SOUTHEASTERN PUBLIC SERVICE AUTHORITY OF VIRGINIA

Basic Financial Statements and
Supplemental Information

June 30, 2014 and 2013

(With Independent Auditors' Reports Thereon)

DIXON HUGHES GOODMAN LLP
Certified Public Accountants and Advisors

SOUTHEASTERN PUBLIC SERVICE
AUTHORITY OF VIRGINIA

Table of Contents

Independent Auditors' Report

The Board of Directors
Southeastern Public Service Authority of Virginia

We have audited the accompanying financial statements of ***Southeastern Public Service Authority of Virginia***, as of and for the years ended June 30, 2014 and 2013, 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 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 ***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.

Fountain Plaza One, 701 Town Center Drive, Suite 700, Newport News, VA 23606 | T 757.873.1033 | F 757.873.1106 | dhgllp.com

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, 2014 and 2013, 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

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 10 and the Schedule of Funding Progress on page 43 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 October 16, 2014, 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
October 16, 2014

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, 2014. 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 2014 was $14,123,854 representing an increase of $148,920 from fiscal year 2013.
- The municipal tipping fee remains at $125 per ton.
- The Authority experienced a decline in the municipal waste stream of approximately 22,816 tons or 5.6%.
- As of June 30, 2014, the principal debt outstanding was approximately $30.185 million compared to the $30.335 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 $14,123,854 as compared to the previous year's net position of $13,974,934. Capital assets shown below represent the acquisition cost less accumulated depreciation, not fair value.

The Authority's cash and investments decreased to $19 million at the end of fiscal year 2014 from $20.7 million at the end of fiscal year 2013. The decrease is due to the increase in the restricted amount held for landfill closure and post closure costs. 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, 2014, 2013 and 2012.

	2014	2013	2012
Assets:			
Current and other assets	$ 33,496,272	28,640,125	37,323,054
Capital assets - net	33,361,373	37,252,805	40,468,065
Total assets	66,857,645	65,892,930	77,791,119
Liabilities:			
Current liabilities	12,896,901	6,826,740	8,558,373
Long-term liabilities	39,836,890	45,091,256	52,579,228
Total liabilities	52,733,791	51,917,996	61,137,601
Net position:			
Invested in capital assets - net of related debt	4,256,495	8,723,182	12,758,805
Restricted	9,162,936	2,150,351	9,849,632
Unrestricted	704,423	3,101,401	(5,954,919)
Total net position	14,123,854	13,974,934	16,653,518
Total liabilities and net position	$ 66,857,645	65,892,930	77,791,119

Net assets invested in capital assets, such as land, buildings and equipment, net of related debt is approximately $4.3 million as compared to the $8.7 million in the prior fiscal year. The decrease is primarily due to normal depreciation exceeding the value of assets purchased.

The unrestricted portion of net position decreased to $704,423 million as compared to $3.1 million in the prior year. This decrease is primarily due to an increase in the amount required to be held in a restricting sinking fund for satisfying financial assurance requirements as it relates to closure and post closure costs of the regional landfill.

Summary of Revenues, Expenses and Changes in Net Position

The Authority's net position increased in fiscal year 2014 by $148,920. Operating revenues declined approximately $2.7 million as compared to the previous year primarily due to the decline in the municipal waste stream of approximately 22,816 tons or 5.6% as compared to the prior fiscal year. The majority of this decrease was from the City of Portsmouth, which implemented a curbside recycling program in August 2013. 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:

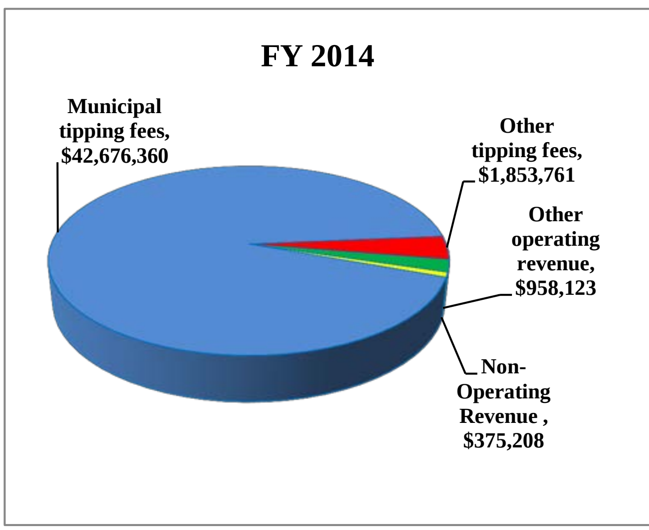
		2014	2013	2012
Operating revenue:				
Municipal tipping fees	$	42,676,360	45,108,711	52,839,473
Other tipping fees		1,853,761	2,044,404	2,289,717
Other operating revenue		958,123	1,049,139	1,187,068
Total operating revenue		45,488,244	48,202,254	56,316,258
Operating expenses:				
Personnel		8,730,137	9,075,510	9,712,283
Depreciation and amortization		4,051,148	4,329,529	4,666,412
Routine maintenance operations		2,654,785	2,504,106	2,564,372
Ash and residue agreement		9,624,369	10,312,506	13,541,206
Wheelabrator service contract		15,486,419	16,308,633	12,550,758
Other operating expenses		3,055,794	4,388,203	3,160,515
Total operating expenses		43,602,652	46,918,487	46,195,546
Operating income		1,885,592	1,283,767	10,120,712
Nonoperating revenue (expense):				
Gain (loss) on the sale of assets		116,697	(2,054,323)	5,071
Investment income		50,997	39,244	62,061
Interest expense		(2,228,577)	(2,242,553)	(3,105,451)
Other income (expense) - net		324,211	295,281	364,222
Total nonoperating revenue (expense)		(1,736,672)	(3,962,351)	(2,674,097)
Change in Net Position		148,920	(2,678,584)	7,446,615
Net Position:				
Beginning of year		13,974,934	16,653,518	9,206,903
End of year	$	14,123,854	13,974,934	16,653,518

