



**SOUTHEASTERN PUBLIC SERVICE
AUTHORITY OF VIRGINIA**

FINANCIAL REPORT

June 30, 2019 with Comparative Totals for 2018

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Southeastern Public Service Authority of Virginia
Chesapeake, Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of Southeastern Public Service Authority of Virginia, as of and for the year ended June 30, 2019, 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.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 Southeastern Public Service Authority of Virginia's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Southeastern Public Service Authority of Virginia as of June 30, 2019, and the changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Prior Period Financial Statements

We have previously audited the Southeastern Public Service Authority of Virginia 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 10, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis information on pages 3 through 9, and the Pension and OPEB information on pages 51 - 58 be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 13, 2019, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Southeastern Public Service Authority of Virginia's internal control over financial reporting and compliance.

Brown, Edwards & Company, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

Newport News, Virginia
November 13, 2019

SOUTHEASTERN PUBLIC SERVICE AUTHORITY OF VIRGINIA

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

June 30, 2019

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, 2019. 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 2019 was \$47,185,773 representing an increase of \$8,767,005 from fiscal year 2018.
- The municipal tipping fee was reduced from \$65 per ton to \$62 per ton effective July 1, 2018.
- The Authority experienced an increase in the municipal waste stream of approximately 50,963 tons or 12.8%.

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 the Statement of Net Position, Statement of Revenues, Expenses, and Changes in Net Position, Statement of Cash Flows, and notes to the financial statements.

The Statement of Net Position present information on the Authority's assets and deferred outflows of resources and liabilities and deferred inflows of resources, 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 Statement of Revenues, Expenses, and Changes in Net Position presents information showing how the Authority's net position changed during the fiscal year. This statement measures 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 Statement of Cash Flows presents the change in the Authority's cash and cash equivalents during the fiscal year. This information can assist the user of the report in determining how the Authority financed its activities and how it met its cash requirements.

The notes to the financial statements provide additional information that is essential to a full understanding of the data in the financial statements. The notes present information about the Authority's accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies, and subsequent events, if any.

(Continued)

SOUTHEASTERN PUBLIC SERVICE AUTHORITY OF VIRGINIA

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

June 30, 2019

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 and deferred outflows exceeded its liabilities and deferred inflows by \$47,185,773 as compared to the previous year's net position of \$38,418,768. Capital assets shown below represent the acquisition cost less accumulated depreciation, not fair value.

The Authority's unrestricted cash and investments increased by approximately \$7 million as compared to fiscal year 2018. Approximately \$3.4 million of the \$7 million is a result of budgeting funds to be set aside for future landfill expansion, closure and post closure costs. The balance of approximately \$3.6 million is due to an increase in the waste stream.

The following table presents a condensed summary of net position as of June 30, 2019 and 2018.

	<u>2019</u>	<u>2018</u>
Assets and deferred outflows of resources:		
Current and other assets	\$ 43,678,367	\$ 35,930,178
Capital assets - net	29,188,129	27,980,604
Deferred outflows of resources	<u>73,955</u>	<u>110,203</u>
Total assets and deferred outflows of resources	<u>\$ 72,940,451</u>	<u>\$ 64,020,985</u>
Liabilities and deferred inflows of resources:		
Current liabilities	\$ 6,354,529	\$ 5,846,290
Long-term liabilities	18,618,523	18,497,468
Deferred inflows of resources	<u>781,626</u>	<u>1,258,459</u>
Total liabilities and deferred inflows of resources	<u>25,754,678</u>	<u>25,602,217</u>
Net position:		
Net investment in capital assets	29,188,129	27,980,604
Restricted - environmental trust fund	920,401	896,813
Restricted for pension	6,158,721	5,803,444
Unrestricted	<u>10,918,522</u>	<u>3,737,907</u>
Total net position	<u>47,185,773</u>	<u>38,418,768</u>
Total liabilities and deferred inflows of resources and net position	<u>\$ 72,940,451</u>	<u>\$ 64,020,985</u>

The unrestricted portion of net position increased to \$10,918,522 as compared to \$3,737,907 in the prior year. This increase is due to an increase in the waste stream and budgeting funds to set aside for future expenses.

(Continued)

SOUTHEASTERN PUBLIC SERVICE AUTHORITY OF VIRGINIA

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

June 30, 2019

Summary of Revenues, Expenses and Changes in Net Position

The Authority's net position increased in fiscal year 2019 by approximately \$8.8 million of which approximately \$1 million increase applies to the purchase of various assets and construction projects, \$6.5 million represents excess revenues over expenses and \$2.2 million is from non-operating revenue. The non-operating revenue includes \$1 million in pension income which is a portion of restricted net position.

Operating revenues increased approximately \$1.6 million as compared to the previous year. The municipal tip fees declined approximately \$6.9 million due to the decrease in the municipal tip fee from \$65 per ton to \$62 per ton effective July 1, 2018.

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:

	<u>2019</u>	<u>2018</u>
Operating revenue:		
Municipal tipping fees	\$ 27,774,997	\$ 34,740,972
Other tipping fees	16,402,852	8,016,267
Other operating revenue	<u>1,212,600</u>	<u>1,058,203</u>
Total operating revenue	<u>45,390,449</u>	<u>43,815,442</u>
Operating expenses:		
Personnel	8,521,266	8,563,764
Depreciation, depletion and amortization	3,588,027	2,558,058
Routine maintenance operations	2,894,287	3,140,280
Wheelabrator service contract	12,758,836	16,709,315
Waste hauling and disposal contract	6,789,476	2,721,137
Other operating expenses	<u>4,345,831</u>	<u>3,446,280</u>
Total operating expenses	<u>38,897,723</u>	<u>37,138,834</u>
Operating income	<u>6,492,726</u>	<u>6,676,608</u>
Nonoperating revenue (expense)		
Gain on the sale of assets	107,213	118,648
Investment income	766,541	221,221
Interest and debt related expense	-	(217,753)
Other income	<u>1,400,525</u>	<u>2,155,986</u>
Total nonoperating revenue	<u>2,274,279</u>	<u>2,278,102</u>
Change in net position	8,767,005	8,954,710
Net Position:		
Beginning of year	<u>38,418,768</u>	<u>29,464,058</u>
End of year	<u>\$ 47,185,773</u>	<u>\$ 38,418,768</u>

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SOUTHEASTERN PUBLIC SERVICE AUTHORITY OF VIRGINIA

MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED)

June 30, 2019

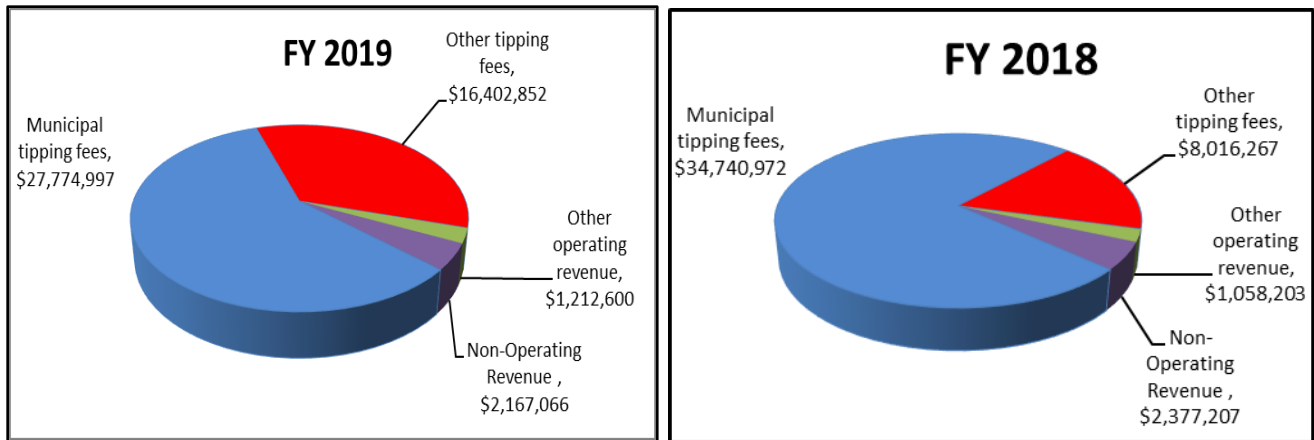
Summary of Revenues, Expenses and Changes in Net Position (Continued)

Other tipping fees consist of construction, demolition and debris, solid waste received from the Navy, sludge, other waste accepted directly at the Regional Landfill and contract and non-contract waste received at the transfer stations. Other tipping fees increased by approximately \$8.4 million. The significant increase is the fiscal year 2019 amounts represent 12 months of revenue whereas the fiscal year 2018 revenues only represent 5 months.

The municipal tip fees declined approximately \$7.0 million due to the decrease in the municipal tip fee from \$125 per ton to \$65 per ton effective January 25, 2018, when the new Use and Support Agreements with the Authority’s member communities went into effect. Effective July 1, 2018, the municipal tipping fee was reduced even further from \$65 per ton to \$62 per ton.

Other operating revenue represents approximately 3% of total operating revenues during 2019 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.

The following graph illustrates the major revenues by source for the fiscal years ending June 30, 2019 and 2018:



The Authority’s operating expenses increased approximately 4.7% or \$1.75 million in comparison to the prior fiscal year. This increase is attributed to increased depreciation expense, an increase in the landfill closure and postclosure cost accrual and an increase in the Wheelabrator service contract cost due to an increase in the waste stream.

Personnel costs decrease by \$42,498 primarily due to decrease in the Authority’s VRS employer contribution rate. Depreciation expense increased in fiscal year 2019 as a result of new assets being placed in service during the fiscal year. Routine maintenance decreased by approximately \$246,000 from a combination of decreased equipment maintenance services combined with reduced costs associated with leachate treatment and leachate pump stations and the Regional Landfill.

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SOUTHEASTERN PUBLIC SERVICE AUTHORITY OF VIRGINIA

MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED)

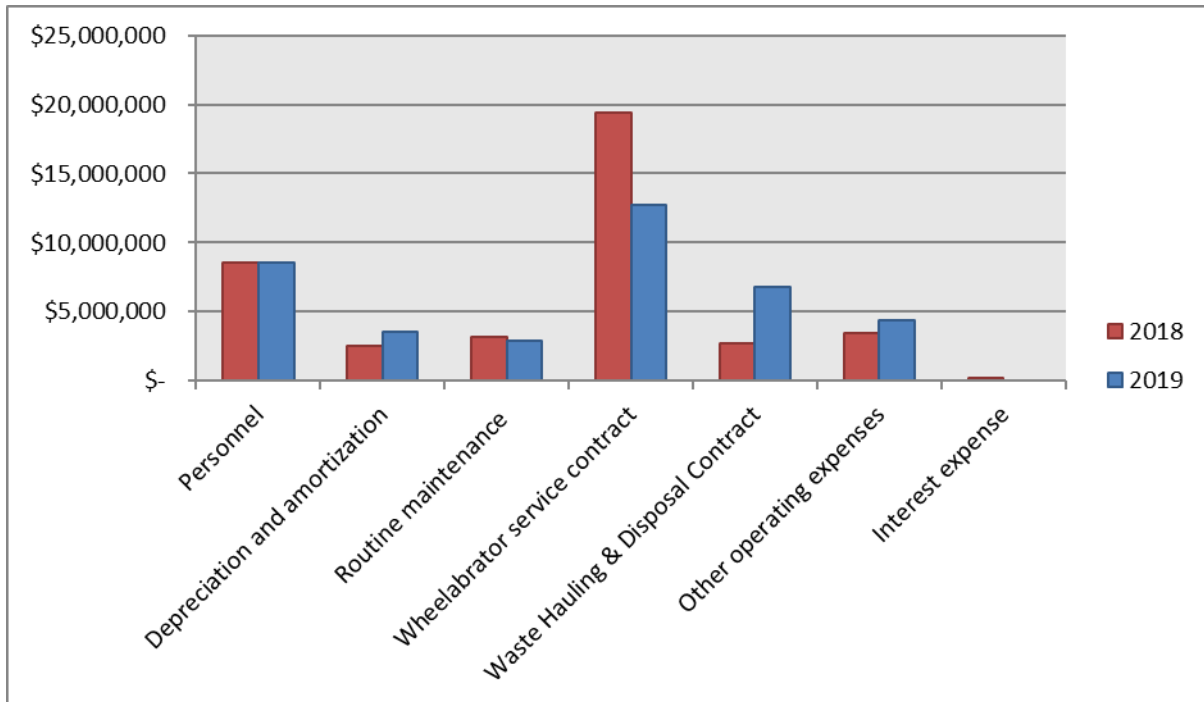
June 30, 2019

Summary of Revenues, Expenses and Changes in Net Position (Continued)

The costs associated with the Wheelabrator Service Contract and Waste Hauling and Disposal Contract reflect a net increase in costs of approximately \$118,000 as compared to the prior year. The Authority pays Wheelabrator to dispose of municipal solid waste and its pays Wheelabrator to haul and dispose certain contract waste. In fiscal year 2019, the Authority paid Wheelabrator approximately \$12.8 million to dispose of municipal waste the Authority hauled to Wheelabrator’s RDF Plant as compared to \$16.7 million in the prior fiscal year. The decrease was largely due to a reduction in the per ton charge. The Authority paid Wheelabrator approximately \$6.8 million to haul and dispose of contract waste versus \$2.7 million in the previous year. This increase is due to the amount paid in fiscal year 2019 represented 12 months of service compared to 5 months in the prior fiscal year.

