FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

As of and for the Year Ended June 30, 2015

And Report of Independent Auditors



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#### **Report of Independent Auditor**

The Board of Directors
Virginia Peninsulas Public Service Authority

#### **Report on the Financial Statements**

We have audited the accompanying financial statements of the Virginia Peninsulas Public Service Authority (the "Authority"), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

#### Management's Responsibility for the Financial Statements

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

#### Auditor's Responsibility

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

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

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

#### **Opinion**

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

#### Emphasis of Matter

As discussed in Note 11 and presented in Note 9 to the financial statements, the Authority adopted the provisions of Governmental Accounting Standards Board ("GASB") Statement No. 68, Accounting and Financial Reporting for Pensions, and GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date-an amendment of GASB Statement No. 68, effective July 1, 2014. Our opinion is not modified with respect to this matter.

#### **Other Matters**

#### Required Supplementary Information

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

#### Other Supplementary Information

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

#### Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 27, 2015, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Virginia Beach, Virginia November 27, 2015

Cherry Bekaut LLP

#### MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2015

The following Management Discussion and Analysis (MD&A) of Virginia Peninsulas Public Service Authority (the "Authority") provides a discussion and analysis of the Authority's financial performance for the fiscal year ended June 30, 2015. This MD&A should be read in conjunction with the basic financial statements and notes thereto, that follow this section.

#### **Financial Highlights**

- The Authority implemented a new accounting standard in fiscal year 2015, resulting in the reporting of a net pension asset, deferred outflow of resources and deferred inflow of resources for the first time in fiscal year 2015.
- The assets and deferred outflow of resources of the Authority exceeded its liabilities and deferred inflow of resources at the close of the fiscal year by \$4,955,575 (net position). Of this amount, \$4,114,667 (unrestricted net position) may be used to meet the Authority's ongoing obligations to its member communities, customers, and creditors. Of the unrestricted net position, the Board has designed \$2,597,504 to be set aside for the future replacement of equipment.
- The Authority's total net position at June 30, 2015 increased from \$4,739,339 (restated) at June 30, 2014 to \$4,955,575, or \$216,236 (a 5% increase).
- Total liabilities at June 30, 2015 were \$1,346,356 compared to \$1,446,157 at June 30, 2014. The \$99,801 decrease, or 7%, is primarily attributable to timing of payments to vendors.
- Operating revenue of \$6,533,032 was below the budgeted amount of \$6,793,060 by \$260,028, or 4%.
   This reduction in revenue was primarily due to not meeting sales goals at the Compost Facility, lower than anticipated landfill monitoring costs and a corresponding reduction in billings to the communities.
- Operating expenses of \$6,430,853, compared to budgeted operating expenses of \$6,793,060, were 5% or \$362,207 below budget.

#### **Overview of the Financial Statements**

The statement of net position presents information on the Authority's assets and liabilities. In addition to assets, the statement of net position also reports a separate section for deferred outflows of resources, which represents a consumption of net position that applies to a future period and so will not be recognized as an expense until then. In addition to liabilities, the statement of net position also reports a separate section for deferred inflows of resources, representing an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The Authority reported deferred outflows and inflows for fiscal year 2015, as a result of the implementation of new pension accounting standards (see Note 11). The difference between the assets and deferred outflows of resources, and liabilities and deferred inflows of resources, is reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

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

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

#### MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2015

#### **Financial Analysis**

The following table reflects the Authority's condensed summary of the statement of net position at June 30, 2015 and 2014.

#### Statement of Net Position

	2015	2014
Current and other assets Noncurrent assets	\$ 5,279,749 1,169,908	\$ 5,100,417 960,079
Total Assets	6,449,657	6,060,496
Deferred outflow of resources	90,274	
Total Assets and Deferred Outflow of Resources	6,539,931	6,060,496
Current liabilities - total liabilities	1,346,356	1,446,157
Deferred inflow of resources	238,000	
Total Liabilities and Deferred Inflow of Resources	1,584,356	1,446,157
Net investment in capital assets Unrestricted	840,908 4,114,667	960,079 3,654,260
Total Net Position	\$ 4,955,575	\$ 4,614,339

At the close of the 2015 and 2014 fiscal years, the Authority's assets and deferred outflow of resources exceeded liabilities and deferred inflow of resources by \$4,955,575 and \$4,614,339, respectively. The Authority's net position increased by \$341,236, due to the restatement of beginning net position of \$125,000 to account for the implementation of new pension standards as discussed in Note 11, and due to the 2015 net revenue over expenses of \$216,236. The implementation of the new pension standards also resulted in reporting the net pension asset of approximately \$329,000, (included in noncurrent assets), as well as reporting the deferred outflow of resources (for current year pension contributions) and a deferred inflow of resources (for the difference between projected and actual earnings on pension investments), all for the first time in fiscal year 2015.

In addition, during the year ended June 30, 2015, the Authority purchased a new wheel loader for \$241,925, which is reflected in the noncurrent assets total above.

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

#### MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2015

The results of the Authority's operations are reported in the following table. The table presents a condensed summary of this information for the years ended June 30, 2015 and 2014.

