# Southeastern Public Service Authority of Virginia

## Financial Statements

Years Ended June 30, 2015 and 2014

DIXON HUGHES GOODMAN LLP

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# Independent Auditors' Report

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

We have audited the accompanying financial statements of ***Southeastern Public Service Authority of Virginia***, as of and for the years ended June 30, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the ***Southeastern Public Service Authority of Virginia's*** basic financial statements as listed in the table of contents.

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

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the audito3r's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to ***Southeastern Public Service Authority of Virginia***'s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

DHG
DIXON HUGHES GOODMAN LLP

### *Opinions*

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of ***Southeastern Public Service Authority of Virginia***, as of June 30, 2015 and 2014, and the respective changes in financial position and its cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### *Other Matters*

### *Change in Accounting Principle*

As discussed in Note 2 to the financial statements, the financial statements as of and the year ended June 30, 2014, were restated due to the implementation of GASB Statement No. 68, Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement No. 27, and GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date - an Amendment of GASB Statement No. 68, in 2015. Our opinion is not modified with respect to these changes.

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis information on pages 3 through 8, Schedule of Funding Progress on page 43, and the Schedule of Changes in Net Pension Liability and related ratios and Schedule of Contributions on pages 44 - 45 be presented to supplement the basic financial statements.be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Reporting Required by Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 17, 2015, on our consideration of the ***Southeastern Public Service Authority of Virginia's*** internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering ***Southeastern Public Service Authority of Virginia's*** internal control over financial reporting and compliance.

Dixon Hughes Goodman LLP

**Newport News, Virginia**
**November 17, 2015**

# 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, 2015. 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 2015 was $16,704,569 representing an increase of $1,364,600 million from fiscal year 2014.
- The municipal tipping fee remains at $125 per ton.
- The Authority experienced an increase in the municipal waste stream of approximately 7,265 tons or 1.9%.
- As of June 30, 2015, the principal of bonded debt outstanding was approximately $24.005 million compared to the $30.185 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 Revenue, 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 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 $16,704,569 as compared to the previous year's net position of $15,339,969. Capital assets shown below represent the acquisition cost less accumulated depreciation, not fair value.

The Authority's unrestricted cash and investments increased to approximately $20.9 million at the end of fiscal year 2015 from approximately $19 million at the end of fiscal year 2014. The increase is due to a combinatioin of increased revenues over expenses and equipment purchases made in fiscal year 2015 but were not delivered until after the fiscal year close. 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, 2015, 2014 and 2013.

| | 2015 | 2014 Restated | 2013 |
|---|---|---|---|
| Assets and deferred outflows of resources: | | | |
| Current and other assets | **$ 37,149,254** | $ 33,650,894 | $ 27,773,793 |
| Capital assets - net | **29,626,836** | 33,361,373 | 37,252,805 |
| Deferred outflows of resources | **996,162** | 1,061,493 | 866,332 |
| Total assets and deferred outflows of resources | **67,772,252** | 68,073,760 | 65,892,930 |
| Liabilities and deferred inflows of resources: | | | |
| Current liabilities | **10,646,504** | 12,896,901 | 6,826,740 |
| Long-term liabilities | **37,600,947** | 39,836,890 | 45,091,256 |
| Deferred inflows of resources | **2,820,232** | - | - |
| Total liabilities and deferred inflows of resources | **51,067,683** | 52,733,791 | 51,917,996 |
| Net position: | | | |
| Invested in capital assets - net of related debt | **5,976,704** | 4,256,495 | 8,723,182 |
| Restricted | **9,097,328** | 10,379,051 | 2,150,351 |
| Unrestricted | **1,630,537** | 704,423 | 3,101,401 |
| Total net position | **16,704,569** | 15,339,969 | 13,974,934 |
| Total liabilities and deferred inflows of resources and net position | **$ 67,772,252** | $ 68,073,760 | $ 65,892,930 |

Net assets invested in capital assets, such as land, buildings and equipment, net of related debt is approximately $5.98 million as compared to approximately $4.3 million in the prior fiscal year. The increase is primarily due to paydown of bonds associated with capital assets.

In 2015, the Authority implemented GASB Statement 68. With the new reporting change, the Authority is 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. A restatement to record the effects of the new reporting guidance increased beginning net position by $1,216,115. 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 Notes 2 and 11 to the basic financial statements for more information.

The unrestricted portion of net position increased to approximately $1.6 million as compared to $704,423 in the prior year. This increase is largely due to the effects of GASB 68 through the posting of Net Pension Income in the amount of $458,252 and the Deferred Outflows of Resources in the amount of $325,829, which represents the Authority's fiscal year 2015 contributions to the pension plan.

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

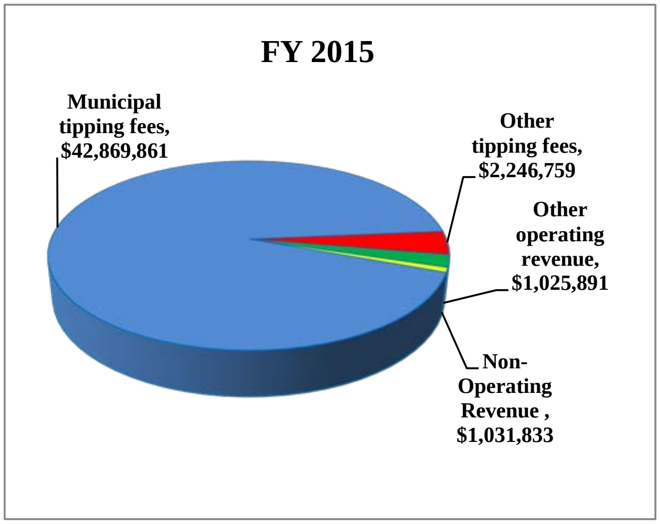
The Authority's net position increased in fiscal year 2015 by approximately $1.4 million. Operating revenues increased $654,267 as compared to the previous year primarily due to an increase in Other Tipping Fees which include fees for the disposal of construction and demolition debris, Navy waste and various soils accepted at the Regional Landfill. 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:

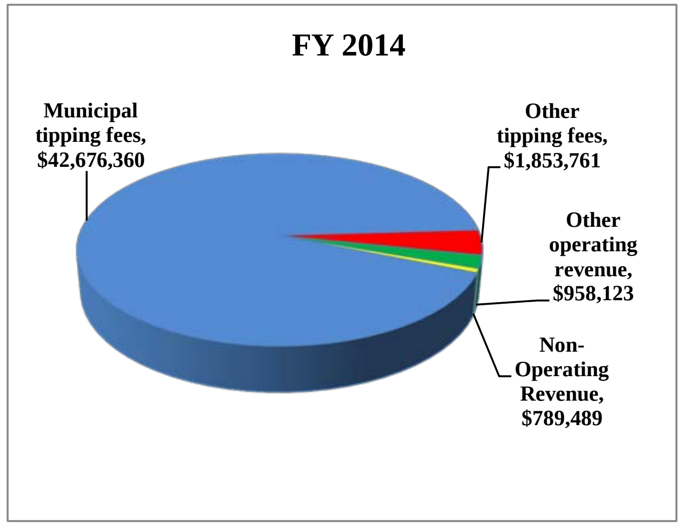
| | 2015 | 2014 Restated | 2013 |
|---|---|---|---|
| Operating revenue: | | | |
| Municipal tipping fees | **$ 42,869,861** | $ 42,676,360 | $ 45,108,711 |
| Other tipping fees | **2,246,759** | 1,853,761 | 2,044,404 |
| Other operating revenue | **1,025,891** | 958,123 | 1,049,139 |
| Total operating revenue | **46,142,511** | 45,488,244 | 48,202,254 |
| Operating expenses: | | | |
| Personnel | **8,445,184** | 8,730,137 | 9,075,510 |
| Depreciation and amortization | **4,257,597** | 4,051,148 | 4,329,529 |
| Routine maintenance operations | **2,953,534** | 2,654,785 | 2,504,106 |
| Ash and residue agreement | **9,790,243** | 9,624,369 | 10,312,506 |
| Wheelabrator service contract | **15,491,594** | 15,486,419 | 16,308,633 |
| Other operating expenses | **2,848,211** | 3,055,794 | 4,388,203 |
| Total operating expenses | **43,786,363** | 43,602,652 | 46,918,487 |
| Operating income | **2,356,148** | 1,885,592 | 1,283,767 |
| Nonoperating revenue (expense): | | | |
| Gain (loss) on the sale of assets | **110,950** | 116,697 | (2,054,323) |
| Investment income | **109,037** | 50,997 | 39,244 |
| Interest expense | **(1,204,551)** | (2,228,577) | (2,242,553) |
| Other income (expense) - net | **(6,984)** | 621,795 | 295,281 |
| Total nonoperating revenue (expense) | **(991,548)** | (1,439,088) | (3,962,351) |
| Change in Net Position | **1,364,600** | 446,504 | (2,678,584) |
| Net Position: | | | |
| Beginning of year | **15,339,969** | 14,893,465 | 16,653,518 |
| End of year | **$ 16,704,569** | $ 15,339,969 | $ 14,123,854 |

