



Virginia Peninsulas Public Service Authority

Financial Report

June 30, 2026

Virginia Peninsulas Public Service Authority

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Independent Auditor's Report

To the Board of Directors
Virginia Peninsulas Public Service Authority
Williamsburg, Virginia

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the business-type activities of the Virginia Peninsulas Public Service Authority (the "Authority"), as of and for the year ended June 30, 2026, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority, as of June 30, 2026, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and *Specifications for Audits of Authorities, Boards, and Commissions* issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Authority and to meet our ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Authority's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and the Required Supplementary Information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, which 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.

Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 2, 2026, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 effectiveness of the Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.



CERTIFIED PUBLIC ACCOUNTANTS

Newport News, Virginia
October 2, 2026

Virginia Peninsulas Public Service Authority

Management's Discussion and Analysis

June 30, 2026

The Virginia Peninsulas Public Service Authority (the "Authority") is a regional solid waste authority that serves ten cities and counties. It manages solid waste services for member communities through contracted service providers and the Authority itself. Each year, the Authority adopts an operating budget based on member approved projects and administrative activities. Member approved projects are used to determine each member jurisdiction's contributions based on their level of participation.

The following Management's Discussion and Analysis ("MD&A") of the Virginia Peninsulas Public Service Authority provides a discussion and analysis of the Authority's financial performance as of and for the fiscal year ("FY") ended June 30, 2026. This MD&A should be read in conjunction with the basic financial statements and notes thereto that follow this section.

Request for Information

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

Overview of The Financial Statements

The Statement of Net Position presents information on the Authority's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference being 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 net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods.

Notes to the financial statements are an integral part of the statements and should be read in conjunction with the financial statements and the MD&A.

Virginia Peninsulas Public Service Authority

Management's Discussion and Analysis

June 30, 2026

Financial Summary

Table A-1
Virginia Peninsulas Public Service Authority

	2026	2025	Percent Change 2026 - 2025
Current and other assets	\$ 10,171,180	\$ 7,993,173	27%
Capital assets, net	5,920,146	5,890,777	1%
Total assets	16,091,326	13,883,950	16%
Deferred outflows of resources	196,776	164,155	20%
Current liabilities	2,116,229	2,310,291	-8%
Noncurrent liabilities	1,049,249	1,206,445	-13%
Total liabilities	3,165,478	3,516,736	-10%
Deferred inflows of resources	290,268	224,545	29%
Net position			
Net investment in capital assets	4,920,329	4,709,696	5%
Restricted - pension	595,097	501,095	19%
Unrestricted	7,316,932	5,096,033	44%
Total net position	\$ 12,832,358	\$ 10,306,824	25%

Table A-1 shows that as of June 30, 2026, the Authority's total net position – assets and deferred outflows minus liabilities and deferred inflows – was \$12,832,358, an increase of \$2,525,534 or 25% compared to 2025. This increase is due to several factors, including approximately \$625,000 in funds held for payment of tonnage disputes with Tidewater Fiber Corporation, more favorable investment income for Board designated funds invested with the Local Government Investment Pool (LGIP), a decrease in open payables at the end of June 30, 2026, and a deficit in staff in the Authority's hourly positions, resulting in less monies paid towards such benefits as health insurance and retirement.

The following sections of the MD&A analyze the finances of the Authority in greater detail.

Table A-2
Changes in the Virginia Peninsulas Public Service Authority's Net Position

	2026	2025*	Percent Change 2026 – 2025
Total operating revenues	\$ 9,846,879	\$ 11,198,488	-12%
Total operating expenses	7,772,612	9,728,412	-20%
Operating income	2,074,267	1,470,076	41%
Non-operating revenues, net	451,267	165,371	173%
Increase in fund net position	2,525,534	1,635,447	54%
Total fund net position – Beginning of period	10,306,824	8,671,377	19%
Total fund net position – End of period	\$ 12,832,358	\$ 10,306,824	25%

*Under GASB 103, 2025 figures have been reclassified to adhere to the updated definitions of subsidies and operating and nonoperating revenues and expenses.

Virginia Peninsulas Public Service Authority

Management's Discussion and Analysis

June 30, 2026

Table A-2 shows that operating revenues continued to exceed operating expenses in the current year, resulting in an overall operating gain. This operating gain was buoyed by gain on disposal of capital assets and a favorable investment income. Various events contributed to this increase in net position. Some of the factors affecting the change in net position are as follows:

1. The Authority's expenses were lower than anticipated due to the termination of the curbside recycling contract with Tidewater Fiber Corporation. Only two communities continued their recycling through the Authority and the new contract established with Republic Services. Other reasons for lower than anticipated expenses include lower health insurance increases, lower fuel costs, lower equipment and vehicle repair expenses, and several key positions vacant for a large portion of the fiscal year.
 - (1) Lower equipment and vehicle repair expenses are also due in part to having a full maintenance staff that can consistently inspect equipment and vehicles and perform preventive maintenance.
2. The LGIP investments yielded higher interest income due to a favorable stock market.

Detailed Analyses

- The assets and deferred outflows of resources of the Authority exceeded its liabilities and deferred inflow of resources at the close of the fiscal year by \$12,832,358 (net position). Of this amount, \$7,316,932 (unrestricted net position) may be used to meet the Authority's ongoing obligations to its member communities, customers, and creditors.
- Total net position at June 30, 2026, was \$12,832,358 compared to \$10,306,824 at June 30, 2025, an increase of \$2,525,534 or 25%.
- Total liabilities at June 30, 2026, were \$3,165,478 compared to \$3,516,736 at June 30, 2025. The \$351,258 decrease, or -10%, is primarily attributable to decrease in curbside recycling expenses due to the termination of the curbside recycling contract with Tidewater Fiber Corporation.
- Operating revenue of \$9,846,879 was less than the budgeted amount of \$12,308,262 by \$2,461,383, or -20%.
- Operating expenses of \$7,772,612 were less than the budgeted amount of \$12,308,262 by \$4,535,650, or -37%.

The largest factor in both the revenues and expenses being less than budget at June 30, 2026, is the termination of the curbside recycling contract with Tidewater Fiber Corporation and only two communities continuing with the Authority and the contract with Republic Services.

Significant Capital Asset and Long-Term Financing Activity

The following table presents a condensed summary of the Authority's capital assets, net of accumulated depreciation and amortization, at June 30, 2026 and 2025.

	2026	2025	% Change 2026-2025
Construction in progress	\$ 170,254	\$ -	100%
Building and improvements	2,262,408	2,308,862	-2%
Operating equipment	1,794,046	2,102,318	-15%
Vehicles	732,565	360,169	103%
Right-of-use lease assets	960,873	1,119,428	-14%
	\$ 5,920,146	\$ 5,890,777	1%

During the year ended June 30, 2026, the Authority made purchases of vehicles and operating equipment totaling \$598,146. These increases are offset by the Authority's current year's disposals of \$305,682 and depreciation expense of \$516,864. Additional information can be found in Note 4 to the basic financial statements.

Virginia Peninsulas Public Service Authority

Management's Discussion and Analysis

June 30, 2026

The most significant purchases were made in the Transfer System project. The Authority purchased two new 2026 Mack roll-off trucks with a total cost of approximately \$470,000. These two trucks were part of Board approved funds to purchase four new trucks during the latter part of FY25 and beginning of FY26. With the addition of these new trucks, the Authority's vehicle maintenance and repair costs for FY26 were less than FY25.