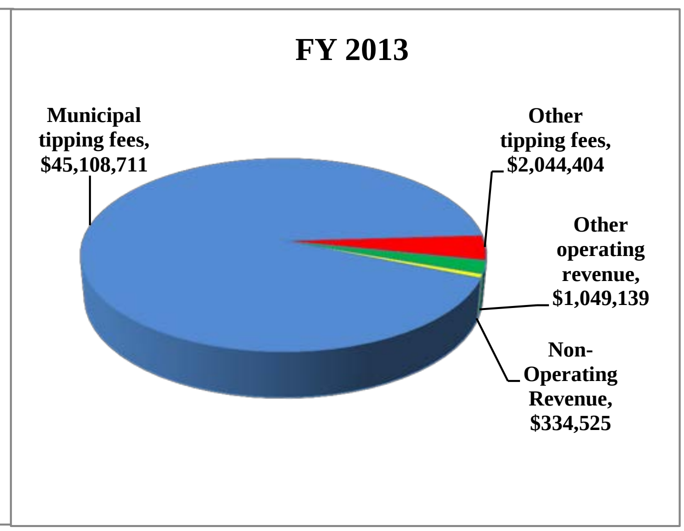
It is important to note that the $42.67 million in municipal tipping fees excludes the rebate that is paid to the City of Virginia Beach for tipping fees paid in excess of a capped rate, as established in the ash and residue agreement. The City of Virginia Beach is the largest of the Authority's eight 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 2014, 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 $9.6 million expense for the "ash and residue agreement", approximately $1.8 million is for operating and maintaining the Virginia Beach landfill and $7.8 million represents the rebate or excess tipping fees paid by the City in accordance with the 1985 Ash and Residue Agreement. Please see Note 6 to the basic financial statements for more details on the ash and residue agreement.

Other tipping fees consist of construction, demolition and debris, solid waste received from the Navy, sludge, and soils.

Other operating revenue represents approximately 2% of total revenues 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, 2014 and 2013:





The Authority's operating expenses decreased approximately 7% or $3,315,835 in comparison to the prior fiscal year. This decrease is reflected across multiple cost centers as explained below.

Personnel costs decreased by $193,431 for the cost of employee health insurance and costs for worker's compensation decreased $144,577 for costs associated with prior claims. Routine maintenance actually increased by $150,679 primarily for the road tractors used to haul the waste. The Authority's goal is to extend the life of the existing road tractors through the end of the Use and Support Agreements in 2018.

The decrease in Other Operating expenses is a combination of decreases in nonroutine maintenance, accrued costs for landfill closure expenses and the cost for road tolls. Nonroutine maintenance decreased in FY 2014 due to the decrease in paving and asphalt repairs performed in FY 2013 versus FY 2014. In FY 2014, the Authority paid $110,928 in road tolls as compared to $15,342 paid in FY 2013. The Authority negotiated a reduced rate of $2.75 per trip with the South Norfolk Jordan Bridge as compared to an average rate of $5.08 per trip via the Downtown Tunnel. The arrangement with the South Norfolk Jordan Bridge escalates $0.25 per trip beginning January 1, 2015 and then an additional $0.10 per each successive calendar year through 2018.

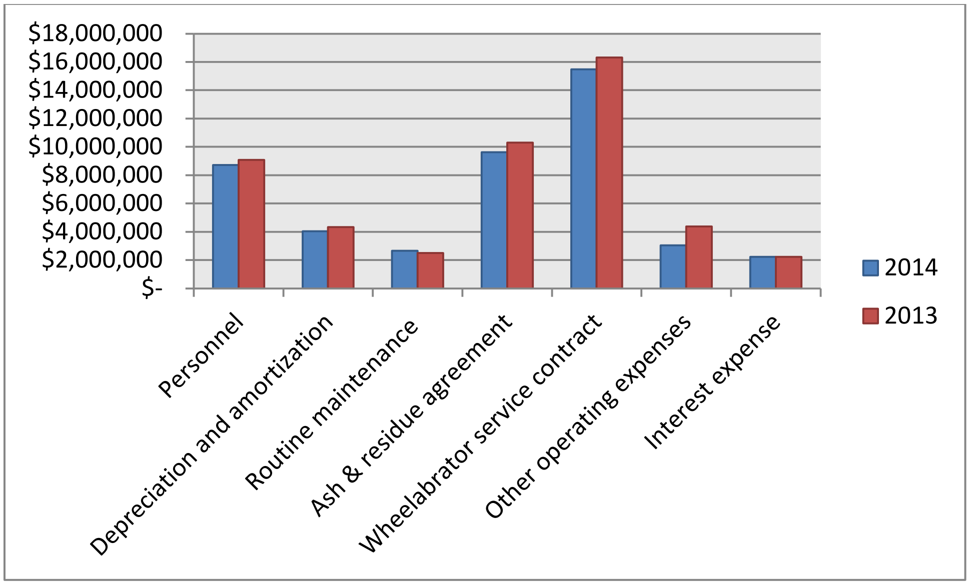
Accrued costs for landfill closure decreased by nearly $1 million due to the settlement agreement reached in FY 2013 for the Authority's share of its closure and post closure costs associated with the Va. Beach Ash & Residue Agreement. In February 2013, the Authority paid the City of Va. Beach $9.5 million for the Authority's share of closure and post closure costs associated with Va. Beach's phase 1 cell of its landfill. The Authority is no longer obligated for any future closure and post closure costs at the Va. Beach landfill unless the Authority redirects the disposal of ash from the regional landfill to the Va. Beach landfill. Since it costs less to dispose of ash at the regional landfill versus the Va. Beach landfill, it is highly unlikely the Authority will incur any future costs.

