SOUTHEASTERN PUBLIC SERVICE AUTHORITY OF VIRGINIA

Basic Financial Statements and
Supplemental Information

June 30, 2010 and 2009

(With Independent Auditors' Reports Thereon)

SOUTHEASTERN PUBLIC SERVICE
AUTHORITY OF VIRGINIA

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KPMG LLP
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Norfolk, VA 23510

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, 2010 and 2009, 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, 2010 and 2009, 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 October 22, 2010 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 10 and the Schedules of Pension Funding Progress and Postretirement Medical Benefit Plan Funding Progress on page 39 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

October 22, 2010

SOUTHEASTERN PUBLIC SERVICE AUTHORITY OF VIRGINIA

Management's Discussion and Analysis (Unaudited)

June 30, 2010 and 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, 2010 and its financial activities for the fiscal year ended June 30, 2010, with selected comparative information as of and for the year ended June 30, 2009. This discussion and analysis should be read in conjunction with the basic financial statements.

Financial and Operating Highlights

- The net assets of the Authority at the close of fiscal year 2010 were $11,207,683. Not since fiscal year 2004 has the Authority demonstrated a positive net asset position.
- On April 29, 2010, SPSA sold its waste to energy facilities, including a steam power plant and refuse derived fuel plant (RDF Plant), to Wheelabrator Technologies, Inc. (Wheelabrator), an affiliate of Waste Management, Inc. for approximately $150 million in cash and other consideration. Simultaneously with the closing of the sale, SPSA used the proceeds to reduce its outstanding debt by approximately $140.2 million through a combination of bond redemptions and legal defeasances.
- The capacity life of the regional landfill has been extended beyond the expiration of the member community contracts (January 24, 2018) as a result of the sale of the waste to energy facilities.
- As of June 30, 2010, total debt outstanding was approximately $80.97 million compared to the nearly $223 million outstanding the previous year.
- Moody's Investor Services affirmed the A3 rating on SPSA's Senior Revenue Refunding Bonds, Series 1998.
- The Authority's workforce reduced from approximately 411 employees in fiscal year 2009 to 163 employees as of June 30, 2010.
- The Authority terminated its recycling services.
- A new Board of Directors was appointed effective January 1, 2010 resulting from change in state legislation.

Sale of the Waste to Energy Facilities

In November 2009, the Authority Board of Directors approved a Purchase and Sale Agreement and Service Agreement from Wheelabrator to purchase and operate the Authority's waste to energy facilities. The details of the sale and service agreement are available on the Authority's website at www.spsa.com. In summary, Wheelabrator agrees to continue to operate the waste to energy facilities and to accept and process SPSA member community solid waste until January 24, 2018, which coincides with the expiration of the Authority's Use and Support Agreements with its eight member communities. The Authority is required to pay Wheelabrator an annual fee of $18,000,000, or $36 per ton based on an annual delivery guarantee of 500,000 tons. The annual fee is subject to a fixed annual increase of $2 per ton, or $1 million in subsequent years. The service agreement is structured as a "put or pay" contract – meaning that the Authority is required to pay the fixed monthly fee regardless of how much waste the Authority delivers to the waste to energy facilities, however, the Authority receives a series of credits that are applied against the monthly fee. For example, the Authority will continue to receive 10% of the revenue generated from the sale of steam to the U.S. Navy and 10% of the revenue generated from proprietary waste. Additionally, the Authority receives a hauling fee representative of the commercial waste received at the Authority's transfer stations and subsequently transported by the Authority to the waste to energy facilities.

SPSA will deliver to Wheelabrator all processible waste of the Authority's member communities and Wheelabrator will haul away SPSA nonprocessible waste from SPSA Transfer Stations for disposal at a non-SPSA landfill. One of the greatest benefits of the offer received by Wheelabrator, was that SPSA would no longer dispose of waste that cannot be processed or burned at the power plant, commonly referred to as nonprocessible waste. Historically, nonprocessible waste represented approximately one-third of the total waste stream. The direct benefit is the reduction in staff, contracted services, and fuel. The indirect benefits are the avoided capital costs (approximately $52,000,000) that would have been necessary to expand the regional landfill. This significant reduction in the waste stream will extend the remaining life of Cell VI at the landfill beyond the expiration of the municipal use and support agreements in January 2018.

