SOUTHEASTERN PUBLIC SERVICE AUTHORITY OF VIRGINIA

Basic Financial Statements and Supplemental Information

June 30, 2009 and 2008

(With Independent Auditors' Reports Thereon)

SOUTHEASTERN PUBLIC SERVICE
AUTHORITY OF VIRGINIA

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KPMG LLP
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Independent Auditors' Report

The Board of Directors
Southeastern Public Service Authority of Virginia:

We have audited the accompanying basic financial statements of Southeastern Public Service Authority of Virginia (the Authority) as of and for the years ended June 30, 2009 and 2008, as listed in the accompanying table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2009 and 2008, and the changes in its financial position and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

As discussed in note 1 to the basic financial statements, in fiscal year 2009, the Authority changed its method of accounting for other postemployment benefits due to the adoption of Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and changed its method of accounting for pollution remediation obligations due to the adoption of Governmental Accounting Standards Board Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 4, 2009 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 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* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 9 and the Schedules of Pension Funding Progress and Postretirement Medical Benefit Plan Funding Progress on page 38 are not required parts of the basic financial statements, but are supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

KPMG LLP

December 4, 2009

This discussion and analysis of Southeastern Public Service Authority of Virginia (the Authority or SPSA) provides an overview of the Authority's financial condition as of June 30, 2009 and its financial activities for the fiscal year ended June 30, 2009, with selected comparative information as of and for the year ended June 30, 2008. This discussion and analysis should be read in conjunction with the basic financial statements.

Highlights

FY2009 Financial Highlights

The Authority's net cash provided by operating activities decreased by $1.8 million in fiscal year 2009 compared to the prior year.

The Authority's net deficit increased by $1.1 million as a result of this year's operations. The net deficit at June 30, 2009 equaled $28.3 million versus $27.2 million at June 30, 2008.

Operating revenues were $100.8 million, an increase of $5.2 million over the prior year.

Operating expenses were $91.2 million, an increase of $1.9 million over the prior year.

Operating income (i.e., income before nonoperating income and nonoperating expenses) was $9.6 million, an increase of $3.3 million from the prior year due to the combined effect of the changes in operating revenues and expenses noted above.

During September/October 2008, the Authority issued $12.1 million of tax-exempt, AMT, Senior Parity Revenue Bonds for Disposal System capital projects.

In June 2009, the Authority issued its $72.0 million Guaranteed Subordinated Revenue Bonds, Refunding Series 2009A (Taxable) and from the proceeds and other available funds effected the refunding of $79.0 million of its outstanding bonds and the deferral of a portion of its debt otherwise payable in 2009-2011 to 2012-2017.

These financial highlights are discussed in further detail in the Section entitled "Financial Analysis."

FY2009 Operating Highlights

During FY2009, SPSA has seen a significant drop in total employment. Sixty-two positions were eliminated throughout Phase I to Phase III of the Reduction in Force Program that took effect January, February, and March 2009.

Productivity, as measured by tons of waste handled per employee, decreased 19% this year to 2,515 tons.

The Authority entered into a new electric sales contract with American Electric Power that expires on June 30, 2009. An additional contract for the delivery of power occurs through a new agreement signed with PJM Interconnection Association that provides SPSA with the opportunity to sell power at competitive market rates to a wide range of customers in the PJM service area.

Litigation pending as of June 30, 2009 is deemed to be of little merit or less than material in potential impact to SPSA financial operations.

Overview of the Financial Report

The Authority's financial report consists of the following: Management's Discussion and Analysis (MD&A) and the basic financial statements and required supplementary information.

MD&A serves as an introduction to the basic financial statements, and includes management's examination and analysis of the financial condition and performance of the Authority. Summary financial statement data and key financial and operational indicators are used for this analysis. The financial statements are prepared in accordance with accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board (GASB). The Authority's basic financial statements report information based upon accounting methods similar to those used by private sector companies. The balance sheets include the nature and amounts of investments in resources (assets) and obligations to creditors (liabilities), with the difference reported as net assets or net deficit. The statements of revenues, expenses, and changes in net deficit present information showing how the Authority's net deficit changed during the fiscal year. These statements measure the success of the Authority's operations and can be used to determine the Authority's profitability, credit worthiness, and whether it has successfully recovered all of its costs through user fees and other charges. The statements of cash flows provide information about the cash receipts and cash payments made by the Authority during the reporting period. The statements of cash flows also report cash receipts, cash payments, and net changes in cash resulting from operating, investing, and capital and noncapital financing activities, without consideration of the earnings event, when an obligation arose, or depreciation of capital assets and other noncash expenses. The notes to the basic financial statements provide required disclosures and other information essential to a full understanding of data provided 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.

Financial Analysis

One of the most important questions asked about the Authority's financial performance is whether or not the Authority is better or worse off as a result of the year's activities. The balance sheets and the statements of revenues, expenses, and changes in net deficit report information about the Authority's activities in a way that will help answer this question. Net deficit represents the difference between assets and liabilities. An evaluation of the net deficit, their dollar amount and whether that amount is increasing or decreasing is one way to measure financial health or financial position. Over time, increases or decreases in the Authority's net deficit are one indicator of whether its financial health is improving or deteriorating, respectively. However, a comprehensive assessment of financial condition should include consideration of all financial and nonfinancial factors.

There was an increase in the total net deficit of $1.1 million for the fiscal year 2009 from $27.2 million to $28.3 million.

(Continued)

The Authority's increase in total net deficit of $1.1 million is $3.3 million less than the previous year's increase of $4.4 million. The analysis below focuses on the changes in assets and liabilities, which result in the change in net assets. The $11.2 million, or 6.6% decrease in capital assets is primarily due to capital asset additions of $6.2 million offset by disposals of $4.1 million, and depreciation and depletion of $16.5 million. The $6 million, or 2.6%, decrease in long-term liabilities results primarily from the net effect of a $14.7 million decrease in bonds payable, an $11.6 million increase in the Virginia Beach deferral, and a $3.6 million decrease in estimated landfill closure and postclosure care liability – noncurrent during FY2009. The $1.5 million or 4.5% decrease in current liabilities is primarily a result of a $9.2 million increase in a line of credit for working capital, a $1.7 million increase in accounts payable, offset by a $12.1 million decrease in current bond maturities and a $1.5 million decrease in accrued interest payable. Current and restricted assets are utilized to pay current and long-term liabilities.

The following table presents condensed balance sheet information as of June 30, 2009 and 2008.

			Change	
	2009	**2008**	**Amount**	**Percent**
Assets:				
Current assets	$ 24,618,301	8,899,617	15,718,684	176.6%
Restricted assets	32,436,625	46,958,547	(14,521,922)	(30.9)
Maintenance parts, net	3,074,572	3,156,213	(81,641)	(2.6)
Capital assets, net	159,115,619	170,267,298	(11,151,679)	(6.5)
Other assets, net	6,658,662	5,223,198	1,435,464	27.5
Total assets	$ 225,903,779	234,504,873	(8,601,094)	(3.7)%
Liabilities:				
Current liabilities	$ 32,532,357	34,055,672	(1,523,315)	(4.5)%
Long-term liabilities	221,703,353	227,674,433	(5,971,080)	(2.6)
Total liabilities	254,235,710	261,730,105	(7,494,395)	(2.9)
Net deficit:				
Invested in capital assets, net of related debt	(31,184,052)	(52,694,677)	21,510,625	(40.8)
Restricted	17,786,014	37,321,138	(19,535,124)	(52.3)
Unrestricted	(14,933,893)	(11,851,693)	(3,082,200)	26.0
Total net deficit	(28,331,931)	(27,225,232)	(1,106,699)	4.1
Total liabilities and net deficit	$ 225,903,779	234,504,873	(8,601,094)	(3.7)%

The changes in the Authority's net deficit can be determined by reviewing the following condensed statements of revenues, expenses, and changes in net deficit:

	2009	2008	Change Amount	Change Percent
Operating revenue, net	$ 100,812,098	95,621,759	5,190,339	5.4%
Less operating expenses:				
Compensation and related payroll costs	27,010,037	25,654,058	1,355,979	5.3
Depreciation, depletion and amortization	17,005,555	19,915,272	(2,909,717)	(14.6)
Routine maintenance and vehicle operations	16,059,797	15,942,804	116,993	0.7
Other operating expenses	31,128,054	27,774,355	3,353,699	12.1
Total operating expenses	91,203,443	89,286,489	1,916,954	2.1
Operating income	9,608,655	6,335,270	3,273,385	51.7
Less nonoperating expenses, net	(10,715,354)	(10,757,099)	41,745	0.4
Change in net deficit	(1,106,699)	(4,421,829)	3,315,130	75.0
Net deficit:				
Beginning of year	(27,225,232)	(22,803,403)	(4,421,829)	(19.4)
End of year	$ (28,331,931)	(27,225,232)	(1,106,699)	4.1%

Operating revenue increased by $5.2 million, or 5.4% in FY2009 compared to FY2008. This increase is primarily attributable to the following factors:

- A 51.8% increase in electric sales resulted in a $4.7 million increase in revenue from this source.
- Municipal tipping fees increased from $104/ton on July 1, 2008 to $170/ton on April 23, 2009 resulting in a blended increase of $11 per ton in the tipping fee rate compared to FY2008. This resulted in a $3.6 million increase in revenue from this source.
- While there were changes in other operating revenue categories, the combined net impact of those changes was a decrease of approximately $3.1 million.

Operating expenses experienced an increase of $1.9 million, or 2.2% in FY2009 compared to FY2008. Primary factors contributing to this increase are as follows:

- A net $3.5 million decrease in landfill closure and postclosure care cost accrual resulting from the difference between the previous year's total of $4,272,165 and a decrease of $773,929 after adjustments for fiscal 2009. This reflects the change from FY2008 to FY2009 in estimating SPSA's responsibility for closure and postclosure care of both the Authority's solid waste facilities and the Virginia Beach landfill (as required by the Ash and Process Residue Agreement). At June 30, 2009, after additional analysis and review with engineering consultants, the liability had decreased by $3.6 million from that of June 30, 2008 including a reduction in the liability of $4.3 million for actual closure cost work paid during FY2009.

- A $1.4 million increase in compensation and related payroll costs.

- A $152 thousand increase in routine maintenance and vehicle operations.

- A $2.9 million decrease in depreciation, depletion, and amortization of intangibles.

- A $270 thousand increase in nonroutine maintenance and repairs.

- A $681 thousand decrease in equipment fuel.

- A $6.9 million increase in Virginia Beach Ash Disposal Agreement costs (see note 6).

In combination, all other FY2009 expense categories resulted in a net increase of approximately $1.9 million compared to FY2008.

As a result of the above revenue and expense factors, the Authority experienced an increase in total net deficit of $1.1 million in FY2009, compared to an increase of $4.4 million in FY2008.

Capital Assets and Debt Administration

Capital Assets

At the end of 2009, the Authority had $159,115,619 (net of accumulated depreciation and depletion) invested in a broad range of capital assets, including the power plant, refuse derived fuel plant, landfill, transfer stations, heavy equipment, and rolling stock. This amount represents a net decrease (net of additions and deductions) of $11.2 million, or 6.6%, less than last year. The details of capital asset values for the various categories are included in note 4 of the basic financial statements. It is the opinion of SPSA's management that the current fair market value or replacement cost estimates of capital assets are substantially higher than the $159,115,619 book value.

Debt

At year-end, the Authority had a total of $210,030,000 in bonds outstanding, versus $232,750,000 last year, a decrease of 9.8%.

Summary of Outstanding Long-Term Bonds

June 30, 2009 and 2008

		2009	2008
Senior debt	$	69,320,000	140,290,000
Senior subordinated debt		68,725,000	92,460,000
Guaranteed subordinated debt		71,985,000	—
Total outstanding debt	$	210,030,000	232,750,000

More detailed information about the Authority's debt is presented in note 5 to the basic financial statements.

Overall Financial Position and Results of Operations

The Authority's cash and cash equivalents increased to $12.7 million at the end of FY2009 from $19 thousand at the end of FY2008 primarily as a result of the deferred payments due the City of Virginia Beach. While an increase in total net deficit may be considered a negative change in financial position, SPSA is in process of transitioning out of debt and other liabilities. The reduction of liabilities and asset values is pre-emptive to SPSA completing its user-contracts' term that ends in 2018. The reductions in long-term debt and other liabilities should be more noticeable as SPSA nears the end of its municipal contracts' term, or evolves into another waste management entity.

Current Conditions Posing Future Challenges

The Authority faces a number of challenges, as noted below:

Virginia Beach Tipping Fee Cap – The city of Virginia Beach is the largest of the Authority's eight member communities, providing approximately 35% of the municipal waste quantities. The Ash and Process Residue Agreement between that city and the Authority provides for maximum levels for the city of Virginia Beach's tipping fees. As of FY2009, the city of Virginia Beach's tipping fee was capped at $53.88 per ton. For all other municipalities except the city of Suffolk (which as host to the regional landfill pays no tipping fee), the tipping fee as of July 1, 2006, was $57 per ton and effective January 1, 2007, it increased to $75 per ton. An additional increase to $100 per ton became effective on July 1, 2007 and on July 1, 2008 it increased to $104 per ton. Another increase to $170 per ton became effective on April 23, 2009. Unless the Authority is able to generate revenues from other sources, which would allow the municipal tipping fee to be set at or below the cap for Virginia Beach, the other Authority member communities will be required to pay rates higher than that city.

Member Community Contracts – The Authority has Use and Support Agreements with its member communities, which require that those communities deliver to the Authority their municipal solid waste and pay the tipping fees on that waste necessary to support the Authority's system. Those contracts provide the underlying credit support for the Authority's debt financings. All of the contracts are set to expire in FY2018. As a result, the Authority's financings during FY2009 could not exceed a term of 10 years. During FY2009, these financing terms will be limited to nine years, and so on, assuming no change in the expiration dates of the member contracts. This decreasing term for financings could have a dramatic effect on annual debt service requirements, with a resulting need for increased revenues and, perhaps increases in, municipal tipping fees. In addition, if the member contracts are not soon extended, capital asset maintenance and replacement decisions may be significantly impacted. The renewal/extension of the member contracts is a major strategic issue now being considered by the Authority's board of directors.

Contacting Authority's Financial Management

This financial report is designed to provide our customers and creditors with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the money it receives. If you have questions about this report or need additional financial information regarding the Authority, contact the Deputy Executive Director of Administration at 723 Woodlake Drive, Chesapeake, VA 23320.

BASIC FINANCIAL STATEMENTS

SOUTHEASTERN PUBLIC SERVICE
AUTHORITY OF VIRGINIA

Balance Sheets

June 30, 2009 and 2008

Assets		**2009**	**2008**
Current assets:			
Cash and cash equivalents	$	12,715,128	19,432
Accounts receivable:			
Authority members		7,118,968	3,854,057
Other customers		3,989,821	4,366,378
Allowance for doubtful accounts		(80,000)	(80,000)
Prepaid expenses		874,384	739,720
Accrued interest receivable		—	30
Total current assets		24,618,301	8,899,617
Noncurrent assets:			
Restricted assets:			
Investments		32,400,140	46,774,136
Accrued interest receivable		36,485	184,411
Total restricted assets		32,436,625	46,958,547
Maintenance parts		3,074,572	3,156,213
Capital assets, net of accumulated depreciation and depletion		159,115,619	170,267,298
Intangible assets, net of accumulated amortization		3,956,893	4,444,254
Debt issue costs, net		2,701,769	778,944
Total noncurrent assets		201,285,478	225,605,256
Total assets	$	225,903,779	234,504,873

See accompanying notes to basic financial statements.