In the Compost Facility project, the Authority incurred approximately \$100,000 to repair the asphalt surface at the facility. The Board previously approved the use of up to \$200,000 for these repairs for the following reasons:

- The large cracks and potholes were becoming a safety hazard.
- There was a potential threat to maintaining environmental quality standards required for the DEQ permit to operate the facility.
- Originally a full-deep reclamation project was proposed for the facility that would cost approximately \$3,000,000 to complete in three separate phases.

The Authority's Compost Facility Site Improvement Fund did not have sufficient funds for a full-deep reclamation and, after review with York County engineers, the alternate approach of repairs to the asphalt surface was approved by the Board.

Right-of-use lease assets decreased for FY26. The Authority did not add any new leases in FY26 and, with the accumulated amortization for FY26, this resulted in the 17% decrease in the Right-of-use lease assets.

Currently Known Facts, Decisions, or Conditions

The Authority is aware of four currently known facts, decisions, or conditions that are expected to have an effect on the Authority's financial position or results of operations in future periods and were considered in developing the subsequent year's budget:

- The Authority's curbside recycling services agreement with Tidewater Fiber Corporation ended on September 30, 2025, due to agreement defaults. As the fiscal year ended June 30, 2026, the Authority has accrued funds totaling \$624,192.73 related to unpaid tonnages to Tidewater Fiber Corporation. Because these funds have been accrued, they are not expected to affect future recycling program costs, cash flows, or budgetary considerations. The final amount paid to Tidewater Fiber Corporation may change, and any remaining funds will be returned to the participating communities.
- A compensation study was completed during FY 2026 to evaluate the Authority's pay structure. The Board approved new pay scales for FY 2027; however, the Board voted to fund FY 2027 wages using the prior pay ranges with a 3% pay increase. This decision is expected to affect salary and benefit costs in the subsequent fiscal year while allowing the Authority to phase in the fiscal impact of the new compensation structure.
- The Authority anticipates the departure of two employees, each with more than 30 years of experience. The positions are expected to be filled by new employees at the minimum pay range for the respective positions. This transition is expected to reduce salary costs; however, it may also affect institutional knowledge and require training and transition support during the subsequent fiscal year.
- The Authority expects to hire a new Executive Director in FY 2027. The leadership transition is expected to influence administrative priorities, staffing, and operational planning in future periods.



Basic Financial Statements

Virginia Peninsulas Public Service Authority

Statement of Net Position

June 30, 2026

ASSETS

CURRENT ASSETS

Cash and cash equivalents (Note 3)	\$ 5,450,831
Investments (Note 3)	3,664,086
Accounts receivable	
Member jurisdictions	324,607
Prepays	136,559
Total current assets	<u>9,576,083</u>

NONCURRENT ASSETS

Capital assets, net (Note 4)	5,920,146
Net pension asset (Note 10)	595,097
Total noncurrent assets	<u>6,515,243</u>
Total assets	<u>16,091,326</u>

DEFERRED OUTFLOWS OF RESOURCES

Deferred pension amounts (Note 10)	173,576
Deferred OPEB amounts (Note 11)	23,200
Total deferred outflows of resources	<u>196,776</u>
Total assets and deferred outflows of resources	<u><u>\$ 16,288,102</u></u>

LIABILITIES

CURRENT LIABILITIES

Accounts payable and accrued expenses	\$ 931,346
Compensated absences (Note 5)	173,000
Accrued salaries	69,271
Unearned revenues (Note 6)	785,655
Lease liability, current portion (Note 7)	156,955
Total current liabilities	<u>2,116,227</u>

NONCURRENT LIABILITIES

Net OPEB liability (Note 11)	67,161
Compensated absences, net of current portion (Note 5)	139,226
Lease liability, net of current portion (Note 7)	842,862
Total noncurrent liabilities	<u>1,049,249</u>
Total liabilities	<u>3,165,476</u>

DEFERRED INFLOWS OF RESOURCES

Deferred pension amounts (Note 10)	269,222
Deferred OPEB amounts (Note 11)	21,046
Total deferred inflows of resources	<u>290,268</u>
Total liabilities and deferred inflows of resources	<u>3,455,744</u>

NET POSITION

Net investment in capital assets	4,920,329
Restricted - pension	595,097
Unrestricted	7,316,932
Total net position	<u>12,832,358</u>
Total liabilities and deferred inflows of resources, and net position	<u><u>\$ 16,288,102</u></u>

Virginia Peninsulas Public Service Authority

Statement of Revenues, Expenses, and Changes in Net Position

Year Ended June 30, 2026

OPERATING REVENUES

Fees from member jurisdictions for:

Curbside recycling program	\$ 1,225,237
Transfer system operations	2,995,050
Landfill disposal	763,123
Compost facility operations	1,252,750
Material sales	576,306
Computer recycling services	16,650
Tire recycling services	5,760
Convenience centers operations	1,257,400
Household chemical services	422,442
Administrative services	223,000
Project overhead	748,682

Miscellaneous and other fees	360,479
Total operating revenues	<u>9,846,879</u>

OPERATING EXPENSES

Curbside recycling program	1,218,251
Transfer system operations	2,440,068
Landfill disposal	763,287
Compost facility operations	1,134,894
Special projects	42,814
Convenience centers operations	947,321
Household chemical services	395,694
Administrative services	825,013
Vehicle maintenance facility	5,270

Total operating expenses	<u>7,772,612</u>
Operating income	<u>2,074,267</u>

NONOPERATING REVENUES (EXPENSES)

Gain on disposal of capital assets	258,138
Interest expense	(18,784)
Investment income	211,913
Total nonoperating revenues	<u>451,267</u>
Change in net position	2,525,534

NET POSITION

Beginning of year	<u>10,306,824</u>
End of year	<u><u>\$ 12,832,358</u></u>

Virginia Peninsulas Public Service Authority

Statement of Cash Flows

Year Ended June 30, 2026

OPERATING ACTIVITIES

Receipts from customers and users	\$ 11,016,493
Payments to suppliers for goods and services	(4,119,507)
Payments to employees	(3,318,922)
Net cash provided by operating activities	<u>3,578,064</u>

CAPITAL AND RELATED FINANCING ACTIVITIES

Purchase of capital asset	(871,784)
Proceeds from sale of capital asset	275,297
Principal payments of lease liability	(153,287)
Net cash used in financing activities	<u>(749,774)</u>

INVESTING ACTIVITIES

Purchase of investments	(1,648,767)
Sale of investments	905,114
Investment income	211,913
Interest expense	(18,784)
Net cash used in investing activities	<u>(550,524)</u>
Net increase in cash and cash equivalents	2,277,766

CASH AND CASH EQUIVALENTS

Beginning of year	3,173,065
End of year	<u><u>\$ 5,450,831</u></u>

RECONCILIATION OF OPERATING INCOME TO NET

CASH PROVIDED BY OPERATING ACTIVITIES

Operating income	\$ 2,074,267
Adjustments to reconcile operating income to net cash provided by operating activities	
Depreciation and amortization	825,256
Changes in current assets and liabilities	
Accounts receivable	1,058,397
Prepays	(120,983)
Net pension asset	(94,002)
Net OPEB liability	(17,314)
Deferred outflows of resources	(32,621)
Deferred inflows of resources	65,723
Accounts payable and accrued liabilities	(316,230)
Compensated absences	17,072
Accrued salaries	7,280
Unearned revenues	111,219
Net cash provided by operating activities	<u><u>\$ 3,578,064</u></u>

Virginia Peninsulas Public Service Authority

Notes to Basic Financial Statements

June 30, 2026

Note 1 – Organization and Nature of Business

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

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

Note 2 – Summary of Significant Accounting Policies

Reporting Entity

These financial statements present the financial position and activities of Virginia Peninsulas Public Service Authority. The Authority’s services are classified as business-type activities (Proprietary Fund). Therefore, the measurement focus is upon the determination of operating income, changes in net position, and cash flows. Accounting principles generally accepted in the United States of America (GAAP) applicable to the Authority are those similar to those used in the private sector.