The costs associated with the Wheelabrator Service Contract reflect a decrease of $822,214 as compared to the prior year. The Authority receives various credits against its invoice to Wheelabrator. In FY 2014, the Authority received a credit in the amount of $484,129 for waste diverted from the transfer stations and hauled by the Authority to the Regional Landfill in Suffolk and for the disposal of an additional 1500 tons of fluff, in excess of the contract limit of 4,000 tons per year, received from the Bi-Metals processing facility. Additionally, the Authority hauled an additional 25,958 tons of third party waste to the RDF Plant whereby resulting in an increase of $535,220 in its hauling credit. Please see Note 9 to the basic financial statements for more information.

The reduction in the expense for the Ash & Residue Agreement is two-fold: (1) the cost to operate and maintain the Virginia Beach landfill was reduced, and (2) the municipal waste received from the City of Va. Beach declined approximately 3,679 tons whereby reducing 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 144.5 full time equivalent positions effective June 30, 2014. Management continues to review the staffing necessary to manage the waste disposal of its member communities effectively.

The following graph illustrates the expenses by source for the fiscal year ending June 30, 2014 and 2013:



Capital Assets

At the end of 2014, the Authority had $33,361,373 (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 $3,891,432, or 10.4%, 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 4 of the basic financial statements.

A summary of capital assets for fiscal years 2014 and 2013 is presented below:

	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

	Balance July 1, 2012	Increases	Decreases	Balance June 30, 2013
Land	$ 2,646,251	-	-	2,646,251
Improvements (regional landfill)	64,179,318	-	-	64,179,318
Other land improvements	495,511	-	-	495,511
Buildings	42,560,055	32,622	-	42,592,677
Vehicles and equipment	32,824,541	829,305	(995,508)	32,658,338
Construction in progress	15,175	15,525	(8,316)	22,384
Total assets	142,720,851	877,452	(1,003,824)	142,594,479
Accumulated depreciation	102,252,786	4,043,916	(955,028)	105,341,674
Total assets - less depreciation	$ 40,468,065	(3,166,464)	(48,796)	37,252,805

Long Term Debt

At year-end, the Authority had a total of $30,185,000 in bonds outstanding, versus $30,335,000 last year, a decrease of 1%.

Summary of Outstanding Long-Term Bonds

June 30, 2014 and 2013

	2014	2013
Senior subordinated debt	$ -	150,000
Guaranteed subordinated debt	30,185,000	30,185,000
Total outstanding debt	$ 30,185,000	30,335,000

More detailed information about the Authority's debt is presented in Note 5 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. The Authority is in the process of drafting a new Use and Support Agreement for the member jurisdictions review and comment. Additionally, over the next year, the Authority plans on issuing a Request for Proposal for alternate methods of waste disposal for post 2018 versus strictly landfilling waste.

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

Enterprise Fund

Statement of Net Position

June 30, 2014 and 2013

Assets		**2014**	**2013**
Current assets:			
Cash and cash equivalents	$	3,403,467	2,402,000
Investments		15,645,752	18,325,752
Accounts receivable:			
Authority members		3,592,526	3,793,076
Other customers		238,306	308,443
Allowance for doubtful accounts		(27,000)	(45,000)
Prepaid expenses		193,577	237,468
Inventory - maintenance parts		176,908	242,083
Accrued interest receivable		-	11,596
Total current assets		23,223,536	25,275,418
Noncurrent assets:			
Restricted assets:			
Investments		9,508,670	2,498,309
Accrued interest receivable		157	66
Total restricted assets		9,508,827	2,498,375
Capital assets - net of accumulated depreciation and depletion		33,361,373	37,252,805
Debt issue costs - net		763,909	866,332
Total noncurrent assets		43,634,109	40,617,512
Total assets	$	66,857,645	65,892,930

The accompanying notes are an integral part of these basic financial statements.

SOUTHEASTERN PUBLIC SERVICE
AUTHORITY OF VIRGINIA

Enterprise Fund

Statement of Net Position

June 30, 2014 and 2013

Liabilities and Net Position		**2014**	**2013**
Liabilities:			
Current liabilities, payable from current assets:			
Accounts payable	$	4,744,585	5,023,500
Accrued expenses		1,385,179	1,249,495
Landfill closure and postclosure care liability - current portion		241,247	55,721
Total current liabilities, payable from current assets		6,371,011	6,328,716
Current liabilities, payable from restricted assets:			
Current maturities of bonds payable		6,180,000	150,000
Accrued interest on revenue bonds		345,890	348,024
Total current liabilities, payable from restricted assets		6,525,890	498,024
Total current liabilities		12,896,901	6,826,740
Noncurrent liabilities:			
Bonds payable		22,924,878	28,379,623
Other post employment benefits		1,731,655	1,586,997
Landfill closure and postclosure care liability - noncurrent		15,180,357	15,124,636
Total noncurrent liabilities		39,836,890	45,091,256
Total liabilities		52,733,791	51,917,996
Net position (deficit):			
Net investment in capital assets		4,256,495	8,723,182
Restricted for debt service		4,635,634	112,567
Restricted for other purposes		4,527,302	2,037,784
Unrestricted		704,423	3,101,401
Total net position		14,123,854	13,974,934
Total liabilities and net position	$	66,857,645	65,892,930

The accompanying notes are an integral part of these basic financial statements.