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SOUTHEASTERN PUBLIC SERVICE
AUTHORITY OF VIRGINIA

Balance Sheets

June 30, 2009 and 2008

Liabilities and Net Deficit	2009	2008
Liabilities:		
Current liabilities, payable from current assets:		
Accounts payable	$ 3,471,088	1,764,686
Accrued expenses	2,651,964	2,686,452
Line of credit	9,195,835	—
Landfill closure and postclosure care liability – current portion	2,000,000	2,000,000
Total current liabilities, payable from current assets	17,318,887	6,451,138
Current liabilities, payable from restricted assets:		
Accounts payable	3,377,926	2,179,582
Current maturities of bonds payable	9,960,000	22,055,000
Accrued interest on revenue bonds	1,875,544	3,369,952
Total current liabilities, payable from restricted assets	15,213,470	27,604,534
Total current liabilities	32,532,357	34,055,672
Noncurrent liabilities:		
Bonds payable	192,454,303	207,174,433
Other post employment benefits	662,904	—
Virginia Beach deferral	11,639,523	—
Landfill closure and postclosure care liability – noncurrent	16,946,623	20,500,000
Total noncurrent liabilities	221,703,353	227,674,433
Total liabilities	254,235,710	261,730,105
Net deficit:		
Invested in capital assets, net of related debt	(31,184,052)	(52,694,677)
Restricted for debt service	16,312,544	35,186,148
Restricted for other purposes	1,473,470	2,134,990
Unrestricted	(14,933,893)	(11,851,693)
Total net deficit	(28,331,931)	(27,225,232)
Total liabilities and net deficit	$ 225,903,779	234,504,873

See accompanying notes to basic financial statements.

SOUTHEASTERN PUBLIC SERVICE AUTHORITY OF VIRGINIA

Statements of Revenues, Expenses, and Changes in Net Deficit

Years ended June 30, 2009 and 2008

	2009	2008
Operating revenue:		
Charges for services, net of bad debt expense of $15,669 and $98,703 in 2009 and 2008, respectively.	$ 100,812,098	95,621,759
Operating expenses:		
Compensation and related payroll costs	27,010,037	25,654,058
Payment for temporary services	367,588	588,173
Depreciation, depletion and amortization of intangibles	17,005,555	19,915,272
Postage, printing, and supplies	384,240	532,618
Rent and utilities	2,694,818	2,223,168
Equipment fuel	2,068,276	2,749,700
Routine maintenance and vehicle operations	16,059,797	15,942,804
Nonroutine maintenance and repairs	5,711,737	5,441,723
Insurance	1,577,526	1,787,644
Virginia Beach Ash Disposal Agreement costs	13,943,759	7,062,014
Legal and professional services	3,084,609	2,305,614
Bad debts	15,669	98,703
Landfill closure and postclosure care cost accrual	773,929	4,272,165
Proprietary waste expense	401,041	489,566
Other	104,862	223,267
Total operating expenses	91,203,443	89,286,489
Operating income	9,608,655	6,335,270
Nonoperating expense:		
Net loss on disposal of capital assets	(595,907)	(117,258)
Interest expense:		
Interest on long-term debt	(10,632,663)	(11,316,079)
Amortization of loss on defeasance	(1,332,379)	(1,527,442)
Amortization of bond issue costs, discounts and premiums, net	88,898	(51,851)
Total interest expense	(11,876,144)	(12,895,372)
Other revenue:		
Insurance recoveries	116,397	7,803
Investment income	1,611,901	2,136,681
Other	28,399	111,047
Total other revenue	1,756,697	2,255,531
Total nonoperating expense, net	(10,715,354)	(10,757,099)
Change in net deficit	(1,106,699)	(4,421,829)
Total net deficit:		
Beginning of year	(27,225,232)	(22,803,403)
End of year	$ (28,331,931)	(27,225,232)

See accompanying notes to basic financial statements.

SOUTHEASTERN PUBLIC SERVICE
AUTHORITY OF VIRGINIA

Statements of Cash Flows

Years ended June 30, 2009 and 2008

		2009	2008
Cash flows from operating activities:			
Receipts from customers	$	97,908,075	95,044,369
Payments to suppliers for operations		(35,866,725)	(42,053,366)
Payments to employees for compensation		(26,749,209)	(27,575,231)
Net cash provided by operating activities		35,292,141	25,415,772
Cash flows from capital and related financing activities:			
Purchases of capital assets		(6,159,839)	(13,809,689)
Proceeds from sale of capital assets		197,417	1,567,651
Proceeds from insurance recoveries		116,397	374,010
Proceeds from issuance of bonds payable		84,085,000	31,010,000
Principal payments on bonds payable		(106,805,000)	(43,960,000)
Payment of debt issue costs		(2,192,979)	(473,485)
Interest paid		(12,127,071)	(11,811,927)
Payment to escrow agent for refunding		(5,068,456)	—
Other income		28,399	111,047
Net cash used in capital and related financing activities		(47,926,132)	(36,992,393)
Cash flows from noncapital financing activity – (payments on) proceeds from line of credit		9,195,835	(1,500,000)
Cash flows from investing activities:			
Proceeds from maturity and sale of investments		92,235,366	55,313,086
Payments for investments purchased		(77,864,788)	(46,789,996)
Interest and dividends received from investments		1,763,274	2,218,133
Net cash provided by investing activities		16,133,852	10,741,223
Increase (decrease) in cash and cash equivalents		12,695,696	(2,335,398)
Cash and cash equivalents at beginning of year		19,432	2,354,830
Cash and cash equivalents at end of year	$	12,715,128	19,432
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	$	9,608,655	6,335,270
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation, depletion and amortization of intangibles		17,005,555	19,915,272
Postretirement medical benefit plan expense		662,904	—
Provision for bad debts		15,669	98,703
Landfill closure and postclosure care cost accrual		773,929	4,272,165
Virginia Beach deferral		11,639,523	—
Changes in operating assets and liabilities:			
Accounts receivable		(2,904,023)	(577,390)
Maintenance parts		81,641	(364,615)
Prepaid expenses		(134,664)	115,896
Accounts payable – operations		1,706,402	(643,496)
Accrued expenses		(34,488)	(1,333,245)
Accounts payable – restricted		1,198,344	369,622
Landfill closure and postclosure care liability settlement		(4,327,306)	(2,772,410)
Net cash provided by operating activities	$	35,292,141	25,415,772

See accompanying notes to basic financial statements.

(1) Nature of Business and Significant Accounting Policies

(a) Nature of Business

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

All eight of the Members have entered into Agreements for Use and Support of a Solid Waste Disposal System (the Solid Waste Disposal Agreements) with the Authority. More specifically, each 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 disposable solid waste delivered to any of the Authority's specified delivery points.

Operating revenues from (charges for services to) Members were $57,392,740 and $49,263,434 for the years ended June 30, 2009 and 2008, respectively.

For seven of the Members, the Solid Waste Disposal Agreements became effective on January 22, 1985, the date on which the Authority's landfill (the 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 (the 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 (the Power Plant). The Solid Waste Disposal Agreements remain in effect until January 2018.

Effective July 1, 1999, in a modification of the Navy Contract, the Navy contributed to the Authority all of the assets of the U.S. Navy's 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 assets.

Subsequent to the contract modification, the U.S. Navy is assessed a per unit fee for steam used by the U.S. Navy produced at the Power Plant, as established by the fee schedule included in the Navy Contract. The electricity generated by the Power Plant is sold under an electric sales contract with American Electric Power that expires on December 14, 2009. The contract provides SPSA with the opportunity to sell power at competitive market rates through American Electric Power to a wide range of customers in the PJM service grid area. Operating revenues from steam and electric sales were $21,218,978 and $16,275,454 for the years ended June 30, 2009 and 2008, respectively.

The additional revenues (charges for services) from non-Member municipalities and other third parties were $22,200,380 and $30,082,871 for the years ended June 30, 2009 and 2008, respectively.

One of the purposes of the Authority, as stated in its Articles of Incorporation, is to acquire, finance, construct, operate and maintain a garbage and refuse collection and disposal system. Although the Authority's purposes under its Articles of Incorporation and its powers include the furnishing of water to the Members, the Authority has not pursued development of a regional water system. Any obligations and expenses incurred by the Authority in connection with the furnishing of water to the Members would not be payable from revenues of the garbage and refuse collection and disposal system.

As stated above, the Authority's operations consist of the disposal of solid waste through a solid waste disposal system (the Disposal System) and the production of steam and electricity at the Power Plant (the Power Plant System). These operations are each accounted for as separate activities.