Other operating expenses increased by approximately \$900,000 through a combination of expenses but most notably with increase in the annual landfill closure accrual and host fees paid to the City of Suffolk. Legal expenses and non-routine maintenance costs both decreased in fiscal year 2019.

The following graph illustrates the expenses by category for the fiscal years ending June 30, 2019 and 2018:



(Continued)

SOUTHEASTERN PUBLIC SERVICE AUTHORITY OF VIRGINIA

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

June 30, 2019

Capital Assets

At the end of 2019, the Authority had \$29.1 million (net of accumulated depreciation and depletion) invested in a broad range of capital assets, including the regional landfill, transfer stations, heavy equipment, and rolling stock. This amount represents a net increase (net of additions and deductions) of approximately \$1.2 million, or approximately 4% more than last year primarily due to assets under construction and acquisition of new tractors and equipment. The assets under construction include landfill cells 8/9 permitting, Executime and system domain software, and relocation of the Hazardous Household Waste building at the Regional Landfill. 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 2019 and 2018 is presented below:

	Balance July 1, 2018	Increases	Decreases	Balance June 30, 2019
Land	\$ 2,646,251	\$ -	\$ -	\$ 2,646,251
Assets under construction	1,800,717	302,853	(1,800,717)	302,853
Improvements (regional landfill)	64,415,852	-	-	64,415,852
Other land improvements	495,511	-	-	495,511
Buildings	37,193,495	2,000,778	-	39,194,273
Vehicles and equipment	<u>31,898,847</u>	<u>4,392,421</u>	<u>(2,622,582)</u>	<u>33,668,685</u>
Total capital assets	138,450,673	6,696,052	(4,423,299)	140,723,425
Accumulated depreciation	<u>110,470,069</u>	<u>3,588,027</u>	<u>(2,522,798)</u>	<u>111,535,296</u>
Net capital assets	<u>\$ 27,980,604</u>	<u>\$ 3,108,025</u>	<u>\$ (1,900,501)</u>	<u>\$ 29,188,129</u>

Other Items of Interest

The Use and Support Agreements with the member jurisdictions expired in January 24, 2018. The new Use & Support Agreement with the Authority's member communities went into effect January 25, 2018, with an initial term date of June 30, 2027, with an option to extend in 10 year increments

In order to insure long term waste disposal capacity for the Authority's members, a Good Neighbor and Host Agreement was executed with the City of Suffolk whereby certain rights and responsibilities are defined for both parties. In particular, the Authority applied for a new conditional use permit (CUP) for Cell VII at the landfill as well as requested the rezoning of the remaining parcel. In turn, the Authority has agreed to pay the City of Suffolk a host fee of \$4 per ton for waste disposed in the landfill beginning January 25, 2018. In August 2017, the City of Suffolk approved the CUP and rezoning of the remaining parcel.

During fiscal year 2018, the Authority issued a request for proposals for alternate methods of waste disposal (versus landfilling all municipal solid waste) to begin February 1, 2019. Following extensive negotiations, a contract was awarded to Wheelabrator Portsmouth. The contract ends June 30, 2027, with the option to renew for up to two five year periods.

(Continued)

SOUTHEASTERN PUBLIC SERVICE AUTHORITY OF VIRGINIA

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

June 30, 2019

This financial report is designed to provide our customers and member jurisdictions 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 Executive Director at 723 Woodlake Drive, Chesapeake, Virginia 23320.

BASIC FINANCIAL STATEMENTS

SOUTHEASTERN PUBLIC SERVICE AUTHORITY OF VIRGINIA

STATEMENT OF NET POSITION

June 30, 2019 with Comparative Totals for 2018

	<u>2019</u>	<u>2018</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents (Note 2)	\$ 2,345,845	\$ 2,139,631
Investments (Note 3)	30,283,577	23,403,674
Accounts receivable:		
Authority members	2,445,012	2,286,075
Other customers	1,067,954	984,653
Allowance for doubtful accounts	(5,000)	(5,000)
Prepaid expenses	130,230	231,607
Inventory, maintenance parts	230,306	137,443
Accrued interest receivable	101,321	51,838
	<u>36,599,245</u>	<u>29,229,921</u>
NONCURRENT ASSETS		
Restricted assets, investments (Note 3)	920,401	896,813
Capital assets, net of accumulated depreciation and depletion (Note 4)	29,188,129	27,980,604
Net pension asset (Note 10)	6,158,721	5,803,444
	<u>36,267,251</u>	<u>34,680,861</u>
Total noncurrent assets	<u>36,267,251</u>	<u>34,680,861</u>
Total assets	<u>72,866,496</u>	<u>63,910,782</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred pension amounts (Note 10)	37,352	78,230
Deferred GLI OPEB amounts (Note 12)	29,487	26,245
Deferred VLDP OPEB contributions (Note 12)	7,116	5,728
	<u>73,955</u>	<u>110,203</u>
Total deferred outflow of resources	<u>73,955</u>	<u>110,203</u>
Total assets and deferred outflows of resources	<u>\$ 72,940,451</u>	<u>\$ 64,020,985</u>

The Notes to Financial Statements are an integral part of these statements.

SOUTHEASTERN PUBLIC SERVICE AUTHORITY OF VIRGINIA

**STATEMENT OF NET POSITION
June 30, 2019 with Comparative Totals for 2018**

(Continued)

	<u>2019</u>	<u>2018</u>
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	\$ 3,870,058	\$ 3,997,683
Accrued expenses	1,323,701	1,442,865
Landfill closure and postclosure liability, current portion (Note 5)	<u>1,160,770</u>	<u>405,742</u>
Total current liabilities	<u>6,354,529</u>	<u>5,846,290</u>
 NONCURRENT LIABILITIES		
Other post employment benefits, PMBP (Note 13)	1,295,116	1,569,802
Other post employment benefits, GLI (Note 12)	468,000	478,000
Other post employment benefits, VLDP (Note 12)	3,000	3,000
Landfill closure and postclosure care liability, noncurrent (Note 5)	<u>16,852,407</u>	<u>16,446,666</u>
Total noncurrent liabilities	<u>18,618,523</u>	<u>18,497,468</u>
Total liabilities	<u>24,973,052</u>	<u>24,343,758</u>
 DEFERRED INFLOWS OF RESOURCES		
Deferred pension amounts (Note 10)	398,996	1,165,136
Deferred PMBP OPEB amounts (Note 13)	314,630	26,323
Deferred GLI OPEB amounts (Note 12)	67,000	67,000
Deferred VLDP investment experience (Note 12)	<u>1,000</u>	<u>-</u>
Total deferred inflows of resources	<u>781,626</u>	<u>1,258,459</u>
Total liabilities and deferred inflows of resources	<u>25,754,678</u>	<u>25,602,217</u>
 NET POSITION		
Net investment in capital assets	29,188,129	27,980,604
Restricted - environmental trust fund (Note 3)	920,401	896,813
Restricted for pension	6,158,721	5,803,444
Unrestricted	<u>10,918,522</u>	<u>3,737,907</u>
Total net position	<u>47,185,773</u>	<u>38,418,768</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 72,940,451</u>	<u>\$ 64,020,985</u>

The Notes to Financial Statements are an integral part of these statements.

SOUTHEASTERN PUBLIC SERVICE AUTHORITY OF VIRGINIA

STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET POSITION
Year Ended June 30, 2019 with Comparative Totals for 2018

	<u>2019</u>	<u>2018</u>
OPERATING REVENUES		
Municipal tipping fees	\$ 27,774,997	\$ 34,740,972
Other tipping fees	16,402,852	8,016,267
Charges for household waste and tire program	911,749	725,519
Sale of methane gas	294,167	327,931
Other revenue	6,684	4,753
	<u>45,390,449</u>	<u>43,815,442</u>
OPERATING EXPENSES		
Compensation and related payroll costs	8,521,266	8,563,764
Depreciation and depletion	3,588,027	2,558,058
Postage, printing and supplies	35,830	37,097
Rent and utilities	353,246	387,077
Equipment fuel	684,156	610,022
Routine maintenance and vehicle operations	2,894,287	3,140,280
Nonroutine maintenance and repairs	414,757	604,243
Insurance	185,859	185,792
Legal and professional services	571,484	810,085
Landfill closure and postclosure care cost accrual	1,160,769	405,742
Wheelabrator service contract (Note 7)	12,758,836	16,709,315
Waste Hauling & Disposal Contract (Note 8)	6,789,476	2,721,137
Host Community & Good Neighbor Agreement (Note 9)	707,008	218,658
Other	232,722	187,564
	<u>38,897,723</u>	<u>37,138,834</u>
Total operating expenses	<u>38,897,723</u>	<u>37,138,834</u>
Operating income	<u>6,492,726</u>	<u>6,676,608</u>
NONOPERATING REVENUE (EXPENSE)		
Gain on the sale of assets	107,213	118,648
Interest and debt related expense:		
Interest on long-term debt	-	(123,526)
Amortization of loss on defeasance	-	(61,526)
Amortization of deferred charge on refunding	-	(32,701)
Insurance recoveries	-	3,328
Investment income	766,541	221,221
Pension benefit	1,069,016	1,500,166
Other	331,509	652,492
	<u>2,274,279</u>	<u>2,278,102</u>
Net nonoperating revenue	<u>2,274,279</u>	<u>2,278,102</u>
Change in net position	8,767,005	8,954,710
Net position, beginning of year	<u>38,418,768</u>	<u>29,464,058</u>
Net position, end of year	<u>\$ 47,185,773</u>	<u>\$ 38,418,768</u>

The Notes to Financial Statements are an integral part of these statements.