#### Statement of Revenues, Expenses, and Changes in Net Position

	<u>2015</u>	2014
Operating revenue Operating expenses	\$ 6,533,032 6,430,853	\$ 7,735,739 7,615,342
Income from operations	102,179	120,397
Nonoperating revenue	114,057_	16,357
Change in net position Net position, beginning of year (restated)	216,236 4,739,339	136,754 4,477,585
Net position, end of year	\$ 4,955,575	\$ 4,614,339

#### **Transfer System**

VPPSA operates 4 Transfer Stations and 14 Convenience Centers in 5 counties on the Middle Peninsula. The Transfer System handled 28,640 tons of solid waste in fiscal year 2015, which is a reduction of 1% compared to the previous year waste quantities.

The Transfer System recycled over 500 tons of scrap metal generating \$92,000 in revenue. The mixed paper program combined with the drop off recycling program and the front load cardboard collection recycled an additional 1,100 tons generating \$99,000 in revenue. Plastic, aluminum, and steel containers accounted for an additional 530 tons of recycled material which generated more than \$11,000 in revenue.

#### **Compost Facility**

The VPPSA Compost Facility, located at 145 Goodwin Neck Road in Yorktown, accepts vegetative waste from the cities of Hampton and Poquoson and from York County along with a growing number of commercial customers. Sales of compost and mulch were \$417,000, which was more than \$100,000 below the revenue target. Poor weather during peak sales periods contributed to the inability to reach the sales goal. Lower than anticipated fuel costs along with operational efficiencies contributed to keeping expenses below revenue.

The incoming quantities of leaves, grass, and brush for fiscal year 2015 were significantly lower than the fiscal year 2014 quantities with 21,500 tons, a reduction of 3,250 tons.

#### **Household Chemical Project**

The household chemical project provided 16 drop off collection events for the residents of Hampton, James City County, Poquoson, Williamsburg, and York County to properly dispose of commonly used products from homeowners. This project is staffed by employees of the Middle Peninsula Transfer System and technical and disposal services are provided through a contract with Clean Harbors. The program provided disposal for almost 4,400 vehicles in the five communities that are serviced with this project.

#### MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2015

#### **Computer Recycling**

VPPSA, through an agreement with The ARC of the Peninsula, now Versability Resources, provided collection at each of the 16 household chemical collection events. In fiscal year 2015, over 100,000 pounds of computer and electronics for recycling was received from almost 2,200 vehicles.

#### **Curbside Recycling Project**

VPPSA provides curbside recycling in James City County, Poquoson, Williamsburg, and York County. The program underwent a significant change in fiscal year 2015. Approximately 35,000 rollout carts were delivered in June 2014, anticipating the change to every other week collection with roll out carts on July 1, 2014.

As of July 1, 2014, weekly collection of recyclables with 18 gallon bins was replaced with every other week collection of recyclables with 65-gallon and 95-gallon roll out carts. During fiscal year 2015, more than 12,500 tons of material was recycled from 48,000 homes. The program accepts plastic bottles and jugs, other plastic containers, rigid plastics, aluminum and steel cans, cardboard, mixed paper, and glass bottles and jars.

The following table presents a condensed summary of the Authority's capital assets at June 30, 2015 and 2014.

#### Captial Assets, Net of Accumulated Depreciation

	 <u>2015</u>		
Building and improvements	\$ 72,728	\$	95,636
Office equipment	-		3,287
Operating equipment	533,899		465,027
Vehicles	 234,281		396,129
	\$ 840,908	\$	960,079

As mentioned above, during fiscal year 2015, the Authority purchased a new wheel loader for \$241,925. This purchase netted against depreciation expense of \$361,096, represents the net decrease of \$119,171 from fiscal year 2014 to 2015. Additional information can be found in Note 4 to the basic financial statements.

#### **Request for Information**

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



# STATEMENT OF NET POSITION

ASSETS	
Current Assets:	
Cash and cash equivalents	\$ 2,141,816
Accounts receivable:	
Member jurisdictions	290,345
Other	123,813
Investments	 2,723,775
Total Current Assets	5,279,749
Noncurrent Assets:	
Capital assets, net	840,908
Net pension asset	 329,000
Total Noncurrent Assets	 1,169,908
Total Assets	 6,449,657
DEFERRED OUTFLOW OF RESOURCES	
Deferred pension contributions	90,274
Total Assets and Deferred Outflow of Resources	\$ 6,539,931
LIABILITIES	
Current Liabilities:	
Accounts payable and accrued liabilities	\$ 271,207
Compensated absences and accrued salaries	278,730
Unearned revenue	743,026
Funds held for participating members	53,393
Total Liabilities	1,346,356
DEFERRED INFLOW OF RESOURCES	
Deferred pension investment experience	238,000
Total Liabilities and Deferred Inflow of Resources	1,584,356
NET POSITION	
Net investment in capital assets	840,908
Unrestricted	4,114,667
Total Net Position	4,955,575
Total Liabilities, Deferred Inflows of Resources and Net Position	\$ 6,539,931

# STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN NET POSITION

YEAR ENDED JUNE 30, 2015

Operating Revenues	
Fees from member jurisdictions for:	
Curbside recycling program	\$ 954,620
Drop-off recycling program	111,687
Transfer system operations	1,490,416
Landfill disposal	707,066
Compost facility operations	570,334
Material sales	520,261
Computer recycling services	4,015
Groundwater monitoring	184,138
Tire recycling services	3,040
Convenience centers operations	725,304
Household chemical services	270,649
Administrative	110,000
Project overhead	574,145
Miscellaneous and other fees	307,357
Total Operating Revenues	6,533,032
Operating Expenses	
Curbside recycling program	1,000,910
Drop-off recycling program	115,325
Transfer system operations	1,879,539
Landfill disposal	707,064
Compost facility operations	1,001,313
Special projects	195,061
Convenience centers operations	737,447
Household chemical services	278,941
Administrative services	515,253
Total Operating Expenses	6,430,853
Operating Income	 102,179
Nonoperating Revenue:	
Gain on disposal of capital assets	111,200
Interest income	2,857
Total Nonoperating Revenue	114,057
Change in net position	216,236
Net position - beginning of year (restated)	4,739,339
Net position - end of year	\$ 4,955,575

# STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2015

Cash flows from operating activities:	
Receipts from customers and users	\$ 6,392,477
Payments to suppliers for goods and services	(3,955,413)
Payments to employees	 (2,238,611)
Net cash provided by operating activities	198,453
Cash from capital and related financing activities:	
Proceeds from disposal of capital assets	58,700
Purchase of capital asset	(189,425)
Net cash used in capital and related financing activities	 (130,725)
Cash flows from investing activities:	
Net increase in investments	(382,857)
Interest income	2,857
Net cash used in investing activities	 (380,000)
Net decrease in cash and cash equivalents	(312,272)
Cash and cash equivalents, beginning of year	 2,454,088
Cash and cash equivalents, end of year	\$ 2,141,816
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 102,179
Adjustments:	
Depreciation	361,096
Change in:	
Accounts receivable	(108,747)
Pension asset	(204,000)
Deferred outflow of resources for pension contributions	(90,274)
Accounts payable and accrued liabilities	(83,249)
Compensated absences and accrued salaries	15,256
Unearned revenue	(31,808)
Deferred inflow for pension investment experience	 238,000
Net cash provided by operating activities	\$ 198,453

#### NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2015

#### Note 1—Organization and nature of business

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

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

#### Note 2—Summary of significant accounting policies

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

Credit Risk and Concentrations - Financial instruments which potentially subject the Authority to concentration of credit risk consist principally of cash and cash equivalents, investments and accounts receivable from member jurisdictions. The Authority places its cash and cash equivalents and investments with two high credit quality institutions and limits the amount of credit exposure to any one of those financial institutions. At June 30, 2015, there was approximately \$2,200,000 of the Authority's cash and cash equivalents in excess of the insurance provided by the Federal Deposit Insurance Corporation (FDIC), on deposit in the Authority's bank accounts. These funds, and the Authority's investments, however, were properly collateralized in accordance with the Virginia Security for Public Deposits Act. With respect to accounts receivable from member jurisdictions, the Authority's members are cities and counties throughout the middle and south peninsulas of Virginia. Historically, all receivables have been collected.

A substantial portion of the Authority's 2015 revenue and receivables was derived from contracts with the political subdivisions which are members of the Authority. Therefore, the Authority is vulnerable to the economic and political conditions within the market in which it operates.

At June 30, 2015, the Authority had a concentration with two member jurisdictions that made up approximately 49% of all accounts receivable. Also, at June 30, 2015, the Authority had a concentration with five vendors that made up approximately 79% of all accounts payable.

Basis of Accounting - The Authority's operations are accounted for as a proprietary fund, using the economic resources measurement focus. The financial statements are presented on the accrual basis of accounting, and under this method of accounting, revenues are recognized when earned and expenses are recorded when liabilities are incurred without regard to receipt or disbursement of cash. Proprietary funds distinguish from operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Authority's principal ongoing operations.

#### NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2015

#### Note 2—Summary of significant accounting policies (continued)

All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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

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

Allowance for Doubtful Accounts - The Authority evaluates its accounts receivable individually. A charge to income to absorb possible credit losses is provided when, in the opinion of management, it is appropriate. No allowance for doubtful accounts existed at June 30, 2015.

Investments - Investments are valued at the amortized cost method, which approximates fair value.

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

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

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

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

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

#### NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2015

#### Note 2—Summary of significant accounting policies (continued)

Funds Held for Participating Members - At June 30, 2015, funds held for participating members represent unexpended bond funds. Funds may be requisitioned by member localities for debt service payments or other capital expenditures.

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

#### Note 3—Cash and cash equivalents and investments

The Authority's cash and investments at June 30, 2015 consisted of:

Deposits:	
Demand deposits	\$ 2,141,244
Cash on hand	572
	2,141,816
Investments:	
Commonwealth's Local Government Investment Pool (LGIP) -	
rated AAAm by Standard & Poor's	2,723,775
Total deposits and investments	\$ 4,865,591
Reconciliation to statement of net position	
Current:	
Cash and cash equivalents	\$ 2,141,816
Investments	2,723,775
	\$ 4,865,591

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

Statutes authorize local governments and other public bodies to invest in obligations of the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, obligations of the International Bank for Reconstruction and Development (World Bank), the Asian Development Bank, the African Development Bank, "prime quality" commercial paper and certain corporate notes, banker's acceptances, repurchase agreements and the State Treasurer's Local Government Investment Pool (LGIP). LGIP is managed in accordance with the "2a7 like pool" risk limiting requirements of GASB Statement No. 31 "Accounting and Financial Reporting for Certain Investments and for External Investment Pools" with the portfolio securities valued by the amortized cost method. The fair value of the Authority's position in the LGIP is the same as the pool shares.

# NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2015

# Note 4—Capital assets

Capital asset activity consisted of the following	owing	<b>j</b> :				
	Balance, July 1, 2014		Additions Reductions		Balance, ne 30, 2015	
Capital assets being depreciated:						
Building and improvements	\$	2,614,868	\$	-	\$ -	\$ 2,614,868
Office equipment		46,881		-	(10,309)	36,572
Operating equipment		4,236,471		241,925	(373,423)	4,104,973
Vehicles		1,859,569		-	-	1,859,569
Total capital assets being						
depreciated		8,757,789		241,925	 (383,732)	8,615,982
Less accumulated depreciation:						
Building and improvements		2,519,232		22,908	-	2,542,140
Office equipment		43,594		3,287	(10,309)	36,572
Operating equipment		3,771,444		173,054	(373,423)	3,571,075
Vehicles		1,463,440		161,847	 	1,625,287
Total accumulated depreciation		7,797,710		361,096	 (383,732)	7,775,074
Capital assets - net	\$	960,079	\$	(119,171)	\$ 	\$ 840,908
Depreciation expense was charged as fo	llows	:				
Operating activities:						
Administrative services						\$ 6,559
Compost facility operations						160,805
						0400=

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Operating activities:	
Administrative services	\$ 6,559
Compost facility operations	160,805
Convenience centers operations	24,365
Household chemical services	3,251
Transfer stations operations	166,116
Total depreciation expense - business-type activities	\$ 361,096

#### Note 5—Unearned revenue

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

Landfill disposal fees	\$ 443,673
Recycling fees	261,349
Household chemical disposal fees	38,004
Total unearned revenue	\$ 743,026

#### NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2015

#### Note 6—Operating lease

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

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

2016	\$ 115,075
2017	115,075
2018	115,075
2019	115,075
2020	115,075
Thereafter	 460,300
	\$ 1,035,675

Land and weigh scale rent expense for 2015 was \$147,369, and is included in compost facility operations as host fees.

#### Note 7—Board designated equipment reserve

During 2015, the Board designated an additional \$380,000 of unrestricted net position for use in vehicle and equipment replacement for the Authority. Interest earned on the underlying investment was \$2,715 and is included in additions to the reserve. Such funds are invested as described in Note 3. Activity in the board designated equipment reserve fund is summarized as follows:

	Jı	Balance, uly 1, 2014	A	dditions	Redu	ıctions	Balance, ne 30, 2015
Administrative services	\$	43,264	\$	48	\$	-	\$ 43,312
Compost facility operations		778,834		241,022		-	1,019,856
Convenience centers operations		393,766		50,471		-	444,237
Transfer station operations		689,892		90,828		-	780,720
Vehicle maintenance facility fund		309,033		346		-	 309,379
	\$	2,214,789	\$	382,715	\$	_	\$ 2,597,504

#### NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2015

#### Note 8—Contingent liability

The Virginia Department of Environmental Quality (the "Department") has determined that the Authority must comply with the requirements pursuant to the Virginia Financial Assurance Regulations for Solid Waste Disposal, Transfer and Treatment Facilities (the "Regulation"). Under the Regulation, owners or operators of compost facilities must provide and maintain a financial mechanism or combination of mechanisms demonstrating financial assurance for the closure costs, if applicable, the post closure care and corrective action costs associated with these facilities. The intent of the Regulation is to ensure that in the event such facilities are abandoned, the costs associated with closure, post closure, or corrective action are borne by the operator abandoning the facility and not the Commonwealth of Virginia. The Department requires the operator to submit a detailed written cost estimate, in current dollars, of the costs of closing the facility in accordance with the requirements. At June 30, 2015, the Authority has estimated these costs to be \$44,497. Funding of these costs will come from current year operating revenues.

#### Note 9—Pension plan

Plan Description - The Authority participates in an agent multiple employer plan administered by the Virginia Retirement System ("VRS"). All full-time, salaried permanent employees of participating employers are automatically covered by the VRS Retirement Plan upon employment. Members earn one month of service credit for each month they are employed and they and their employer are paying contributions to VRS. Members are eligible to purchase prior public service, based on specific criteria defined in the Code of Virginia, as amended. Eligible prior service that may be purchased includes prior public service, active military service, certain periods of leave, and previously refunded service.

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

VDO	VDO	LIVERIE
VRS	VRS	HYBRID
PLAN 1	PLAN 2	RETIREMENT PLAN
About VRS Plan 1	About VRS Plan 2	About the Hybrid Retirement Plan
VRS Plan 1 is a defined benefit	VRS Plan 2 is a defined benefit	The Hybrid Retirement Plan
plan. The retirement benefit is	plan. The retirement benefit is	combines the features of a defined
based on a member's age,	based on a member's age,	benefit plan and a defined
creditable service and average final compensation at retirement	creditable service and average final compensation at retirement	contribution plan. Most members hired on or after January 1, 2014
using a formula. Employees are	using a formula. Employees are	are in this plan, as well as VRS
eligible for VRS Plan 1 if their	eligible for VRS Plan 2 if their	Plan 1 and VRS Plan 2 members
membership date is before July 1,	membership date is on or after	who were eligible and opted into
2010, and they were vested as of	July 1, 2010, or their membership	the plan during a special election
January 1, 2013.	date is before July 1, 2010, and	window. (See "Eligible Members")
	they were not vested as of	The defined benefit is based on a
	January 1, 2013.	member's age, creditable service
		and average final compensation at retirement using a formula.
		The benefit from the defined
		contribution component of the plan
		depends on the member and
		employer contributions made to
		the plan and the investment
		performance of those
		contributions.