(b) Basis of Accounting

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

The Authority's activities are accounted for similar to those often found in the private sector using the flow of economic resources measurement focus and the accrual basis of accounting. Assets, liabilities, net deficit, 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 and Power Plant are reported as operating expenses. Charges for services provided by the Authority are reported as operating revenues. Interest expense and financing costs, loss on disposal of capital assets, write down of long-lived assets and net decrease in fair value of investments are reported as nonoperating expenses. Interest income, gain on disposal of capital assets, net increase in fair value of investments and nonrecurring items including insurance recoveries are reported as nonoperating revenue.

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

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

(c) Net Deficit

Net deficit represents the residual interest in the Authority's assets after liabilities are deducted and consist of three sections: invested in capital assets, net of related debt; restricted; and unrestricted. Invested in capital assets, net of related debt includes capital assets, net of accumulated depreciation and depletion, reduced by outstanding debt attributable to capital expenditures, net of unspent bond proceeds. Net assets are reported as restricted when constraints are imposed by third parties or enabling legislation. The Authority's restricted net assets are expendable and relate primarily to amounts restricted for debt service. All other net assets are unrestricted. Unrestricted net assets (deficit) may be designated for specific purposes by action of management or the board of directors.

(d) Cash and Cash Equivalents

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

(e) Investments

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, the Authority reports its investment securities at fair value. Fair value is determined as of the balance sheet date, based on quoted market prices.

(f) Restricted Assets

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

(g) Maintenance Parts

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

(h) Capital Assets

Capital assets are recorded at cost. No interest costs were capitalized in 2009 and 2008. Assets are depreciated by using the straight-line method over the estimated useful lives of the various classes as follows:

Buildings and improvements	30 years
Equipment and vehicles	3 – 30 years
Furniture, office equipment, software and hardware	3 – 10 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.

(i) Intangible Assets

Intangible assets consist of various payments made to or on the behalf of the city of Virginia Beach under the Ash Disposal Agreement (see note 6). As a result of such payments, the Authority has acquired the right to use land located in the city of Virginia Beach for the disposal of ash generated from the Power Plant and the residue generated in the production of RDF. Intangible assets are being amortized using the straight-line method over a period of 15 years.

(j) Unamortized Discounts and Premiums

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

(k) 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 leave on a bi-weekly basis in amounts which vary depending on years of service. A liability for unused annual leave is recorded as accrued by each employee.

(l) Deferred Loss on Defeasance of Debt

The Authority records the loss on defeasance of debt as an offset to bonds payable. Deferred losses on defeasance of debt are amortized as a component of interest expense over the shorter of the life of the new bonds or the old bonds.

(m) 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.

(n) 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.

(o) 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.

(p) Revenue Recognition

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

(q) Adoption of the New Accounting Pronouncements

During the year ended June 30, 2009, the Authority adopted GASB Statement 45 (GASB 45), *Accounting and Financial Reporting by Employers for Post Employment Benefits Other Than Pensions*. GASB Statement 45 requires the plan sponsor to record the actuarial cost (net of employee and retiree contributions) of the plan as an expense in its financial statements and then accrue a liability to the extent actual contributions are less than this expense (note 12).

During the year ended June 30, 2009, the Authority also adopted GASB Statement 49 (GASB 49), *Accounting and Financial Reporting for Pollution Remediation Obligations*, which establishes accounting and financial reporting standards for pollution remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessment and cleanups. The standard excludes pollution prevention or control obligations with respect to current operations, and future pollution remediation activities that are required upon retirement of an asset, such as landfill closure and post-closure care. There were no effects of applying this standard for the year ended June 30, 2009.

(2) Cash and Cash Equivalents

At June 30, 2009 and 2008, the Authority’s cash and cash equivalents balance totaled $12,715,128 and $19,432, respectively. The deposits are covered by federal depository insurance or collateralized in accordance with the Virginia Security for Public Deposits Act (the Act). Under state law, banks holding public deposits in excess of the amounts insured by the Federal Deposit Insurance Corporation (FDIC) must pledge collateral in the amount of 50% of excess deposits to a collateral pool in the name of the State Treasury Board. If any member financial institution, whose public deposits are collateralized in accordance with the requirements of the Act, fails, the entire market value of the collateral pool becomes available to satisfy the claims of governmental entities. If the value of the pool’s collateral is inadequate to cover a loss, additional amounts would be assessed on a pro rata basis to the members of the pool. 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.

At June 30, 2009 and 2008, cash and cash equivalents included registered money market mutual funds of $0 and $15,568, respectively.

(3) Restricted Assets

Total restricted and designated assets amounted to $32,436,625 and $46,958,547 as of June 30, 2009 and 2008, respectively, and are held for the purposes and in the respective accounts described below:

	2009		
	Investments	Accrued interest receivable	Total
Revenue bond construction accounts	$ 12,114,632	—	12,114,632
Debt service reserve account	3,363,838	32,900	3,396,738
Bond accounts	14,785,296	297	14,785,593
Landfill closure fund	1,379,458	—	1,379,458
Environmental trust fund accounts	756,916	3,288	760,204
Reserve and contingency account	—	—	—
	$ 32,400,140	36,485	32,436,625

	2008		
	Investments	Accrued interest receivable	Total
Revenue bond construction accounts	$ 6,267,459	14,129	6,281,588
Debt service reserve account	18,594,711	132,372	18,727,083
Bond accounts	19,776,976	28,770	19,805,746
Landfill closure fund	375,398	409	375,807
Environmental trust fund accounts	725,354	6,478	731,832
Reserve and contingency account	1,034,238	2,253	1,036,491
	$ 46,774,136	184,411	46,958,547

(a) Revenue Bond Construction Accounts

The Authority holds bond proceeds for the improvement of the Disposal System and Power Plant, closure of the Regional Landfill, and other approved projects. Any amounts remaining in the Revenue Bond Construction Accounts upon completion of the program may be transferred to the Bond Accounts for the payment, purchase or redemption of bonds.

(b) Debt Service Reserve Account

This account is required to be maintained by the Authority's senior bond resolution which provides for, among other things, maintenance of a reserve account at levels specified in the bond resolution for future payments of principal and interest.

(c) Bond Accounts

The Authority's bond resolutions require monthly deposits to Bond Accounts equal to one-sixth of the semi-annual interest and one-twelfth of the principal payments next becoming due.

(d) Landfill Closure Fund

This account holds funds designated for the closure of the Suffolk landfill to be drawn down when funds are dispersed for closure or post closure costs.

(e) Environmental Trust Fund Accounts

These accounts were established through agreements between the Authority and the cities of Suffolk and Virginia Beach. The Environmental Trust Fund Accounts include the Suffolk Environmental Trust Fund and the Virginia Beach Environmental Trust Fund. The purpose of these accounts is to provide for all costs relating to legal suits and other similar claims activity relating to environmental pollution that are made against the Regional Landfill and the Virginia Beach Landfill during a 30-year period after cessation of each landfill's operations. The Authority must contribute a minimum of $5,000 and $10,000 annually to the Suffolk and Virginia Beach Environmental Trust Funds, respectively. Upon expiration of the 30-year period, all remaining amounts will be proportionately distributed to each of the Members using the Disposal System during the terms of the Environmental Trust Funds, based upon the tipping fees generated by such Members. The Members' proportionate shares of the Environmental Trust Funds at June 30, 2009 and 2008 are as follows:

		2009		2008	
		Suffolk Environmental Trust Fund	**Virginia Beach Environmental Trust Fund**	**Suffolk Environmental Trust Fund**	**Virginia Beach Environmental Trust Fund**
Cities:					
Norfolk	$	95,440	98,049	89,066	91,201
Chesapeake		88,258	91,665	80,914	83,840
Virginia Beach		115,170	121,393	119,873	126,297
Portsmouth		38,654	39,851	35,974	36,978
Franklin		6,232	6,375	5,851	5,964
Suffolk		1,397	1,347		
Counties:					
Southampton		10,764	11,217	10,305	10,724
Isle of Wight		15,171	15,933	13,842	14,525
	$	371,086	385,830	355,825	369,529

(f) Reserve and Contingency Account

The Authority's bond resolutions designate the use of funds in this account for certain defined expenditures pursuant to Section 509 of the Senior Bond Resolution.