SOUTHEASTERN PUBLIC SERVICE AUTHORITY OF VIRGINIA

STATEMENT OF CASH FLOWS

Year Ended June 30, 2019 with Comparative Totals for 2018

	<u>2019</u>	<u>2018</u>
OPERATING ACTIVITIES		
Receipts from customers	\$ 45,148,211	\$ 44,910,472
Payments to suppliers for operations	(25,746,772)	(26,297,436)
Payments to employees for compensation	(8,651,962)	(8,618,931)
Net cash provided by operating activities	<u>10,749,477</u>	<u>9,994,105</u>
FINANCING ACTIVITIES		
Purchase of capital assets	(4,895,335)	(4,837,408)
Proceeds from sale of capital assets	206,996	132,040
Proceeds from insurance recoveries	-	3,328
Principal payments on bonds payable	-	(9,895,000)
Interest paid	-	(247,052)
Other income	331,509	652,492
Net cash used in capital and related financing activities	<u>(4,356,830)</u>	<u>(14,191,600)</u>
INVESTING ACTIVITIES		
Proceeds from maturity and sale of investments	15,907,360	34,693,742
Payments for investments purchased	(22,810,851)	(32,385,446)
Interest and dividends received from investments	717,058	208,597
Net cash provided (used) by investing activities	<u>(6,186,433)</u>	<u>2,516,893</u>
Increase (decrease) in cash and cash equivalents	206,214	(1,680,602)
CASH AND CASH EQUIVALENTS		
Beginning of year	<u>2,139,631</u>	<u>3,820,233</u>
End of year	<u>\$ 2,345,845</u>	<u>\$ 2,139,631</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 6,492,726	\$ 6,676,608
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation, depletion and amortization of intangibles	3,588,027	2,558,058
Landfill closure and postclosure care cost accrual	1,160,769	405,742
Changes in operating assets and liabilities:		
Accounts receivable	(242,238)	1,095,030
Prepaid expenses	101,377	(23,430)
Inventory, maintenance parts	(92,863)	(20,808)
Accounts payable	(127,625)	(641,928)
Accrued expenses	(119,164)	(34,965)
Other post employment benefit liabilities	(284,686)	58,028
Net pension asset		(78,230)
Deferred outflows/inflows of resources	273,154	-
Net cash provided by operating activities	<u>\$ 10,749,477</u>	<u>\$ 9,994,105</u>

The Notes to Financial Statements are an integral part of these statements.

SOUTHEASTERN PUBLIC SERVICE AUTHORITY OF VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

1. Nature of Business and Significant Accounting Policies

Nature of business

Southeastern Public Service Authority of Virginia (Authority or SPSA) is a public body politic and corporation created pursuant to the Virginia Water and Waste Authorities Act. The Authority is a special purpose government entity engaged in business-type activities with no component units. The members of the Authority are the cities of Chesapeake, Franklin, Norfolk, Portsmouth, Suffolk, and Virginia Beach and the counties of Isle of Wight and Southampton (collectively, the Members).

Prior to January 25, 2018, all eight of the Members had entered into Agreements for Use and Support of a Solid Waste Disposal System (Solid Waste Disposal Agreements) with the Authority. These operations are referred to as the Disposal System. More specifically, each Member community has agreed to deliver or cause to be delivered to the Authority at least 95% of all disposable solid waste generated within, collected by, or otherwise under the control of the contracting community. Each of the Members is assessed a per ton tipping fee (with the exception of the City of Suffolk), as established under fee schedules imposed by the Authority in accordance with the Virginia Water and Waste Authorities Act, for the disposal of solid waste delivered to any of the Authority's specified delivery points.

For seven of the Members, the Solid Waste Disposal Agreements became effective on January 22, 1985, the date on which the Authority's landfill (Regional Landfill) began accepting solid waste. In the case of the City of Virginia Beach, the Solid Waste Disposal Agreement became effective on the date fixed under a contract with the U.S. Navy that began in 1984 (the Navy Contract) as the start-up date of a Refuse Derived Fuel (RDF) plant. Under the Navy Contract, RDF produced at the RDF Plant was to be provided to the Navy to produce steam and electricity at the U.S. Navy's power plant (Power Plant). The RDF and Power Plants are collectively referred to as the waste to energy (WTE) facilities. The Solid Waste Disposal Agreements remain in effect until January 24, 2018.

Effective July 1, 1999, in a modification of the Navy Contract, the Navy transferred to the Authority all of the assets of the Power Plant. These assets included \$105.2 million of property and equipment, \$3.6 million of materials and supplies, and \$0.8 million of cash restricted for power plant improvements. In addition, unamortized costs related to the contract were eliminated and long-term obligations and payables were satisfied. These transactions resulted in \$100.1 million of capital contributions to the Authority's net position.

On April 29, 2010, the Authority sold its WTE facilities and related equipment to Wheelabrator Portsmouth, Inc. (Wheelabrator), formerly an affiliate of Waste Management Inc. The Authority's recycling services were terminated in May 2010.

In 2009, legislation was enacted, commonly referred to as House Bill 1872, which established a new board of directors and imposed a series of actions required by the Authority. Effective January 1, 2010 the governing board of directors consists of sixteen members of which eight (one representative of each member community) are appointed by the Governor and eight members are employed and appointed by the respective member community. Elected officials are no longer eligible to serve on the board of directors. Alternate board members may be selected in the same manner as board members. As of June 30, 2018, the Governor had not appointed any such alternates and each of the eight member communities had appointed alternate board members.

(Continued)

SOUTHEASTERN PUBLIC SERVICE AUTHORITY OF VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

1. Nature of Business and Significant Accounting Policies (Continued)

In 2016, the Members entered into new Use and Support Agreements with the Authority effective January 25, 2018. More specifically, each Member community has agreed to deliver or cause to be delivered to the Authority 100% of its municipal solid waste which is defined as all solid waste the collection of which is controlled by the Member community. Each of the Members is assessed a per ton tipping fee 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. The term of the contract is January 25, 2018 to June 30, 2027 with automatic renewals for successive additional terms of 10 years each.

The Authority continues to operate nine transfer stations, the Regional Landfill located in Suffolk, a fleet maintenance facility, a household hazardous waste program, a tire shredder processing facility and a white goods program serving its purpose of the management of the safe and environmentally sound disposal of regional waste.

Basis of accounting

The accompanying financial statements have been prepared on the accrual basis of accounting. The Authority reports as a special purpose government entity engaged in business-type activities, as defined by the Governmental Accounting Standards Board (GASB). Business-type activities are those that are financed in whole or in part by fees charged to external parties for goods or services.

The Authority's activities are accounted for similar to those often found in the private sector using the flow of economic resources measurement focus and the accrual basis of accounting. Assets, liabilities, net position, revenues, and expenses are accounted for through an enterprise fund with revenues recorded when earned and expenses recorded at the time liabilities are incurred. Current assets include cash and amounts convertible to cash during the next normal operating cycle, or one year. Current liabilities include those obligations to be liquidated with current assets. All expenses related to operating the Disposal System are reported as operating expenses. Charges for services provided by the Authority are reported as operating revenues. Interest expense and financing costs, loss on disposal of capital assets, write down of long-lived assets and net decrease in fair value of investments are reported as nonoperating expenses. Interest income, gain on disposal of capital assets, net increase in fair value of investments and nonrecurring items including insurance recoveries are reported as nonoperating revenue.

Net position

Net position represents the residual interest in the Authority's assets and deferred outflows of resources after liabilities and deferred inflows of resources are deducted and consist of three sections: net investment in capital assets; restricted; and unrestricted. Net investment 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 environmental trust funds and landfill closure and the net effects of net pension asset. Unrestricted amounts may be designated for specific purposes by action of management or the board of directors.

(Continued)

SOUTHEASTERN PUBLIC SERVICE AUTHORITY OF VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

1. Nature of Business and Significant Accounting Policies (Continued)

Cash and cash equivalents

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

Investments

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 (see Note 3).

Restricted assets

Restricted assets are principally restricted for the payment of obligations under the Authority's environmental trust funds (see Note 4) and landfill closure (see Note 7) and are recorded as noncurrent assets in the accompanying financial statements. When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first.

Inventory, maintenance parts

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

Capital assets

Capital assets are recorded at cost. No interest costs were capitalized in 2019. Assets are depreciated by using the straight-line method over the estimated useful lives of the various classes as follows:

Land improvements	15 years
Buildings	30 years
Equipment and motor vehicles	3 - 30 years

The Regional Landfill is recorded at cost and depleted based upon estimated usage of capacity.

Expenditures that extend the useful lives of capital assets beyond their initial estimated useful lives or improve their efficiency or capacity are capitalized, whereas expenditures for repairs and maintenance are expensed. When an asset is retired, replaced or otherwise disposed of, the related cost and accumulated depreciation are eliminated from the accounts and any resulting gain or loss is reflected as nonoperating income or expense.

(Continued)

SOUTHEASTERN PUBLIC SERVICE AUTHORITY OF VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

1. Nature of Business and Significant Accounting Policies (Continued)

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.

Landfill closure and postclosure care liability

In accordance with GASB Statement No. 18, *Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Costs*, the Authority records landfill closure and postclosure care costs as an operating expense based on the landfill capacity used as of the balance sheet date and the current estimated costs for closure and postclosure care. (See Note 5).

Accounts receivable

Provisions for uncollectible accounts receivable are based on specifically identified accounts that management believes may not be collectible as well as a percentage of delinquent accounts in the year-end accounts receivable balance.

Use of estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Revenue recognition

Disposal revenues are based on quantity and weight of disposable solid waste delivered to the Authority and are recognized when billed. Unbilled revenues through June 30 of each fiscal year are accrued at year-end.

Pensions and Other Postemployment Benefits (OPEB):

For purposes of measuring all financial statement elements related to pension and OPEB plans, information about the fiduciary net position of the Authority's Plans and the additions to/deductions from the Authority's Plan's net fiduciary position have been determined on the same basis as they were reported by the Virginia Retirement System (VRS). For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

(Continued)

SOUTHEASTERN PUBLIC SERVICE AUTHORITY OF VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

1. Nature of Business and Significant Accounting Policies (Continued)

Deferred outflows and inflows of resources

In addition to assets and liabilities, the statement that presents net position reports a separate section for deferred outflows and inflows of resources. These items represent a consumption or acquisition of net position that applies to future periods and so will not be recognized as an outflow of resources (expense) or inflow of resources (revenue) until then. The Authority has the following items that qualifies for reporting in this category:

- Contributions subsequent to the measurement date for pensions and OPEB are always a deferred outflow; this will be applied to the net pension or OPEB liability in the next fiscal year.
- Differences between expected and actual experience for economic/demographic factors in the measurement of the total pension or OPEB liability. This difference will be recognized in pension or OPEB expense over the expected average remaining service life of all employees provided with benefits in the plan and may be reported as a deferred inflow or outflow as appropriate.
- Difference between projected and actual earnings on pension and OPEB plan investments. This difference will be recognized in pension or OPEB expense over the closed five year period and may be reported as a deferred outflow or inflow as appropriate.
- Difference resulting from a change in the Authority's proportion of the collective net OPEB liability. This difference will be recognized in OPEB expense over the expected average remaining service life of all employees provided with benefits in the plan and may be reported as a deferred inflow.
- Differences resulting from changes in assumptions for OPEB. These differences will be recognized in pension or OPEB expense over the estimated remaining service life of employees subject to the plan.

Subsequent events

The Authority has evaluated subsequent events from the statements of net position date through November 13, 2019, 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, 2019, the Authority's cash and cash equivalents balance was \$2,345,845. The deposits are covered by federal depository insurance or collateralized in accordance with the Virginia Security for Public Deposits Act (Act). Under the Act, banks and savings institutions holding public deposits in excess of the amount insured by the FDIC must pledge collateral to the Commonwealth of Virginia Treasury Board. Financial institutions may choose between two collateralization methodologies and depending upon that choice, will pledge collateral that ranges in the amounts from 50% to 130% of excess deposits in the form of federal agency obligations with a third party trustee in the name of the Treasurer of the Commonwealth of Virginia. In the event that the banking institution fails, the Treasurer will take possession of the collateral, liquidate it and reimburse the Authority up to the value of its deposits. The State Treasury Board is responsible for monitoring compliance with the collateralization and reporting requirements of the Act and for notifying local governments of compliance by banks. Accordingly, all deposits are considered fully collateralized.

(Continued)

SOUTHEASTERN PUBLIC SERVICE AUTHORITY OF VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

3. Investments

Total investments including restricted and designated assets were \$31,203,978 at June 30, 2019, and are held for the purposes and in the respective accounts described below:

	<u>Investments</u>	<u>Accrued Interest Receivable</u>	<u>Total</u>
Unrestricted (a)	\$ 7,220,795	\$ 101,321	\$ 7,322,116
Landfill closure fund (designated) (b)	23,062,782	-	23,062,782
Environmental trust fund accounts (restricted) (c)	920,401	-	920,401
	<u>\$ 31,203,978</u>	<u>\$ 101,321</u>	<u>\$ 31,305,299</u>

(a) Unrestricted Accounts

These funds represent a combination of operating funds and the operating reserve account as required by the Authority's bond resolutions.