It is important to note that the $42.9 million in municipal tipping fees excludes the rebate that is 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 provides for maximum levels for the City of Virginia Beach's tipping fees. As of fiscal year 2015, the City of Virginia Beach's tipping fee was capped at $65.35 per ton. For all other municipalities except the City of Suffolk (which as host to the regional landfill pays no tipping fee), the municipal tipping fee was $125 per ton. 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. Of the $9.8 million expense for the "ash and residue agreement", approximately $1.8 million is for operating and maintaining the Virginia Beach landfill and $8 million represents the rebate or excess tipping fees paid by the City in accordance with the 1985 Ash and Residue Agreement. Please see Note 7 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 soils.

Other operating revenue represents approximately 2% of total revenues during 2015 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 properly.

The following graph illustrates the major revenues by source for the fiscal year ending June 30, 2015 and 2014:




The Authority's operating expenses increased less than 1% or $183,711 in comparison to the prior fiscal year. This increase is reflected across mulitiple cost centers as explained below.

Personnel costs decreased by $284,953 primarily due to recording the Authority's fiscal year 2015 contributions to the VRS as a Deferred Outflow of Resources. Routine maintenance actually increased by $298,749 for equipment used at the Regional Landfill and for the road tractors used to haul the waste. The equipment at the landfill is experiencing increased wear and tear due to the handling of ash.

The decrease in Other Operating expenses is a combination of decreases in equipment fuel, non-routine maintenance, and engineering services netted with an increase in accrued costs for landfill closure expenses. Equipment fuel decreased $298,749 due to the significant decrease in price per gallon. Non-routine maintenance costs decreased as compared to the prior year. Engineering services are procured primarily for the Regional Landfill on an as needed basis and consequently decreased in fiscal year 2015.

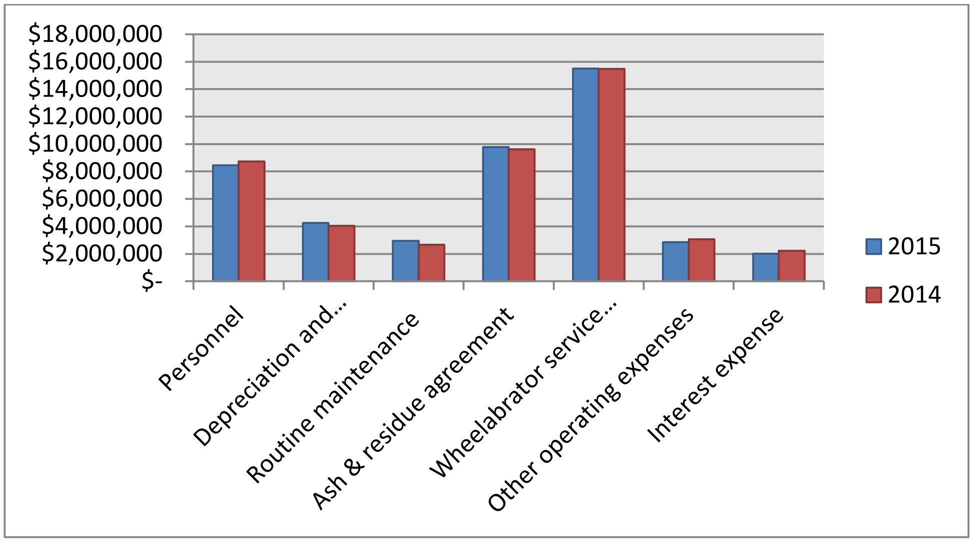
Accrued costs for landfill closure increased by approximately $237,000 due to an increase in the capacity utilization.

The costs associated with the Wheelabrator Service Contract reflect a minimal increase as compared to the prior year. The Authority receives various credits against its invoice to Wheelabrator. In FY 2015, the Authority received a credit in the amount of $1,040,399 for waste diverted from the transfer stations and hauled by the Authority to the Regional Landfill in Suffolk. Additionally, beginning in January 2015, Wheelebrator pays the Authority $5 per ton for the disposal of ash in the Regional Landfill. Please see Note 10 to the basic financial statements for more information.

The increase in the expense for the Ash & Residue Agreement is due to the increase in waste from the City of Va. Beach whereby increasing the dollars in excess of the City's capped rate of $65.35.

The Authority's workforce has been reduced from approximately 411 positions in fiscal year 2010 to 145.7 full time equivalent positions effective June 30, 2015. Management continues to review the staffing necessary to effectively manage the waste disposal of its member communities.

The following graph illustrates the expenses by source for the fiscal year ending June 30, 2015 and 2014:




### *Capital Assets*

At the end of 2015, the Authority had $29,626,836 (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 $3,734,537, or 11.2% less than last year, primarily due to normal depreciation exceeding the value of assets purchased. The details of capital asset values for the various categories are included in Note 5 of the basic financial statements.

A summary of capital assets for fiscal years 2015 and 2014 is presented below:

| | Balance July 1, 2014 | Increases | Decreases | Balance June 30, 2015 |
|---|---|---|---|---|
| Land | $ 2,646,251 | $ - | $ - | $ 2,646,251 |
| Improvements (regional landfill) | 64,179,318 | 236,534 | - | 64,415,852 |
| Other land improvements | 495,511 | - | - | 495,511 |
| Buildings | 42,592,677 | - | - | 42,592,677 |
| Vehicles and equipment | 31,959,799 | 326,535 | (1,107,763) | 31,178,571 |
| Construction in progress | 40,009 | | (40,009) | - |
| Total assets | 141,913,565 | 563,069 | (1,147,772) | 141,328,862 |
| Accumulated depreciation | 108,552,192 | 4,257,597 | (1,107,763) | 111,702,026 |
| Total assets - less depreciation | $ 33,361,373 | $ (3,694,528) | $ (40,009) | $ 29,626,836 |

| | Balance July 1, 2013 | Increases | Decreases | Balance June 30, 2014 |
|---|---|---|---|---|
| Land | $ 2,646,251 | $ - | $ - | $ 2,646,251 |
| Improvements (regional landfill) | 64,179,318 | - | - | 64,179,318 |
| Other land improvements | 495,511 | - | - | 495,511 |
| Buildings | 42,592,677 | - | - | 42,592,677 |
| Vehicles and equipment | 32,658,338 | 165,922 | (864,461) | 31,959,799 |
| Construction in progress | 22,384 | 40,009 | (22,384) | 40,009 |
| Total assets | 142,594,479 | 205,931 | (886,845) | 141,913,565 |
| Accumulated depreciation | 105,341,674 | 4,051,148 | (840,630) | 108,552,192 |
| Total assets - less depreciation | $ 37,252,805 | $ (3,845,217) | $ (46,215) | $ 33,361,373 |

### *Long Term Debt*

At year-end, the Authority had a total of $24,005,000 in bonds outstanding, versus $30,185,000 last year, a decrease of 21%.

