

Southeastern Public Service Authority

Financial Policies

Adopted by SPSA Board July 25, 2012

Basis of Accounting and Financial Reporting

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 assets, revenues, and expenses are accounted for through an enterprise fund with revenues recorded when earned and expenses recorded at the time liabilities are incurred.

The annual financial statements are 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.

In accordance with GASB Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting, the Authority applies all applicable GASB pronouncements, and has elected to apply only those Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principal Board Opinions and Accounting Research Bulletins issued on or before November 30, 1989, that do not conflict with or contradict GASB pronouncements.

Annual Budget

The SPSA Board of Directors adopts an annual financial plan, or budget, illustrating projected revenues and expenses for the upcoming fiscal year and directs the Executive Director to implement the plan.

The annual budget will be balanced on a cash basis meaning that current revenues will equal current expenses; however, the Authority may use fund balance, or surplus cash, to fund capital expenses and equipment replacement. The Authority may amend or supplement its budget during the fiscal year. The Executive Director is authorized to make transfers within the budget line items. Operating budgets will lapse at fiscal yearend with the exception of unfinished capital projects and encumbrances for purchases not received by June 30, of which will rollover to the new fiscal year.

In accordance with its various bond resolutions, the rates for fees and charges for solid waste disposal shall be fixed so that gross revenues minus operating expenses, or net revenues, are greater than or equal to 1.2 times the annual debt service of senior debt and 1.1 times the sum of the annual debt service of senior debt plus senior subordinated debt.

The Authority may change the rates for fees and charges following proper notice and public hearing on such change, as stated Section 15.2-5136 of the Code of Virginia. A public hearing is only required if a change in rates applies.

On or before May 15 of each fiscal year, the Authority will file a preliminary budget with its trustee and on or before June 30 the Authority will file the final financial plan for the upcoming fiscal year as adopted by the Authority's Board of Directors.

Fund Balance / Operating Reserve Policy

In accordance with section 505 of the Senior Subordinated Bond Resolution, the Authority shall maintain an operating reserve account equivalent to three (3) months operating expenses.

Debt Policies

The Authority will not issue any additional debt without the written consent of the Virginia Resources Authority and each of its eight (8) member jurisdictions with the exception of the letter of credit established for the purpose of providing financial assurance for landfill closure and post closure costs and any corrective action plans as issued by the Virginia Department of Environmental Quality.

In addition to the multiple consents required, the Authority's Board of Directors must perform a due diligence investigation of the appropriateness of issuing the debt, including an analysis of the costs of repaying the debt. Such analysis shall be certified by an external certified public accountant, reviewed by the Board, and approved by a vote of a minimum of 75 percent of the Board. The issuance of new debt shall require a vote of a minimum of 75 percent of the Board of Directors of the authority. The authority shall not issue long-term bond indebtedness to fund operational expenses. The provisions of this subdivision shall not apply to the issuance of new debt issued for the purpose of refunding or refinancing debt incurred by the authority prior to September 30, 2009.

Sale of Surplus Equipment

The proceeds from the sale of surplus equipment shall be used solely for the purpose of retiring debt.

Credit and Collection Policy

Invoices for waste disposal are due twenty-five (25) days from the invoice date. Customer account balances over 25 days past due are considered delinquent and are subject to a finance charge of 18% annually. Potential problem accounts or accounts that are in a continuous delinquent payment status may be placed in a credit hold status and may be denied access to SPSA facilities until the account is in a

current status, or may be permitted access to SPSA facilities on a cash only basis in addition to an arrangement with SPSA management to pay the past due balance, and may be referred to a collection agency.

Investment Policy

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

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

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

Further, the combined amount of bankers' acceptances, commercial paper, negotiable certificates of deposit/bank notes and corporate notes may not exceed fifty percent (50%) of the total book value of the portfolio at the date of acquisition.

Credit Risk

As required by state statute, the Policy requires that commercial paper have a short-term debt rating of no less than "A-1" (or its equivalent) from at least two of the following; Moody's Investors Service, Standard & Poor's and Fitch's Investors Service. Corporate notes, negotiable Certificates of Deposit and bank deposit notes maturing in less than one year must have a short-term debt rating of at least "A-1" by Standard & Poor's and "P-1" by Moody's Investors Service. Notes having a maturity of greater than one year must be rated at least "AA" by Standard & Poor's and "Aa" by Moody's Investors Service.

Although state statute does not impose credit standards on repurchase agreement counterparties, bankers' acceptances or money market mutual funds, SPSA has established certain credit standards for these investments to minimize portfolio risk.

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

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.

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 a counterparty to the investment transaction.