(b) Landfill Closure Fund (designated)

This account holds funds designated for the closure and post closure costs for the Regional Landfill to be drawn down when funds are dispersed for closure or post closure costs. See Note 7 for more information.

(c) Environmental Trust Fund Accounts

These accounts were established through agreements between the Authority and the Member cities of Suffolk and Virginia Beach. The Environmental Trust Fund Accounts include the Suffolk Environmental Trust Fund and the Virginia Beach Environmental Trust Fund. The purpose of these accounts is to provide for all costs relating to legal suits and other similar claims activity relating to environmental pollution that are made against the Regional Landfill and the Virginia Beach Landfill during a 30-year period after cessation of each landfill's operations. The Authority must contribute a minimum of \$5,000 annually to the Suffolk Environmental Trust Fund. Annual contributions to the Virginia Beach Environmental Trust Fund ended simultaneously with the expiration of the Ash & Residue Agreement on December 31, 2015. Upon expiration of the 30-year period, all remaining amounts will be proportionately distributed to each of the Members using the Disposal System during the terms of the Environmental Trust Funds, based upon the tipping fees generated by such Members. The Members' proportionate shares of the Environmental Trust Funds at June 30, 2019, are as follows:

(Continued)

SOUTHEASTERN PUBLIC SERVICE AUTHORITY OF VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

3. Investments (Continued)

	Suffolk Environmental Trust Fund	Virginia Beach Environmental Trust Fund
Cities:		
Chesapeake	\$ 113,429	\$ 115,752
Franklin	5,975	6,022
Norfolk	104,529	105,872
Portsmouth	46,456	47,201
Suffolk	3,333	3,426
Virginia Beach	149,394	153,559
Counties:		
Isle of Wight	20,395	20,928
Southampton	11,938	12,192
	<u>\$ 455,449</u>	<u>\$ 464,952</u>

Investment policy

In accordance with the Code of Virginia and other applicable law, including regulations, SPSA's investment policy (Policy) permits investments in U.S. government obligations (including Government Sponsored Enterprise Obligations), obligations of the Commonwealth of Virginia or political subdivisions thereof, repurchase agreements, commercial paper, bankers acceptances, corporate notes, negotiable certificates of deposit, bank deposit notes, mutual funds that invest exclusively in securities specifically permitted under the Policy, and the State Treasurer's Local Government Investment Pool (the State of Virginia LGIP, a 2a-7 like pool, as defined by GASB 31).

The Policy establishes limitations on the holdings of non-U.S. government obligations. The maximum percentage of the portfolio (book value at the date of acquisition) permitted in each security is as follows:

	<u>Maximum Percentage</u>
U.S. government obligations	100%
Federal agency or government sponsored enterprise obligations	50
Registered money market mutual funds	100
State of Virginia Local Government Investment Pool (LGIP)	75
Repurchase agreements	50
Bankers' acceptances	40
Commercial paper	35
Negotiable certificates of deposit/bank notes	20
Bank deposits	25
Corporate notes	15

(Continued)

SOUTHEASTERN PUBLIC SERVICE AUTHORITY OF VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

3. Investments (Continued)

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, 2019, the credit risk of the total investments were:

	<u>Rating</u>	<u>Percentage</u>
TowneBank Money Market	No rating	2.1%
Certificate of Deposit	No rating	30.88%
PFM Funds - Prime Series Money Market Fund includes		
Institutional Class	AAAm	2.9%
Raymond James & Associates, Commercial Paper	A-1	13.5%
Raymond James & Associates, Corporate Bonds	AA-	7.6%
Federated Treasury Obligations Funds	AAAm	.02%
Virginia Investment Pool Money Market Deposit Account	AAAm	43%

Concentration of credit risk

The Policy establishes limitations on portfolio composition by issuer in order to control concentration of credit risk. SPSA's policy limits the amount that may be invested in the securities of a single issuer to 5% of the portfolio with the following exceptions:

U.S. Treasury	100% maximum
Each registered money market mutual fund	100% maximum
State of Virginia LGIP	75% maximum
Each federal agency or government sponsored enterprise obligation	50% maximum
Each repurchase agreement counterparty	25% maximum
Each bank depository	25% maximum

At June 30, 2019, SPSA's total investments were diversified in accordance with its investment policy and fully collateralized in accordance with the Virginia Security for Public Deposits Act.

(Continued)

SOUTHEASTERN PUBLIC SERVICE AUTHORITY OF VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

3. Investments (Continued)

Interest rate risk

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

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

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

At June 30, 2019, SPSA had the following investments and maturities (excluding accrued interest):

	Investment Maturity (in years)			
	<u>Fair Value</u>	<u>Less than 1 year</u>	<u>1-3 years</u>	<u>3-5 years</u>
Registered money market mutual fund - PFM Funds - Prime Series -Institutional	\$ 915,290	\$ 915,290	\$ -	\$ -
Federated Treasury Obligations				
Money market	5,111	5,111	-	-
TowneBank Money Market	661,181	661,181	-	-
Certificate of deposit	9,638,305	6,070,873	3,567,432	-
Raymond James & Associates				
Commercial Paper	4,207,729	4,207,729	-	-
Raymond James & Associates				
Corporate Bonds	2,359,975	-	2,359,975	-
Raymond James & Associates				
Money Market	1,097	1,097	-	-
Virginia Investment Pool				
Money Market	<u>13,415,290</u>	<u>13,415,290</u>	<u>-</u>	<u>-</u>
	<u>\$ 31,203,978</u>	<u>\$ 25,276,571</u>	<u>\$ 5,927,407</u>	<u>\$ -</u>

Custodial credit risk

The Policy requires that all investment securities purchased by SPSA or held as collateral on deposits or investments shall be held by SPSA or by a third-party custodial agent who may not otherwise be counterparty to the investment transaction. At June 30, 2019, all of SPSA's restricted asset investments were held in a bank's trust department in SPSA's name.

(Continued)

SOUTHEASTERN PUBLIC SERVICE AUTHORITY OF VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

3. Investments (Continued)

Fair value measurement

SPSA categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

SPSA has determined that all investments within its portfolio are valued using quoted market prices (Level 1 inputs).

4. Capital Assets

Capital assets of the Authority as a whole as of June 30, 2019, consist of the following:

	<u>Balance July 1, 2018</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2019</u>
Capital assets not being depreciated, depleted or amortized:				
Assets under construction	\$ 1,800,717	\$ 302,853	\$ (1,800,717)	\$ 302,853
Land	<u>2,646,251</u>	<u>-</u>	<u>-</u>	<u>2,646,251</u>
	<u>4,446,968</u>	<u>302,853</u>	<u>(1,800,717)</u>	<u>2,949,104</u>
Other capital assets:				
Improvements (regional landfill)	64,415,852	-	-	64,415,852
Other land improvements	495,511	-	-	495,511
Buildings	37,193,495	2,000,778	-	39,194,273
Equipment	19,551,212	3,402,896	(936,956)	22,017,152
Motor vehicles	<u>12,347,635</u>	<u>989,525</u>	<u>(1,685,626)</u>	<u>11,651,534</u>
Total other capital assets	<u>134,003,705</u>	<u>6,393,199</u>	<u>(2,622,582)</u>	<u>137,774,322</u>
Accumulated depreciation and depletion and amortization:				
Improvements (regional landfill)	51,070,547	1,892,446	-	52,962,993
Other land improvements	495,511	-	-	495,511
Buildings	33,185,920	392,547	-	33,578,467
Equipment	15,279,552	847,226	(917,709)	15,209,069
Motor vehicles	<u>10,438,539</u>	<u>455,808</u>	<u>(1,605,090)</u>	<u>9,289,257</u>
Total accumulated depreciation and depletion and amortization	<u>110,470,069</u>	<u>3,588,027</u>	<u>(2,522,799)</u>	<u>111,535,297</u>
Other capital assets, net	<u>23,533,636</u>	<u>2,805,172</u>	<u>(99,783)</u>	<u>26,239,025</u>
	<u>\$ 27,980,604</u>	<u>\$ 3,108,025</u>	<u>\$ (1,900,500)</u>	<u>\$ 29,188,129</u>

(Continued)

SOUTHEASTERN PUBLIC SERVICE AUTHORITY OF VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

4. Capital Assets (Continued)

Construction in progress consists of the following:

	Incurring through June 30, 2019
HHW relocation and improvements	\$ 58,243
Cell 8/9 permitting	174,685
Executive software	22,975
System domain services	<u>46,950</u>
	<u>\$ 302,853</u>

5. 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, 2019, are \$18,013,177. The three components are described as follows:

The first component of the liability relates to Cells I-IV, which was \$2,674,150 at June 30, 2019, 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, 2019.

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 52% of Cell VI of the Regional Landfill is \$15,339,027 at June 30, 2019. Cell V of the Regional Landfill stopped accepting waste in 2007. The amounts for Cell V and Cell VI are based on what it would cost to perform all closure and postclosure care at June 30, 2019.

Actual closure and postclosure care costs for the Regional Landfill may differ from estimates due to inflation, changes in technology, or changes in regulations. The Authority currently plans to finance the landfill closure and postclosure care costs with operating revenues. In fiscal years 2019, the Authority demonstrated its closure and postclosure care financial assurance requirements through the corporate financial test and local government financial test, respectively, as defined in the waste regulations issued by the State of Virginia, supplemented by a restricted sinking fund.

(Continued)

SOUTHEASTERN PUBLIC SERVICE AUTHORITY OF VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

5. Landfill Closure and Postclosure Care Costs (Continued)

The following presents the changes in the combined landfill closure and postclosure care liability for the year ended June 30, 2019:

Balances as of June 30, 2018	\$ 16,852,408
Revision of estimate	1,291,325
Payments made	<u>(130,556)</u>
Balances as of June 30, 2019	18,013,177
Current portion	<u>1,160,770</u>
Noncurrent portion	<u>\$ 16,852,407</u>

6. Commitments

In the normal course of operations, the Authority enters into various contracts for the purchase of goods and/or services. At June 30, 2019, total commitments under these contracts were \$799,255.

7. Service Fee Paid to Wheelabrator

The Authority and Wheelabrator have been engaged in various disposal agreements since 2010 when the Authority sold the waste to energy facilities to Wheelabrator. Prior to February 1, 2019, the Authority paid a flat fee of \$36 per ton for waste disposal and Wheelabrator paid \$19 per ton to dispose of ash residue at the landfill.

During fiscal year 2019 following a competitive bid process, Wheelabrator was awarded a contract to dispose of municipal solid waste at a rate of \$32 per ton. The term of the contract is February 1, 2019 – June 30, 2027 with the option to renew up to two five-year periods. Wheelabrator pays the Authority \$25 per ton for the disposal of ash residue at the landfill. The contract includes an increase in both rates throughout the term.

Approximately 33% of the Authority's operating expenses were related to the Wheelabrator Service Fee for the fiscal year ended June 30, 2019.

8. Waste Hauling and Disposal Services Agreement

Following a Request for Proposal process, the Authority entered into an agreement with Wheelabrator Portsmouth, Inc. to haul and dispose of non-municipal waste received at the Authority's transfer stations effective January 25, 2018. In fiscal year 2019, the Authority paid Wheelabrator Portsmouth \$6,789,476 to haul and dispose of approximately 164,082 tons.

(Continued)

SOUTHEASTERN PUBLIC SERVICE AUTHORITY OF VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

9. Host Community and Good Neighbor Agreement

In order to insure long term waste disposal capacity for the Authority's members, a Good Neighbor and Host Agreement was executed with the City of Suffolk whereby certain rights and responsibilities are defined for both parties. In particular, the Authority applied for a new conditional use permit (CUP) for Cell VII at the landfill as well as requesting the rezoning of the remaining parcel. In turn, the Authority has agreed to pay the City of Suffolk a host fee of \$4 per ton for waste disposed in the landfill beginning January 25, 2018. In August 2017, the City of Suffolk approved the CUP and rezoning of the remaining parcel. In fiscal year 2019, the Authority paid the City of Suffolk \$707,008.