**Summary of Outstanding Long-Term Bonds**
**June 30, 2015**

| | 2015 | 2014 |
|---|---|---|
| Guaranteed subordinated debt | **$ 24,005,000** | $ 30,185,000 |
| Total outstanding debt | **$ 24,005,000** | $ 30,185,000 |

More detailed information about the Authority's debt is presented in Note 6 to the basic financial statements.

### *Post 2018 Discussions*

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 which continue to be discussed. In the fall of 2014, a Use and Support Agreement Committee was formed consisting of 4 members of the Authority's Board of Directors taked 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 on an initial draft form, a final draft has been circulated once again and pending final comments, will be before the Authority's Board of Directors for approval by the end of the calendar year.

Additionally, the Authority is in the process of reviewing 3 bids received in response to a Request for Proposal for alternate methods of waste disposal for post 2018 versus strictly landfilling waste issued in January 2015.

### *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**
**Statement of Net Position**
**June 30, 2015 and 2014**

| | 2015 | As Restated 2014 |
|---|---|---|
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | **$ 2,988,195** | $ 3,403,467 |
| Investments | **17,901,740** | 15,645,752 |
| Accounts receivable: | | |
| Authority members | **3,887,846** | 3,592,526 |
| Other customers | **265,265** | 238,306 |
| Allowance for doubtful accounts | **(15,000)** | (27,000) |
| Prepaid expenses | **120,135** | 193,577 |
| Inventory - maintenance parts | **135,725** | 176,908 |
| Accrued interest receivable | **39,687** | - |
| Total current assets | **25,323,593** | 23,223,536 |
| Noncurrent assets: | | |
| Restricted assets | | |
| Investments | **7,330,974** | 9,508,670 |
| Accrued interest receivable | **88** | 157 |
| Total restricted assets | **7,331,062** | 9,508,827 |
| Capital assets - net of accumulated depreciation and depletion | **29,626,836** | 33,361,373 |
| Net pension asset | **4,494,599** | 918,531 |
| Total noncurrent assets | **41,452,497** | 43,788,731 |
| Total assets | **$ 66,776,090** | $ 67,012,267 |
| Deferred Outflow of Resources: | | |
| Deferred pension contributions | **$ 325,829** | $ 297,584 |
| Deferred charge on refunding | **670,333** | 763,909 |
| Total deferred outflow of resources | **996,162** | 1,061,493 |
| | **$ 67,772,252** | $ 68,073,760 |

**Southeastern Public Service Authority of Virginia**
**Statement of Net Position**
**June 30, 2015 and 2014**

| | | 2015 | | As Restated 2014 |
|---|---|---|---|---|
| **LIABILITIES AND NET POSITION** | | | | |
| Liabilities: | | | | |
| Current liabilities - payable from current assets: | | | | |
| Accounts payable | **$** | **5,152,351** | $ | 4,744,585 |
| Accrued expenses | | **1,394,788** | | 1,385,179 |
| Landfill closure and postclosure liability - current portion | | **478,223** | | 241,247 |
| Total current liabilities - payable from current assets | | **7,025,362** | | 6,371,011 |
| Current liabilities - payable from restricted assets | | | | |
| Current maturities of bonds payable | | **3,335,000** | | 6,180,000 |
| Accrued interest on revenue bonds | | **286,142** | | 345,890 |
| Total current liabilities - payable from restricted assets | | **3,621,142** | | 6,525,890 |
| Total current liabilities | | **10,646,504** | | 12,896,901 |
| Noncurrent liabilities: | | | | |
| Bonds payable | | **20,315,132** | | 22,924,878 |
| Other Post Employment Benefits | | **1,864,211** | | 1,731,655 |
| Landfill closure and postclosure care liability - noncurrent | | **15,421,604** | | 15,180,357 |
| Total noncurrent liabilities | | **37,600,947** | | 39,836,890 |
| Total liabilities | | **48,247,451** | | 52,733,791 |
| Deferred Inflow of Resources: | | | | |
| Deferred pension investment experience | | **2,820,232** | | - |
| | **$** | **51,067,683** | $ | 52,733,791 |
| Net position: | | | | |
| Net investment in capital assets | **$** | **5,976,704** | $ | 4,256,495 |
| Restricted for debt service | | **2,502,538** | | 4,635,634 |
| Restricted for other purposes | | **6,594,790** | | 5,743,417 |
| Unrestricted | | **1,630,537** | | 704,423 |
| Total net position | | **16,704,569** | | 15,339,969 |
| Total liabilities and net position | **$** | **67,772,252** | $ | 68,073,760 |

**See accompanying notes.**

**Southeastern Public Service Authority of Virginia**
**Statements of Revenues, Expenses, and Changes in Net Position**
**Years Ended June 30, 2015 and 2014**

| | 2015 | As Restated 2014 |
|---|---|---|
| Operating revenue: | | |
| Municipal tipping fees | **$ 42,869,861** | $ 42,676,360 |
| Other tipping fees | **2,246,759** | 1,853,761 |
| Charges for household waste and tire program | **553,534** | 519,103 |
| Sale of methane gas | **469,873** | 436,749 |
| Other revenue | **2,484** | 2,271 |
| Total operating revenues | **46,142,511** | 45,488,244 |
| Operating expenses: | | |
| Compensation and related payroll costs | **8,445,184** | 8,730,137 |
| Depreciation, depletion and amortization of intangibles | **4,257,597** | 4,051,148 |
| Postage, printing and supplies | **39,041** | 43,066 |
| Rent and utilities | **349,687** | 368,764 |
| Equipment fuel | **879,570** | 1,111,063 |
| Routine maintenance and vehicle operations | **2,953,534** | 2,654,785 |
| Nonroutine maintenance and repairs | **209,010** | 303,158 |
| Insurance | **232,306** | 230,265 |
| Virginia Beach Ash Disposal Agreement costs | **9,790,243** | 9,624,369 |
| Legal and professional services | **454,050** | 587,298 |
| Bad debts | **193** | 9,718 |
| Landfill closure and postclosure care cost accrual | **478,223** | 241,247 |
| Wheelabrator Service Contract | **15,491,594** | 15,486,419 |
| Other | **206,131** | 161,215 |
| Total operating expenses | **43,786,363** | 43,602,652 |
| Operating income | **2,356,148** | 1,885,592 |
| Nonoperating revenue (expense): | | |
| Net gain on disposal of capital assets | **110,950** | 116,697 |
| Interest expense: | | |
| Interest on long-term debt | **(1,204,551)** | (1,400,899) |
| Amortization of loss on defeasance | **(725,254)** | (725,255) |
| Amortization of bond issue costs, discounts and premiums - net | **(93,576)** | (102,423) |
| Total interest expense | **(2,023,381)** | (2,228,577) |
| Other revenue: | | |
| Investment income | **109,037** | 50,997 |
| Pension benefit | **458,252** | 297,584 |
| Other | **353,594** | 324,211 |
| Total other revenue | **920,883** | 672,792 |
| Total nonoperating expense - net | **(991,548)** | (1,439,088) |
| Change in net position | **1,364,600** | 446,504 |
| Total net position: | | |
| Beginning of year | **15,339,969** | 14,893,465 |
| End of year | **$ 16,704,569** | $ 15,339,969 |