Credit Risk and Concentrations

Financial instruments, which potentially subject the Authority to concentration of credit risk consist principally of cash and cash equivalents, investments, and accounts receivable from member jurisdictions. The Authority places its cash and cash equivalents and investments with two high credit quality institutions and limits the amount of credit exposure to any one of those financial institutions. At June 30, 2026, there was \$5,454,171 of the Authority’s cash and cash equivalents in excess of the insurance provided by the Federal Deposit Insurance Corporation (FDIC), on deposit in the Authority’s bank accounts. These funds, and the Authority’s investments, however, were properly collateralized in accordance with the Virginia Security for Public Deposits Act.

A substantial portion of the Authority’s 2026 revenues and receivables were derived from contracts with the political subdivisions, which are members of the Authority. Therefore, the Authority is vulnerable to the economic and political conditions within the market in which it operates. With respect to accounts receivable from member jurisdictions, the Authority’s members are cities and counties throughout the middle and south peninsulas of Virginia. Historically, all receivables have been collected. At June 30, 2026, the Authority had a concentration with three member jurisdictions that made up approximately 82% of all accounts receivable. Also, at June 30, 2026, the Authority had a concentration with one vendor that made up approximately 69% of all accounts payable.

Virginia Peninsulas Public Service Authority

Notes to Basic Financial Statements

June 30, 2026

Basis of Accounting

The Authority's operations are accounted for as a proprietary fund, using the economic resources measurement focus. The financial statements are presented on the accrual basis of accounting, and under this accounting method, revenues are recognized when earned and expenses are recorded when liabilities are incurred without regard to receipt or disbursement of cash. Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses are revenues and expenses other than nonoperating revenues and expenses. Nonoperating revenues and expenses are those identified by GASB Statement No. 103 and are limited to (a) subsidies received and provided, (b) contributions to permanent and term endowments, (c) revenues and expenses related to financing, (d) resources from the disposal of capital assets and inventory, and (e) investment income and expenses.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates and assumptions.

Cash and Cash Equivalents

The Authority considers all highly liquid investments with an initial maturity of three months or less to be cash and cash equivalents.

Investments

Investments are valued at the amortized cost method, which due to their nature and duration approximates fair value.

Allowance for Doubtful Accounts

The Authority evaluates its accounts receivable individually. A charge to income to absorb possible credit losses is provided when, in the opinion of management, it is appropriate. No allowance for doubtful accounts existed at June 30, 2026.

Prepays

Prepays are current assets that are created by paying for an expense that will not be incurred until a future period. These expenses include but are not limited to the prepayment of insurance and other operating expenses.

Capital Assets

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

Virginia Peninsulas Public Service Authority

Notes to Basic Financial Statements

June 30, 2026

Estimated useful lives are as follows:

Building and improvements	5– 20 years
Office equipment	5 – 7 years
Operating equipment	5 – 20 years
Vehicles	5 – 7 years
Right-to-use lease assets	See Note 7

Deferred Outflows of Resources

Deferred outflows of resources represent a consumption of net position that apply to a future period and will not be recognized as an expense until then. The Authority's deferred outflows of resources consist of pension contributions and group life insurance contributions made to the respective plans that were made subsequent to the measurement of the net pension asset and net other postemployment benefits (OPEB) liability and before the end of the reporting period. The Authority's deferred outflows of resources also include amounts remaining to be recognized as a reduction of pension and OPEB expenses as a result of changes to the net pension asset and net OPEB liability for changes in assumptions, changes in proportionate share, difference between projected and actual earnings, and the difference between expected and actual experience. Deferred outflows of resources resulting from contributions made subsequent to the measurement date will be amortized in the following year. Changes in deferred outflows of resources, other than subsequent contributions, are amortized over the remaining service life of all plan participants with the exception of investment experience amounts which are deferred and amortized over a close five-year period.

Deferred Inflows of Resources

Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as revenue until then. The Authority's deferred inflows of resources represent amounts remaining to be recognized as a reduction of OPEB expense as a result of changes to the net OPEB liability for the difference between expected and actual experience. This amount is required to be recognized in the computation of OPEB expense using a systematic and rational method over a closed period equal to the remaining service lives of all employees that are provided benefits through the plan. The Authority's deferred inflows of resources also include the net difference between projected and actual earnings on pension and OPEB plan investments, changes in assumptions and change in proportionate share of the net OPEB liability. Changes in deferred inflows of resources are amortized over the remaining service life of all plan participants.

Compensated Absences

The Authority permits employees to accrue vacation and sick leave in varying amounts each pay period. A liability is recognized for the amount of accumulated accrued compensated absences including associated benefits, that is estimated to be used or taken, at current pay rates at year-end.

Use of Restricted / Unrestricted Net Position

When an expense is incurred for purposes for which both restricted and unrestricted net position are available, the Authority's policy is to apply restricted net position first.

Virginia Peninsulas Public Service Authority

Notes to Basic Financial Statements

June 30, 2026

Leases – Lessee

The Authority is a lessee on various noncancelable leases for equipment, office space, and land. The Authority recognizes a lease liability and an intangible right-of-use lease asset (lease asset) in the financial statements. The Authority recognizes lease liabilities with an initial, individual value of \$5,000 or more.

At the commencement of a lease, the Authority initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The lease asset is initially measured as the initial amount of the lease liability, adjusted for lease payments made at or before the lease commencement date, plus certain initial direct costs. Subsequently, the lease asset is amortized on a straight-line basis over the lease term. Key estimates and judgments related to leases include how the Authority determines (1) the discount rate it used to discount the expected lease payments to present value, (2) lease term, and (3) lease payments.

- The Authority uses the interest rate charged by the lessor as the discount rate. When the interest rate charged by the lessor is not provided, the Authority generally uses its estimated incremental borrowing rate as the discount rate for leases.
- The lease term includes the noncancelable period of the lease. Lease payments included in the measurement of the lease liability are composed of fixed payments and purchase option price that the Authority is reasonably certain to exercise.

The Authority monitors changes in circumstances that would require a remeasurement of its leases and will remeasure the lease asset and liability if certain changes occur that are expected to significantly affect the amount of the lease liability.

Lease assets are reported with other capital assets and lease liabilities are reported with noncurrent liabilities on the statement of net position.

Adoption of New Accounting Standards

Effective July 1, 2025, the Authority adopted GASB Statement No. 103, *Financial Reporting Model Improvements*. This statement improves key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government's accountability as well as addressing certain application issues.