10. Pension Plan

The Virginia Retirement System (VRS) Political Subdivision Retirement Plan is a multi-employer, agent plan. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Authority's Retirement Plan and the additions to/deductions from the Authority's Retirement Plan's net fiduciary position have been determined on the same basis as they were reported by the Virginia Retirement System (VRS). For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Plan description

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

(Continued)

SOUTHEASTERN PUBLIC SERVICE AUTHORITY OF VIRGINIA

**NOTES TO FINANCIAL STATEMENTS
June 30, 2019**

10. Pension Plan (Continued)

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

RETIREMENT PLAN PROVISIONS		
PLAN 1	PLAN 2	HYBRID
<p>About Plan 1 Plan 1 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula.</p>	<p>About Plan 2 Plan 2 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula.</p>	<p>About the Hybrid Retirement Plan The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan.</p> <ul style="list-style-type: none"> • The defined benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. • The benefit from the defined contribution component of the plan depends on the member and employer contributions made to the plan and the investment performance of those contributions. • In addition to the monthly benefit payment payable from the defined benefit plan at retirement, a member may start receiving distributions from the balance in the defined contribution account, reflecting the contributions, investment gains or losses, and any required fees.
<p>Eligible Members Employees are in Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013, and they have not taken a refund.</p>	<p>Eligible Members Employees are in Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.</p>	<p>Eligible Members Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes:</p> <ul style="list-style-type: none"> • Political subdivision employees* • Members in Plan 1 or Plan 2 who elected to opt into the plan during the election window held January 1-April 30, 2014; the plan's effective date for opt-in members was July 1, 2014.

(Continued)

SOUTHEASTERN PUBLIC SERVICE AUTHORITY OF VIRGINIA

**NOTES TO FINANCIAL STATEMENTS
June 30, 2019**

10. Pension Plan (Continued)

PLAN 1	PLAN 2	HYBRID
<p>Hybrid Opt-In Election VRS non-hazardous duty covered Plan 1 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.</p> <p>The Hybrid Retirement Plan's effective date for eligible Plan 1 members who opted in was July 1, 2014.</p> <p>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</p> <p>Members who were eligible for an optional retirement plan (ORP) and had prior service under Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 1 or ORP.</p>	<p>Hybrid Opt-In Election Eligible Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.</p> <p>The Hybrid Retirement Plan's effective date for eligible Plan 2 members who opted in was July 1, 2014.</p> <p>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</p> <p>Members who were eligible for an optional retirement plan (ORP) and have prior service under Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 2 or ORP.</p>	<p>*Non-Eligible Members Some employees are not eligible to participate in the Hybrid Retirement Plan. They include:</p> <ul style="list-style-type: none"> • Political subdivision employees who are covered by enhanced benefits for hazardous duty employees <p>Those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under Plan 1 or Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select Plan 1 or Plan 2 (as applicable) or ORP.</p>

(Continued)

SOUTHEASTERN PUBLIC SERVICE AUTHORITY OF VIRGINIA

**NOTES TO FINANCIAL STATEMENTS
June 30, 2019**

10. Pension Plan (Continued)

PLAN 1	PLAN 2	HYBRID
<p>Retirement Contributions Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment.</p>	<p>Retirement Contributions Same as Plan 1.</p>	<p>Retirement Contributions A member's retirement benefit is funded through mandatory and voluntary contributions made by the member and the employer to both the defined benefit and the defined contribution components of the plan. Mandatory contributions are based on a percentage of the employee's creditable compensation and are required from both the member and the employer. Additionally, members may choose to make voluntary contributions to the defined contribution component of the plan, and the employer is required to match those voluntary contributions according to specified percentages</p>
<p>Creditable Service Creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.</p>	<p>Creditable Service Same as Plan 1.</p>	<p>Creditable Service <u>Defined Benefit Component:</u> Under the defined benefit component of the plan, creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.</p> <p><u>Defined Contributions Component:</u> Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.</p>

(Continued)

SOUTHEASTERN PUBLIC SERVICE AUTHORITY OF VIRGINIA

**NOTES TO FINANCIAL STATEMENTS
June 30, 2019**

10. Pension Plan (Continued)

PLAN 1	PLAN 2	HYBRID
<p>Vesting Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least five years (60 months) of creditable service. Vesting means members are eligible to qualify for retirement if they meet the age and service requirements for their plan. Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund.</p> <p>Members are always 100% vested in the contributions that they make.</p>	<p>Vesting Same as Plan 1.</p>	<p>Vesting <u>Defined Benefit Component:</u> Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years (60 months) of creditable service.</p> <p>Plan 1 or Plan 2 members with at least five years (60 months) of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component.</p> <p><u>Defined Contributions Component:</u> Defined contribution vesting refers to the minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined contribution component of the plan. Members are always 100% vested in the contributions that they make.</p> <p>Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service.</p> <ul style="list-style-type: none"> • After two years, a member is 50% vested and may withdraw 50% of employer contributions. • After three years, a member is 75% vested and may withdraw 75% of employer contributions. • After four or more years, a member is 100% vested and may withdraw 100% of employer contributions. <p>Distribution is not required by law until age 70½.</p>

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SOUTHEASTERN PUBLIC SERVICE AUTHORITY OF VIRGINIA

**NOTES TO FINANCIAL STATEMENTS
June 30, 2019**

10. Pension Plan (Continued)

PLAN 1	PLAN 2	HYBRID
<p>Calculating the Benefit The Basic Benefit is calculated based on a formula using the member's average final compensation, a retirement multiplier and total service credit at retirement. It is one of the benefit payout options available to a member at retirement.</p> <p>An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit.</p>	<p>Calculating the Benefit See definition under Plan 1.</p>	<p>Calculating the Benefit <u>Defined Benefit Component:</u> See definition under Plan 1</p> <p><u>Defined Contribution Component:</u> The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions</p>
<p>Average Final Compensation A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.</p>	<p>Average Final Compensation A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.</p>	<p>Average Final Compensation Same as Plan 2. It is used in the retirement formula for the defined benefit component of the plan.</p>
<p>Service Retirement Multiplier VRS: The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.70%.</p>	<p>Service Retirement Multiplier VRS: Same as Plan 1 for service earned, purchased or granted prior to January 1, 2013. For non-hazardous duty members the retirement multiplier is 1.65% for creditable service earned, purchased or granted on or after January 1, 2013.</p>	<p>Service Retirement Multiplier <u>Defined Benefit Component:</u> VRS: The retirement multiplier for the defined benefit component is 1.00%. For members who opted into the Hybrid Retirement Plan from Plan 1 or Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans.</p> <p><u>Defined Contribution Component:</u> Not applicable.</p>

(Continued)

SOUTHEASTERN PUBLIC SERVICE AUTHORITY OF VIRGINIA

**NOTES TO FINANCIAL STATEMENTS
June 30, 2019**

10. Pension Plan (Continued)

PLAN 1	PLAN 2	HYBRID
<p>Normal Retirement Age VRS: Age 65.</p>	<p>Normal Retirement Age VRS: Normal Social Security retirement age.</p>	<p>Normal Retirement Age <u>Defined Benefit Component:</u> VRS: Same as Plan 2.</p> <p><u>Defined Contribution Component:</u> Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>
<p>Earliest Unreduced Retirement Eligibility VRS: Age 65 with at least five years (60 months) of creditable service or at age 50 with at least 30 years of creditable service.</p>	<p>Earliest Unreduced Retirement Eligibility VRS: Normal Social Security retirement age with at least five years (60 months) of creditable service or when their age and service equal 90.</p>	<p>Earliest Unreduced Retirement Eligibility <u>Defined Benefit Component:</u> VRS: Normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90.</p> <p><u>Defined Contribution Component:</u> Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>
<p>Earliest Reduced Retirement Eligibility VRS: Age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service.</p>	<p>Earliest Reduced Retirement Eligibility VRS: Age 60 with at least five years (60 months) of creditable service.</p>	<p>Earliest Reduced Retirement Eligibility <u>Defined Benefit Component:</u> VRS: Age 60 with at least five years (60 months) of creditable service.</p> <p><u>Defined Contribution Component:</u> Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>

(Continued)

SOUTHEASTERN PUBLIC SERVICE AUTHORITY OF VIRGINIA

**NOTES TO FINANCIAL STATEMENTS
June 30, 2019**

10. Pension Plan (Continued)

PLAN 1	PLAN 2	HYBRID
<p>Cost-of-Living Adjustment (COLA) in Retirement The Cost-of-Living Adjustment (COLA) matches the first 3% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4%) up to a maximum COLA of 5%.</p> <p><u>Eligibility:</u> For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full calendar year from the retirement date.</p> <p>For members who retire with a reduced benefit and who have less than 20 years of creditable service, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date.</p> <p><u>Exceptions to COLA Effective Dates:</u> The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances:</p> <ul style="list-style-type: none"> • The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013. • The member retires on disability. • The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP). 	<p>Cost-of-Living Adjustment (COLA) in Retirement The Cost-of-Living Adjustment (COLA) matches the first 2% increase in the CPI-U and half of any additional increase (up to 2%), for a maximum COLA of 3%.</p> <p><u>Eligibility:</u> Same as Plan 1</p> <p><u>Exceptions to COLA Effective Dates:</u> Same as Plan 1</p>	<p>Cost-of-Living Adjustment (COLA) in Retirement <u>Defined Benefit Component:</u> Same as Plan 2.</p> <p><u>Defined Contribution Component:</u> Not applicable.</p> <p><u>Eligibility:</u> Same as Plan 1 and Plan 2.</p> <p><u>Exceptions to COLA Effective Dates:</u> Same as Plan 1 and Plan 2.</p>

(Continued)

SOUTHEASTERN PUBLIC SERVICE AUTHORITY OF VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

10. Pension Plan (Continued)

PLAN 1	PLAN 2	HYBRID
<ul style="list-style-type: none"> 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. 		
<p>Disability Coverage Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.7% on all service, regardless of when it was earned, purchased or granted.</p>	<p>Disability Coverage Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service, regardless of when it was earned, purchased or granted.</p>	<p>Disability Coverage Employees of political subdivisions (including Plan 1 and Plan 2 opt-ins) participate in the Virginia Local Disability Program (VLDP) unless their local governing body provides and employer-paid comparable program for its members. Hybrid members (including Plan 1 and Plan 2 opt-ins) covered under VLDP are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.</p>
<p>Purchase of Prior Service Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as creditable service in their plan. Prior creditable service counts toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. When buying service, members must purchase their most recent period of service first. Members also may be eligible to purchase periods of leave without pay.</p>	<p>Purchase of Prior Service Same as Plan 1.</p>	<p>Purchase of Prior Service <u>Defined Benefit Component:</u> Same as Plan 1, with the following exceptions:</p> <ul style="list-style-type: none"> Hybrid Retirement Plan members are ineligible for ported service. <p><u>Defined Contribution Component:</u> Not applicable.</p>

(Continued)

SOUTHEASTERN PUBLIC SERVICE AUTHORITY OF VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

10. Pension Plan (Continued)

Employees covered by benefit terms

As of the June 30, 2017, actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

	Number
Inactive members or their beneficiaries currently receiving benefits	196
Inactive members:	
Vested	86
Non-vested	141
Active elsewhere in VRS	63
Total inactive members	290
Active members	129
Total	615

Contributions

The contribution requirement for active employees is governed by §51.1-145 of the *Code of Virginia*, as amended, but may be impacted as a result of funding options provided to political subdivisions by the Virginia General Assembly. Employees are required to contribute 5.00% of their compensation toward their retirement.

SPSA's contractually required contribution rate for the year ended June 30, 2019, was 0.46% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2017.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employee during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the Authority were \$13,824 for the year ended June 30, 2019.

Net pension liability

The net pension liability (NPL) is calculated separately for each employer and represents that particular employer's total pension liability determined in accordance with GASB Statement No. 68, less that employer's total fiduciary net position. For political subdivisions, the net pension liability was measured as of June 30, 2018. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2017, rolled forward to the measurement date of June 30, 2018.