**See accompanying notes.**

**Southeastern Public Service Authority of Virginia**
**Statements of Cash Flows**
**Years Ended June 30, 2015 and 2014**

| | 2015 | 2014 |
|---|---|---|
| Cash flows from operating activities: | | |
| Receipts from customers | **$ 45,808,039** | $ 45,731,213 |
| Payments to suppliers for operations | **(30,082,775)** | (30,740,251) |
| Payments to employees for compensation | **(8,628,848)** | (8,449,795) |
| Net cash provided by operating activities | **7,096,416** | 6,541,167 |
| Cash flows from capital and related financing activities: | | |
| Purchase of capital assets | **(523,060)** | (183,547) |
| Proceeds from sale of capital assets | **110,950** | 140,528 |
| Principal payments on bonds payable | **(6,180,000)** | (150,000) |
| Interest paid | **(1,264,299)** | (1,403,033) |
| Other income | **353,594** | 324,211 |
| Net cash used in capital and related financing activities | **(7,502,815)** | (1,271,841) |
| Cash flows from investing activities: | | |
| Proceeds from maturity and sale of investments | **36,312,340** | 16,322,143 |
| Payments for investments purchased | **(36,390,632)** | (20,652,504) |
| Interest and dividends received from investments | **69,419** | 62,502 |
| Net cash used in investing activities | **(8,873)** | (4,267,859) |
| Increase (decrease) in cash and cash equivalents | **(415,272)** | 1,001,467 |
| Cash and cash equivalents at beginning of year | **3,403,467** | 2,402,000 |
| Cash and cash equivalents at end of year | **$ 2,988,195** | $ 3,403,467 |
| Reconciliation of operating income to net cash provided by operating activities: | | |
| Operating income | **$ 2,356,148** | $ 1,885,592 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | |
| Depreciation, depletion and amortization of intangibles | **4,257,597** | 4,051,148 |
| Postretirement medical benefit plan expense | **132,556** | 144,658 |
| Provision for bad debts | **193** | 9,718 |
| Landfill closure and postclosure care cost accrual | **478,223** | 241,247 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | **(334,472)** | 242,969 |
| Prepaid expenses | **73,442** | 43,891 |
| Inventory - maintenance parts | **41,183** | 65,175 |
| Accounts payable | **407,766** | (278,915) |
| Accrued expenses | **9,609** | 135,684 |
| Deferred pension contributions | **(325,829)** | - |
| Net cash provided by operating activities | **$ 7,096,416** | $ 6,541,167 |

**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), 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, 2014, the Governor had not appointed any such alternates and only six of the 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.

### *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.

### *Cash and Cash Equivalents*

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

### *Investments*

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

### *Restricted Assets*

Restricted assets are principally restricted for the payment of obligations under the Authority's bond agreements, environmental trust funds (see Note 4) and landfill closure (see Note 8) 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 2015 and 2014. Assets are depreciated by using the straight-line method over the estimated useful lives of the various classes as follows:

| | Years |
|---|---|
| Land improvements | 15 |
| Buildings | 30 |
| Equipment and motor vehicles | 3 - 30 |

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 reaqcquisition price. This amount is deferred and amortized over the shorter of the life of the refunded debt or the reacquired.

### *Payables*

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

### *Deferred Loss on Defeasance of Debt*

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

### *Landfill Closure and Postclosure Care Liability*

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

### *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 17, 2015, the date at which the statements were issued and determined there are no other items to disclose.

## 2. Retrospective Application of a Change in Accounting Principle

The following table summarizes the effects of the implementation of GASB No. 68 in the statements of net position:

| | (As Previously Reported) June 30, 2014 | Record Effects of GASB 68 | (As Adjusted) June 30, 2014 |
|---|---|---|---|
| Total assets | $ 66,093,736 | $ 918,531 | $ 67,012,267 |
| Deferred outflows of resources | 763,909 | 297,584 | 1,061,493 |
| Total liabilities | 52,733,791 | - | 52,733,791 |
| Net position | | | |
| Net investment in capital assets | 4,256,495 | - | 4,256,495 |
| Restricted | 9,162,936 | 1,216,115 | 10,379,051 |
| Unrestricted | 704,423 | - | 704,423 |
| Total net position | $ 133,715,290 | $ 2,432,230 | $ 136,147,520 |

| | (As Previously Reported) June 30, 2014 | Record Effects of GASB 68 | (As Adjusted) June 30, 2014 |
|---|---|---|---|
| Total operating revenues | $ 45,488,244 | $ - | $ 45,488,244 |
| Total operating expenses | 43,602,652 | (297,584) | 43,305,068 |
| Operating income before provision for depreciation | 1,885,592 | 297,584 | 2,183,176 |
| Operating income | 1,885,592 | 297,584 | 2,183,176 |
| Nonoperating revenues - net | (1,736,672) | - | (1,736,672) |
| Increase in net position | 148,920 | 297,584 | 446,504 |
| Total net position - beginning of year | 13,974,934 | 918,531 | 14,893,465 |
| Total net position - end of year | 14,123,854 | 1,216,115 | $ 15,339,969 |

## 3. Cash and Cash Equivalents

At June 30, 2015 and 2014, the Authority's cash and cash equivalents balance was $2,988,195 and $3,403,467, 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 Treasuree of the Commonewealth 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.

## 4. Investments

Total investments including restricted and designated assets amounted to $25,232,714 and $25,154,422 at June 30, 2015 and 2014, respectively, and are held for the purposes and in the respective accounts described below:

| **2015** | **Investments** | **Accrued interest receivable** | **Total** |
|---|---|---|---|
| Unrestricted (a) | **$ 12,255,776** | **$ 39,687** | **$ 12,295,463** |
| Tip Fee Stabilization Fund (designated) (b) | **3,325,752** | **-** | **3,325,752** |
| Bond accounts (c) | **2,788,680** | **-** | **2,788,680** |
| Landfill closure fund (designated) (d) | **2,268,000** | **-** | **2,268,000** |
| Landfill closure fund (restricted) (d) | **3,732,000** | **-** | **3,732,000** |
| Environmental trust fund accounts (e) | **862,506** | **88** | **862,594** |
| | **$ 25,232,714** | **$ 39,775** | **$ 25,272,489** |

| **2014** | Investments | Accrued interest receivable | Total |
|---|---|---|---|
| Unrestricted (a) | $ 10,000,000 | $ - | $ 10,000,000 |
| Tip Fee Stabilization Fund (designated) (b) | 3,325,752 | - | 3,325,752 |
| Bond accounts (c) | 4,981,407 | 117 | 4,981,524 |
| Landfill Closure Fund (designated) (d) | 2,320,000 | - | 2,320,000 |
| Landfill Closure Fund (restricted) (d) | 3,680,000 | - | 3,680,000 |
| Environmental Trust Fund accounts (e) | 847,263 | 40 | 847,303 |
| | $ 25,154,422 | $ 157 | $ 25,154,579 |

*(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.

*(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 8 for more information.