# NOTES TO THE FINANCIAL STATEMENTS

VRS	VRS	HYBRID
PLAN 1	PLAN 2	RETIREMENT PLAN
		• In addition to the monthly benefit payment payable from the defined benefit plan at retirement, a member may start receiving distributions from the balance in the defined contribution account, reflecting the contributions, investment gains or losses, and any required fees.
Eligible Members Employees are in VRS Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.	Eligible Members Employees are in VRS Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.	Eligible Members Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes: • Political subdivision employees* • Members in VRS Plan 1 or VRS Plan 2 who elected to opt into the
Hybrid Opt-In Election VRS non-hazardous duty covered Plan 1 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.  The Hybrid Retirement Plan's effective date for eligible VRS Plan 1 members who opted in was July 1, 2014.  If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.	Hybrid Opt-In Election VRS Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.  The Hybrid Retirement Plan's effective date for eligible VRS Plan 2 members who opted in was July 1, 2014.  If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.	plan during the election window held January 1-April 30, 2014; the plan's effective date for opt-in members was July 1, 2014.  *Non-Eligible Members  Some employees are not eligible to participate in the Hybrid Retirement Plan. They include:  • Political subdivision employees who are covered by enhanced benefits for hazardous duty employees.  Those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under VRS Plan 1 or VRS Plan 2, they are not eligible to elect the Hybrid
Members who were eligible for an optional retirement plan (ORP) and had prior service under VRS Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as VRS Plan 1 or ORP.	Members who were eligible for an optional retirement plan (ORP) and have prior service under VRS Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as VRS Plan 2 or ORP.	Retirement Plan and must select VRS Plan 1 or VRS Plan 2 (as applicable) or ORP.
Retirement Contributions Employees contribute up to 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some school divisions and political subdivisions elected to phase in	Retirement Contributions Employees contribute up to 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some school divisions and political subdivisions elected to phase in	Retirement Contributions A member's retirement benefit is funded through mandatory and voluntary contributions made by the member and the employer to both the defined benefit and the defined contribution components

# NOTES TO THE FINANCIAL STATEMENTS

VDC	VDC	LIVEDID
VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
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.	the required 5% member contribution, but all employees will be paying the full 5% by July 1, 2016.	of the plan. Mandatory contributions are based on a percentage of the employee's creditable compensation and are required from both the member and the employer. Additionally, members may choose to make voluntary contributions to the defined contribution component of the plan, and the employer is required to match those voluntary contributions according to specified percentages.
Credible Service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total credible service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.	Creditable Service Same as VRS Plan 1.	Creditable Service  Defined Benefit Component:  Under the defined benefit component of the plan, credible service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total credible service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.  Defined Contributions  Component:  Under the defined contribution component, credible service is used to determine vesting for the employer contribution portion of the plan.

# NOTES TO THE FINANCIAL STATEMENTS

VRS	VRS	HYBRID
PLAN 1	PLAN 2	RETIREMENT PLAN
Vesting Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least five years (60 months) of creditable service. Vesting means members are eligible to qualify for retirement if they meet the age and service requirements for their plan. Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund.	Vesting Same as VRS Plan 1.	Defined Benefit Component:  Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years (60 months) of creditable service. VRS Plan 1 or VRS Plan 2 members with at least five years (60 months) of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component.
Members are always 100% vested in the contributions that they make.		Defined Contributions Component: Defined contribution vesting refers to minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined contribution component of plan.
		Members are always 100% vested in contributions they make.
		Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service.  • After two years, a member is 50% vested and may withdraw 50% of employer contributions.  • After three years, a member is 75% vested and may withdraw 75% of employer contributions.  • After four or more years, a member is 100% vested and may withdraw 100% of employer contributions.
		Distribution is not required by law until age 70½.

# NOTES TO THE FINANCIAL STATEMENTS

	N/20	10/22/2
VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
Calculating the Benefit The Basic Benefit is calculated based on a formula using the member's average final compensation, a retirement multiplier and total service credit at retirement. It is one of the benefit payout options available to a member at retirement.  An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit.	Calculating the Benefit See definition under VRS Plan 1.	Calculating the Benefit  Defined Benefit Component: See definition under VRS Plan 1  Defined Contribution Component: The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions.
Average Final Compensation A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.  Service Retirement Multiplier The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.7%.	Average Final Compensation A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.  Service Retirement Multiplier Same as Plan1 for service earned, purchased or granted prior to January 1, 2013. For non-hazardous duty members the retirement multiplier is 1.65% for creditable service earned, purchased or granted on or after January 1, 2013.	Average Final Compensation Same as VRS Plan 2. It is used in the retirement formula for the defined benefit component of the plan.  Service Retirement Multiplier Defined Benefit Component: The retirement multiplier is 1.0%.  For members that opted into the Hybrid Retirement Plan from VRS Plan 1 or VRS Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans.  Defined Contribution Component: Not applicable.