Effective July 1, 2025, the Authority adopted GASB Statement No. 104, *Disclosure of Certain Capital Assets*. This statement requires certain information regarding capital assets to be presented by major class. Certain types of capital assets are to be disclosed separately in the capital assets note disclosures required by Statement No. 34.

Note 3 – Cash, Cash Equivalents, and Investments

At June 30, 2026, the Authority's cash and investments consisted of:

Deposits	
Cash on hand	\$ 5,450,831
Investments	
Commonwealth's Local Government Investment Pool ("LGIP") – rated AAAm by <i>Standard & Poor's</i>	3,664,086
	<u><u>\$ 9,114,917</u></u>

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Deposits with banks are covered by the FDIC and collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.2-4400 et. seq. of the *Code of Virginia*.

Statutes authorize local governments and other public bodies to invest in obligations of the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, obligations of the International Bank for Reconstruction and Development (World Bank), the Asian Development Bank, the African Development Bank, "prime quality" commercial paper and certain corporate notes, bankers' acceptances, repurchase agreements, and the State Treasurer's LGIP. LGIP is managed in accordance with the "2a7 like pool" risk limiting requirements of GAAP with the portfolio securities valued by the amortized cost method. The fair value of the Authority's position in LGIP is the same as the pool shares and is measured in accordance with GAAP at amortized cost.

Note 4 – Capital Assets

Capital assets activity consisted of the following:

	Balance July 1, 2025	Increases	Decreases	Balance June 30, 2026
Capital assets, not being depreciated or amortized				
Construction in progress	\$ -	\$ 170,254	\$ -	\$ 170,254
Total capital assets, not depreciated or amortized	-	170,254	-	170,254
Capital assets being depreciated or amortized				
Buildings and improvements	5,432,357	103,383	-	5,535,740
Office equipment	8,587	-	-	8,587
Operating equipment	5,833,046	26,040	(264,256)	5,594,830
Vehicles	2,629,328	572,106	(41,426)	3,160,008
Total capital being depreciated or amortized	13,903,318	701,529	(305,682)	14,299,165
Accumulated depreciation and amortization				
Buildings and improvements	(3,123,495)	(149,837)	-	(3,273,332)
Office equipment	(8,587)	-	-	(8,587)
Operating equipment	(3,730,728)	(334,312)	264,256	(3,800,784)
Vehicles	(2,269,159)	(182,552)	24,268	(2,427,443)
Total accumulated depreciation and amortization	(9,131,969)	(666,701)	288,524	(9,510,146)
Total capital assets being depreciated and amortized, net	4,771,349	34,828	(17,158)	4,789,019
Lease assets				
Land	1,135,341	-	-	1,135,341
Buildings	296,871	-	-	296,871
Equipment	12,140	-	-	12,140
Less accumulated amortization	(324,924)	(158,555)	-	(483,479)
Total lease assets being amortized, net	1,119,428	(158,555)	-	960,873
Total Capital assets, net	\$ 5,890,777	\$ 46,527	\$ (17,158)	\$ 5,920,146

Depreciation and amortization expense were charged as follows:

Administrative services	\$ 165,496
Vehicle maintenance facility	5,270
Compost facility operations	267,740
Convenience centers operations	51,230
Household chemical	1,179
Transfer stations operations	334,341
Total depreciation and amortization expense	\$ 825,256

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Note 5 – Compensated Absences

The following is a schedule of changes in compensated absences during 2026:

	Balance July 1, 2025	Net Changes	Balance June 30, 2026	Current Portion
Compensated absences	<u>\$ 295,154</u>	<u>\$ 17,072</u>	<u>\$ 312,226</u>	<u>\$ 173,000</u>

Note 6 – Unearned Revenues

At June 30, 2026, unearned revenues consist of prepayments of fees by participating jurisdictions as follows:

Landfill disposal fees	\$ 380,161
Recycling fees	196,513
Household chemical disposal fees	208,981
Total unearned revenues	<u>\$ 785,655</u>

Note 7 – Leases

Lease Payable

The Authority leases land, office space, and equipment from various third parties under multiple leases. The leases are for periods ending at different periods through June 2033. The Authority is required to make monthly principal and interest payments ranging from \$178 to \$10,315 under these leases. The leases do not have a stated interest rate; therefore, the Authority used a discount rate between 1.74% and 3.85% for leases, which is their estimated incremental borrowing rate. As of June 30, 2026, the value of the lease liabilities was \$999,817. The value of the right-of-use assets as of the end of the current fiscal year was \$1,444,352 and had accumulated amortization of \$483,479.

	Balance July 1, 2025	Increase	Decrease	Balance June 30, 2026
Lease liability	<u>\$ 1,153,104</u>	<u>\$ -</u>	<u>\$ (153,287)</u>	<u>\$ 999,817</u>

Year Ending	Principal	Interest	Total
2027	\$ 156,955	\$ 16,217	\$ 173,172
2028	157,447	13,411	170,858
2029	160,051	10,654	170,705
2030	163,804	7,839	171,643
2031	118,430	5,350	123,780
2032 - 2033	243,130	4,431	247,561
	<u>\$ 999,817</u>	<u>\$ 57,902</u>	<u>\$ 1,057,719</u>

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Note 8 – Board-Designated Equipment Reserve

During 2026, the Board designated an additional \$501,975 of unrestricted investments for use in compost facility and convenience center operations for the Authority. Interest earned on the underlying investment was \$101,798 and is included in additions to the reserve. Remaining additions are related to community payments totaling \$655,000 that were deposited to the Compost Facility, Convenience Center, Transfer Center Equipment, and Vehicle Maintenance Facility replacement funds. Such funds are invested as described in Note 3. Reductions in the equipment reserve accounts relate to Board approved equipment purchases and repairs totaling \$665,849. Activity in the board-designated equipment reserve fund is summarized as follows:

	Balance July 1, 2025	Additions	Reductions	Balance June 30, 2026
Administrative services	\$ 53,468	\$ 2,223	\$ -	\$ 55,691
Compost facility operations	812,373	749,236	34,371	1,527,238
Convenience centers operations	433,635	127,889	160,000	401,524
Transfer station operations	699,913	353,870	471,478	582,305
Vehicle maintenances	-	25,555	-	25,555
	<u>\$ 1,999,389</u>	<u>\$ 1,258,773</u>	<u>\$ 665,849</u>	<u>\$ 2,592,313</u>

Note 9 – Contingent Liability

The Virginia Department of Environmental Quality (the “Department”) has determined the Authority must comply with the requirements pursuant to the Virginia Financial Assurance Regulations for Solid Waste Disposal, Transfer, and Treatment Facilities (the “Regulation”). Under the Regulation, owners or operators of compost facilities must provide and maintain a financial mechanism or combination of mechanisms demonstrating financial assurance for the closure costs, if applicable, the post-closure care and corrective action costs associated with these facilities. The intent of the Regulation is to ensure, in the event such facilities are abandoned, the costs associated with closure, post-closure, or corrective action are borne by the operator abandoning the facility and not the Commonwealth of Virginia. The Department requires the operator to submit a detailed written cost estimate, in current dollars, of the costs of closing the facility in accordance with the requirements. At June 30, 2026, the Authority has estimated these costs to be \$51,200. Funding of these costs will come from current year operating revenues.