(Continued)

SOUTHEASTERN PUBLIC SERVICE AUTHORITY OF VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

10. Pension Plan (Continued)

Actuarial assumptions

The total pension liability for employees in SPSA's Retirement Plan was based on an actuarial valuation as of June 30, 2017, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2018.

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

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

Mortality rates:

Largest 10 - Non-Hazardous Duty: 20% of deaths are assumed to be service related

Pre-Retirement:

RP-2014 Employee Rates to age 80, Health Annuitant Rates at ages 81 and older projected with scale BB to 2020; males 95% of rates; females 105% of rates.

Post-Retirement:

RP-2014 Employee Rates to age 49, Health Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 3 years; females 1.0% increase compounded from ages 70 to 90.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with scale BB to 2020; males set forward 2 years, 110% of rates; females 125% of rates.

All Others (Non 10 Largest) – Non-Hazardous Duty: 15% of deaths are assumed to be service related

Pre-Retirement:

RP-2014 Employee Rates to age 80, Health Annuitant Rates at ages 81 and older projected with scale BB to 2020; males 95% of rates; females 105% of rates.

Post-Retirement:

RP-2014 Employee Rates to age 49, Health Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 3 years; females 1.0% increase compounded from ages 70 to 90.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with scale BB to 2020; males set forward 2 years, 110% of rates; females 125% of rates.

(Continued)

SOUTHEASTERN PUBLIC SERVICE AUTHORITY OF VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

10. Pension Plan (Continued)

The actuarial assumptions used in the June 30, 2017, valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Largest 10 - Non-Hazardous Duty:

- Mortality Rates: Update to a more current mortality table - RP-2014 projected to 2020
- Retirement Rates: Lowered rates at older ages and changed final retirement from 70 to 75
- Withdrawal Rates: Adjusted rates to better fit experience at each year age and service through 9 years of service
- Disability Rates: Lowered rates
- Line of Duty Disability: Increase rate from 14% to 20%

All Others (Non 10 Largest) - Non-Hazardous Duty:

- Mortality Rates: Update to a more current mortality table - RP-2014 projected to 2020
- Retirement Rates: Lowered rates at older ages and changed final retirement from 70 to 75
- Withdrawal Rates: Adjusted rates to better fit experience at each year age and service through 9 years of service
- Disability Rates: Lowered rates
- Line of Duty Disability: Increase rate from 14% to 15%

Long-term expected rate of return

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

<u>Asset Class (Strategy)</u>	<u>Target Allocation</u>	<u>Arithmetic Long-Term Expected Rate of Return</u>	<u>Weighted Average Long-Term Expected Rate of Return</u>
Public Equity	40.00%	4.54%	1.82%
Fixed Income	15.00%	0.69%	0.10%
Credit Strategies	15.00%	3.96%	0.59%
Real Assets	15.00%	5.76%	0.86%
Private Equity	<u>15.00%</u>	9.53%	<u>1.43%</u>
Total	<u>100.00%</u>		4.80%
	Inflation		<u>2.50%</u>
	*Expected arithmetic nominal return		<u>7.30%</u>

(Continued)

SOUTHEASTERN PUBLIC SERVICE AUTHORITY OF VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

10. Pension Plan (Continued)

* The above allocation provides a one-year return of 7.30%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a return of 6.83%, including expected inflation of 2.5%.

Discount rate

The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Consistent with the phased-in funding provided by the General Assembly for state and teacher employer contributions; political subdivisions were also provided with an opportunity to use an alternate employer contribution rate used in fiscal year 2012 or 90% of the actuarially determined employer contribution rate from the June 30, 2015, actuarial valuations, whichever was greater. From July 1, 2018 on, participating employers are assumed to continue to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in net pension asset

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Asset (a) - (b)
	<u> </u>	<u> </u>	<u> </u>
Balances at June 30, 2017	\$ 43,478,761	\$ 49,282,205	\$ (5,803,444)
Changes for the year:			
Service cost	545,095	-	545,095
Interest	2,963,914	-	2,963,914
Difference between expected and actual experience	69,662	-	69,662
Contributions - employer	-	78,929	(78,929)
Contributions - employee	-	285,849	(285,849)
Net investment income	-	3,604,420	(3,604,420)
Benefit payments, including refunds of employee contributions	(2,274,266)	(2,274,266)	-
Administrative expense	-	(32,088)	32,088
Other changes	-	(3,162)	3,162
	<u> </u>	<u> </u>	<u> </u>
Net changes	<u>1,304,405</u>	<u>1,659,682</u>	<u>(355,277)</u>
Balances at June 30, 2018	\$ 44,783,166	\$ 50,941,887	\$ (6,158,721)

(Continued)

SOUTHEASTERN PUBLIC SERVICE AUTHORITY OF VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

10. Pension Plan (Continued)

Sensitivity of the net pension asset to changes in the discount rate

The following represents the net pension asset calculated using the discount rate of 7.00%, as well as what the net pension asset would be if it were calculated using a discount rate that is one-percentage-point lower (6.00%) or one-percentage-point higher than the current rate (8.00%):

	1% Decrease 6.00%	Current Discount Rate 7.00%	1% Increase 8.00%
Authority's net pension asset	\$ <u>(959,793)</u>	\$ <u>(6,158,721)</u>	\$ <u>(10,541,124)</u>

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

For the year ended June 30, 2019, SPSA recognized a pension benefit of \$1,069,016. At June 30, 2019, SPSA reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on plan investments	\$ -	\$ 398,996
Differences between expected and actual experience	23,528	-
Employer contributions subsequent to the measurement date	13,824	-
	\$ 37,352	\$ 398,996

The \$13,824 reported as deferred outflows of resources related to pensions resulting from the SPSA's contributions subsequent to the measurement date will be recognized as an increase to net pension asset in the fiscal year ending June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense (benefit) in future reporting periods as follows:

Year Ending June 30,		
2020	\$	210,686
2021		(29,469)
2022		(512,137)
2023		(44,548)
	\$	(375,468)

(Continued)

SOUTHEASTERN PUBLIC SERVICE AUTHORITY OF VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

10. Pension Plan (Continued)

Pension plan data

Information about the VRS Political Subdivision Retirement Plan's is also available in the separately issued VRS 2018 Comprehensive Annual Financial Report (CAFR). A copy of the 2018 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2018-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA 23218-2500.

Payables to the pension plan

The Authority had \$21,121 as short term payables to VRS for legally or contractually required contributions outstanding as of June 30, 2019, and included in accounts payable on the statement of net position.

11. Employee Contribution Plan

During fiscal 1993, SPSA established a deferred compensation plan through Hartford Life Insurance Company (the Company). In 2012, Massachusetts Mutual Life Insurance Company (MassMutual) acquired the Hartford's Retirement Plans Group. The plan was established under the guidelines of Section 457 of the Internal Revenue Code (IRC). The plan is a voluntary employee contribution plan in which employees elect a certain dollar amount to be withheld each pay period.

All of the Authority's full time employees are eligible to participate with a minimum contribution of \$10 per pay period. Maximum contributions made by an employee are subject to IRC limitations.

The plan is funded by Authority's employees. All underlying funds charge an investment management fee that varies according to the funds selected by the employee.

12. Other Postemployment Benefits Liability - Virginia Retirement System Plans

In addition to their participation in the pension plan offered through the VRS, Southeastern Public Service Authority also participates in various cost-sharing other postemployment benefit plans, described as follows.

Plan descriptions

Group Life Insurance Program

All full-time teachers and employees of political subdivisions are automatically covered by the VRS Group Life Insurance (GLI) Program upon employment.

In addition to the Basic Group Life Insurance Benefit, members are also eligible to elect additional coverage for themselves as well as a spouse or dependent children through the Optional Group Life Insurance Program. For members who elect the optional group life insurance coverage, the insurer bills employers directly for the premiums. Employers deduct these premiums from members' paychecks and pay the premiums to the insurer. Since this is a separate and fully insured program, it is not included as part of the GLI Program OPEB.

(Continued)

SOUTHEASTERN PUBLIC SERVICE AUTHORITY OF VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

12. Other Postemployment Benefits Liability - Virginia Retirement System Plans (Continued)

Specific information for the GLI is available at <https://www.varetire.org/members/benefits/life-insurance/basic-group-life-insurance.asp>

The GLI is administered by the VRS along with pensions and other OPEB plans, for public employer groups in the Commonwealth of Virginia. The plan is considered a multiple employer, cost sharing plan.

Virginia Local Disability Program

All full-time, salaried general employees of political subdivisions who do not provide enhanced hazardous duty benefits; who are in the VRS Hybrid Retirement Plan benefit structure and whose employer has not elected to opt out of the VRS-sponsored program are automatically covered by the VRS Political Subdivision Employee Virginia Local Disability Program.

Specific information for the Virginia Local Disability Program (VLDP) is available at <https://www.varetirement.org/hybrid/benefits/disability/virginia-local-disability-program.html>.

This plan is administered by the System, along with pension and other OPEB plans, for eligible public employer groups in the Commonwealth of Virginia. Political subdivisions are required by Title 51.1 of the *Code of Virginia*, as amended to provide short-term and long-term disability benefits for their Hybrid employees either through a local plan or through the VLDP.

Contributions

Contributions to the VRS OPEB programs were based on actuarially determined rates from actuarial valuations as of June 30, 2017. The actuarially determined rates were expected to finance the cost of benefits earned by employees during the year, with an additional amount to fund any unfunded accrued liability. Specific details related to the contributions for the VRS OPEB programs are as follows:

Group Life Insurance Program

Governed by:	<i>Code of Virginia</i> 51.1-506 and 51.1-508 and may be impacted as a result of funding provided to school divisions and governmental agencies by the Virginia General Assembly.
Total rate:	1.31% of covered employee compensation. Rate allocated 60/40; 0.79% employee and 0.52% employer. Employers may elect to pay all or part of the employee contribution.
June 30, 2019 contribution	\$29,487
June 30, 2018 contribution	\$26,245

(Continued)

SOUTHEASTERN PUBLIC SERVICE AUTHORITY OF VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

12. Other Postemployment Benefits Liability - Virginia Retirement System Plans (Continued)

Virginia Local Disability Program

Governed by:	<i>Code of Virginia 51.1-1178(c)</i> and may be impacted as a result of funding provided to political subdivisions by the Virginia General Assembly.
Total rate:	0.72% of covered employee compensation. employer.
June 30, 2019 contribution	\$7,116
June 30, 2018 contribution	\$5,728

OPEB liabilities, OPEB expense and deferred inflows and outflows of resources related to OPEB

The net OPEB liabilities were measured as of June 30, 2018, and the total OPEB liabilities used to calculate the net OPEB liabilities were determined by actuarial valuations as of that date. The covered employer's proportion of the net OPEB liabilities were based on the covered employer's actuarially determined employer contributions for the year ended June 30, 2018, relative to the total of the actuarially determined employer contributions for all participating employers.

Group Life Insurance Program

June 30, 2018 proportionate share of liability	\$468,000
June 30, 2018 proportion	0.03083%
June 30, 2017 proportion	0.03173%
June 30, 2019 revenue	\$6,755

Virginia Local Disability Program

June 30, 2018 proportionate share of liability	\$3,000
June 30, 2018 proportion	0.39316%
June 30, 2017 proportion	0.40378%
June 30, 2019 expense	\$6,728

Since there was a change in proportionate share between measurement dates, a portion of the OPEB expense above was related to deferred amount from changes in proportion.

(Continued)

SOUTHEASTERN PUBLIC SERVICE AUTHORITY OF VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

12. Other Postemployment Benefits Liability - Virginia Retirement System Plans (Continued)

At June 30, 2019, the Authority reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources.