# NOTES TO THE FINANCIAL STATEMENTS

VRS	VRS	HYBRID
PLAN 1	PLAN 2	RETIREMENT PLAN
Normal Retirement Age VRS:	Normal Retirement Age VRS:	Normal Retirement Age VRS:
Age 65.	Normal Social Security retirement	Defined Benefit Component:
	age.	Same as Plan 2.
		Defined Contribution
		Component:
		Members are eligible to receive
		distributions upon leaving
		employment, subject to
		restrictions.
Earliest Unreduced Retirement	Earliest Unreduced Retirement	Earliest Unreduced Retirement
Eligibility VRS: Age 65 at least 5	Eligibility VRS: Normal Social	Eligibility
years (60 months) of creditable	Security retirement age with at	Defined Benefit Component:
service or at age 50 with at least	least five years (60 months) of	VRS: Normal Social Security
30 years of creditable service.	creditable service or when their	retirement age and have at least
	age and service equal 90.	five years (60 months) of
		creditable service or when their
		age and service equal 90.  Defined Contribution
		Component:
		Members are eligible to receive
		distributions upon leaving
		employment, subject to
		restrictions.
Earliest Reduced Retirement	Earliest Reduced Retirement	Earliest Reduced Retirement
Eligibility	Eligibility	Eligibility
VRS: Age 55 with at least five	VRS: Age 60 with at least five	Defined Benefit Component:
years (60 months) of creditable	years (60 months) of creditable	VRS: As early as age 60 with at
service or age 50 with at least 10	service.	least five years (60 months) of
years of creditable service.		creditable service.
		<u>Defined Contribution</u>
		Component:
		Members are eligible to receive
		distributions upon leaving
		employment, subject to
		restrictions.
	Cost-of-Living Adjustment	Cost-of-Living Adjustment
(COLA) in Retirement	(COLA) in Retirement	(COLA) in Retirement
The Cost-of-Living Adjustment	The Cost-of-Living Adjustment	Defined Benefit Component:
(COLA) matches the first 3% increase in the Consumer Price	(COLA) matches the first 2% increase in the CPI-U and half of	Same as VRS Plan 2.
Index for all Urban Consumers	any additional increase (up to 2%),	Defined Contribution
(CPI-U) and half of any additional	for a maximum COLA of 3%.	Component:
increase (up to 4%) up to a		Not applicable.
maximum COLA of 5%.		riot applicable.
maximum oola 01 370.		

# NOTES TO THE FINANCIAL STATEMENTS

VRS	VRS	HYBRID
FLAN 1  Eligibility: For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full calendar year from the retirement date.  For members who retire with a reduced benefit and who have less than 20 years of creditable	PLAN 2 Eligibility: Same as VRS Plan 1	RETIREMENT PLAN  Eligibility: Same as VRS Plan 1 and VRS Plan 2.
service, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date.		
Exceptions to COLA Effective  Dates: The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances: • The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013. • The member retires on disability. • The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP). • The member Is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program. • The member dies in service and 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.	Exceptions to COLA Effective Dates: Same as VRS Plan 1	Exceptions to COLA Effective Dates: Same as VRS Plan 1 and VRS Plan 2.

#### NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2015

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

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

#### NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2015

#### Note 9—Pension plan (continued)

*Employees Covered by Benefit Terms* - As of June 30, 2013, the most recent actuarial valuation, the following employees of the Authority were covered by the benefit terms of the pension plan:

	Number
Inactive members or their beneficiaries currently receiving benefits	12
Inactive members:	
Vested	6
Non-vested	40
Active elsewhere in VRS	6
Total inactive members	52
Active members	48
Total covered employees	112

Contributions - The contribution requirement for active employees is governed by §51.1-145 of the Code of Virginia, as amended, but may be impacted as a result of funding options provided to political subdivisions by the Virginia General Assembly. Employees are required to contribute 5.00% of their compensation toward their retirement. Prior to July 1, 2012, all or part of the 5.00% member contribution may have been assumed by the employer.

Beginning July 1, 2012, new employees were required to pay the 5.00% member contribution. In addition, for existing employees, employers were required to begin making the employee pay the 5.00% member contribution. This could be phased in over a period of up to 5 years and the employer is required to provide a salary increase equal to the amount of the increase in the employee-paid member contribution.

The Authority's contractually required contribution rate for the year ended June 30, 2015 was 6.45% 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 employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the Authority were \$90,274 for the year ended June 30, 2015.

*Net Pension Asset* - The Authority's net pension asset, measured as of June 30, 2014, was \$329,000 as of June 30, 2015. The total pension asset/liability used to calculate the net pension asset 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.

#### NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2015

#### Note 9—Pension plan (continued)

Actuarial Assumptions - The total pension asset/liability for the plan was based on an actuarial valuation as of June 30, 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.

	General Employees
Investment rate of return*	7.00%
Projected salary increases	3.50 – 5.35%
Includes inflation at	2.50%
Mortality rates: percentage of deaths to be service related	14.00%
Pre-retirement	RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set forward 4 years and females 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. The following are the changes to the actuarial assumptions as a result of the experience study.	Updated mortality table Decrease in rates of service retirement Decrease in rates of disability retirement Reduced rate of salary increase by 0.25% per year

<sup>\*</sup>Investment rate of return is reflected net of pension plan investment expense, including inflation.

Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 7.00%. However, since the difference was minimal, and a more conservative 7.00% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 7.00% to simplify preparation of pension liabilities.

#### NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2015

#### Note 9—Pension plan (continued)

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

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

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

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

#### NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2015

## Note 9—Pension plan (continued)

Changes in Net Pension Asset - The following tables represent the changes in net pension asset through the plan's measurement date of June 30, 2014 for the Authority.

	Ir	ncrease (Decrease	s)	
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Asset	
Balance, July 1, 2013*	\$ 3,270,310	\$ 3,276,572	\$ (6,262)	
Changes for the year:				
Service cost	172,445	-	172,445	
Interest	226,970	-	226,970	
Contributions - employer	-	118,560	(118,560)	
Contributions - employee	-	74,872	(74,872)	
Net investment income	-	531,210	(531,210)	
Benefit payments, including refunds of				
employee contributions	(55,777)	(55,777)	-	
Administrative expense	-	(2,718)	2,718	
Other changes		28	(28)	
Net changes	343,638	666,175	(322,537)	
Balance, June 30, 2014*	\$ 3,613,948	\$ 3,942,747	\$ (328,799)	

<sup>\*</sup>Figures have been rounded on the Statement of Net Position

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

		1%		Current	1%	
	Decrease (6.00%)		Discount Rate (7.00%)		Increase (8.00%)	
Net pension asset (liability)	\$	\$ 183,424		\$ (328,799)		(756,645)

#### NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2015

#### Note 9—Pension plan (continued)

Pension Expense and Deferred Outflows/(Inflows) of Resources - Pension expense recognized for the year ended June 30, 2015, and the reported deferred outflows and inflows of resources related to pensions at June 30, 2015, were as follows:

Pension expense	\$ 33,724
Deferred inflows:	
Net difference between projected and actual earnings on pension plan investments	\$ 238,000
Deferred outflows:	
Employer contributions subsequent to the measurement date	\$ 90,274

Deferred outflows of resources resulting from contributions made subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported in the deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending	
June 30,	 Amount
2016	\$ (59,000)
2017	(59,000)
2018	(59,000)
2019	(59,000)
2020	(2,000)
	\$ (238,000)

Payables to the Pension Plan - At June 30, 2015, the Authority had no outstanding payables for required contributions to the pension for the year ended June 30, 2015.

#### Note 10—Deferred compensation plan

The Authority offers a deferred compensation plan covering substantially all full-time employees. The purpose of the plan is to provide retirement income and other deferred benefits to employees in accordance with the provisions of Section 457 of the Internal Revenue Code. The Authority did not contribute to the plan in 2015.

#### NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2015

#### Note 11—Restatement of prior period net position

In fiscal year 2015, the Authority adopted the provisions of Governmental Accounting Standards Board ("GASB") Statement No. 68, "Accounting and Financial Reporting for Pensions" and GASB Statement No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date". GASB 68 establishes standards of accounting and reporting for defined benefit contribution pension plans administered through a trust or equivalent arrangement. GASB 68 requires the Authority to report its net pension asset and pension expense for the VRS agent multiple-employer plan in its financial statements. The measurement date for its net pension asset was June 30, 2014. Therefore, contributions made during fiscal year 2015 are reported as deferred outflows of resources in accordance with Statement No. 71. GASB 68 also requires additional disclosures and new required supplementary schedules. To implement GASB 68, total net position at the beginning of the year was restated to reflect beginning net pension asset, and deferred outflows and inflows of resources, as follows:

Net position, beginning of year (as previously reported)	\$ 4,614,339
Net pension asset, June 30, 2014	6,000
Contributions, July 1, 2013 - June 30, 2014	 119,000
Net position, beginning of year (restated)	\$ 4,739,339



SCHEDULE OF CHANGES IN NET PENSION ASSET AND RELATED RATIOS AND EMPLOYER CONTRIBUTIONS (UNAUDITED) - VIRGINIA RETIREMENT SYSTEM

YEAR ENDED JUNE 30, 2015\*

Schedule of Changes	in Net Pension	<b>Asset And Related Ratios</b>
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Total Pension Liability	
Service cost	\$ 172,445
Interest	226,970
Benefit payments, including refunds of member contributions	(55,777)
Net change in total pension liability	343,638
Plan total pension liability - beginning	3,270,310
Plan total pension liability - ending	 3,613,948
Plan Fiduciary Net Pension	
Contributions - employer	118,560
Contributions - employee	74,872
Net investment income	531,210
Benefit payments, including refunds of member contributions	(55,777)
Administrative expense	(2,718)
Other changes	28
Net change in plan fiduciary net position	666,175
Plan fiduciary net position - beginning	3,276,572
Plan fiduciary net position - ending	3,942,747
Plan net pension asset - ending	\$ (328,799)
Covered-employee payroll	 1,419,616
Plan net position asset as a percentage of covered-employee payroll	-23.16%

#### Notes to Schedule:

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

#### **Schedule of Employer Contributions**

Actuarially determined contribution	\$ 90,274
Contribution in relation to actuarially determined contribution	90,274
Contribution excess	\$ -
Covered-employee payroll	\$ 1,419,616
Contributions as a percentage of covered-employee payroll	6.36%

#### Notes to Schedule:

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

#### Methods and Assumptions Used to Determine Contribution Rates:

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

<sup>\*</sup>GASB 68 requires 10-year trend information, As fiscal year 2015 was the year of implementation, additional years will be displayed as the information become available.