Investment Policy

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

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

	Maximum percentage
U.S. government obligations	100%
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.

As of June 30, 2009, the credit risk of the restricted assets portfolio holdings were:

	Rating	Percentage
First American – Treasury Obligations Money Market Fund	AAAm	46.0%
Government sponsored enterprise obligations	AAA	7.0%
PFM Funds – Prime Series Money Market Fund includes Institutional Class and SNAP Fund Class Shares	AAAm	42.0%
Ridgeworth – US Treasury Money Market Fund	AAAm	4.5%
Certificate of deposit	No rating	0.5%

As of June 30, 2008, the credit risk of the restricted assets portfolio holdings were:

	Rating	Percentage
First American – Treasury Obligations Money Market Fund	AAAm	42.2%
Government sponsored enterprise obligations	AAA	35.6
CCRF – Prime Portfolio and SNAP Money Market Fund	AAAm	18.7
SunTrust - Repurchase agreement	A-1	0.8
Ridgeworth – US Treasury Money Market Fund	AAAm	2.3
Certificate of deposit	No rating	0.4

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	50% maximum
Each repurchase agreement counterparty	25% maximum
Each bank depository	25% maximum

As of June 30, 2009, approximately 7% of SPSA's restricted asset portfolio was invested in Federal National Mortgage Association (FNMA) notes.

As of June 30, 2008, approximately 5.9% of SPSA's restricted asset portfolio was invested in Federal National Mortgage Association (FNMA) notes; 29.7% in Federal Home Loan Mortgage Corp. (FHLMC) notes and 0.8% in SunTrust Repurchase Agreements.

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.

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.

(Continued)

As of June 30, 2009, SPSA had the following investments and maturities in its restricted assets portfolio (including accrued interest):

		Investment maturity (in years)		
Investment type	**Fair value**	**Less than 1 year**	**1 – 3 years**	**3 – 5 years**
Registered money market mutual fund – First American – Treasury Obligations Money Market Fund	$ 14,785,593	14,785,296	—	—
Registered money market mutual fund – PFM Funds – Prime Series – Institutional and SNAP Classes	13,614,151	13,614,032	—	—
Registered money market mutual fund – Ridgeworth – U.S. Treasury Money Market Fund	1,457,386	1,457,386	—	—
Government sponsored enterprise obligations	2,401,259	—	—	2,368,359
Certificate of deposit	178,236	175,067	—	—
Total investments	$ 32,436,625	30,031,781	—	2,368,359

As of June 30, 2008, SPSA had the following investments and maturities in its restricted assets portfolio (including accrued interest):

		Investment maturity (in years)		
Investment type	**Fair value**	**Less than 1 year**	**1 – 3 years**	**3 – 5 years**
Registered money market mutual fund – First American – Treasury Obligations Money Market Fund	$ 19,805,623	19,805,623	—	—
Registered money market mutual fund – CCRF – Prime and SNAP	8,791,769	8,791,769	—	—
Registered money market mutual fund – Ridgeworth U.S. Treasury Money Market Fund	1,100,378	1,100,378	—	—
Government sponsored enterprise obligations	16,712,881	—	—	16,712,881
Repurchase agreements – SunTrust	374,580	374,580	—	—
Certificate of deposit	173,316	173,316	—	—
Total investments	$ 46,958,547	30,245,666	—	16,712,881

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. As of June 30, 2009 and 2008, all of SPSA's restricted asset investments were held in a bank's trust department in SPSA's name.

(4) Capital Assets

Capital assets of the Authority as a whole as of June 30, 2009 and 2008 consist of the following:

	Beginning balance July 1, 2008	Additions	Deletions	Ending balance June 30, 2009
Capital assets not being depreciated or depleted:				
Land	$ 4,544,605	—	—	4,544,605
Construction in process	845,034	6,159,839	(6,350,850)	654,023
Total capital assets not being depreciated or depleted	5,389,639	6,159,839	(6,350,850)	5,198,628
Other capital assets:				
Buildings	87,208,241	334,300	—	87,542,541
Heavy equipment	17,093,514	4,096,600	(2,652,048)	18,538,066
Motor vehicles	17,879,984	537,675	(517,251)	17,900,408
Suffolk landfill	63,743,218	361,911	—	64,105,129
Disposal System equipment	25,937,238	—	(299,341)	25,637,897
Power Plant equipment	129,155,231	630,768	(195,000)	129,590,999
Bi-metals system	1,639,302	—	—	1,639,302
Yard waste shredder	553,190	—	(291,690)	261,500
Furniture, office equipment,		—	—	
software and hardware	4,795,225	128,235	(104,156)	4,819,304
Miscellaneous equipment	5,511,894	261,361	(10,702)	5,762,553
Total other capital assets	353,517,037	6,350,850	(4,070,188)	355,797,699
Less accumulated depreciation and depletion:				
Buildings	47,439,717	3,152,786	—	50,592,503
Heavy equipment	8,427,867	1,871,028	(2,236,976)	8,061,919
Motor vehicles	8,464,423	1,517,243	(517,251)	9,464,415
Suffolk landfill	45,828,438	1,892,016	—	47,720,454
Disposal System equipment	15,429,475	1,136,646	(212,033)	16,354,088
Power Plant equipment	53,883,421	6,022,219	(128,417)	59,777,223
Bi-metals system	1,639,302	—	—	1,639,302
Yard waste shredder	248,484	40,735	(71,302)	217,917
Furniture, office equipment, software and hardware	4,454,185	133,028	(104,156)	4,483,057
Miscellaneous equipment	2,824,066	752,493	(6,729)	3,569,830
Total accumulated depreciation and depletion	188,639,378	16,518,194	(3,276,864)	201,880,708
Other capital assets, net	164,877,659	(10,167,344)	(793,324)	153,916,991
Total	$ 170,267,298	(4,007,505)	(7,144,174)	159,115,619

	Beginning balance July 1, 2007	Additions	Deletions	Ending balance June 30, 2008
Capital assets not being depreciated or depleted:				
Land	$ 4,544,605	—	—	4,544,605
Construction in process	4,842,796	13,809,690	(17,807,452)	845,034
Total capital assets not being depreciated or depleted	9,387,401	13,809,690	(17,807,452)	5,389,639
Other capital assets:				
Buildings	88,035,041	1,088,743	(1,915,543)	87,208,241
Heavy equipment	15,250,668	3,043,934	(1,201,088)	17,093,514
Motor vehicles	18,301,880	1,552,507	(1,974,403)	17,879,984
Suffolk landfill	56,809,671	6,933,547	—	63,743,218
Disposal System equipment	25,455,324	589,931	(108,017)	25,937,238
Power Plant equipment	125,636,282	3,518,949	—	129,155,231
Bi-metals system	1,639,302	—	—	1,639,302
Yard waste shredder	553,190	—	—	553,190
Furniture, office equipment, software and hardware	4,749,013	49,152	(2,940)	4,795,225
Miscellaneous equipment	4,914,090	1,030,689	(432,885)	5,511,894
Total other capital assets	341,344,461	17,807,452	(5,634,876)	353,517,037
Less accumulated depreciation and depletion:				
Buildings	44,747,263	3,204,254	(511,800)	47,439,717
Heavy equipment	7,584,406	1,836,880	(993,419)	8,427,867
Motor vehicles	8,929,334	1,469,906	(1,934,817)	8,464,423
Suffolk landfill	41,359,302	4,469,136	—	45,828,438
Disposal System equipment	14,317,436	1,184,817	(72,778)	15,429,475
Power Plant equipment	47,994,513	5,888,908	—	53,883,421
Bi-metals system	1,639,302	—	—	1,639,302
Yard waste shredder	202,888	45,596	—	248,484
Furniture, office equipment, software and hardware	3,843,958	613,167	(2,940)	4,454,185
Miscellaneous equipment	2,550,077	702,885	(428,896)	2,824,066
Total accumulated depreciation and depletion	173,168,479	19,415,549	(3,944,650)	188,639,378
Other capital assets, net	168,175,982	(1,608,097)	(1,690,226)	164,877,659
Total	$ 177,563,383	12,201,593	(19,497,678)	170,267,298