Note 10 – Defined Benefit Pension Plan

Plan Description

All full-time, salaried permanent employees of the Authority are automatically covered by the VRS Retirement Plan upon employment. This multi-employer agent plan is administered by the Virginia Retirement System (“VRS” or 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 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.

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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 available at:

- <https://www.varetire.org/members/benefits/defined-benefit/plan1.asp>,
- <https://www.varetire.org/members/benefits/defined-benefit/plan2.asp>,
- <https://www.varetirement.org/hybrid.html>.

Employees Covered by Benefit Terms

As of the June 30, 2024, actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

	Number
Inactive members or their beneficiaries currently receiving benefits	30
Inactive members:	
Vested	13
Nonvested	57
Active elsewhere in VRS	10
Total inactive members	110
Active members	43
Total covered employees	153

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.

The Authority's contractually required contribution rate for the year ended June 30, 2026, was 4.00% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2023.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the Authority were \$74,187 and \$76,881 for the years ended June 30, 2026 and 2025, respectively.

The defined contributions component of the Hybrid plan includes member and employer mandatory and voluntary contributions. The Hybrid plan member must contribute a mandatory rate of 1% of their covered payroll. The employer must also contribute a mandatory rate of 1% of this covered payroll, which totaled \$28,268 for the year ended June 30, 2026. Hybrid plan members may also elect to contribute an additional voluntary rate of up to 4% of their covered payroll; which would require the employer a mandatory additional contribution rate of up to 2.5%. This additional employer mandatory contribution totaled \$16,371 for the year ended June 30, 2026. The total Hybrid plan participant covered payroll totaled \$2,826,800 for the year ended June 30, 2026.

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Net Pension Asset/Liability

The net pension asset/liability 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 fiduciary net position. For political subdivisions, the net pension asset/liability was measured as of June 30, 2025. The total pension liability used to calculate the net pension asset/liability was determined by an actuarial valuation performed as of June 30, 2024, rolled forward to the measurement date of June 30, 2025.

Actuarial Assumptions

The total pension liability for General Employees in the Authority's Retirement Plan was based on an actuarial valuation as of June 30, 2024, 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, 2025.

Inflation	2.50%
Salary increases, including inflation	3.50% - 5.35%
Investment rate of return	6.75% net of pension plan investment expenses, including inflation

Mortality rates: General employees – 15 to 20% of deaths are assumed to be service related. Mortality is projected using the applicable Pub-2010 Mortality Table and a Modified MP-2021 Improvement Scale with various setbacks or set forwards for both males and females.

The actuarial assumptions used in the June 30, 2024, valuation were rolled forward to a measurement date of June 30, 2025, and were based on the results of an actuarial experience study for the period from July 1, 2020 through June 30, 2024. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

General Employees – Metro – Non-Hazardous Duty: Maintained mortality table with adjustments; moved retirement and termination rates to the way of the observed experience; moved disability rates to the way of the observed experience to maintain margin; increased Merit & Longevity on the salary scale; and no change to discount rate.

Long-Term Expected Rate of Return

The long-term expected rate of return on pension System 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 System 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:

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Asset Class (Strategy)	Target Allocation	Arithmetic Long-Term Expected Rate of Return	Weighted Average Long-Term Expected Rate of Return
Public equity	32.00%	6.60%	2.11%
Fixed income	16.00%	5.09	0.81
Credit strategies	16.00%	8.21	1.31
Real assets	15.00%	7.10	1.07
Private equity	15.00%	8.60	1.29
PIP – Private investment partnership	1.00%	7.95	0.08
Diversifying strategies	6.00%	6.82	0.41
Cash	2.00%	4.07	0.08
Leverage	(3.00%)	4.57	(0.14)
	100.00%		7.02
			7.02%

* Expected arithmetic nominal return

* The above allocation provides for a one-year return of 7.02% (includes 2.50% inflation assumption). 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 7.06%, including expected inflation of 2.50%. On June 15, 2023, the VRS Board elected a long-term rate of 6.75% which is roughly at the 45th percentile of expected long-term results of the VRS fund asset allocation at that time, providing a median return of 7.14%, including expected inflation of 2.50%.

Discount Rate

The discount rate used to measure the total pension liability was 6.75%. 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. For the year ended June 30, 2025, the employer contribution rate is 100% of the actuarially determined employer contribution rate from the June 30, 2024, actuarial valuations. From July 1, 2025, 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.

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Changes in Net Pension Asset

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Asset (a) – (b)
Balances at June 30, 2024	\$ 7,415,691	\$ 7,916,786	\$ (501,095)
Changes for the year:			
Service cost	163,108	-	163,108
Interest	499,875	-	499,875
Difference between expected and actual experience	185,432	-	185,432
Assumption changes	43,034	-	43,034
Contributions – employer	-	76,801	(76,801)
Contributions – employee	-	83,038	(83,038)
Net investment income	-	830,165	(830,165)
Benefit payments, including refunds of employee contributions	(346,487)	(346,487)	-
Administrative expense	-	(4,767)	4,767
Other changes	-	214	(214)
Net changes	544,962	638,964	(94,002)
Balances at June 30, 2025	<u>\$ 7,960,653</u>	<u>\$ 8,555,750</u>	<u>\$ (595,097)</u>

Sensitivity of the Net Pension Asset to Changes in the Discount Rate

The following presents the net pension liability (asset) of the Authority using the discount rate of 6.75%, as well as what the Authority's net pension liability (asset) would be if it were calculated using a discount rate that is one percentage point lower (5.75%) or one percentage point higher (7.75%) than the current rate:

	1% Decrease (5.75%)	Current Discount Rate (6.75%)	1% Increase (7.75%)
Authority's net pension liability (asset)	<u>\$ 304,283</u>	<u>\$ (595,097)</u>	<u>\$ (1,361,738)</u>

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

For the year ending June 30, 2026, the Authority recognized pension expense of \$15,825. At June 30, 2026, the Authority 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
Differences between expected and actual experience	\$ 80,668	\$ -
Change in assumptions	18,721	-
Employer contributions made subsequent to measurement date	74,187	-
Net difference between projected and actual earnings on plan investments	-	269,222
	<u>\$ 173,576</u>	<u>\$ 269,222</u>

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The \$74,187 reported as deferred outflows of resources related to pensions resulting from the Authority's contributions subsequent to the measurement date will be recognized as an increase of the net pension asset in the fiscal year ending June 30, 2027. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending</u>	<u>Effect on Pension Expense</u>
2027	\$ 95,711
2028	(100,796)
2029	(104,301)
2030	(60,447)
2031	-
Thereafter	-

Pension Plan Data

Information about the VRS Political Subdivision Retirement Plans is also available in the separately issued VRS 2025 Annual Report. A copy of the 2025 VRS Annual Report may be downloaded from the VRS website at <https://www.varetire.org/publications/?category=annual>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218 2500.

Note 11 – Other Post-Employment Benefits – Virginia Retirement System Plans

In addition to its participation in the pension plan offered through the Virginia Retirement System (VRS), the Authority also participates in a multiple-employer, cost-sharing other postemployment benefit plan, described as follows.

Plan Description

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.