As a result of the sale of its waste to energy system, the Authority is undergoing major changes. The core business is the disposal of municipal waste collected at nine transfer stations. Additionally, SPSA will continue to operate the regional landfill, located in the City of Suffolk, a fleet maintenance facility, a household hazardous waste program, a tire processing facility and a white goods program with a staff of approximately 163 positions compared to the 411 positions budgeted in fiscal year 2010. Tipping fees continue to be the primary source of revenue which are comprised of municipal waste, processible waste received from the Navy, construction and demolition debris and other types of waste such as sludge, soils, fines etc. SPSA continues to receive commercial waste at the transfer stations; however, Wheelabrator invoices and receives this revenue.

Overview of the Financial Report

The Southeastern Public Service Authority is a single enterprise fund and presents its financial statements using the economic resources measurement focus and accrual basis of accounting which is the same measurement focus and basis of accounting employed by private-sector business enterprises. This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements, which include comparative Statements of Net Assets, Statements of Revenue, Expenses, and Changes in Net Assets, Statements of Cash Flows, and notes to the financial statements.

The Statements of Net Assets present information on the Authority's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

The Statements of Revenues, Expenses, and Changes in Net Assets present information showing how the Authority's net assets changed during the fiscal year. These statements measure the success of the Authority's operations and can be used to determine the Authority's profitability, credit worthiness, and whether it has successfully recovered all of its costs through user fees and other charges.

The Statements of Cash Flows present the change in the Authority's cash and cash equivalents during each fiscal year. This information can assist the user of the report in determining how the Authority financed its activities and how it met its cash requirements.

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

Summary of Net Assets

As described earlier, net assets may serve over time as a useful indicator of the Authority's financial position. At the close of the fiscal year, the Authority's assets exceeded its liabilities by $11,207,683 as compared to the previous year's deficit of $28,331,931. This is a direct result of the sale of the waste to energy facilities and other cost reductions implemented by management. Simultaneously with the closing of the sale, the Authority reduced its long term debt by approximately $140.2 million through a combination of bond defeasances and bond redemptions. Please see note 5 to the basic financial statements for more details on the Authority's debt. Capital assets shown below represent the acquisition cost less accumulated depreciation, not fair market value.

The Authority's cash and cash equivalents increased to $34.2 million at the end of fiscal year 2010 from $12.7 million at the end of fiscal year 2009 primarily as a result of 2009 debt restructuring which required the Authority establish a three month operating reserve. As of June 30, 2010, the operating reserve had a balance of $10 million. Additionally, as part of the 2009 debt restructuring, the Chief Administrative Officers of the member jurisdictions in consultation with their respective financial advisors recommended the Authority's 2010 municipal tipping fee be set at $170 per ton.

The following table presents a condensed summary of net assets as of June 30, 2010, 2009 and 2008.

		2010	2009	2008
Assets:				
Current and other assets	$	70,162,069	66,788,160	64,237,575
Capital assets, net		48,418,058	159,115,619	170,267,298
Total assets	$	118,580,127	225,903,779	234,504,873
Liabilities:				
Current liabilities	$	14,749,441	32,532,357	34,055,672
Long-term liabilities		92,623,003	221,703,353	227,674,433
Total liabilities		107,372,444	254,235,710	261,730,105
Net assets/(deficit):				
Invested in capital assets, net of related debt		(23,880,334)	(31,184,052)	(36,280,051)
Restricted		12,769,258	17,786,014	18,726,930
Unrestricted		22,318,759	(14,933,893)	(9,672,111)
Total net assets (deficit)		11,207,683	(28,331,931)	(27,225,232)
Total liabilities and net deficit	$	118,580,127	225,903,779	234,504,873

Net assets/(deficit) invested in capital assets net of related debt represents the Authority's investment in capital assets, such as land, buildings and equipment. However, the deficit of ($23.9) million illustrated above demonstrates that the Authority's debt exceeds its book value of assets. It should be noted that the repayment of debt must be provided by other sources since it is unlikely that the capital assets will be liquidated to pay liabilities.

The restricted portion of net assets includes funding for environmental trust funds and debt service payments. The unrestricted portion of net assets will be applied to future debt redemptions and/or defeasances.

