,791
Interest	2,899,576	-	2,899,576
Difference between expected and actual Experience	(363,513)	-	(363,513)
Contributions - employer	-	313,487	(313,487)
Contributions - employee	-	291,602	(291,602)
Net investment income	-	773,053	(773,053)
Benefit payments, including refunds of employee contributions	(2,124,248)	(2,124,248)	-
Administrative expense	-	(29,366)	29,366
Other changes	-	(334)	334
Net changes	1,011,606	(775,806)	1,787,412
Balances at June 30, 2016	\$ 43,496,250	\$ 45,518,415	\$ (2,022,165)

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

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

	1% Decrease 6.00%	Current Discount Rate 7.00%	1% Increase 8.00%
Plan's Net Pension Liability (Asset)	\$ 3,264,387	\$ (2,022,165)	\$ (6,455,702)

Southeastern Public Service Authority of Virginia
Notes to Financial Statements

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

For the year ended June 30, 2017, SPSA recognized a pension benefit of \$202,238. At June 30, 2017, 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	\$ 1,170,439	\$ -
Differences between expected and actual experience	-	136,317
Employer contributions subsequent to the measurement date	<u>80,704</u>	<u>-</u>
	<u>\$ 1,251,143</u>	<u>\$ 136,317</u>

\$80,704 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, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in future reporting periods as follows:

<u>Year Ending June 30,</u>	
2018	\$ (142,079)
2019	(5,762)
2020	699,295
2021	<u>482,668</u>
	<u>\$ 1,034,122</u>

Pension plan data

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

Payables to the pension plan

The Authority had \$36,517 and \$54,847 as short term payables to VRS for legally or contractually required contributions outstanding as of June 30, 2017 and 2016, respectively, and included in accounts payable on the statements of net position.

11. Defined Benefit 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.

12. 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.

13. Other Post-Employment Benefits (OPEB) Liability

Plan description

Name of Plan: SPSA Postretirement Medical Benefit Plan

Identification of Plan: Single Employer, Pay as You Go

Administering Entity: Southeastern Public Service Authority (SPSA). At its sole discretion, SPSA offers a Postretirement Medical Benefit Plan (PMBP) subject to eligibility. 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.

Funding policy

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.

Annual OPEB cost and net OPEB obligation

SPSA's annual OPEB expense is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

Southeastern Public Service Authority of Virginia
Notes to Financial Statements

The following table shows the components of SPSA's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in SPSA's net OPEB obligation for the medical benefit plan:

Net OPEB obligations as of June 30, 2016	\$ 1,924,998
ARC for 2017:	
Normal cost	95,900
Unamortized actuarial accrued liability (UAAL)	<u>82,900</u>
Total ARC for June 30, 2017	178,800
Interest on net OPEB obligation	67,375
Adjustment to ARC	<u>(104,665)</u>
Annual OPEB cost	141,510
Contributions made	<u>(75,000)</u>
Increase in net OPEB obligation	<u>66,510</u>
Net OPEB obligation as of June 30, 2017	<u>\$ 1,991,508</u>
Net OPEB obligations as of June 30, 2015	\$ 1,864,211
ARC for 2016:	
Normal cost	89,000
Unamortized actuarial accrued liability (UAAL)	<u>82,900</u>
Total ARC for June 30, 2016	171,900
Interest on net OPEB obligation	65,247
Adjustment to ARC	<u>(101,360)</u>
Annual OPEB cost	135,787
Contributions made	<u>(75,000)</u>
Increase in net OPEB obligation	<u>60,787</u>
Net OPEB obligation as of June 30, 2016	<u>\$ 1,924,998</u>

The Authority's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2017, 2016, 2015, 2014 and 2013, were as follows:

<u>Year Ended June 30</u>	<u>Annual OPEB cost</u>	<u>Percentage of annual OPEB cost contributed</u>	<u>Net OPEB obligation</u>
2017	\$ 141,510	53.0%	\$ 1,991,508
2016	135,787	55.2%	1,924,998
2015	226,956	41.6%	1,864,211
2014	219,058	34.0%	1,731,655
2013	210,494	35.3%	1,586,997

Funded status and funding progress

As of June 30, 2016, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits and the UAAL was \$1,578,500. The covered payroll (annual payroll of active employees covered by the plan) was \$5,582,100, and the ratio of the UAAL to the covered payroll was 28.28%. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The change in the net liability from June 30, 2013, to June 30, 2016, is due to the following:

1. Demographic experience differed from expected. In particular, approximately 40 active participants as of June 30, 2013 (out of 141 total) separated from employment between June 30, 2013 and June 30, 2016;
2. Healthcare cost experience differed from expected;
3. Updated demographic assumptions to match the most recent Virginia Retirement Assumptions;
4. Updated medical trend assumption;
5. Age-specific costs were used to estimate the true underlying cost of coverage for pre-65 retirees.