*(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 and $10,000 annually to the Suffolk and Virginia Beach Environmental Trust Funds, respectively. 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, 2015 and 2014, are as follows:

A reconciliation of restricted net assets follows:

| | 2015 | 2014 |
|---|---|---|
| Restricted for debt service | | |
| Bond accounts | **$ 2,788,680** | $ 4,981,524 |
| Accrued interest receivable | **-** | - |
| Accrued interest payable | **(286,142)** | (345,890) |
| | **2,502,538** | 4,635,634 |
| Restricted for other purposes | | |
| Landfill closure funds | **3,732,000** | 3,680,000 |
| Environmental trust fund accounts | **862,594** | 847,303 |
| Net pension asset and related deferred outflows/inflows | **2,000,196** | 1,216,114 |
| | **6,594,790** | 5,743,417 |
| Total restricted net assets | **$ 9,097,328** | $ 10,379,051 |

| | 2015 | | 2014 | |
|---|---|---|---|---|
| | Suffolk Environmental Trust Fund | Virginia Beach Environmental Trust Fund | Suffolk Environmental Trust Fund | Virginia Beach Environmental Trust Fund |
| Cities: | | | | |
| Chesapeake | **$ 103,089** | **$ 110,356** | $ 101,151 | $ 107,569 |
| Franklin | **5,933** | **6,270** | 6,014 | 6,313 |
| Norfolk | **98,743** | **104,826** | 98,472 | 103,827 |
| Portsmouth | **43,791** | **46,657** | 43,692 | 46,243 |
| Suffolk | **1,575** | **1,701** | 1,566 | 1,681 |
| Virginia Beach | **133,515** | **144,169** | 130,147 | 139,686 |
| Counties: | | | | |
| Isle of Wight | **18,716** | **20,170** | 18,416 | 19,724 |
| Southampton | **11,100** | **11,895** | 11,024 | 11,738 |
| | **$ 416,462** | **$ 446,044** | $ 410,482 | $ 436,781 |

***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:

| | Maximum Percentage |
|---|---|
| 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, 2015, the credit risk of the total investments were:

| | Rating | Percentage |
|---|---|---|
| TowneBank Money Market | No rating | 22.0 |
| Certificate of Deposit | No rating | 24.5 |
| PFM Funds - Prime Series Money Market Fund includes Institutional Class | AAAm | 2.0 |
| Raymond James & Associates, Governmental Bonds | AA- | 13.7 |
| Raymond James & Associates, Governmental Bonds | AA+ | 26.0 |
| Federated Treasury Obligations Funds | AAAm | 0.7 |
| U.S. Bank Money Market Deposit Account | No rating | 11.1 |

At June 30, 2014, the credit risk of the total investments were:

| | Rating | Percentage |
|---|---|---|
| Wells Fargo Commercial Checking Account Public Funds | No rating | 4.0 |
| TowneBank Money Market | No rating | 43.0 |
| Certificate of Deposit | No rating | 0.7 |
| PFM Funds - Prime Series Money Market Fund includes Institutional Class | AAAm | 2.0 |
| Local Government Investment Pool | AAAm | 29.9 |
| Federated Treasury Obligations Funds | AAAm | 0.6 |
| U.S. Bank Money Market Deposit Account | No rating | 19.8 |

### *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 of June 30, 2015, 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.

As of June 30, 2014, approximately 43% of SPSA's total investments were invested in a TowneBank Money Market, which is fully collateralized in accordance with the Virginia Security for Public Deposits Act.

### *Interest Rate Risk*

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

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

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

At June 30, 2015, 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 | **$ 508,693** | **$ 508,693** | **$ -** | **$ -** |
| Federated Treasury Obligations Money market | **165,042** | **165,042** | **-** | **-** |
| U.S. Bank money market Deposit account | **2,788,680** | **2,788,680** | **-** | **-** |
| TowneBank Money Market | **5,544,239** | **5,544,239** | **-** | **-** |
| Certificate of deposit | **6,203,401** | **6,203,401** | **-** | **-** |
| Raymond James & Associates Corporate Bonds | **3,470,240** | **-** | **2,300,632** | **1,169,608** |
| Raymond James & Associates Governmental Bonds | **6,552,419** | **-** | **6,552,419** | **-** |
| | **$ 25,232,714** | **$ 15,210,055** | **$ 8,853,051** | **$ 1,169,608** |

At June 30, 2014, 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 | $ 508,313 | $ 508,313 | $ - | $ - |
| Federated Treasury Obligations Money market | 151,026 | 151,026 | - | - |
| U.S. Bank money market Deposit account | 4,981,407 | 4,981,407 | - | - |
| Wells Fargo Commercial Checking Account Account Public Funds | 1,007,009 | 1,007,009 | - | - |
| TowneBank Money Market | 10,809,595 | 10,809,595 | - | - |
| Local Government Investment Pool | 7,509,148 | 7,509,148 | - | - |
| Certificate of deposit | 187,924 | 187,924 | - | - |
| | $ 25,154,422 | $ 25,154,422 | $ - | $ - |

### *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, 2015 and 2014, all of SPSA's restricted asset investments were held in a bank's trust department in SPSA's name.

## 5. Capital Assets

Capital assets of the Authority as a whole as of June 30, 2015 and 2014, consist of the following:

| | Balance July 1, 2014 | Increases | Decreases | Balance June 30, 2015 |
|---|---|---|---|---|
| Capital assets not being depreciated or depleted: | | | | |
| Land | $ 2,646,251 | $ - | $ - | $ 2,646,251 |
| Construction-in-progress | 40,009 | - | (40,009) | - |
| Total capital assets not being depreciated or depleted | 2,686,260 | - | (40,009) | 2,646,251 |
| Other capital assets | | | | |
| Improvements (regional landfill) | 64,179,318 | 236,534 | - | 64,415,852 |
| Other land improvements | 495,511 | - | - | 495,511 |
| Buildings | 42,592,677 | - | - | 42,592,677 |
| Equipment | 19,575,082 | 326,535 | (440,939) | 19,460,678 |
| Motor vehicles | 12,384,717 | - | (666,824) | 11,717,893 |
| Total other capital assets | 139,227,305 | 563,069 | (1,107,763) | 138,682,611 |
| Less - accumulated depreciation and depletion: | | | | |
| Improvements (regional landfill) | 48,775,355 | 833,475 | - | 49,608,830 |
| Other land improvements | 495,511 | - | - | 495,511 |
| Buildings | 33,924,428 | 1,501,471 | - | 35,425,899 |
| Equipment | 15,418,994 | 1,177,617 | (440,939) | 16,155,674 |
| Motor vehicles | 9,937,904 | 745,034 | (666,824) | 10,016,112 |
| Total accumulated depreciation and depletion | 108,552,192 | 4,257,597 | (1,107,763) | 111,702,026 |
| Other capital assets - net | 30,675,114 | (3,694,529) | - | 26,980,585 |
| | $ 33,361,373 | $ (3,694,528) | $ (40,009) | $ 29,626,836 |

| | Balance July 1, 2013 | Increases | Decreases | Balance June 30, 2014 |
|---|---|---|---|---|
| Capital assets not being depreciated or depleted: | | | | |
| Land | $ 2,646,251 | $ - | $ - | $ 2,646,251 |
| Construction-in-progress | 22,384 | 40,009 | (22,384) | 40,009 |
| Total capital assets not being depreciated or depleted | 2,668,635 | 40,009 | (22,384) | 2,686,260 |
| Other capital assets | | | | |
| Improvements (regional landfill) | 64,179,318 | - | - | 64,179,318 |
| Other land improvements | 495,511 | - | - | 495,511 |
| Buildings | 42,592,677 | - | - | 42,592,677 |
| Equipment | 20,319,156 | 83,389 | (827,463) | 19,575,082 |
| Motor vehicles | 12,339,182 | 82,533 | (36,998) | 12,384,717 |
| Total other capital assets | 139,925,844 | 165,922 | (864,461) | 139,227,305 |
| Less - accumulated depreciation and depletion: | | | | |
| Improvements (regional landfill) | 48,407,605 | 367,750 | - | 48,775,355 |
| Other land improvements | 495,511 | - | - | 495,511 |
| Buildings | 32,300,313 | 1,624,114 | - | 33,924,428 |
| Equipment | 14,936,725 | 1,285,902 | (803,632) | 15,418,994 |
| Motor vehicles | 9,201,520 | 773,382 | (36,998) | 9,937,904 |
| Total accumulated depreciation and depletion | 105,341,674 | 4,051,148 | (840,630) | 108,552,192 |
| Other capital assets - net | 37,806,639 | (3,885,225) | (40,480) | 30,675,114 |
| | $ 37,252,805 | $ (3,845,217) | $ (46,215) | $ 33,361,373 |

## 6. Long-Term Debt

### *Bonds Payable*

Bonds payable at June 30, 2015 and 2014, consist of the following:

| | 2015 | 2014 |
|---|---|---|
| Guaranteed Subordinated Refunding Bonds, dated June 17, 2009, and issued in the original amount of $71,985,000, due November 2017 (held by VRA). | **$ 24,005,000** | $ 30,185,000 |

| | 2015 | 2014 |
|---|---|---|
| Total bonds payable | **$ 24,005,000** | $ 30,185,000 |
| Less | | |
| Deferred loss on defeasance | **(354,868)** | (1,080,122) |
| Current maturies of bonds payable | **(3,335,000)** | (6,180,000) |
| Noncurrent portion of bonds payable | **$ 20,315,132** | $ 22,924,878 |

Rates of interest on the bonds outstanding and payable range from 3.85% to 4.85% for the years ended June 30, 2015 and 2014.