SOUTHEASTERN PUBLIC SERVICE
AUTHORITY OF VIRGINIA

Enterprise Fund

Statements of Revenue, Expenses and Changes in Net Position

Years ended June 30, 2014 and 2013

	2014	2013
Operating revenue:		
Municipal tipping fees	$ 42,676,360	45,108,711
Other tipping fees	1,853,761	2,044,404
Charges for household hazardous waste and tire program	519,103	520,381
Sale of methane gas	436,749	523,215
Other revenue	2,271	5,543
Total operating revenues	45,488,244	48,202,254
Operating expenses:		
Compensation and related payroll costs	8,730,137	9,075,510
Depreciation, depletion and amortization of intangibles	4,051,148	4,329,529
Postage, printing, and supplies	43,066	44,275
Rent and utilities	368,764	379,930
Equipment fuel	1,111,063	1,137,821
Routine maintenance and vehicle operations	2,654,785	2,504,106
Nonroutine maintenance and repairs	303,158	736,409
Insurance	230,265	238,186
Virginia Beach Ash Disposal Agreement costs	9,624,369	10,312,506
Legal and professional services	587,298	533,253
Bad debts	9,718	72,530
Landfill closure and postclosure care cost accrual	241,247	1,199,175
Wheelabrator Service Contract	15,486,419	16,308,633
Other	161,215	46,624
Total operating expenses	43,602,652	46,918,487
Operating income	1,885,592	1,283,767
Nonoperating revenue (expense):		
Net gain (loss) on disposal of capital and intangible assets	116,697	(2,054,323)
Interest expense:		
Interest on long-term debt	(1,400,899)	(1,447,085)
Amortization of loss on defeasance	(725,255)	(725,255)
Amortization of bond issue costs, discounts and premiums - net	(102,423)	(70,213)
Total interest expense	(2,228,577)	(2,242,553)
Other revenue:		
Investment income	50,997	39,244
Other	324,211	295,281
Total other revenue	375,208	334,525
Total nonoperating revenue (expense) - net	(1,736,672)	(3,962,351)
Change in net position	148,920	(2,678,584)
Total net position:		
Beginning of year	13,974,934	16,653,518
End of year	$ 14,123,854	13,974,934

The accompanying notes are an integral part of these basic financial statements.

SOUTHEASTERN PUBLIC SERVICE AUTHORITY OF VIRGINIA

Enterprise Fund

Statements of Cash Flows

Years ended June 30, 2014 and 2013

	2014	2013
Cash flows from operating activities:		
Receipts from customers	$ 45,731,213	48,487,679
Payments to suppliers for operations	(30,740,251)	(41,184,666)
Payments to employees for compensation	(8,449,795)	(8,887,517)
Net cash provided by (used in) operating activities	6,541,167	(1,584,504)
Cash flows from capital and related financing activities:		
Purchases of capital assets	(183,547)	(869,136)
Proceeds from sale of capital assets	140,528	195,353
Principal payments on bonds payable	(150,000)	(2,365,000)
Interest paid	(1,403,033)	(1,481,608)
Other income	324,211	295,281
Net cash used in capital and related financing activities	(1,271,841)	(4,225,110)
Cash flows from investing activities:		
Proceeds from maturity and sale of investments	16,322,143	38,785,970
Payments for investments purchased	(20,652,504)	(39,381,035)
Interest and dividends received from investments	62,502	40,827
Net cash used in investing activities	(4,267,859)	(554,238)
Increase (decrease) in cash and cash equivalents	1,001,467	(6,363,852)
Cash and cash equivalents at beginning of year	2,402,000	8,765,852
Cash and cash equivalents at end of year	$ 3,403,467	2,402,000
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$ 1,885,592	1,283,767
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation, depletion and amortization of intangibles	4,051,148	4,329,529
Postretirement medical benefit plan expense	144,658	136,094
Provision for bad debts	9,718	72,530
Landfill closure and postclosure care cost accrual	241,247	1,318,479
Changes in operating assets and liabilities:		
Accounts receivable	242,969	285,425
Maintenance parts	65,175	(48,595)
Prepaid expenses	43,891	3,477
Accounts payable - operations	(278,915)	602,195
Accrued expenses	135,684	51,899
Accounts payable - restricted		
Landfill closure and postclosure care liability settlement	-	(9,619,304)
Net cash provided by operating activities	$ 6,541,167	(1,584,504)

The accompanying notes are an integral part of these basic financial statements.

(1) Nature of Business and Significant Accounting Policies

(a) Nature of Business

Southeastern Public Service Authority of Virginia (Authority or SPSA) is a public body politic and corporate 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.

(b) 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 sets its rates (tipping fees) based upon the anticipated cash flow needs to fund current operations and to meet its debt service requirements. The Authority's results of operations may not be indicative of its operating results used for budgetary purposes.

(c) 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. Unrestricted amounts may be designated for specific purposes by action of management or the board of directors.

(d) 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.

(e) 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.

(f) Restricted Assets

Restricted assets are principally restricted for the payment of obligations under the Authority's bond agreements, environmental trust funds (see Note 3) and landfill closure (see Note 7) and are recorded as noncurrent assets in the accompanying financial statements. When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first.

(g) Inventory - Maintenance Parts

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

(h) Capital Assets

Capital assets are recorded at cost. No interest costs were capitalized in 2014 and 2013. 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.

(i) Unamortized Discounts and Premiums

Discounts and premiums are amortized by the effective interest method over the life of the bonds to which they relate and are netted against long-term debt.

(j) 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.

(k) 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.

(l) 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.

(m) 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.

(n) 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.

(o) 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.

(p) Subsequent Events

The Authority has evaluated subsequent events from the statements of net position date through October 16, 2014, the date at which the statements were issued and determined there are no other items to disclose.

(2) Cash and Cash Equivalents

At June 30, 2014 and 2013, the Authority's cash and cash equivalents balance totaled $3,403,467 and $2,402,000, respectively. The deposits are covered by federal depository insurance or collateralized in accordance with the Virginia Security for Public Deposits Act (Act). In accordance with the Act, the Authority's depository institution pledged collateral in the form of federal agency obligations with a market value equal to 110% of the Authority's deposits with a third party trustee in the name of the Treasurer of the Commonwealth of Virginia. In the event that the banking institution fails, the Treasurer will take possession of the collateral, liquidate it and reimburse the Authority up to the value of its deposits. The State Treasury Board is responsible for monitoring compliance with the collateralization and reporting requirements of the Act and for notifying local governments of compliance by banks.