The schedule of funding progress, presented as Required Supplementary Information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial methods and assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members at that point. The required contribution was determined as part of the July 1, 2016, using the projected unit credit actuarial cost method. The actuarial assumptions at June 30, 2016, included a 3.5% annual interest rate and an annual healthcare cost trend rate increase of 6.9% grading down to 4.1% over 80 years. SPSA's unfunded actuarial accrued liability is being amortized on a level dollar amount basis over a period of 30 years.

Actuarial gain

The liability gain is a measure of the difference between assumed events and actual events. It includes the difference between assumed and actual healthcare cost increases, retirements, terminations, deaths, and other events. It also includes changes in benefits and actuarial methods and assumptions. At June 30, 2016, the plan realized an actuarial gain of \$927,500.

14. 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 Post Retirement Medical Benefit Plan Funding Progress

Valuation date		June 30, 2016	June 30, 2013	June 30, 2010
Actuarial value of assets (AVA)	(1)	\$ -	\$ -	\$ -
Actuarial accrued liability (AAL)	(2)	\$ 1,578,500	\$ 2,159,900	\$ 3,434,100
Unfunded (overfunded) actuarial accrued liability (UAAL) (2) - (1)	(3)	\$ 1,578,500	\$ 2,159,900	\$ 3,434,100
Fund ratio (1)/(2)	(4)	0%	0%	0%
Annual covered payroll	(5)	\$ 5,852,100	\$ 6,132,300	\$ 6,395,300
UAAL as a % of payroll (3)/(5)	(6)	27.0%	35.2%	53.7%

Southeastern Public Service Authority of Virginia
Schedule of Changes in Net Pension Liability and Related Ratios

	2014	2015	2016
Total pension liability			
Service cost	\$ 606,013	\$ 617,774	\$ 599,791
Interest	2,711,110	2,805,786	2,899,576
Changes of benefit terms			
Differences between expected and actual experience		(59,513)	(363,513)
Changes in assumptions			
Benefit payments, including refunds of employee contributions	(2,005,095)	(1,924,126)	(2,124,248)
Net change in total pension liability	1,312,028	1,439,921	1,011,606
Total pension liability, beginning	39,732,695	41,044,723	42,484,644
Total pension liability, ending (a)	41,044,723	42,484,644	43,496,250
Plan fiduciary net position			
Contributions - employer	297,584	325,830	\$ 313,487
Contributions - employee	309,452	323,735	291,602
Net investment income	6,320,734	2,058,962	773,053
Benefit payments, including refunds of employee contributions	(2,005,095)	(1,924,126)	(2,124,248)
Administrative expense	(34,912)	(29,072)	(29,366)
Other	333	(430)	(334)
Net change in plan fiduciary net position	4,888,096	754,899	\$ (775,806)
Plan fiduciary net position, beginning	40,651,226	45,539,322	\$ 46,294,221
Plan fiduciary net position, ending	45,539,322	46,294,221	\$ 45,518,415
Authority's net pension liability, ending (a) - (b)	<u>\$ (4,494,599)</u>	<u>\$ (3,809,577)</u>	\$ (2,022,165)
pension liability	111%	109%	104.6%
Covered-employee payroll	\$ 6,096,660	\$ 6,065,027	\$ 5,886,879
Authority's net pension liability as a percentage of covered-employee payroll	(74%)	(63%)	-34%

* 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
Year Ended June 30, 2017

Date	Contractually Required Contribution (1)	Contributions in Relation to Contractually Required Contribution (2)	Contribution Deficiency (Excess) (3)	Employer's Covered Employee Payroll (4)	Contributions as a % of Covered Employee Payroll (5)
2017	\$ 90,800	\$ 80,704	\$ 10,096	\$ 5,858,040	1.38%
2016	\$ 319,069	\$ 313,487	\$ 5,582	\$ 5,886,879	5.33%
2015	\$ 328,724	\$ 325,829	\$ 2,895	\$ 6,065,027	5.37%
2014	\$ 298,127	\$ 297,584	\$ 543	\$ 6,096,660	4.88%

* 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.

Notes to Required Supplementary Information

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, 2015, are not material.

Changes of assumptions

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

Largest 10 - Non-LEOS:

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

Largest 10 - LEOS:

- Update mortality table
- Decrease in male rates of disability

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

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

All Others (Non 10 Largest) - LEOS:

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

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, 2017, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated November 28, 2017.

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 Authority'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 Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Dixon Hughes Goodman LLP

**Newport News, Virginia
November 28, 2017**