(Continued)

(5) Long-Term Debt

(a) Bonds Payable

Bonds payable at June 30, 2009 and 2008 consist of the following:

		2009	2008
Senior Revenue Refunding Bonds 1993A, Tax-Exempt, dated October 15, 1993, and issued in the original amount of $147,250,000, due July 2010	$	—	36,520,000
Senior Revenue Refunding Bonds, Tax-Exempt dated April 1, 1998, and issued in the original amount of $33,535,000, due July 2015		33,535,000	33,535,000
Senior Refunding Revenue Bonds 2004A, Tax-Exempt, dated June 30, 2004, and issued in the original amount of $39,390,000, due April 2013		—	39,390,000
Senior Refunding Revenue Bonds 2004B, Taxable, dated June 30, 2004, and issued in the original amount of $1,360,000, due April 2013		—	1,360,000
Senior Subordinated Tax-Exempt Bonds, Series 6, dated June 28, 2001, and issued in the original amount of $11,030,000, due April 2011 (held by VRA)		2,940,000	8,590,000
Senior Subordinated Taxable Bonds, Series 8, dated December 14, 2001, and issued in the original amount of $3,400,000, due April 2017 (held by VRA)		1,925,000	2,360,000
Senior Subordinated Tax-Exempt Bonds, Series 9, dated December 1, 2002, and issued in the original amount of $16,155,000, due April 2014 (held by VRA)		6,445,000	9,415,000
Senior Subordinated Tax-Exempt Bonds, Series 11, dated May 21, 2003, and issued in the original amount of $39,950,000, due April 2017 (held by VRA)		28,445,000	32,560,000
Senior Subordinated Tax-Exempt Bonds, Series 12, dated December 4, 2003, and issued in the original amount of $13,650,000, due October 2011 (held by VRA)		2,425,000	7,290,000
Senior Subordinated Tax-Exempt Bonds, Series 14, dated November 1, 2004, and issued in the original amount of $13,060,000, due October 2013 (held by VRA)		5,950,000	9,250,000
Senior Subordinated Tax-Exempt Bonds, Series 16, dated June 8, 2006, and issued in the original amount of $14,245,000, due October 2013 (held by VRA)		14,245,000	14,245,000
Senior Parity Tax-Exempt Bonds, Series 2007A, dated October 4, 2007, and issued in the original amount of $25,145,000, due July 1, 2013		23,685,000	25,145,000

		2009	2008
Senior Parity Tax-Exempt Bond, Series 2008A, dated October 8, 2008, and issued in the original amount of $12,100,000, due September 15, 2011	$	12,100,000	—
Guaranteed Subordinated Refunding Bonds, Taxable Series 2009A dated June 17, 2009, and issued in the original amount of $71,985,000, due November 2017 (held by VRA)		71,985,000	—
Bonds payable – Disposal System		203,680,000	219,660,000
Senior Subordinated Taxable Bonds, Series 10, dated December 1, 2002, and issued in the original amount of $3,000,000, due April 2014 (held by VRA)		1,260,000	1,800,000
Senior Subordinated Taxable Bonds, Series 13, dated December 4, 2003, and issued in the original amount of $3,390,000, due October 2011 (held by VRA)		465,000	1,825,000
Senior Subordinated Taxable Bonds, Series 15, dated November 1, 2004, and issued in the original amount of $2,300,000, due October 2013 (held by VRA)		1,130,000	1,630,000
Senior Subordinated Taxable Bonds, Series 17, dated June 8, 2006, and issued in the original amount of $3,495,000, due October 2013 (held by VRA)		3,495,000	3,495,000
Senior Parity Revenue Bond, Series 2007B, Taxable, dated October 4, 2007, and issued in the original amount of $5,865,000, due July 1, 2009		—	4,340,000
Bonds payable – Power Plant		6,350,000	13,090,000
		210,030,000	232,750,000
Plus:			
Unamortized bond premiums		2,796,716	3,580,348
Less:			
Unamortized bond discounts		(1,769,280)	(2,193,860)
Deferred loss on defeasance		(8,643,133)	(4,907,055)
Current maturities of bonds payable		(9,960,000)	(22,055,000)
Noncurrent portion of bonds payable	$	192,454,303	207,174,433

Rates of interest on the bonds outstanding and payable listed above ranged from 2.9% to 5.8% for the year ended June 30, 2009 and from 2.64% to 5.70% for the year ended June 30, 2008.

In October 2008, the Authority obtained funding for Disposal System capital improvements through its issuance of a $12,100,000 tax-exempt bond (the Series 2008A Bond). The bond was issued for a maximum term of three years ending September 15, 2011 at a fixed rate of 3.95%.

In June 2009, the Authority issued its $71,985,000 Guaranteed Subordinated Revenue Bonds, Refunding Series 2009 (Taxable), with an average interest rate of 5%, to the Virginia Resource Authority (VRA) to partially refund certain series bonds previously issued by VRA and defease the Authority's 1993A Refunding Bonds, 2004A Refunding Bonds, and 2004B Refunding Bonds, in an aggregate total of $78,950,000. The VRA's offer to purchase the Authority's bonds was contingent upon five of the Authority's members, the Cities of Franklin, Portsmouth and Suffolk and the Counties of Isle of Wight and Southampton, guaranteeing the full and timely payment of the Authority's bonds. A consequence of the refunding was the reduction in the Senior Debt Service Reserve Account by $12,818,854 which was applied to the refunding. The net proceeds, the excess Senior Reserve Account funds and other available funds in the total amount of $72,502,780 were deposited into an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded bonds. As a result, the Authority's 1993A Refunding Bonds, 2004A Refunding Bonds, and 2004B Refunding Bonds are considered to be defeased and the liability for those bonds has been removed from the balance sheet.

A portion of the funds previously transferred to the trustee for benefit of the 1993A debt service was used to pay the 2007B Revenue Bonds in full.

The refunding resulted in a loss on defeasance of $5,068,456 that has been deferred and is being amortized as a component of interest expense over the life of the old debt. The refunding back loaded the repayment of debt whereby achieving significant cash flow savings over the next four years.

The advance refunding will increase total debt service payments over the next nine years by $8,952,071 and resulted in an economic loss of $6,854,168. At June 30, 2009, the total amount of debt that remains outstanding which has been considered defeased was $78,950,000.

A portion of the investment income on certain of the Authority's bonds may be subject to Internal Revenue Service arbitrage rebate requirements, but based on its current calculations, management believes that the effect on the Authority is not significant.

The following presents the changes in bonds payable for the Authority as a whole for the year ended June 30, 2009:

Balances as of June 30, 2008	$	232,750,000
Bonds issued:		
SPSA Senior Parity Tax-Exempt Bonds, Series 2008A dated October 8, 2008		12,100,000
SPSA Guaranteed Refunding Bonds, Taxable Series 2009A dated June 17, 2009		71,985,000
Total bonds issued		84,085,000
Principal paid and defeased		(106,805,000)
Balances as of June 30, 2009	$	210,030,000

(Continued)

The following presents the changes in bonds payable for the Authority as a whole for the year ended June 30, 2008:

Balances as of June 30, 2007	$	245,700,000
Bonds issued:		
SPSA Tax-Exempt Variable-Rate Bonds, Series 2007A, dated October 4, 2007		25,145,000
SPSA Taxable Variable-Rate Bonds, Series 2007B, dated October 4, 2007		5,865,000
Total bonds issued		31,010,000
Principal payments		(43,960,000)
Balances as of June 30, 2008	$	232,750,000

Aggregate maturities of bonds payable (principal and interest) at June 30, 2009, are as follows:

		Principal	Interest	Total
Year ending June 30:				
2010	$	9,960,000	9,284,987	19,244,987
2011		9,670,000	9,213,097	18,883,097
2012		27,525,000	8,767,741	36,292,741
2013		23,445,000	7,498,654	30,943,654
2014		30,310,000	6,405,419	36,715,419
2015 – 2017		109,120,000	11,682,993	120,802,993
	$	210,030,000	52,852,891	262,882,891

(b) Line of Credit

In September 2008, the Authority secured a working capital line of credit for use in conjunction with the operation of the Disposal System and Power Plant System in the amount of $4,000,000 with an expiration date of September 29, 2009, with interest at LIBOR plus 0.90% payable monthly.