(3) Investments

Total investments including restricted and designated assets amounted to $25,154,422 and $20,835,723 as of June 30, 2014 and 2013, respectively, and are held for the purposes and in the respective accounts described below:

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

2013	Investments	Accrued interest receivable	Total
Unrestricted (a)	$ 10,000,000	11,596	10,011,596
Tip Fee Stabilization Fund (designated) (b)	3,325,752	-	3,325,752
Bond accounts (c)	460,577	14	460,591
Landfill closure fund (designated) (d)	5,000,000	-	5,000,000
Landfill closure fund (restricted) (d)	1,206,000	-	1,206,000
Environmental trust fund accounts (e)	831,732	52	831,784
	$ 20,824,061	11,662	20,835,723

(a) Unrestricted Accounts

These funds represent 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 7 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, 2014 and 2013 are as follows:

		2014		**2013**	
		Suffolk Environmental Trust Fund	Virginia Beach Environmental Trust Fund	Suffolk Environmental Trust Fund	Virginia Beach Environmental Trust Fund
Cities:					
Chesapeake	$	101,151	107,569	99,152	104,796
Franklin		6,014	6,313	6,114	6,379
Norfolk		98,472	103,827	98,366	103,055
Portsmouth		43,692	46,243	43,335	45,576
Suffolk		1,566	1,681	1,554	1,659
Virginia Beach		130,147	139,686	126,727	135,263
Counties:					
Isle of Wight		18,416	19,724	18,018	19,188
Southampton		11,024	11,738	10,955	11,595
	$	410,482	436,781	404,221	427,511

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, 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

At June 30, 2013, the credit risk of the total investments were:

	Rating	Percentage
Wells Fargo Commercial Checking Account Public Funds	No rating	42.1%
TowneBank Money Market	No rating	27.7
Certificate of Deposit	No rating	24.9
PFM Funds - Prime Series Money Market Fund includes Institutional Class	AAAm	2.4
Federated Treasury Obligations Funds	AAAm	0.7
U.S. Bank Money Market Deposit Account	No rating	2.2

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

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.

As of June 30, 2013, approximately 42.1% of SPSA's total investments were invested in Wells Fargo Commercial Checking Account for public funds and 27.7% were invested in TowneBank Money Market Account. Although the amount invested in each bank depository exceeds the 25% maximum per SPSA's policy, these funds were 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.

As of June 30, 2014, 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	$ 508,313	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	-	-

As of June 30, 2013, 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	$ 507,920	507,920	-	-
Federated Treasury Obligations Money market	137,013	137,013	-	-
U.S. Bank money market Deposit account	460,577	460,577	-	-
Wells Fargo Commercial Checking Account Account Public Funds	8,773,426	8,773,426	-	-
TowneBank Money Market	5,756,902	5,756,902	-	-
Local Government Investment Pool	1,423	1,423	-	-
Certificate of deposit	5,186,800	5,186,800	-	-
	$ 20,824,061	20,824,061	-	-

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. As of June 30, 2014 and 2013, all of SPSA's restricted asset investments were held in a bank's trust department in SPSA's name.

(4) Capital Assets

Capital assets of the Authority as a whole as of June 30, 2013 and 2012 consist of the following:

	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
Total	$ 37,252,805	(3,845,217)	(46,215)	33,361,373

	Balance July 1, 2012	Increases	Decreases	Balance June 30, 2013
Capital assets not being depreciated or depleted:				
Land	$ 2,646,251	-	-	2,646,251
Construction-in-progress	15,175	15,525	(8,316)	22,384
Total capital assets not being depreciated or depleted	2,661,426	15,525	(8,316)	2,668,635
Other capital assets				
Improvements (regional landfill)	64,179,318	-	-	64,179,318
Other land improvements	495,511	-	-	495,511
Buildings	42,560,055	32,622	-	42,592,677
Equipment	19,845,988	761,266	(288,098)	20,319,156
Motor vehicles	12,978,553	68,039	(707,410)	12,339,182
Total other capital assets	140,059,425	861,927	(995,508)	139,925,844
Less - accumulated depreciation and depletion:				
Improvements (regional landfill)	48,202,110	205,495	-	48,407,605
Other land improvements	495,511	-	-	495,511
Buildings	30,663,004	1,637,309	-	32,300,313
Equipment	13,858,542	1,366,281	(288,098)	14,936,725
Motor vehicles	9,033,619	834,831	(666,930)	9,201,520
Total accumulated depreciation and depletion	102,252,786	4,043,916	(955,028)	105,341,674
Other capital assets - net	37,806,639	(3,181,989)	(40,480)	34,584,170
Total	$ 40,468,065	(3,166,464)	(48,796)	37,252,805

(5) Long-Term Debt

(a) Bonds Payable

Bonds payable at June 30, 2014 and 2013, consist of the following:

	2014	2013
Senior Subordinated Tax-Exempt Bonds, Series 17, dated June 8, 2006, and issued in the original amount of $3,495,000, due October 2013 (held by VRA).	$ -	150,000
Guaranteed Subordinated Refunding Bonds, dated June 17, 2009, and issued in the original amount of $71,985,000, due November 2017 (held by VRA).	30,185,000	30,185,000
	$ 30,185,000	30,335,000

		2014	2013
Total bonds payable	$	30,185,000	30,335,000
Less:			
Deferred loss on defeasance		(1,080,122)	(1,805,377)
Current maturities of bonds payable		(6,180,000)	(150,000)
Noncurrent portion of bonds payable	$	22,924,878	28,379,623

Rates of interest on the bonds outstanding and payable range from 3.85% to 5.59% for the years ended June 30, 2014 and June 30, 2013.

In March 2012, the Authority used excess cash on hand to call for early redemption the remaining balance of its Senior Subordinated Tax-Exempt Bonds, Series 11, held by the Virginia Resources Authority, in the amount of $6,820,000. The early redemption required payment of a 1% premium or $68,200.

In June 2012, the Authority used excess cash on hand to call for early redemption the remaining balance of its Senior Revenue Bonds, Series 2007A in the amount of $9,480,000.