	Curbside Recycling Program	Drop-off Recycling Program	Transfer System Operations	Landfill Disposal	Compost Facility Operations	Special Projects	Convenience Centers Operations	Household Chemical Services	Commercial Waste Collection	Administrative Services	Total
Operating revenues											
Fees from member jurisdictions:											
Curbside recycling program	\$ 954,620	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 954,620
Drop-off recycling program	-	111,687	-	-	-	-	-	-	-	-	111,687
Transfer system operations	-	-	1,490,416	-	-	-	-	-	-	-	1,490,416
Landfill disposal	-	-	-	707,066	-	-	-	-	-	-	707,066
Compost facility operations	-	-	-	-	570,334	-	-	-	-	-	570,334
Material sales	-	11,134	91,971	-	417,156	-	-	-	-	-	520,261
Computer recycling services	-	-	-	-	· <u>-</u>	4,015	-	-	-	-	4,015
Groundwater monitoring	-	-	-	-	-	184,138	-	-	-	-	184,138
Tire recycling services	-	_	-	-	_	3,040	-	-	-	_	3,040
Convenience centers operations	_	_	-	-	_	-	725,304	-	_	_	725,304
Household chemical services	_	_	-	-	_	_	-	270,649	_	_	270,649
Administrative	_	_	-	-	_	_	-	-	_	110,000	110,000
Project overhead	_	_	-	_	_	_	_	_	-	574,145	574,145
Miscellaneous and other fees	_	18,963	189,978	_	98,416	_	_	_	-	-	307,357
Total operating revenue	954,620	141,784	1,772,365	707,066	1,085,906	191,193	725,304	270,649		684,145	6,533,032
Operating expenses											
Advertising	810	_	3,396	-	224	1,535	257	5,123	-	243	11,588
Computer recycling	-	_		-	_	700	-	· -	-	-	700
Contracted services	881,100	-	32,606	664,048	1,130	172,433	1,650	189,659	-	_	1,942,626
Depreciation	-	_	166,116	-	160,805	-	24,365	3,251	_	6,559	361,096
Equipment and vehicle	_	42,000	173,985	-	82,529	_	3,928	14,757	_	382	317,581
Host fees	_	-	-	-	147,369	_	-		_	-	147,369
Insurance	_	_	19,455	-	11,218	5,129	-	1,069	_	5,514	42,385
Miscellaneous	_	_	103,817	-	5,829	-	80,477	-	_	7,043	197,166
Office	_	-	4,557	_	2,762	_	675	380	-	10,444	18,818
Professional services	_	_	-	_	419	_	-		_	48,223	48,642
Project overhead	119,000	16,252	178,326	43,016	119,288	15,264	73,048	20,261	-	-	584,455
Rent and utilities	-	-	29,178	-	9,599	-	21,535	320	-	53,037	113,669
Repairs and maintenance	_	_	195,832	_	105,970	_	24,440	2,568	_	169	328,979
Salaries and benefits	_	49,073	932,602	_	321,611	_	494,158	36,933	_	363,216	2,197,593
Telephone	_	.0,0.0	23,446	_	5,620	_	6,063	-	_	11,029	46,158
Travel	_	_	142	_	97	_	215	_	_	5,759	6,213
Uniforms and supplies	_	8,000	16,081	_	26,843	_	6,636	4,620	_	3,635	65,815
Total operating expenses	1,000,910	115,325	1,879,539	707,064	1,001,313	195,061	737,447	278,941		515,253	6,430,853
Operating income (loss)	(46,290)	26,459	(107,174)	2	84,593	(3,868)	(12,143)	(8,292)	-	168,892	102,179
Nonoperating revenue											
Gain on sale of capital asset	-	-	58,700	-	52,500	-	-	-	-	-	111,200
Interest income	_	-	1,174	_	1,583	_	-	-	-	100	2,857
/		-	59,874		54,083					100	114,057
Change in net position	(46,290)	26,459	(47,300)	2	138,676	(3,868)	(12,143)	(8,292)	-	168,992	216,236
Net position - beginning of year (restated)	2	72,177	674,552	76,500	2,471,226	12,581	751,289	158,776	5,285	516,951	4,739,339
Net position - end of year	\$ (46,288)	\$ 98,636	\$ 627,252	\$ 76,502	\$ 2,609,902	\$ 8,713	\$ 739,146	\$ 150,484	\$ 5,285	\$ 685,943	\$ 4,955,575
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# Report of Independent Auditor on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

The Board of Directors
Virginia Peninsulas Public Service Authority

We have audited, in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and *Specifications for Audits of Authorities, Boards, and Commissions* issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the Virginia Peninsulas Public Service Authority (the "Authority"), as of and for the year ended June 30, 2015, and the related notes to the financial statements and have issued our report thereon dated November 27, 2015. That report recognizes that the Authority implemented new accounting standards effective July 1, 2014.

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

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

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

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

#### **Compliance and Other Matters**

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

#### **Purpose of this Report**

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

Virginia Beach, Virginia November 27, 2015

Cherry Bekaut LLP