In September 2008, the Authority obtained funding for Power Plant capital improvements through an additional $13,200,000 line of credit, expiring September 9, 2009, with interest at LIBOR plus 1.2%.

In May 2009, the Authority consolidated the $13,200,000 and $4,000,000 lines of credit into a single line of credit in the amount of $17,200,000 guaranteed severally and equally by the City of Chesapeake, Virginia and the City of Norfolk, Virginia, shared equally. The consolidated line bears interest at LIBOR plus 2.0% (2.32% at June 30, 2009) and expires May 11, 2010. The proceeds of the consolidated line are available for general operating and/or capital purposes. The consolidated line of credit will be reduced by the amount of $5,000,000 in the event that the Authority sells its Refuse Derived Fuel Plant and its Power Plant System.

At June 30, 2009, there was $9,195,835 outstanding and $8,004,165 available on the consolidated line of credit.

At June 30, 2008, there was $0 outstanding and $3,500,000 available on an uncollateralized line of credit, which expired September 30, 2008, with interest at LIBOR plus 0.50%.

(c) Forbearance Agreement with the City of Virginia Beach

In the interest of providing needed financial assistance to the Authority, the City of Virginia Beach, Virginia agreed to defer payment, in an amount not to exceed $26,600,000, of operating and maintenance costs incurred by the City for the operation of the Virginia Beach landfill and excess tipping fees paid to the Authority as per the Agreement for Disposal and Ash Process Residue. The total amount deferred as of June 30, 2009 was $11,639,523. Repayment of deferred fees will be-over 36 months at a rate of interest equal to 2% plus the arithmetic average of the interest rates on two-year United States Treasury Notes to begin not later than October 1, 2010. Interest accrual begins July 1, 2010.

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

The Authority entered into an agreement with the city of Virginia Beach (the City) for disposal of ash generated from the Power Plant and the residue generated in the production of RDF. The Authority has acquired the right to use land located in the City for disposal of the materials. The City incurred costs in developing the land for use as a landfill and the Authority reimbursed the City for its share of these costs. Such costs are included in intangible assets. The Authority also must reimburse the City for operating and maintenance costs incurred by the City in the operation of the Virginia Beach Landfill, and for its share of the closure and postclosure care (see note 7). These costs are reduced by income received by the City from private haulers for use of the Virginia Beach Landfill and by the City’s own use of the landfill for municipal waste. During fiscal 2009 and 2008, the Authority recorded $13,943,759 and $7,062,014, respectively, for expenses related to reimbursements to the City for operating and maintenance costs of the Virginia Beach Landfill. The significant increase in fiscal year 2009 was due to a municipal tipping fee increase from $100 per ton to $104 per ton on July 1, 2008 and a subsequent increase to $170 per ton on April 23, 2009. Per the ash disposal agreement, the increase was in excess of a $53.88 per ton cap that, pursuant to contract documents, converts to an expense of the Authority’s Disposal System and must be paid to Virginia Beach.

(7) Landfill Closure and Postclosure Care Costs

State and federal laws and regulations require the Authority to place a final cover on the Regional 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, 2009 and 2008 are $18,946,623 and $22,500,000, respectively. The four components are described below.

The first component of the liability relates to Cells I-IV, which totaled $3,390,700 and $5,729,696 as of June 30, 2009 and 2008, respectively, and is based upon the use of all of the capacity of Cells I-IV of the Regional Landfill. The closure process of Cells I-IV was completed in 2009. The remaining amounts for Cells I-IV are based on estimates of what it would cost to perform postclosure care as of June 30, 2009 and 2008, respectively.

The second and third components relate to Cells V and VI. The cumulative amount of liabilities reported to date based upon the use of approximately 100% of the estimated capacity of Cell V and approximately 39% of Cell VI of the Regional Landfill is $10,644,621 and $11,940,240 as of June 30, 2009 and 2008, respectively. Cell V of the Regional Landfill stopped accepting waste in 2007, except for the delivery of additional construction and demolition debris. The amounts for Cell V and Cell VI are based on what it would cost to perform all closure and postclosure care as of June 30, 2009 and 2008, respectively.

The final component relates to the Virginia Beach Landfill. The Authority has recorded $4,911,302 and $4,830,064 for its share of the landfill closure and postclosure care liabilities for the Virginia Beach Landfill Phase I cell as of June 30, 2009 and 2008, respectively. This amount is based upon data provided by the City and calculations made by the Authority. The amounts for the Virginia Beach Landfill Phase I cell are based on what it would cost to perform all closure and postclosure care as of June 30, 2009 and 2008, respectively.

Actual closure and postclosure care costs for the Regional and Virginia Beach Landfills may differ due to inflation, changes in technology, or changes in regulations. The Authority currently plans to finance the landfill closure and postclosure care costs primarily through bond issuances. The Authority meets its closure and postclosure care financial assurance requirements through bank issued letters of credit ($25,609,906 at June 30, 2009), which are renewed annually once the Department of Environmental Quality has issued their Financial Assurance Requirements letter.

The following presents the changes in the combined landfill closure and postclosure care liability for the year ended June 30, 2009:

Balance as of June 30, 2008	$	22,500,000
Revision of estimate		773,930
Payments made		(4,327,307)
Balance as of June 30, 2009	$	18,946,623

The following presents the changes in the combined landfill closure and postclosure care liability for the year ended June 30, 2008:

Balance as of June 30, 2007	$	21,000,245
Revision of estimate		4,272,165
Payments made		(2,772,410)
Balance as of June 30, 2008	$	22,500,000

(Continued)

(8) Commitments

In the normal course of operating the Disposal System and the Power Plant, the Authority enters into various construction contracts. As of June 30, 2009 and 2008, total commitments under these contracts amounted to approximately $2,672,711 and $1,685,995, respectively. The increase in commitments is primarily related to completion of landfill closure for Cells I-IV.

(9) Defined Benefit Pension Plan

(a) Plan Description

Name of Plan:	Virginia Retirement System (VRS)
Identification of Plan:	Agent and Multiple-Employer Defined Benefit Pension Plan
Administering Entity:	Virginia Retirement System (System)

All full-time, salaried permanent employees of participating employers must participate in the VRS. Benefits vest after five years of service. Employees are eligible for an unreduced retirement benefit at age 65 with 5 years of service payable monthly for life in an amount equal to 1.70% of their average final compensation (AFC) for each year of credited service. Benefits are actuarially reduced for retirees who retire prior to becoming eligible for full retirement benefits. In addition, retirees qualify for annual cost-of-living increases limited to 5% per year beginning in their second year of retirement. AFC is defined as the highest consecutive 36 months of reported compensation. The VRS also provides death and disability benefits. Title 51.1 of the *Code of Virginia* (1950), as amended, assigns the authority to establish and amend benefit provisions to the General Assembly of Virginia.

The system issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for VRS. A copy of that report may be downloaded from their website at http://www.varetire.org/Pdf/publications/2008AnnuRept.pdf or obtained by writing to the System at P.O. Box 2500, Richmond, VA 23218-2500.

(b) Funding Policy

Plan members are required by Title 51.1 of the *Code of Virginia* (1950), as amended, to contribute 5% of their annual salary to the VRS. The employer may assume this 5% member contribution, as the Authority does. In addition, the Authority is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the Code of Virginia and approved by the VRS Board of Trustees. The Authority's contribution rate for the fiscal year ended 2009 was 5.81% of annual covered payroll.

Annual Pension Cost

For fiscal year 2009, the Authority's annual pension cost of $1,868,430 was equal to the Authority's required and actual contributions.