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, Wachovia Bank 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, 2014, were as follows:

Member Community	Guarantee percentage	Principal guarantee
City of Chesapeake	22.49%	$ 6,788,606
City of Franklin	0.97	292,794
Isle of Wight County	3.98	1,201,363
City of Norfolk	16.98	5,125,413
City of Portsmouth	10.27	3,100,000
Southampton County	2.10	633,885
City of Suffolk	12.87	3,884,810
City of Virginia Beach	30.34	9,158,129
	100.00%	$ 30,185,000

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, 2014 and 2013:

Balances as of June 30, 2012	$ 32,700,000
Principal paid and defeased	(2,365,000)
Balances as of June 30, 2013	30,335,000
Principal paid and defeased	(150,000)
Balances as of June 30, 2014	$ 30,185,000

Aggregate maturities of bonds payable (principal and interest) at June 30, 2014, are as follows:

	Principal	Interest	Total
2015	$ 6,180,000	1,264,063	7,444,063
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
	$ 30,185,000	3,332,048	33,517,048

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

Ash and Residue Disposal Agreement

The Authority entered into an agreement with Virginia Beach for disposal of ash generated from the Power Plant and the residue generated in the production of RDF. The Authority has acquired the right to use land located in Virginia Beach for disposal of the materials. Virginia Beach incurred costs in developing the land for use as a landfill and the Authority reimbursed Virginia Beach for its share of these costs. 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 7). Additionally, the rate at which Virginia Beach pays for municipal tipping fees is capped per the agreement. During fiscal years 2014 and 2013, the Authority recorded $9,624,369 and $10,312,506, respectively, for expenses related to reimbursements to Virginia Beach in accordance with the ash disposal agreement.

The per ton capped rate for fiscal years 2014 and 2013 was $65.35 in each year, compared to the per ton municipal tipping fee of $125 in 2014 and 2013. Pursuant to the underlying agreement, excess tipping fees paid by Virginia Beach convert to an expense of the Authority and are reimbursed to Virginia Beach on a monthly basis.

(7) Landfill Closure and Postclosure Care Costs

State and federal laws and regulations require a final cover to be placed on a landfill when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for 30 years after closure. Although closure and postclosure care costs are paid only near or after the date that each discrete Section of the landfill stops accepting waste and closure activities commence, the Authority reports a portion of these closure and postclosure care costs as an operating expense in each period based on landfill capacity used as of each balance sheet date, in accordance with GASB Statement No. 18. The total landfill closure and postclosure care liabilities at June 30, 2014 and 2013, are $15,421,604 and $15,180,357, respectively. The three components are described as follows:

The first component of the liability relates to Cells I-IV, which totaled $3,079,456 and $3,156,674 as of June 30, 2014 and 2013, 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, 2014 and 2013, 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 43% of Cell VI of the Regional Landfill is $12,342,148 and $12,023,683 as of June 30, 2014 and 2013, 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 as of June 30, 2014 and 2013, 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 2014, 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 and a bank issued letter of credit ($1,000,000 at June 30, 2014), which is renewed annually once the Department of Environmental Quality has issued their Financial Assurance Requirements letter.

The following presents the changes in the combined landfill closure and postclosure care liability for the year ended June 30, 2014 and 2013:

Balances as of June 30, 2012	$ 23,481,182
Revision of estimate	1,318,479
Payments made	(9,619,304)
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

(8) Commitments

In the normal course of operations, the Authority enters into various construction contracts. As of June 30, 2014 and 2013, total commitments under these contracts amounted to $259,833 and $485,535, respectively.

(9) Service Fee Paid to Wheelabrator

During 2010, the Authority entered into an agreement engaging Wheelabrator to process solid waste of the Authority's Member communities at the WTE facilities. The Authority is obligated under this agreement through January 2018. The net service fee paid to Wheelabrator for fiscal year 2014 and 2013 was comprised of the following:

	FY 2014	FY 2013
Service fee	$ 21,890,000	21,000,000
Less:		
10% of steam revenue	(902,909)	(889,299)
SPSA hauling fee	(3,877,254)	(3,342,034)
Loading fee	(205,730)	(328,734)
10% of proprietary waste revenue	(106,927)	(82,922)
Liquidated damages for failure to remove trailer	(5,000)	(5,000)
Fuel surcharge	(771,581)	(690,804)
Extended hours at transfer station	(50,051)	(49,299)
Credit for annual real estate tax threshold	-	696,725
Waste diverted from transfer stations and hauled by SPSA to Regional Landfill	(392,675)	-
Excess fluff taken to Regional Landfill	(91,454)	-
Net service fee paid	$ 15,486,419	16,308,633

A service agreement provision requires the Authority to pay for a portion of the annual real estate taxes paid by Wheelabrator to the City of Portsmouth, Virginia if the annual taxes exceed a certain threshold. The same provision also entitles the Authority to a credit against the service fee if the annual taxes are less than the stipulated threshold. The taxes assessed by the City of Portsmouth for the fiscal year ending June 30, 2012 were less than the stipulated threshold entitling the Authority to a credit in the amount of $696,725. In November 2012, the Authority signed a Release Agreement with Wheelabrator whereby returning the $696,725 previously withheld and simultaneously signed Addendum No. 5 which removed the real estate tax provision, mentioned above, from the service agreement and reduced the annual delivery guarantee from 500,000 tons in fiscal year 2013 to 497,500 tons for fiscal years 2014 and 2015; 496,250 tons in fiscal year 2016; 490,000 tons in fiscal year 2017. This agreement was mutually agreed upon by both parties to reflect the ongoing mutually beneficial nature of the relationship contemplated under the Service Agreement and as a one-time only accommodation. In fiscal year 2012, Wheelabrator chose to divert some processible waste and the Authority agreed to accept and haul the diverted waste to the regional landfill at a price of $60 per ton plus increased transportation costs. This charge of $392,675 was applied as a credit against the service fee. No diverted waste was accepted at the regional landfill in fiscal year 2013.

(10) Defined Benefit Pension Plan

(a) Plan Description

Name of Plan: Virginia Retirement System (VRS)

Identification of Plan: Agent and Cost Sharing, Multiple-Employer Defined Benefit Pension Plan

Administering Entity: Virginia Retirement System (System)

All full-time, salaried permanent (professional) employees of public school divisions and employees of participating employers are automatically covered by VRS upon employment. Benefits vest after five years of service credit. Members earn one month of service credit for each month they are employed and their employer is paying into the VRS. Members are eligible to purchase prior public service, active duty military service, certain periods of leave and previously refunded VRS service as credit in their plan.