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, 2015, were as follows:

| Member Community | Guarantee percentage | Principal guarantee |
|---|---|---|
| City of Chesapeake | 22.49% | $ 5,398,725 |
| City of Franklin | 0.97 | 232,848 |
| Isle of Wight County | 3.98 | 955,398 |
| City of Norfolk | 16.98 | 4,076,049 |
| City of Portsmouth | 10.27 | 2,465,314 |
| Southampton County | 2.10 | 504,105 |
| City of Suffolk | 12.87 | 3,089,444 |
| City of Virginia Beach | 30.34 | 7,283,117 |
| | 100.00% | $ 24,005,000 |

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.

The following presents the changes in bonds payable for the Authority as a whole for the years ended June 30, 2015 and 2014:

| | | |
|---|---|---|
| Balances as of June 30, 2013 | $ | 30,335,000 |
| Principal paid and defeased | | (150,000) |
| Balances as of June 30, 2014 | | 30,185,000 |
| Principal paid and defeased | | (6,180,000) |
| Balances as of June 30, 2015 | $ | 24,005,000 |

Aggregate maturities of bonds payable (principal and interest) at June 30, 2015, are as follows:

| | Principal | Interest | Total |
|---|---|---|---|
| 2016 | $ 3,335,000 | $ 1,073,083 | $ 4,408,083 |
| 2017 | 10,775,000 | 747,850 | 11,522,850 |
| 2018 | 9,895,000 | 247,052 | 10,142,052 |
| | $ 24,005,000 | $ 2,067,985 | $ 26,072,985 |

## 7. 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. Such costs are included in intangible assets in the accompanying statements of net position. The Authority also must reimburse Virginia Beach for operating and maintenance costs incurred by Virginia Beach in the operation of the Virginia Beach Landfill, and for its share of the closure and postclosure care (see Note 8). Additionally, the rate at which Virginia Beach pays for municipal tipping fees is capped per the agreement. During fiscal years 2015 and 2014, the Authority recorded $9,790,243 and $9,624,369, respectively, for expenses related to reimbursements to Virginia Beach in accordance with the ash disposal agreement.

The per ton capped rate for fiscal years 2015 and 2014 was $65.35 in each year, compared to the per ton municipal tipping fee of $125 in 2015 and 2014. 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.

## 8. 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, 2015 and 2014, are $15,899,827 and $15,421,604, respectively. The three components are described as follows:

The first component of the liability relates to Cells I-IV, which was $3,002,470 and $3,079,456 as of June 30, 2015 and 2014, 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, 2015 and 2014, 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 46% of Cell VI of the Regional Landfill is $12,897,357 and $12,342,148 at June 30, 2015 and 2014, 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, 2015 and 2014, 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 year 2015, 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, 2015 and 2014:

| | |
|---|---|
| Balances as of June 30, 2013 | $ 15,180,357 |
| Revision of estimate | 362,658 |
| Payments made | (121,411) |
| Balances as of June 30, 2014 | 15,421,604 |
| Revision of estimate | 601,401 |
| Payments made | (123,178) |
| Balances as of June 30, 2015 | $ 15,899,827 |

## 9. Commitments

In the normal course of operations, the Authority enters into various construction contracts. At June 30, 2015 and 2014, total commitments under these contracts amounted to $733,464 and $259,833, respectively.

## 10. 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 year 2015 and 2014 was comprised of the following:

| | **2015** | **2014** |
|---|---|---|
| Service fee | **$ 22,885,000** | $ 21,890,000 |
| Less: | | |
| 10% of steam revenue | **(903,160)** | (902,909) |
| SPSA hauling fee | **(4,063,812)** | (3,877,254) |
| Loading fee | **(184,133)** | (205,730) |
| 10% of proprietary waste revenue | **(122,033)** | (106,927) |
| Liquidated damages for failure to remove trailer | **(5,000)** | (5,000) |
| Fuel surcharge | **(439,817)** | (771,581) |
| Extended hours at transfer station | **(51,404)** | (50,051) |
| Credit for annual real estate tax threshold | **(474,926)** | - |
| Waste diverted from transfer stations and hauled by SPSA to Regional Landfill | **(1,040,399)** | (392,675) |
| Excess fluff taken to Regional Landfill | **(108,722)** | (91,454) |
| Net service fee paid | **$ 15,491,594** | $ 15,486,419 |

In fiscal years 2015 and 2014, 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 $1,040,399 and $392,675, respectively, was applied as a credit against the service fee.

## 11. Defined Benefit Pension Plan

### *Plan Description*

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

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

| RETIREMENT PLAN PROVISIONS | | |
|---|---|---|
| **PLAN 1** | **PLAN 2** | **HYBRID RETIREMENT PLAN** |
| | | |
| **About Plan 1**<br>Plan 1 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. Employees are eligible for Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013. | **About Plan 2**<br>Plan 2 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. Employees are eligible for Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013. | **About the Hybrid Retirement Plan**<br>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")<br>• The defined benefit is based on a member's age, creditable service and average final compensation at retirement using a formula.<br>• 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. |

<table>
<tr><td></td><td></td><td>• 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.</td></tr>
<tr><td>Eligible Members<br>Employees are in Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.<br><br>Hybrid Opt-In Election<br>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.<br><br>The Hybrid Retirement Plan's effective date for eligible Plan 1 members who opted in was July 1, 2014.</td><td>Eligible Members<br>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.<br><br>Hybrid Opt-In Election<br>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.<br><br>The Hybrid Retirement Plan's effective date for eligible Plan 2 members who opted in was July 1, 2014.</td><td>Eligible Members Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes:<br>• Political subdivision employees*<br>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.</td></tr>
<tr><td>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.<br><br>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.</td><td>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.<br><br>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.</td><td>*Non-Eligible Members<br>Some employees are not eligible to participate in the Hybrid Retirement Plan. They include:<br>• Political subdivision employees who are covered by enhanced benefits for hazardous duty employees<br><br>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.</td></tr>
</table>

| | | |
|---|---|---|
| **Retirement Contributions**<br>Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some political subdivisions elected to phase in the required 5% member contribution but all employees will be paying the full 5% by July 1, 2016. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment. | **Retirement Contributions**<br>Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some political subdivisions elected to phase in the required 5% member contribution but all employees will be paying the full 5% by July 1, 2016. | **Retirement Contributions**<br>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.<br>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 |
| **Creditable Service**<br>Creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit. | **Creditable Service**<br>Same as Plan 1. | **Creditable Service**<br>**<u>Defined Benefit Component:</u>**<br>Under the defined benefit component of the plan, creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit. |