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

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Contributions

The contribution requirements for the GLI Program are governed by §51.1-506 and §51.1-508 of the *Code of Virginia*, as amended, but may be impacted as a result of funding provided to state agencies and school divisions by the Virginia General Assembly. The total rate for the GLI Program was 1.18% of covered employee compensation. This was allocated into an employee and an employer component using a 60/40 split. The employee component was 0.71% (1.18% x 60%), and the employer component was 0.47% (1.18% x 40%). Employers may elect to pay all or part of the employee contribution, however, the employer must pay all of the employer contribution. Each employer's contractually required employer contribution rate for the year ended June 30, 2026, was 0.47% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2023. The actuarially determined rate, when combined with employee contributions, was expected to finance the costs of benefits payable during the year, with an additional amount to finance any unfunded accrued liability. Contribution to the GLI Program from the entity were \$8,779 and \$361 for the years ended June 30, 2026 and 2025, respectively.

GLI OPEB Liabilities, GLI OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the GLI Program OPEB

At June 30, 2026, the Authority reported a liability of \$67,161 for its proportionate share of the net GLI OPEB liability. The net GLI OPEB liability was measured as of June 30, 2025, and the total GLI OPEB liability used to calculate the net GLI OPEB liability was determined by an actuarial valuation performed as of June 30, 2024, and rolled forward to the measurement date of June 30, 2025. The covered employer's proportion of the net GLI OPEB liability was based on the Authority's actuarially determined employer contributions to the GLI program for the year ended June 30, 2025, relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2025, the Authority's proportion was 0.00698% as compared to 0.00757% at June 30, 2024.

For the year ended June 30, 2026, the Authority recognized GLI OPEB benefit of \$2,472. Since there was a change in proportionate share between measurement dates, a portion of the GLI OPEB expense was related to deferred amounts from changes in proportion.

At June 30, 2026, the Authority reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 11,914	\$ 1,264
Changes of assumptions	-	2,197
Net difference between projected and actual earnings on plan investments	-	9,398
Changes in proportionate share	2,507	8,187
Employer contribution subsequent to the measurement date	8,779	-
	\$ 23,200	\$ 21,046

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The \$8,779 reported as deferred outflows of resources related to the GLI OPEB resulting from the Authority's contributions subsequent to the measurement date will be recognized as a reduction to the Net OPEB Liability in the fiscal year ending June 30, 2027. Other amounts reported as deferred outflows and inflows of resources related to the GLI OPEB will be recognized in the GLI OPEB expense in future periods as follows:

Year Ending	Effect on OPEB Expense
2027	\$ (1,723)
2028	(1,383)
2029	(1,869)
2030	(1,180)
2031	(470)
Thereafter	-

Actuarial Assumptions

The total OPEB liability was determined using the following assumptions based on an actuarial valuation date of June 30, 2024, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2025:

Inflation	2.50%
Salary increases, including inflation	
General state employees	3.50 - 5.35%
Investment rate of return, net of expenses, including inflation	6.75%

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 10.

Net GLI OPEB Liability

The net OPEB liability represents the GLI program's total OPEB liability determined in accordance with GASB Statement No. 74, less the associated fiduciary net position. As of the measurement date of June 30, 2025, net OPEB liability amounts for the various VRS OPEB programs are as follows (amounts expressed in thousands):

Total GLI OPEB liability	\$ 4,433,282
Plan fiduciary net position	3,471,094
Employers' Net GLI OPEB Liability	<u>\$ 962,188</u>
Plan fiduciary net position as a percentage of the total GLI OPEB liability	78.30%

The total GLI OPEB liability is calculated by the System's actuary and each plan's fiduciary net position is reported in the System's financial statements. The net GLI 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

The long-term expected rate of return is the same as that used by the VRS pension plans. The long-term expected rate of return is detailed in Note 10.

Virginia Peninsulas Public Service Authority

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Discount Rate

The discount rate used to measure the GLI OPEB liability was 6.75%. 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 ended June 30, 2025, 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 which 100% of the actuarially determined contribution rate for all other OPEB plans. From July 1, 2025 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 eligible 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 using the discount rate of 6.75%, 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 (5.75%) or one percentage point higher (7.75%) than the current discount rate:

	1% Decrease (5.75%)	Current Discount Rate (6.75%)	1% Increase (7.75%)
Authority's proportionate share of the GLI program net OPEB liability	\$ 113,297	\$ 67,161	\$ 29,939

OPEB Plan Fiduciary Net Position

Information about the various VRS OPEB plan fiduciary net position is available in the separately issued VRS 2025 Annual Report. A copy of the 2025 VRS Annual Report may be downloaded from the VRS website at <https://www.varetire.org/publications/?category=annual>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218 2500.

Note 12 – Deferred Compensation Plan

The Authority offers a deferred compensation plan covering substantially all full-time employees. The purpose of the plan is to provide retirement income and other deferred benefits to employees in accordance with the provisions of Section 457 of the *Internal Revenue Code*. The Authority contributed \$-0- to the plan in 2026.



Required Supplementary Information

Virginia Peninsulas Public Service Authority

Schedule of Changes in Net Pension Asset and Related Ratios and Employer Contributions (Unaudited) – Virginia Retirement System

	Plan Year									
	2025	2024	2023	2022	2021	2020	2019	2018	2017	2016
TOTAL PENSION LIABILITY										
Service cost	\$ 163,108	\$ 151,527	\$ 144,258	\$ 136,369	\$ 131,505	\$ 151,643	\$ 150,311	\$ 155,676	\$ 160,423	\$ 159,710
Interest	499,875	467,117	432,223	409,572	375,901	342,288	319,898	303,022	287,235	267,669
Changes of assumptions	43,034	-	-	-	264,555	-	143,091	-	(14,029)	-
Differences between expected and actual experience	185,432	160,679	193,479	29,950	(165,525)	210,496	31,651	(105,466)	(85,810)	(39,883)
Benefit payments, including refunds of member contributions	(346,487)	(264,720)	(255,848)	(240,554)	(247,407)	(165,495)	(122,485)	(101,811)	(142,760)	(73,212)
Net change in total pension liability	544,962	514,603	514,112	335,337	359,029	538,932	522,466	251,421	205,059	314,284
Total pension liability, beginning	7,415,691	6,901,088	6,386,976	6,051,639	5,692,610	5,153,678	4,631,212	4,379,791	4,174,732	3,860,448
Total pension liability, ending (a)	<u>\$ 7,960,653</u>	<u>\$ 7,415,691</u>	<u>\$ 6,901,088</u>	<u>\$ 6,386,976</u>	<u>\$ 6,051,639</u>	<u>\$ 5,692,610</u>	<u>\$ 5,153,678</u>	<u>\$ 4,631,212</u>	<u>\$ 4,379,791</u>	<u>\$ 4,174,732</u>
PLAN FIDUCIARY NET POSITION										
Contributions, employer	\$ 76,801	\$ 49,931	\$ 46,990	\$ 56,590	\$ 51,182	\$ 46,599	\$ 49,335	\$ 63,571	\$ 65,631	\$ 93,258
Contributions, employee	83,038	86,162	79,063	74,782	67,436	73,805	72,890	72,365	74,196	72,078
Net investment income	830,165	710,216	451,886	(7,284)	1,559,022	108,271	357,582	365,457	537,556	77,521
Benefit payments, including refunds of member contributions	(346,487)	(264,720)	(255,848)	(240,554)	(247,407)	(165,495)	(122,485)	(101,811)	(142,760)	(73,212)
Administrative expenses	(4,767)	(4,685)	(4,514)	(4,450)	(3,902)	(3,666)	(3,448)	(3,065)	(3,050)	(2,549)
Other changes	214	147	182	165	147	(129)	(226)	(329)	(480)	(32)
Net change in plan fiduciary net position	638,964	577,051	317,759	(120,751)	1,426,478	59,385	353,648	396,188	531,093	167,064
Plan fiduciary net position, beginning	7,916,786	7,339,735	7,021,976	7,142,727	5,716,249	5,656,864	5,303,216	4,907,028	4,375,935	4,208,871
Plan fiduciary net position, ending (b)	<u>\$ 8,555,750</u>	<u>\$ 7,916,786</u>	<u>\$ 7,339,735</u>	<u>\$ 7,021,976</u>	<u>\$ 7,142,727</u>	<u>\$ 5,716,249</u>	<u>\$ 5,656,864</u>	<u>\$ 5,303,216</u>	<u>\$ 4,907,028</u>	<u>\$ 4,375,935</u>
Net pension asset (a-b)	<u>\$ (595,097)</u>	<u>\$ (501,095)</u>	<u>\$ (438,647)</u>	<u>\$ (635,000)</u>	<u>\$ (1,091,088)</u>	<u>\$ (23,639)</u>	<u>\$ (503,186)</u>	<u>\$ (672,004)</u>	<u>\$ (527,237)</u>	<u>\$ (201,203)</u>
Covered payroll	\$ 1,924,023	\$ 1,942,528	\$ 1,779,869	\$ 1,678,851	\$ 1,490,937	\$ 1,616,908	\$ 1,585,149	\$ 1,519,405	\$ 1,464,479	\$ 1,419,616
Net pension liability (asset) as a percentage of covered payroll	-30.9%	-25.8%	-24.6%	-37.8%	-73.2%	-1.5%	-31.7%	-44.2%	-36.0%	-14.2%