(Continued)

Three-Year Trend Information for Southeastern Public Service Authority:

Fiscal year ending	Annual Pension Cost (APC)
June 30, 2007	$ 2,099,510
June 30, 2008	2,030,148
June 30, 2009	1,868,430

The required contribution was determined as part of the June 30, 2007 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions at June 30, 2007 included (a) 7.50% investment rate of return, (b) projected salary increases ranging from 3.75% to 5.60% per year, and (c) 2.50% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 2.50%. The actuarial value of the Authority's assets is equal to the modified market value of assets. This method uses techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period. The Authority's unfunded actuarial accrued liability is being amortized as a level percentage of payroll on an open basis within a period of 20 years.

(c) Funded Status and Funding Progress

As of June 30, 2008, the most recent actuarial valuation date, the plan was 100.2% funded. The actuarial accrued liability for benefits was $38,465,440, and the actuarial value of assets was $38,542,721 resulting in an overfunded actuarial accrued liability (UAAL) of $77,282. The covered payroll (annual payroll of active employees covered by the plan) was $17,001,029, and ratio of the UAAL to the covered payroll was -0.45%.

The schedule of funding progress, presented as Required Supplementary Information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Ten-year historical trend information showing VRS' progress in accumulating sufficient assets to pay benefits when due is presented in the VRS Comprehensive Annual Financial Report. A copy of that report may be obtained by writing to the Virginia Retirement System at Post Office Box 2500, Richmond, Virginia 23218-2500.

(10) Employee Contribution Plan

During fiscal 1993, the Authority established a deferred compensation plan through Hartford Life Insurance Company (the Company). 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 employees are eligible to participate with a minimum contribution of $10 per pay period. Maximum contributions made by an employee are subject to IRC limitations.

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

(11) Contingencies

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

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

(12) Other Post Employment Benefits (OPEB) Liability

(a) Plan Description

Name of Plan:	SPSA Postretirement Medical Benefit Plan
Identification of Plan:	Single Employer, Pay as You Go
Administering Entity:	Southeastern Public Service Authority (SPSA)

At its sole discretion, the Authority offers a Postretirement Medical Benefit Plan (PMBP) subject to eligibility. Under the plan, the Authority will pay part of the retiree's monthly health insurance premium up through age 65. 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 five years; and must have been enrolled in one of SPSA's health care plans for the last five consecutive years immediately preceding retirement.

(b) Funding Policy

The amount of the contribution is up to 50% of the amount SPSA 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.

(c) Annual OPEB Cost and Net OPEB Obligation

The Authority's annual OPEB expense is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

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

Annual required contribution (ARC)	$	710,741
Contributions made		(47,837)
Increase in net OPEB obligation		662,904
Net OPEB obligation, beginning of year		—
Net OPEB obligation, end of year	$	662,904
ARC components:		
Normal cost	$	407,202
Unamortized actuarial accrued liability		276,203
Interest		27,336
	$	710,741

The Authority's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2009 were as follows:

For year ended June 30	Annual OPEB cost	% of annual OPEB cost contributed	Net OPEB obligation
2009	$ 710,741	6.7%	$ 662,904

(d) *Funded Status and Funding Progress*

As of July 1, 2008, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits and the unfunded actuarial accrued liability (UAAL) was $4,967,164. The covered payroll (annual payroll of active employees covered by the plan) was $17,001,029, and the ratio of the UAAL to the covered payroll was 29.2%. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

The schedule of funding progress, presented as Required Supplementary Information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

(Continued)

(e) Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members at that point. The required contribution was determined as part of the July 1, 2008 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions at July 1, 2008 included a 4.0% investment rate of return and an annual healthcare cost trend rate increase of 11% grading down to 5% over 6 years. The Authority's unfunded actuarial accrued liability is being amortized on a closed level dollar amount basis over a period of 30 years.

(13) Subsequent Events

In May 2008, the Authority received an unsolicited proposal from Covanta Energy Corporation to buy and operate the refuse derived fuel plant and the steam power plant. In accordance with the Public Private Education Facilities and Infrastructure Act of 2002 (PPEA), the Authority solicited competing proposals. In September 2008, following receipt of competing proposals from Energy Answers International, Foristar LLC and Wheelebrator Technologies, Inc., the Authority approved the proposals from Covanta Energy Corporation and Wheelebrator Technologies, Inc. for participation in the detailed review phase in accordance with its guidelines. From February 2009 though July 2009, the Authority's Chairman of the Board, staff and legal advisors conducted extensive competitive negotiations with both companies, resulting in the receipt of offers in July 2009.

Additionally, in July 2009, the Authority received an unsolicited conceptual proposal under the PPEA from ReEnergy Holdings LLC for the purchase of substantially all of the Authority's assets including the refuse derived fuel plant and steam power plant.

In September 2009, the Authority Board of Directors tentatively accepted a binding and irrevocable offer from Wheelabrator Technologies, Inc. to purchase and operate the refuse derived fuel plant and the steam power plant for a purchase price of $150 million. Simultaneously, the Authority accepted the ReEnergy Holdings LLC proposal for conceptual phase review and posted notice for a period of 45 days in order to encourage competition.

On November 9, 2009, the Authority received a competing proposal from Wheelebrator Technologies, Inc. and an addendum to its original proposal from ReEnergy Holdings, LLC. Following considerable time, expense and effort in evaluating all proposals submitted under the PPEA, the Authority's Board of Directors adopted a resolution at its November 17, 2009 meeting rejecting the all asset purchase proposals received from ReEnergy and Wheelebrator and terminating the all asset procurement. Additionally, the adopted resolution accepted the Wheelebrator proposal to purchase and operate the refuse derived fuel plant and steam power plant for a purchase price of $150 million and authorized the Authority's Executive Director to execute the contract.

The proceeds of the sale of assets will be used to retire a portion of the Authority’s debt following approval by the Authority’s various lenders including the Virginia Resources Authority, Wachovia Bank, the City of Virginia Beach and the Ambac Assurance Corporation. The Authority anticipates closing the transaction in early 2010.

As a result of House Bill 1872, effective January 1, 2010, the Authority’s Board of Directors will be comprised of 8 members appointed by the Governor and 8 members appointed and employed by the member jurisdictions.

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

SOUTHEASTERN PUBLIC SERVICE
AUTHORITY OF VIRGINIA

Required Supplementary Information

Schedule of Pension Funding Progress (Unaudited)

June 30, 2009

Valuation date			June 30, 2008	June 30, 2007	June 30, 2006
Actuarial value of assets (AVA)	(1)	$	38,542,721	34,106,134	29,107,475
Actuarial accrued liability (AAL)	(2)		38,465,440	35,949,424	32,328,712
Unfunded (overfunded) actuarial accrued liability (UAAL) (2) - (1)	(3)	$	(77,281)	1,843,290	3,221,237
Fund ratio (1)/(2)	(4)		100.2%	94.87%	90.04%
Annual covered payroll	(5)	$	17,001,029	17,050,715	17,225,350
UAAL as % of payroll (3)/(5)	(6)		-0.45%	10.81%	18.70%

Schedule of Postretirement Medical Benefit Plan Funding Progress (Unaudited)

June 30, 2009

Valuation date			July 1, 2008
Actuarial value of assets (AVA)	(1)	$	—
Actuarial accrued liability (AAL)	(2)		4,967,164
Unfunded (overfunded) actuarial accrued liability (UAAL) (2) - (1)	(3)	$	4,967,164
Fund ratio (1)/(2)	(4)		0.0%
Annual covered payroll	(5)	$	17,001,029
UAAL as % of payroll (3)/(5)	(6)		29.2%

Unaudited – see accompanying independent auditors’ report.

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Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

The Board of Directors
Southeastern Public Service Authority of Virginia:

We have audited the basic financial statements of Southeastern Public Service Authority of Virginia (the Authority) as of and for the year ended June 30, 2009, and have issued our report thereon dated December 4, 2009. We conducted our audit in accordance with 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.

Internal Control over Financial Reporting

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

A deficiency in internal control over financial reporting 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 misstatements on a timely basis. A material weakness is a significant deficiency, or combination of significant deficiencies, in internal control over financial reporting, 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and 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*.

This report is intended solely for the information and use of management, the Authority's board of directors, audit committee and others within the Authority and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

December 4, 2009