Group Life Insurance Program

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 8,000
Change in assumptions	-	20,000
Net difference between projected and actual earnings on OPEB plan investments	-	15,000
Changes in proportion	-	24,000
Employer contributions subsequent to the measurement date	29,487	-
	\$ 29,487	\$ 67,000

Virginia Local Disability Program

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 1,000
Employer contributions subsequent to the measurement date	7,116	-
	\$ 7,116	\$ 1,000

The deferred outflows of resources related to OPEB resulting from the Authority's contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

(Continued)

SOUTHEASTERN PUBLIC SERVICE AUTHORITY OF VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

12. Other Postemployment Benefits Liability - Virginia Retirement System Plans (Continued)

Group Life Insurance Program

Year Ending June 30,	Increase (Reduction) to OPEB Expense
2020	\$ (13,000)
2021	(13,000)
2022	(13,000)
2023	(8,000)
2024	-
Thereafter	3,000

Virginia Local Disability Program

Year Ending June 30,	Increase (Reduction) to OPEB Expense
2020	\$ (1,000)

Actuarial assumptions and other inputs

The total OPEB liability was determined using the following assumptions based on an actuarial valuation date of June 30, 2017, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2018:

Inflation	2.5%
Salary increases, including inflation:	
Locality- general employees	3.5 - 5.35%
Investment rate of return, net of expenses, including inflation*	7.0%

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

(Continued)

SOUTHEASTERN PUBLIC SERVICE AUTHORITY OF VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

12. Other Postemployment Benefits Liability - Virginia Retirement System Plans (Continued)

Mortality rates used for the various VRS OPEB plans are the same as those used for the actuarial valuations of the VRS pension plans. The mortality rates are discussed in detail at Note 11.

Net OPEB liabilities

The net OPEB liabilities represent each program's total OPEB liability determined in accordance with GASB Statement No. 74, less the associated fiduciary net position. As of June 30, 2018, net OPEB liability amounts for the various VRS OPEB programs are as follows (amounts expressed in thousands):

	Group Life Insurance Program	VLDP
Total OPEB liability	\$ 3,113,508	\$ 1,588
Plan fiduciary net position	\$ 1,594,773	\$ 816
Employers' net OPEB liability (asset)	\$ 1,518,735	\$ 772
Plan fiduciary net position as a percentage of total OPEB liability	51.22%	51.39%

The total liability is calculated by the VRS actuary and each plan's fiduciary net position is reported in the VRS financial statements. The net OPEB liability is disclosed in accordance with the requirements of GASB Statement No. 74 in the VRS notes to the financial statements and required supplementary information.

Long-term expected rate of return

Group Life Insurance Program and Virginia Local Disability Program

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

(Continued)

SOUTHEASTERN PUBLIC SERVICE AUTHORITY OF VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

12. Other Postemployment Benefits Liability - Virginia Retirement System Plans (Continued)

<u>Asset Class (Strategy)</u>	<u>Target Allocation</u>	<u>Arithmetic Long-Term Expected Rate of Return</u>	<u>Weighted Average Long-Term Expected Rate of Return</u>
Public Equity	40.00%	4.54%	1.82%
Fixed Income	15.00%	0.69%	0.10%
Credit Strategies	15.00%	3.96%	0.59%
Real Assets	15.00%	5.76%	0.86%
Private Equity	<u>15.00%</u>	9.53%	<u>1.43%</u>
	<u>100.00%</u>		4.80%
	Inflation		<u>2.50%</u>
	*Expected arithmetic nominal return		<u>7.30%</u>

* The above allocation provides for a one-year return of 7.30%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected rate of return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 6.83%, including expected inflation of 2.5%.

Discount rate

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

Sensitivity of the Net OPEB liability to changes in the discount rate

The following presents the net OPEB liabilities of the Authority, as well as what the Authority's net OPEB liabilities would be if it were calculated using a discount rate that is one percentage point lower than the current discount rate:

(Continued)

SOUTHEASTERN PUBLIC SERVICE AUTHORITY OF VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

12. Other Postemployment Benefits Liability - Virginia Retirement System Plans (Continued)

	1% Decrease 6.00%	Current Discount Rate 7.00%	1% Increase 8.00%
Authority's proportionate share of the GLI net OPEB liability	\$ 612,000	\$ 468,000	\$ 351,000
Authority's proportionate share of the net VLDP OPEB liability	\$ 4,000	\$ 3,000	\$ 3,000

OPEB plan fiduciary net position

Information about the various VRS OPEB plan fiduciary net position is available in the separately issued VRS 2017 Comprehensive Annual Financial Report (CAFR). A copy of the 2018 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2018-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

Payables to the OPEB plan

At June 30, 2019, the following amounts were payable to the Virginia Retirement System for the legally required contributions related to June 2019 payroll.

Group Life Insurance	\$ 5,842
VLDP	\$ 622

13. SPSA Postretirement Medical Benefit Plan

Plan description

At its sole discretion, SPSA offers a Postretirement Medical Benefit Plan (PMBP) subject to eligibility. The plan is administered by the Authority. Under the plan, SPSA will pay part of the retiree's monthly health insurance premium up through age 65. Effective July 1, 2011, to be eligible for SPSA's contribution, the retiree must be approved for service or disability retirement through the VRS; must have been employed with SPSA at least ten years; and must have been enrolled in one of SPSA's health care plans for the last five consecutive years immediately preceding retirement.

Employees covered by plan

As of July 1, 2018, actuarial valuation, the following employees were covered by the PMBP:

Inactive members (and spouse if applicable) currently receiving benefits	7
Active participants	113
Total covered participants	120

(Continued)

SOUTHEASTERN PUBLIC SERVICE AUTHORITY OF VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

13. SPSA Postretirement Medical Benefit Plan (Continued)

Benefits provided

For employees that retired prior to July 1, 2011, SPSA contributes up to 50% of the amount it normally pays for active employees with the same level of coverage. The amount is calculated based on 5% per year of completed service with SPSA.

For employees that retired after July 1, 2011, SPSA contributes 50% of the amount it normally pays for active employees for the lowest tier of coverage on the least expensive plan.

Total PMBP liability

The Authority's total PMBP liability of \$1,295,116 was measured as of June 30, 2019. The PMBP liability was determined by an actuarial valuation performed as of July 1, 2018.

Actuarial assumptions

The Authority does not pre-fund PMBP. Instead, it pays benefits directly from general assets on a pay-as-you-go basis. The PMBP OPEB liability was based on an actuarial valuation as of July 1, 2018, using the Entry Age Normal, level percentage of pay method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date as of June 30, 2019.

Inflation	2.5 percent
Salary increases, including inflation	3.5% - 5.35%
Age-Related Claims Costs	Milliman's <i>Health Cost Guidelines</i> and actuarial judgment, consistent with the Getzen Trend Model
Healthcare Trend Rates	Based on long term healthcare trend rates generated by the Getzen Model
Retirement, Withdrawal and Disability	Consistent with assumptions used in the June 30, 2018, valuation of the Virginia Retirement System.

Mortality rates:

Pre-Retirement

RP-2000 Employee Mortality Tables projected to 2020 using Scale AA with Males set forward 2 years and Females set back 3 years

Post-Retirement

RP-2000 Combined Healthy Mortality tables projected to 2020 using Scale AA with Females set back 1 year.

Post-Disablement

RP-2000 Disabled Life mortality tables with Males set back 3 years and no provision for future mortality improvement

Discount rate

The discount rate used to measure the total PMBP OPEB liability was 3.50%. The discount rate is based on the Bond Buyer 20-Year Bond GO Index as of the June 30, 2019, measurement date.

(Continued)

SOUTHEASTERN PUBLIC SERVICE AUTHORITY OF VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

13. SPSA Postretirement Medical Benefit Plan (Continued)

Changes in total PMBP OPEB liability:

	<u>Increase (Decrease)</u>
Balance of June 30, 2018	\$ 1,569,802
Changes during Year:	
Service Cost	90,708
Interest on Total OPEB Liability	55,384
Effect on Economic/Demographic Gains or Losses	(194,557)
Effect of Assumptions Changes or Inputs	(155,904)
Benefit Payments	<u>(70,317)</u>
 Balance as of June 30, 2019	 <u>\$ 1,295,116</u>

Sensitivity of the total PMBP OPEB liability to changes in the discount rate:

The following presents the Authority's total OPEB liability, calculated using the discount rate of 3.50%. It also represents what the Authority's total OPEB liability would be if it were calculated using a discount rate one percentage point lower (2.50%) and one percentage point higher (4.50%) than the current rate.

	<u>1% Decrease 2.50%</u>	<u>Current Discount Rate 3.50%</u>	<u>1% Increase 4.50%</u>
Total PMBP OPEB Liability	\$ <u>1,358,111</u>	\$ <u>1,295,116</u>	\$ <u>1,232,356</u>

Sensitivity of the total PMBP OPEB liability to changes in the healthcare cost trend rates

The following presents the total OPEB liability of the Authority, as well as what the Authority's total OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower (5.2%) or one percentage point higher (7.2%) than the current healthcare cost trend rates:

	<u>1% Decrease 5.20%</u>	<u>Current Healthcare Cost Trend 6.20%</u>	<u>1% Increase 7.20%</u>
Total PMBP OPEB liability	\$ <u>1,173,927</u>	\$ <u>1,295,116</u>	\$ <u>1,433,436</u>

(Continued)

SOUTHEASTERN PUBLIC SERVICE AUTHORITY OF VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

13. SPSA Postretirement Medical Benefit Plan (Continued)

PMBP OPEB expense, deferred outflows of resources and deferred inflows of resources related to PMBP OPEB

For the year ended June 30, 2019, the Authority recognized a PMBP OPEB expense of \$13,621. At June 30, 2019, the Authority reported deferred outflows of resources and deferred inflows of resources related to the Authority's PMBP from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 162,662
Change of assumptions	-	151,968
	\$ -	\$ 314,630

\$314,630 reported as deferred inflows of resources related to the PMBP OPEB will be recognized in OPEB expense (recovery) as follows:

Year Ending June 30,			
2020	\$	(62,154)	
2021		(62,154)	
2022		(62,154)	
2023		(62,154)	
2024		(60,271)	
Thereafter		(5,743)	

14. Contingencies

SPSA is exposed to asserted and unasserted potential claims encountered in the normal course of business. The Authority intends to defend itself against these complaints and management believes the Authority will prevail and that the final resolution of these complaints will not have a material adverse effect on the Authority's financial position.

The Authority is also exposed to various risks of loss related to theft of, damage to, and destruction of assets and natural disasters for which it carries commercial insurance.

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

SOUTHEASTERN PUBLIC SERVICE AUTHORITY OF VIRGINIA

SCHEDULE OF CHANGES IN NET PENSION ASSET AND RELATED RATIOS

For the Plan Years Ended June 30, 2014 through 2018

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
TOTAL PENSION LIABILITY					
Service cost	\$ 545,095	\$ 569,856	\$ 599,791	\$ 617,774	\$ 606,013
Interest	2,963,914	2,972,463	2,899,576	2,805,786	2,711,110
Differences between expected and actual experience	69,662	(1,334,317)	(363,513)	(59,513)	-
Changes in assumptions	-	(160,511)	-	-	-
Benefit payments, including refunds of employee contributions	<u>(2,274,266)</u>	<u>(2,064,980)</u>	<u>(2,124,248)</u>	<u>(1,924,126)</u>	<u>(2,005,095)</u>
Net change in total pension liability	1,304,405	(17,489)	1,011,606	1,439,921	1,312,028
Total pension liability, beginning	<u>43,478,761</u>	<u>43,496,250</u>	<u>42,484,644</u>	<u>41,044,723</u>	<u>39,732,695</u>
Total pension liability, ending (a)	<u>\$ 44,783,166</u>	<u>\$ 43,478,761</u>	<u>\$ 43,496,250</u>	<u>\$ 42,484,644</u>	<u>\$ 41,044,723</u>
PLAN FIDUCIARY NET POSITION					
Contributions - employer	\$ 78,230	\$ 81,855	\$ 313,487	\$ 325,830	\$ 297,584
Contributions - employee	285,849	319,579	291,602	323,735	309,452
Net investment income	3,604,420	5,464,712	773,053	2,058,962	6,320,734
Benefit payments, including refunds of employee contributions	<u>(2,274,266)</u>	<u>(2,064,980)</u>	<u>(2,124,248)</u>	<u>(1,924,126)</u>	<u>(2,005,095)</u>
Administrative expense	(32,088)	(32,560)	(29,366)	(29,072)	(34,912)
Other	<u>(2,463)</u>	<u>(4,816)</u>	<u>(334)</u>	<u>(430)</u>	<u>333</u>
Net change in plan fiduciary net position	1,659,682	3,763,790	(775,806)	754,899	4,888,096
Plan fiduciary net position, beginning	<u>49,282,205</u>	<u>45,518,415</u>	<u>46,294,221</u>	<u>45,539,322</u>	<u>40,651,226</u>
Plan fiduciary net position, ending (b)	<u>\$ 50,941,887</u>	<u>\$ 49,282,205</u>	<u>\$ 45,518,415</u>	<u>\$ 46,294,221</u>	<u>\$ 45,539,322</u>
Authority's net pension asset, ending (a) - (b)	<u>\$ (6,158,721)</u>	<u>\$ (5,803,444)</u>	<u>\$ (2,022,165)</u>	<u>\$ (3,809,577)</u>	<u>\$ (4,494,599)</u>

See accompanying notes and Independent Auditor's Report.