Schedule of Employer Contributions (Unaudited) – Virginia Retirement System

Year Ended June 30, 2026

Fiscal Year Ended June 30	2026	2025	2024	2023	2022	2021	2020	2019	2018	2017
Contractually required contribution	\$ 74,187	\$ 76,881	\$ 49,930	\$ 47,000	\$ 56,590	\$ 51,181	\$ 46,598	\$ 49,335	\$ 63,571	\$ 65,631
Contribution in relation to contractually required contribution	74,187	76,881	49,930	47,000	56,590	51,181	46,598	49,335	63,571	65,631
Contribution excess	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Employers covered payroll	\$ 1,854,693	\$ 1,924,023	\$ 1,942,528	\$ 1,779,869	\$ 1,678,851	\$ 1,490,937	\$ 1,616,908	\$ 1,585,149	\$ 1,519,405	\$ 1,464,479
Contributions as a percentage of employer's covered payroll	4.00%	4.00%	2.57%	2.64%	3.37%	3.43%	2.88%	3.11%	4.18%	4.48%

Virginia Peninsulas Public Service Authority

Schedule of Employer's Share of Net OPEB Liability Group Life Insurance Program (Unaudited) – Virginia Retirement System

Fiscal Year Ended June 30,*	2025	2024	2023	2022	2021	2020	2019	2018	2017
Employer's proportion of the net GLI OPEB liability	0.00698%	0.00757%	0.00755%	0.00772%	0.00772%	0.00785%	0.00796%	0.00799%	0.00824%
Employer's proportionate share of the net GLI OPEB liability	\$ 67,161	\$ 84,475	\$ 90,548	\$ 92,956	\$ 84,060	\$ 131,003	\$ 129,530	\$ 122,000	\$ 124,000
Employer's covered payroll	\$ 1,924,023	\$ 1,942,528	\$ 1,779,869	\$ 1,678,851	\$ 1,490,937	\$ 1,616,908	\$ 1,585,149	\$ 1,519,405	\$ 1,464,479
Employer's proportionate share of the net GLI OPEB liability as a percentage of its covered payroll	3.49%	4.35%	5.09%	5.54%	5.64%	8.10%	8.17%	8.03%	8.47%
Plan fiduciary net position as a percentage of the total GLI OPEB liability	78.30%	73.41%	69.30%	67.21%	52.64%	52.64%	52.00%	51.22%	48.86%

Note to Schedule:

Schedule is intended to show information for 10 years. Since the 2025 measurement date is the ninth year for this presentation, only eight additional years of data are available. However, additional years will be included as they become available. Per GAAP, net pension liabilities are reported using the measurement date, which is one year prior to the reporting date.

* The measurement date is the previous fiscal year

Schedule of Employer Contributions (Unaudited) – Virginia Retirement System

June 30,	Contractually Required Contribution	Contribution in Relation to Contractually Required Contribution	Contribution Deficiency (Excess)	Employers Covered Payroll	Contributions as a % of Covered Payroll
2026	\$ 8,779	\$ 8,779	\$ -	\$ 1,867,728	0.47%
2025	361	361	-	1,924,023	0.02%
2024	10,489	10,489	-	1,942,528	0.54%
2023	9,611	9,611	-	1,779,869	0.54%
2022	9,066	9,066	-	1,678,851	0.54%
2021	8,051	8,051	-	1,490,937	0.54%
2020	8,408	8,400	8	1,616,908	0.52%
2019	8,243	8,100	143	1,585,149	0.51%
2018	7,901	7,900	1	1,519,405	0.52%
2017	7,900	7,900	-	1,464,479	0.54%
2016	7,043	7,043	-	1,419,616	0.50%

Virginia Peninsulas Public Service Authority

Notes to Required Supplementary Information

June 30, 2026

Note 1 – Changes of Benefit Terms

Pension

There have been no actuarially material changes to the Virginia Retirement System (the “System”) benefit provisions since the prior actuarial valuation.

Other Postemployment Benefits (OPEB)

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

Note 2 – Changes of Assumptions

The actuarial assumptions used in the June 30, 2024, valuation were rolled forward to a measurement date of June 30, 2025, and were based on the results of an actuarial experience study for the period from July 1, 2020, through June 30, 2024. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows for all VRS Pension and OPEB plans:

Metro – Non-Hazardous Duty

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Maintain PUB-2010 tables with adjustments, update to MP-2021 projection scale multiplied by 75%
Retirement Rates	Moved ≈25% of the way to the observed experience, on a liability-weighted basis
Termination Rates	Moved ≈25% of the way to the observed experience, on a liability-weighted basis
Disability Rates	Moved ≈50% of the way to the observed experience, on a headcount-weighted basis, to maintain margin
Salary Scale	Increase Merit and Longevity 50 basis points
Discount Rate	No change

Additional changes to actuarial assumptions as a result of the experience study and VRS Board action are as follows for specific VRS OPEB plan are as noted:

Group Life Insurance

Retiree liability estimation for Life Only	Change from 1.618% to 2.0%
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Other Supplementary Information