Within the VRS Plan, the System administers three defined benefit plans for local government employees - Plan 1, Plan 2, and, Hybrid. Each plan has a different eligibility and benefit structure as set out in the table below:

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

Eligible Members Employees are in VRS Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013. **Hybrid Opt-In Election** VRS non-hazardous duty covered Plan 1 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014. The Hybrid Retirement Plan's effective date for eligible VRS Plan 1 members who opted in was July 1, 2014. If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan. Members who were eligible for an optional retirement plan (ORP) and have prior service under VRS Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as VRS Plan 1 or ORP.	**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. **Hybrid Opt-In Election** VRS Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014. The Hybrid Retirement Plan's effective date for eligible VRS Plan 2 members who opted in was July 1, 2014. If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan. Members who were eligible for an optional retirement plan (ORP) and have prior service under VRS Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as VRS Plan 2 or ORP.	**Eligible Members** Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes: • State employees* • School division employees • Political subdivision employees* • Judges appointed or elected to an original term on or after January 1, 2014 • Members in VRS Plan 1 or VRS Plan 2 who elected to opt into the plan during the election window held January 1-April 30, 2014; the plan's effective date for opt-in members was July 1, 2014 *Non-Eligible Members Some employees are not eligible to participate in the Hybrid Retirement Plan. They include: • Members of the State Police Officers' Retirement System (SPORS) • Members of the Virginia Law Officers' Retirement System (VaLORS) • Political subdivision employees who are covered by enhanced benefits for hazardous duty employees Those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under VRS Plan 1 or VRS Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select VRS Plan 1 or VRS Plan 2 (as applicable) or ORP.
Retirement Contributions Members contribute up to 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some school divisions and political subdivisions elected to phase in the required 5% member contribution; 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** Same as VRS Plan 1.	**Retirement Contributions** A member's retirement benefit is funded through mandatory and voluntary contributions made by the member and the employer to both the defined benefit and the defined contribution components of the plan. Mandatory contributions are based on a percentage of the employee's creditable compensation and are required from both the member and the employer. Additionally, members may choose to make voluntary contributions to the defined contribution component of the plan, and the employer is required to match those voluntary contributions according to specified percentages.

Creditable Service Creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.	**Creditable Service** Same as VRS Plan 1.	**Creditable Service** **Defined Benefit Component:** 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:** Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.
Vesting Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least five years (60 months) of creditable service. Vesting means members are eligible to qualify for retirement if they meet the age and service requirements for their plan. Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund. Members are always 100% vested in the contributions that they make.	**Vesting** Same as VRS Plan 1.	**Vesting** **Defined Benefit Component:** Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years (60 months) of creditable service. VRS Plan 1 or VRS Plan 2 members with at least five years (60 months) of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component. **Defined Contributions Component:** Defined contribution vesting refers to the minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined contribution component of the plan. 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. • After two years, a member is 50% vested and may withdraw 50% of employer contributions. • After three years, a member is 75% vested and may withdraw 75% of employer contributions. • After four or more years, a member is 100% vested and may withdraw 100% of employer contributions. Distribution is not required by law until age 70½.

Calculating the Benefit The Basic Benefit is calculated based on a formula using the member's average final compensation, a retirement multiplier and total service credit at retirement. It is one of the benefit payout options available to a member at retirement. An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit.	**Calculating the Benefit** See definition under VRS Plan 1.	**Calculating the Benefit** **Defined Benefit Component:** See definition under VRS Plan 1 **Defined Contribution Component:** The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions.
Average Final Compensation A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.	**Average Final Compensation** A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.	**Average Final Compensation** Same as VRS Plan 2. It is used in the retirement formula for the defined benefit component of the plan.
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%. The retirement multiplier for sheriffs and regional jail superintendents is 1.85%. The retirement multiplier of eligible political subdivision hazardous duty employees other than sheriffs and regional jail superintendents is 1.7% or 1.85% as elected by the employer.	**Service Retirement Multiplier** 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.	**Service Retirement Multiplier** 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.
Normal Retirement Age Age 65.	**Normal Retirement Age** Normal Social Security retirement age.	**Normal Retirement Age** **Defined Benefit Component:** Same as VRS Plan 2. **Defined Contribution Component:** Members are eligible to receive distributions upon leaving employment, subject to restrictions.
Earliest Unreduced Retirement Eligibility Members who are not in hazardous duty positions are eligible for an unreduced retirement benefit at age 65 with at least five years (60 months) of creditable service or at age 50 with at least 30 years of creditable service. Hazardous duty members are eligible for an unreduced retirement benefit at age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service.	**Earliest Unreduced Retirement Eligibility** Members who are not in hazardous duty positions are eligible for an unreduced retirement benefit when they reach normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90. Hazardous duty members are eligible for an unreduced retirement benefit at age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service.	**Earliest Unreduced Retirement Eligibility** **Defined Benefit Component:** Members are eligible for an unreduced retirement benefit when they reach normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90. **Defined Contribution Component:** Members are eligible to receive distributions upon leaving employment, subject to restrictions.

Earliest Reduced Retirement Eligibility Members may retire with a reduced benefit as early as age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service.	**Earliest Reduced Retirement Eligibility** Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service.	**Earliest Unreduced Retirement Eligibility** **Defined Benefit Component:** Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service. **Defined Contribution Component:** Members are eligible to receive distributions upon leaving employment, subject to restrictions.
Cost-of-Living Adjustment (COLA) in Retirement The Cost-of-Living Adjustment (COLA) matches the first 3% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4%) up to a maximum COLA of 5%. **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 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 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.	**Cost-of-Living Adjustment (COLA) in Retirement** The Cost-of-Living Adjustment (COLA) matches the first 2% increase in the CPI-U and half of any additional increase (up to 2%), for a maximum COLA of 3%. **Eligibility:** Same as VRS Plan 1 **Exceptions to COLA Effective Dates:** Same as VRS Plan 1	**Cost-of-Living Adjustment (COLA) in Retirement** **Defined Benefit Component:** Same as VRS Plan 2. **Defined Contribution Component:** Not applicable. **Eligibility:** Same as VRS Plan 1 and VRS Plan 2. **Exceptions to COLA Effective Dates:** Same as VRS Plan 1 and VRS Plan 2.