| | | |
|---|---|---|
| | | **Defined Contributions Component:**<br>Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan. |
| **Vesting**<br>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.<br><br>Members are always 100% vested in the contributions that they make. | **Vesting**<br>Same as Plan 1. | **Vesting**<br>**Defined Benefit Component:**<br>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.<br><br>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.<br><br>**Defined Contributions Component:**<br>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.<br><br>Members are always 100% vested in the contributions that they make. |

| | | |
|---|---|---|
| | | Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service.<br>• After two years, a member is 50% vested and may withdraw 50% of employer contributions.<br>• After three years, a member is 75% vested and may withdraw 75% of employer contributions.<br>• After four or more years, a member is 100% vested and may withdraw 100% of employer contributions.<br><br>Distribution is not required by law until age 70½. |
| **Calculating the Benefit**<br>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.<br><br>An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit. | **Calculating the Benefit**<br>See definition under Plan 1. | **Calculating the Benefit**<br>**<u>Defined Benefit Component:</u>**<br>See definition under Plan 1<br><br>**<u>Defined Contribution Component:</u>**<br>The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions |
| **Average Final Compensation**<br>A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee. | **Average Final Compensation**<br>A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee. | **Average Final Compensation**<br>Same as Plan 2. It is used in the retirement formula for the defined benefit component of the plan. |

| | | |
|---|---|---|
| **Service Retirement Multiplier**<br>**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%.<br><br>**Sheriffs and regional jail superintendents:** The retirement multiplier for sheriffs and regional jail superintendents is 1.85%.<br><br>**Political subdivision hazardous duty employees:** The retirement multiplier of eligible political subdivision hazardous duty employees other than sheriffs and regional jail superintendents is 1.70% or 1.85% as elected by the employer. | **Service Retirement Multiplier**<br>**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.<br><br>**Sheriffs and regional jail superintendents:** Same as Plan 1.<br><br>**Political subdivision hazardous duty employees:** Same as Plan 1. | **Service Retirement Multiplier**<br>**<u>Defined Benefit Component:</u>**<br>**VRS:** The retirement multiplier for the defined benefit component is 1.00%.<br><br>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.<br><br>**Sheriffs and regional jail superintendents:** Not applicable.<br><br>**Political subdivision hazardous duty employees:** Not applicable.<br><br>**<u>Defined Contribution Component:</u>**<br>Not applicable. |
| **Normal Retirement Age**<br>**VRS:** Age 65.<br><br>**Political subdivisions hazardous duty employees:** Age 60.<br><br>**Earliest Unreduced Retirement Eligibility**<br>**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.<br><br>**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. | **Normal Retirement Age**<br>**VRS:** Normal Social Security retirement age.<br><br>**Political subdivisions hazardous duty employees:** Same as Plan 1.<br><br>**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.<br><br>**Political subdivisions hazardous duty employees:** Same as Plan 1. | **Normal Retirement Age**<br>**<u>Defined Benefit Component:</u>**<br>**VRS:** Same as Plan 2.<br><br>**Political subdivisions hazardous duty employees:** Not applicable.<br><br>**<u>Defined Contribution Component:</u>**<br>Members are eligible to receive distributions upon leaving employment, subject to restrictions.<br><br>**Earliest Unreduced Retirement Eligibility**<br>**<u>Defined Benefit Component:</u>**<br>**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.<br><br>**Political subdivisions hazardous duty employees:** Not applicable. |

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<tr><td></td><td></td><td><u>Defined Contribution Component:</u><br>Members are eligible to receive distributions upon leaving employment, subject to restrictions.</td></tr>
<tr><td>Earliest Reduced Retirement Eligibility<br>VRS: Age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service.<br><br>Political subdivisions hazardous duty employees: 50 with at least five years of creditable service.</td><td>Earliest Reduced Retirement Eligibility<br>VRS: Age 60 with at least five years (60 months) of creditable service.<br><br>Political subdivisions hazardous duty employees: Same as Plan 1.</td><td>Earliest Reduced Retirement Eligibility <u>Defined Benefit Component:</u> VRS: Age Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service.<br><br>Political subdivisions hazardous duty employees: Not applicable.<br><br><u>Defined Contribution Component:</u><br>Members are eligible to receive distributions upon leaving employment, subject to restrictions.</td></tr>
<tr><td>Cost-of-Living Adjustment (COLA) in Retirement<br>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%.<br><br><u>Eligibility:</u><br>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.<br><br>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.</td><td>Cost-of-Living Adjustment (COLA) in Retirement<br>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%.<br><br><u>Eligibility:</u><br>Same as Plan 1</td><td>Cost-of-Living Adjustment (COLA) in Retirement<br><u>Defined Benefit Component:</u><br>Same as Plan 2.<br><br><u>Defined Contribution Component:</u><br>Not applicable.<br><br><u>Eligibility:</u><br>Same as Plan 1 and Plan 2.</td></tr>
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<td><u>Exceptions to COLA Effective Dates:</u><br>The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances:<br>• The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013.<br>• The member retires on disability.<br>• The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP).<br>• 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.<br>• 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.</td>
<td><u>Exceptions to COLA Effective Dates:</u><br>Same as Plan 1</td>
<td><u>Exceptions to COLA Effective Dates:</u><br>Same as Plan 1 and Plan 2.</td>
</tr>
<tr>
<td>Disability Coverage<br>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.<br><br>VSDP members are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.</td>
<td>Disability Coverage<br>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.<br><br>VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.</td>
<td>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.<br><br>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.</td>
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| | | |
|---|---|---|
| **Purchase of Prior Service**<br>Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as creditable service in their plan. Prior creditable service counts toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. When buying service, members must purchase their most recent period of service first. Members also may be eligible to purchase periods of leave without pay. | **Purchase of Prior Service**<br>Same as Plan 1. | **Purchase of Prior Service**<br>**<u>Defined Benefit Component:</u>**<br>Same as Plan 1, with the following exceptions:<br>• Hybrid Retirement Plan members are ineligible for ported service.<br>• The cost for purchasing refunded service is the higher of 4% of creditable compensation or average final compensation.<br>• 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.<br><br>**<u>Defined Contribution Component:</u>**<br>Not applicable. |

### *Employees Covered by Benefit Terms*

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

| | Number |
|---|---|
| Inactive members or their beneficiaries currently receiving benefits | 174 |
| Inactive members: | |
| Vested | 98 |
| Non-vested | 283 |
| Active elsewhere in VRS | 72 |
| Total inactive members | 453 |
| Active members | 141 |
| Total | 768 |

### *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, 2015, was 5.42% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2013.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employee during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the Authority were $626,229 and $601,984 for the years ended June 30, 2015 and 2014, respectively.

### *Net Pension Liability*

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

### *Actuarial Assumptions*

The total pension liability for Employees in SPSA's Retirement Plan was based on an actuarial valuation as of June 30, 2013, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2014.