SOUTHEASTERN PUBLIC SERVICE AUTHORITY OF VIRGINIA

SCHEDULE OF CHANGES IN NET PENSION ASSET AND RELATED RATIOS

(Continued)

For the Plan Years Ended June 30, 2014 through 2018

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Plan fiduciary net position as a percentage of the total pension liability	114%	113%	105%	109%	111%
Covered-employee payroll	\$ 5,047,097	\$ 5,280,968	\$ 5,783,893	\$ 6,011,624	\$ 6,085,562
Authority's net pension asset as a percentage of covered-employee payroll	(122%)	(110%)	(35%)	(63%)	(74%)

* Covered payroll represents the total pensionable payroll for covered employees covered under the pension plan, in accordance with GASB Statement No. 82.

Note: Information in this schedule is presented for the years in which information is available.
Information will be added each year until a full 10-year trend is presented.

See accompanying notes and Independent Auditor's Report.

SOUTHEASTERN PUBLIC SERVICE AUTHORITY OF VIRGINIA

SCHEDULE OF EMPLOYER CONTRIBUTIONS - PENSION

For the Years Ended June 30, 2014 through 2019

Date	Contractually Required Contribution (1)	Contributions in Relation to Contractually Required Contribution (2)	Contribution Deficiency (Excess) (3)	Employer's Covered Employee Payroll (4)	Contributions as a % of Covered Employee Payroll (5)
2019	\$ 13,824	\$ 13,824	\$ -	\$ 5,670,573 *	0.24%
2018	\$ 78,230	\$ 78,230	\$ -	\$ 5,047,097	1.55%
2017	\$ 81,855	\$ 81,855	\$ -	\$ 5,280,968	1.55%
2016	\$ 313,487	\$ 313,487	\$ -	\$ 5,783,893	5.42%
2015	\$ 325,830	\$ 325,830	\$ -	\$ 6,011,624	5.42%
2014	\$ 297,584	\$ 297,584	\$ -	\$ 6,085,562	4.89%

* Calculated contribution percentage differs from the contractually required contribution rate of 0.46% included in Note 10 is due to credits issued to Hybrid Plan members.

Note: Information in this schedule is presented for the years in which information is available. Information will be added each year until a full 10-year trend is presented.

See accompanying notes and Independent Auditor's Report.

SOUTHEASTERN PUBLIC SERVICE AUTHORITY OF VIRGINIA

SCHEDULE OF AUTHORITY'S SHARE OF NET OPEB LIABILITY AND RELATED RATIOS

For the Plan Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
GROUP LIFE INSURANCE (GLI) PROGRAM		
Employer's Proportion of the Net GLI OPEB Liability	0.03083%	0.03173%
Employer's Proportionate Share of the Net GLI OPEB Liability	\$ 468,000	\$ 478,000
Employer's Covered Payroll	\$ 5,047,097	\$ 5,280,968
Employer's Proportionate Share of the Net GLI OPEB Liability as a Percentage of its Covered Payroll	9.27%	9.05%
Plan Fiduciary Net Position as a Percentage of the Total GLI OPEB Liability	51.22%	48.86%
VIRGINIA LOCAL DISABILITY PROGRAM (VLDP)		
Employer's Proportion of the Net VLDP OPEB Liability	0.39316%	0.40378%
Employer's Proportionate Share of the Net VLDP OPEB Liability	\$ 3,000	\$ 3,000
Employer's Covered Payroll	\$ 954,634	\$ 741,500
Employer's Proportionate Share of the Net VLDP OPEB Liability as a Percentage of its Covered Payroll	0.31%	0.40%
Plan Fiduciary Net Position as a Percentage of the Total VLDP OPEB Liability	51.39%	38.40%

Note: Information in this schedule is presented for the years in which information is available. Information will be added each year until a full 10-year trend is presented.

See accompanying notes and Independent Auditor's Report.

SOUTHEASTERN PUBLIC SERVICE AUTHORITY OF VIRGINIA

SCHEDULE OF EMPLOYER CONTRIBUTIONS - OPEB

For the Years Ended June 30, 2017 through 2019

<u>Date</u>	<u>Contractually Required Contribution (1)</u>	<u>Contributions in Relation to Contractually Required Contribution (2)</u>	<u>Contribution Deficiency (Excess) (3)</u>	<u>Employer's Covered Employee Payroll (4)</u>	<u>Contributions as a % of Covered Employee Payroll (5)</u>
GROUP LIFE INSURANCE (GLI) PROGRAM					
2019	\$ 29,487	\$ 29,487	\$ -	\$ 5,670,573	0.52%
2018	\$ 26,245	\$ 26,245	\$ -	\$ 5,047,097	0.52%
2017	\$ 29,000	\$ 29,000	\$ -	\$ 5,280,968	0.55%
VIRGINIA LOCAL DISABILITY PROGRAM (VLDP)					
2019	\$ 7,116	\$ 7,116	\$ -	\$ 987,124	0.72%
2018	\$ 5,728	\$ 5,728	\$ -	\$ 954,634	0.60%
2017	\$ 4,449	\$ 4,449	\$ -	\$ 741,500	0.60%

Note: Information in this schedule is presented for the years in which information is available.
Information will be added each year until a full 10-year trend is presented.

See accompanying notes and Independent Auditor's Report.

SOUTHEASTERN PUBLIC SERVICE AUTHORITY OF VIRGINIA

**SCHEDULE OF CHANGES IN THE AUTHORITY'S TOTAL OPEB POST-RETIREMENT
MEDICAL BENEFIT PLAN (PMBP) AND RELATED RATIOS
Years Ended June 30, 2019 and 2018**

	<u>2019</u>	<u>2018</u>
TOTAL PMBP OPEB LIABILITY		
Service cost	\$ 90,708	\$ 104,151
Interest	55,384	55,321
Differences between expected and actual experience	(194,557)	-
Changes in assumptions	(155,904)	(31,024)
Benefit payments, including refunds of employee contributions	<u>(70,317)</u>	<u>(69,619)</u>
Net change in total PMBP OPEB liability	(274,686)	58,829
Total PMBP liability - beginning	<u>\$ 1,569,802</u>	<u>\$ 1,510,973</u>
Total PMBP liability - ending (a)	<u><u>\$ 1,295,116</u></u>	<u><u>\$ 1,569,802</u></u>
Covered-employee payroll (b)	\$ 5,299,702	\$ 5,852,100
Authority's total PMBP OPEB liability as a percentage of covered-employee payroll (a) / (b)	24%	27%

Note: Information in this schedule is presented for the years in which information is available. Information will be added each year until a full 10-year trend is presented.

See accompanying notes and Independent Auditor's Report.

SOUTHEASTERN PUBLIC SERVICE AUTHORITY OF VIRGINIA

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION June 30, 2019

1. Pension Plan

Changes of benefit terms

There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation.

Changes of assumptions

The following changes in actuarial assumptions were made effective June 30, 2016, based on the most recent experience study of the System for the four-year period ending June 30, 2016:

Largest 10 Locality Employers - Non-Hazardous Duty:

- Update to a more current mortality table
- Lowered retirement rates at older ages and changed final retirement from 70 to 75
- Adjusted withdrawal rates to better fit experience at each year age and service through 9 years of service
- Lowered disability rates
- No change in salary scale
- Increase in rates for line of duty disability from 14% to 20%

All Others (Non 10 Largest Locality Employers) - Non-Hazardous Duty:

- Update to a more current mortality table
- Lowered retirement rates at older ages and changed final retirement from 70 to 75
- Adjusted withdrawal rates to better fit experience at each year age and service through 9 years of service
- Lowered disability rates
- No change in salary scale
- Increase in rates for line of duty disability from 14% to 15%

2. Other Post-Employment Benefit Plan - Group Life Insurance Program

Changes of benefit terms

There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation.

Changes of assumptions

The following changes in actuarial assumptions were made effective June 30, 2016, based on the most recent experience study of the System for the four-year period ending June 30, 2016:

SOUTHEASTERN PUBLIC SERVICE AUTHORITY OF VIRGINIA

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2019**

2. Other Post-Employment Benefit Plan - Group Life Insurance Program (Continued)

Largest 10 Locality Employers - Non-Hazardous Duty:

- Update mortality table
- Lowered retirement rates at older ages and changed final retirement from 70 to 75
- Adjusted termination rates to better fit experience at each age and service year
- Lowered disability rates
- No change in salary scale
- Increase in rates for line of duty disability from 14% to 20%

All Others (Non 10 Largest Locality Employers) - Non-Hazardous Duty:

- Update mortality table
- Lowered retirement rates at older ages and extended final retirement from 70 to 75
- Adjusted termination rates to better fit experience at each age and service year
- Lowered disability rates
- No change in salary scale
- Increase in rates for line of duty disability from 14% to 15%

3. Other Post-Employment Benefit Plan - Virginia Local Disability Program

Changes of benefit terms

There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation.

Changes of assumptions

Same as Group Life Insurance Program above.

4. SPSA Postretirement Medical Benefit Plan

Changes of benefit terms

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

(Continued)

SOUTHEASTERN PUBLIC SERVICE AUTHORITY OF VIRGINIA

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2019

4. SPSA Postretirement Medical Benefit Plan (Continued)

Changes of assumptions

The following changes in actuarial assumptions were made effective July 1, 2018, based on the most recent valuation:

- The discount rate was increased from 3.50% as of June 30, 2016 to 3.87% as of July 1, 2108.
- The actuarial cost method was changed from projected unit credit to entry age normal (level percent of pay), as required by GASB 75.
- The age-related claims cost assumptions were updated.
- The healthcare trend assumption was changed from 6.90% in fiscal 2017, 7.10% in fiscal 2018, 5.0% in fiscal 2019, then grading to an ultimate rate of 4.10% in fiscal 2097 to 6.20% in fiscal 2019, 7.00% in fiscal 2020, 5.20% in fiscal 2021, then grading to an ultimate rate of 4.10% in fiscal 2094. The healthcare trend rates are consisten withinformation from the Getzen Trend Model, Milliman's *Health Cost Guidelines*, and actuarial judgement.
- The withdrawal, retirement, mortality and disability assumptions were changed to be consistent with the assumptions used in the June 30, 2018, valuation of the Virginia Retirement System.
- The percentage of future retirees assumed to elect coverage upon retirement was decreased from 65% to 60%. The percentage of future retirees assumed to elect coverage upon retirement and also elct to cover their spouse was decreased from 35% to 25%.

COMPLIANCE SECTION

**INDEPENDENT AUDITOR'S 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**

To the The Board of Directors
Southeastern Public Service Authority of Virginia
Chesapeake, Virginia

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the accompanying financial statements of Southeastern Public Service Authority of Virginia, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Southeastern Public Service Authority of Virginia's basic financial statements, and have issued our report thereon dated November 13, 2019.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Brown, Edwards & Company, S. L. P.

CERTIFIED PUBLIC ACCOUNTANTS

Newport News, Virginia
November 13, 2019