Virginia Peninsulas Public Service Authority

Schedule of Revenues, Expenses, and Changes in Net Position by Program/Service

Year Ended June 30, 2026

	Curbside Recycling Program	Drop-off Recycling Program	Transfer System Operations	Landfill Disposal	Compost Facility Operations	Special Projects	Convenience Centers Operations	Household Chemical Services	Commercial Waste Collection	Vehicle Maintenance Facility	Administrative Services	General Fund	Total
OPERATING REVENUES													
Fees from member jurisdictions for:													
Curbside recycling program	\$ 1,225,237	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,225,237
Transfer system operations	-	-	2,995,050	-	-	-	-	-	-	-	-	-	2,995,050
Landfill disposal	-	-	-	763,123	-	-	-	-	-	-	-	-	763,123
Compost facility operations	-	-	-	-	1,252,750	-	-	-	-	-	-	-	1,252,750
Material sales	-	-	180,862	-	395,444	-	-	-	-	-	-	-	576,306
Computer recycling services	-	-	-	-	-	16,650	-	-	-	-	-	-	16,650
Tire recycling services	-	-	-	-	-	5,760	-	-	-	-	-	-	5,760
Convenience centers operations	-	-	-	-	-	-	1,257,400	-	-	-	-	-	1,257,400
Household chemical services	-	-	-	-	-	-	-	422,442	-	-	-	-	422,442
Administrative services	-	-	-	-	-	-	-	-	-	-	223,000	-	223,000
Project overhead	-	-	-	-	-	-	-	-	-	-	748,682	-	748,682
Miscellaneous and other fees	-	-	-	-	-	-	-	-	-	11,043	349,436	-	360,479
Total operating revenues	<u>1,225,237</u>	<u>-</u>	<u>3,175,912</u>	<u>763,123</u>	<u>1,648,194</u>	<u>22,410</u>	<u>1,257,400</u>	<u>422,442</u>	<u>-</u>	<u>11,043</u>	<u>1,321,118</u>	<u>-</u>	<u>9,846,879</u>
OPERATING EXPENSES													
Advertising	-	-	2,180	-	-	554	-	1,656	-	-	2,089	-	6,479
Contracted services	1,218,251	-	21,753	763,287	14,403	12,714	55	336,964	-	-	-	-	2,367,427
Depreciation and amortization	-	-	334,341	-	267,740	-	51,230	1,179	-	5,270	165,496	-	825,256
Equipment and vehicle	-	-	251,436	-	129,978	-	6,445	568	-	-	1,533	-	389,960
Host fees	-	-	-	-	26,486	-	-	-	-	-	-	-	26,486
Insurance	-	-	24,881	-	13,260	4,820	-	956	-	-	5,064	-	48,981
Material processing	-	-	-	-	-	24,726	-	-	-	-	-	-	24,726
Miscellaneous	-	-	11,709	-	31,915	-	1,757	-	-	-	26,486	-	71,867
Office	-	-	10,534	-	16,216	-	686	328	-	-	14,642	-	42,406
Professional services	-	-	-	-	-	-	-	-	-	-	75,975	-	75,975
Project overhead	-	-	595	-	-	-	-	-	-	-	-	-	595
Utilities	-	-	31,062	-	8,137	-	28,770	2,160	-	-	17,148	-	87,277
Repairs and maintenance	-	-	203,377	-	176,157	-	25,652	-	-	-	(420)	-	404,766
Returned funds	-	-	12	-	-	-	-	-	-	-	-	-	12
Recycling - oil and antifreeze	-	-	50	-	-	-	-	-	-	-	-	-	50
Salaries and benefits	-	-	1,500,090	-	395,312	-	815,339	47,706	-	-	499,264	-	3,257,711
Telephone	-	-	18,415	-	4,990	-	7,880	-	-	-	7,989	-	39,274
Travel	-	-	277	-	-	-	525	-	-	-	5,564	-	6,366
Uniforms and supplies	-	-	29,356	-	50,300	-	8,982	4,177	-	-	4,183	-	96,998
Total operating expenses	<u>1,218,251</u>	<u>-</u>	<u>2,440,068</u>	<u>763,287</u>	<u>1,134,894</u>	<u>42,814</u>	<u>947,321</u>	<u>395,694</u>	<u>-</u>	<u>5,270</u>	<u>825,013</u>	<u>-</u>	<u>7,772,612</u>
Operating income (loss)	<u>6,986</u>	<u>-</u>	<u>735,844</u>	<u>(164)</u>	<u>513,300</u>	<u>(20,404)</u>	<u>310,079</u>	<u>26,748</u>	<u>-</u>	<u>5,773</u>	<u>496,105</u>	<u>-</u>	<u>2,074,267</u>
NONOPERATING REVENUES (EXPENSES)													
Gain on disposal of capital assets	-	-	-	-	-	-	-	-	-	-	258,138	-	258,138
Interest income	-	-	28,870	-	-	-	20,114	-	-	89,679	73,250	-	211,913
Interest expense	-	-	-	-	-	-	-	-	-	-	(18,784)	-	(18,784)
Total nonoperating revenues	<u>-</u>	<u>-</u>	<u>28,870</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>20,114</u>	<u>-</u>	<u>-</u>	<u>89,679</u>	<u>312,604</u>	<u>-</u>	<u>451,267</u>
Change in net position	<u>6,986</u>	<u>-</u>	<u>764,714</u>	<u>(164)</u>	<u>513,300</u>	<u>(20,404)</u>	<u>330,193</u>	<u>26,748</u>	<u>-</u>	<u>95,452</u>	<u>808,709</u>	<u>-</u>	<u>2,525,534</u>
NET POSITION													
Beginning of year	<u>32,187</u>	<u>226,258</u>	<u>1,436,434</u>	<u>(18,815)</u>	<u>4,415,164</u>	<u>25,124</u>	<u>1,302,763</u>	<u>238,755</u>	<u>5,285</u>	<u>60,651</u>	<u>2,764,369</u>	<u>(181,351)</u>	<u>10,306,824</u>
End of year	<u>\$ 39,173</u>	<u>\$ 226,258</u>	<u>\$ 2,201,148</u>	<u>\$ (18,979)</u>	<u>\$ 4,928,464</u>	<u>\$ 4,720</u>	<u>\$ 1,632,956</u>	<u>\$ 265,503</u>	<u>\$ 5,285</u>	<u>\$ 156,103</u>	<u>\$ 3,573,078</u>	<u>\$ (181,351)</u>	<u>\$ 12,832,358</u>

The Notes to Required Supplementary Information are an integral part of this schedule.



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 Board of Directors of the
Virginia Peninsulas Public Service Authority
Williamsburg, Virginia

We have audited, in accordance with the auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Authorities, Boards and Commissions*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the business-type activities of the Virginia Peninsulas Public Service Authority (the "Authority"), as of and for the year ended June 30, 2026, and the related notes to the financial statements, which collectively comprise the Authority's basic financials, and have issued our report thereon dated October 2, 2026.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) as a basis for designing 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 the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or 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 or significant deficiencies may exist that have not been identified.**

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from 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 financial statements. 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 that are required to be reported under *Government Auditing Standards*.**

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity'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 Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



CERTIFIED PUBLIC ACCOUNTANTS

Newport News, Virginia
October 2, 2026

Virginia Peninsulas Public Service Authority

Summary of Compliance Matters

June 30, 2026

As more fully described in the 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*, we performed tests of the Authority's compliance with certain provisions of the laws, regulations, contracts, and grants shown below.

State Compliance Matters

Code of Virginia:

Cash and Investment Laws

Conflicts of Interest Act

Local Retirement Systems

Procurement Laws

Uniform Disposition of Unclaimed Property Act