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. Most state employees are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement. 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. Most state employees are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement. VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.	**Disability Coverage** Eligible political subdivision and school division (including VRS Plan 1 and VRS Plan 2 opt-ins) participate in the Virginia Local Disability Program (VLDP) unless their local governing body provides an employer-paid comparable program for its members. State employees (including VRS Plan 1 and VRS Plan 2 opt-ins) participating in the Hybrid Retirement Plan are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement. Hybrid members (including VRS Plan 1 and VRS Plan 2 opt-ins) covered under VSDP or 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. **Defined Contribution Component:** Not applicable.

The system 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 that report may be obtained from the VRS Web site at http://www.varetire.org/Pdf/Publications/2013-annual-report.pdf or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA 23218-2500.

(b) Funding Policy

Plan members are required by Title 51.1 of the *Code of Virginia* (1950), as amended, to contribute 5% of their compensation toward their retirement. All or part of the 5% member contribution may be assumed by the employer. Beginning July 1, 2012 new employees were required to pay the 5% member contribution. In addition, for existing employees, employers were required to begin making the employee pay the 5% 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. In addition, the Authority is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the Code of Virginia and approved by the VRS Board of Trustees. The Authority's contribution rate for the fiscal year ended 2014 was 4.89% of annual covered payroll.

Annual Pension Cost

For fiscal year ended June 30, 2014, the Authority's annual pension cost of $680,317 for VRS was equal to the Authority's required and actual contributions.

Three-Year Trend Information for Southeastern Public Service Authority:

Fiscal year ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligations
June 30, 2014	$ 680,317	100%	$ -
June 30, 2013	617,457	100%	-
June 30, 2012	558,239	100%	-

The FY 2014 required contribution was determined as part of the June 30, 2011, actuarial valuation using the entry age actuarial cost method. The actuarial assumptions at June 30, 2011, included (a) an investment rate of return (net of administrative expenses) of 7.0%, (b) projected salary increases ranging from 3.75% to 5.60% per year for general government employees, 3.75% to 6.20% per year for teachers, and 3.50% to 4.75% for employees eligible for enhanced benefits available to law enforcement officers, firefighters, and sheriffs, and, (c) a cost-of-living adjustment of 2.50% per year for Plan 1 employees and 2.25% for Plan 2 employees. Both the investment rate of return and the projected salary increases also include an inflation component of 2.50%.

The actuarial value of the Authority's assets is equal to the modified market value of assets. This method uses techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period. The Authority's unfunded actuarial accrued liability is being amortized as level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2013 for the Unfunded Actuarial Accrued Liability (UAAL) was 30 years.

(c) Funded Status and Funding Progress

As of June 30, 2013, the most recent actuarial valuation date, the plan was 97.28% funded. The actuarial accrued liability for benefits was $39,732,695, and the actuarial value of assets was $38,650,425 resulting in an unfunded actuarial accrued liability (UAAL) of $1,082,270. The covered payroll (annual payroll of active employees covered by the plan) was $6,005,456, and ratio of the UAAL to the covered payroll was 18.02%.

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.

(11) Employee Contribution Plan

During fiscal 1993, the Authority 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 the Authority's employees. All underlying funds charge an investment management fee that varies according to the funds selected by the employee.

(12) Other Post-Employment Benefits (OPEB) Liability

(a) 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, the Authority offers a Postretirement Medical Benefit Plan (PMBP) subject to eligibility. Under the plan, the Authority 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.

(b) 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.

(c) Annual OPEB Cost and Net OPEB Obligation

The Authority'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 the Authority's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Authority's net OPEB obligation for the medical benefit plan:

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

Net OPEB obligations as of June 30, 2012	$	1,450,903
ARC for 2013:		
Normal cost		125,100
Unamortized actuarial accrued liability (UAAL)		113,500
Total ARC for 2013		238,600
Interest on net OPEB obligation		50,782
Adjustment to ARC		(78,888)
Annual OPEB cost		210,494
Less - contributions made		(74,400)
Increase in net OPEB obligation		136,094
Net OPEB obligation as of June 30, 2013	$	1,586,997

The Authority's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2014, 2013, 2012, 2011 and 2010, were as follows:

Year ended June 30	Annual OPEB cost	Percentage of annual OPEB cost contributed	Net OPEB obligation
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
2010	394,655	33.3%	926,059

(d) 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.

(e) 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. The Authority’s unfunded actuarial accrued liability is being amortized on a level dollar amount basis over a period of 30 years.

(f) 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.

(13) Contingencies

The Authority 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.

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REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

SOUTHEASTERN PUBLIC SERVICE
AUTHORITY OF VIRGINIA

Required Supplementary Information (Unaudited)

June 30, 2013

Schedule of Funding Progress

Valuation date			June 30, 2013	June 30, 2012	June 30, 2011
Actuarial value of assets (AVA)	(1)	$	38,650,425	38,216,556	39,352,277
Actuarial accrued liability (AAL)	(2)	$	39,732,695	39,227,810	38,846,674
Unfunded (overfunded) actuarial accrued liability (UAAL) (2) - (1)	(3)	$	1,082,270	1,011,254	(504,603)
Fund ratio (1)/(2)	(4)		97.28%	97.42%	101.30%
Annual covered payroll	(5)	$	6,005,456	5,831,365	5,865,951
UAAL as a % of payroll (3)/(5)	(6)		18.02%	17.34%	(8.60)%

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%

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, 2014, 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 October 16, 2014.

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.

Fountain Plaza One, 701 Town Center Drive, Suite 700, Newport News, VA 23606 | T 757.873.1033 | F 757.873.1106 | dhgllp.com

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
October 16, 2014