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

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

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

Largest 10 - Non-LEOS:

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

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

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

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

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

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

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

### *Discount Rate*

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

### *Changes in Net Pension Liability (Asset)*

| | Total Pension Liability (a) | Plan Fiduciary Net Position (b) | Net Pension Liability (Asset) (a) - (b) |
|---|---|---|---|
| Balances at June 30, 2013 | $ 39,732,695 | $ 40,651,226 | $ (918,531) |
| Changes for the year: | | | |
| Service cost | 606,013 | - | 606,013 |
| Interest | 2,711,110 | - | 2,711,110 |
| Contributions - employer | - | 297,584 | (297,584) |
| Contributions - employee | - | 309,452 | (309,452) |
| Net investment income | - | 6,320,734 | (6,320,734) |
| Benefit payments, including refunds of employee contributions | (2,005,095) | (2,005,095) | - |
| Administrative expense | - | (34,912) | 34,912 |
| Other changes | - | 333 | (333) |
| Net changes | 1,312,028 | 4,888,096 | (3,576,068) |
| Balances at June 30, 2014 | $ 41,044,723 | $ 45,539,322 | $ (4,494,599) |

### *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) | $ 697,635 | $ (4,494,599) | $ (8,826,158) |

### *Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions*

For the year ended June 30, 2015, SPSA recognized pension benefit of $458,252. At June 30, 2015, SPSA reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | | Deferred Outflows of Resources | | Deferred Inflows of Resources |
|---|---|---|---|---|
| Net difference between projected and actual earnings on plan investments | $ | - | $ | 2,820,232 |
| Employer contributions subsequent to the measurement date | | 325,829 | | - |
| Total | $ | 325,829 | $ | 2,820,232 |

Amounts reported as deferred inflows of resources related to pensions at June 30, 2015, will be recognized in pension expense as follows:

| | | |
|---|---|---|
| 2016 | $ | (705,058) |
| 2017 | | (705,058) |
| 2018 | | (705,058) |
| 2019 | | (705,058) |
| | $ | (2,820,232) |

### *Payables to the Pension Plan*

The Authority had $57,792 and $56,540 as short term payables to VRS for legally or contractually required contributions outstanding as of June 30, 2015 and 2014, respectively.

## 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 up to 50% of the amount it normally pays for active employees for the lowest tier of coverage on the least expensive plan. The amount is calculated based on 5% per year of completed service with SPSA.

***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.

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, 2014 | $ 1,731,655 |
| ARC for 2015: | |
| Normal cost | 147,000 |
| Unamortized actuarial accrued liability (UAAL) | 113,500 |
| Total ARC for 2015 | 260,500 |
| Interest on net OPEB obligation | 60,608 |
| Adjustment to ARC | (94,152) |
| Annual OPEB cost | 226,956 |
| Less - contributions made | (94,400) |
| Increase in net OPEB obligation | 132,556 |
| Net OPEB obligation as of June 30, 2015 | $ 1,864,211 |

| | |
|---|---|
| Net OPEB obligations as of June 30, 2013 | $ 1,586,997 |
| ARC for 2014: | |
| Normal cost | 136,300 |
| Unamortized actuarial accrued liability (UAAL) | 113,500 |
| Total ARC for 2014 | 249,800 |
| Interest on net OPEB obligation | 55,545 |
| Adjustment to ARC | (86,287) |
| Annual OPEB cost | 219,058 |
| Less - contributions made | (74,400) |
| Increase in net OPEB obligation | 144,658 |
| Net OPEB obligation as of June 30, 2014 | $ 1,731,655 |

The Authority's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2015, 2014, 2013, 2012 and 2011, were as follows:

| Year Ended June 30 | Annual OPEB cost | Percentage of annual OPEB cost contributed | Net OPEB obligation |
|---|---|---|---|
| 2015 | $ 226,956 | 41.6% | $ 1,864,211 |
| 2014 | 219,058 | 34.0% | 1,731,655 |
| 2013 | 210,494 | 35.3% | 1,586,997 |
| 2012 | 426,596 | 40.0% | 1,450,903 |
| 2011 | 411,648 | 34.7% | 1,194,807 |

### *Funded Status and Funding Progress*

As of June 30, 2013, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits and the UAAL was $2,159,900. The covered payroll (annual payroll of active employees covered by the plan) was $6,132,300, and the ratio of the UAAL to the covered payroll was 35.2%. 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, 2010, to June 30, 2013, is the due to the following:

1. Demographic experience differed from expected;

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. Updated implicity subsidy assumption;

6. Updated discount rate assumption from 4.00% as of June 30, 2010, to 3.50% as of June 30, 2013;

7. A decrease in the number of covered retirees and dependents from 20 as of June 30, 2010 to 8 as of June 30, 2013; and,

8. A change in the medical plans offered from the Optima HMO and POS plans to the lower cost Key Advantage 500 and 1000 plans.

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, 2013, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions at June 30, 2013, included a 3.5% investment rate of return and an annual healthcare cost trend rate increase of 7.0% grading down to 4.8% over 70 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, 2013, the plan realized an actuarial gain of $1,954,700.

## 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)***

## Schedule of Postretirement Medical Benefit Plan Funding Progress (Unaudited)

### June 30, 2013

| Valuation date | | | June 30, 2013 | June 30, 2010 | June 30, 2008 |
|---|---|---|---|---|---|
| Actuarial value of assets (AVA) | (1) | $ | - | - | - |
| Actuarial accrued liability (AAL) | (2) | $ | 2,159,900 | 3,434,100 | 4,967,164 |
| Unfunded (overfunded) actuarial accrued liability (UAAL) (2) - (1) | (3) | $ | 2,159,900 | 3,434,100 | 4,967,164 |
| Fund ratio (1)/(2) | (4) | | 0% | 0% | 0% |
| Annual covered payroll | (5) | $ | 6,132,300 | 6,395,300 | 17,001,029 |
| UAAL as a % of payroll (3)/(5) | (6) | | 35.2% | 53.7% | 29.2% |

**Southeastern Public Service Authority of Virginia**
**Schedule of Changes in Net Pension Liability and Related Ratios**
**Year Ended June 30, 2014**

| | |
|---|---|
| Total pension liability | |
| Service cost | $ 606,013 |
| Interest | 2,711,110 |
| Changes in benefit terms | - |
| Differences between expected and actual experience | - |
| Changes in assumptions | - |
| Benefit payments, including refunds of employee contributions | (2,005,095) |
| Net change in total pension liability | 1,312,028 |
| Total pension liability - beginning | 39,732,695 |
| Total pension liability - ending (a) | $ 41,044,723 |
| Plan fiduciary net position | |
| Contributions - employer | $ 297,584 |
| Contributions - employee | 309,452 |
| Net investment income | 6,320,734 |
| Benefit payments, including refunds of employee contributions | (2,005,095) |
| Administrative expense | (34,912) |
| Other | 333 |
| | 4,888,096 |
| Net change in plan fiduciary net position | |
| Plan fiduciary net position - beginning | 40,651,226 |
| Plan fiduciary net position - ending (b) | $ 45,539,322 |
| Net pension liability (asset) - ending (a) -(b) | $ (4,494,599) |
| Plan fiduciary net position as a percentage of the total Pension liability | 111% |
| Covered-employee payroll | $ 6,150,764 |
| Net pension (asset) liability as a percentage of covered-employee payroll | (73%) |

**Southeastern Public Service Authority of Virginia**
**Schedule of Employer Contributions**
**Year Ended June 30, 2015**

| Date | Contractually Required Contribution (1) | Contributions in Relation to Contractually Required Contribution (2) | Contribution Deficiency (Excess) (3) | Employer's Covered Employee Payroll (4) | Contributions as a % of Covered Employee Payroll (5) |
|---|---|---|---|---|---|
| 2015 | $ 345,166 | $ 325,829 | $ 19,337 | $ 6,368,370 | 5.12% |
| 2014 | 333,371 | 297,584 | 35,787 | 6,150,764 | 4.84% |

### *Changes of Benefit Terms*

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

### *Changes of assumptions*

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

Largest 10 - Non-LEOS:

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

Largest 10 - LEOS:

- Update mortality table
- Decrease in male rates of disability

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

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

All Others (Non 10 Largest) - LEOS:

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

DIXON HUGHES GOODMAN LLP

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

The Board of Directors
***Southeastern Public Service Authority of 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 financial statements of ***Southeastern Public Service Authority of Virginia***, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise ***Southeastern Public Service Authority of Virginia***'s basic financial statements, and have issued our report thereon dated November 17, 2015.

### *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 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 Virginias*** 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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

DIXON HUGHES GOODMAN LLP

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

Dixon Hughes Goodman LLP

**Newport News, Virginia**
**November 17, 2015**