Summary of Revenues, Expenses and Changes in Net Assets

The Authority's net assets increased in fiscal year 2010 by $39.5 million primarily due to the sale of the waste to energy facilities. The changes in the Authority's net assets can be determined by reviewing the following condensed statements of revenues, expenses, and changes in net assets:

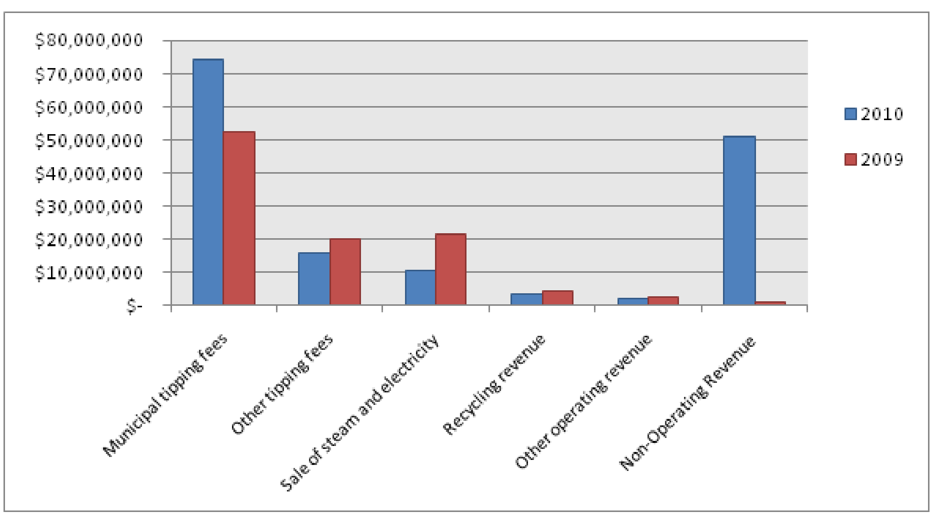
	2010	2009	2008
Operating revenue:			
Municipal tipping fees	$ 74,132,528	52,229,293	42,742,836
Other tipping fees	15,961,205	20,293,065	28,996,727
Sale of steam and electricity	10,671,895	21,318,859	16,357,128
Recycling revenue	3,309,847	4,460,998	4,734,538
Other operating revenue	2,303,837	2,509,883	2,790,530
Total operating revenue	106,379,312	100,812,098	95,621,759
Operating expenses:			
Personnel	22,825,872	27,377,625	26,242,231
Depreciation and amortization	12,874,578	17,005,555	19,915,272
Routine maintenance operations	14,183,523	16,059,797	15,942,804
Ash and residue agreement	22,276,504	13,943,759	7,062,014
Other operating expenses	19,408,572	16,816,707	20,124,168
Total operating expenses	91,569,049	91,203,443	89,286,489
Operating income	14,810,263	9,608,655	6,335,270
Nonoperating revenue/(expense):			
Gain (loss) on the sale of assets	48,151,441	(595,907)	(117,258)
Investment income	140,619	1,611,901	2,136,681
Interest expense	(26,185,802)	(11,876,144)	(12,895,372)
Other income (expense)	2,623,093	144,796	118,850
Total nonoperating revenue/(expense)	24,729,351	(10,715,354)	(10,757,099)
Net change in assets (deficit)	39,539,614	(1,106,699)	(4,421,829)
Total net assets (deficit):			
Beginning of year	(28,331,931)	(27,225,232)	(22,803,403)
End of year	$ 11,207,683	(28,331,931)	(27,225,232)

The municipal tipping fee was $170 per ton in fiscal year 2010 as compared to a blended rate of $115 in fiscal year 2009 and $100 per ton in fiscal year 2008. Municipal tonnages have remained relatively stable averaging approximately 491,000 tons over the past three fiscal years. It is important to note that the $74.1 million in municipal tipping fees excludes the rebate that is paid to the City of Virginia Beach for tipping fees paid in excess of a capped rate established in the ash and residue agreement. The city of Virginia Beach is the largest of the Authority's eight member communities, providing approximately 32% of the municipal waste quantities. The ash and residue agreement between the city and the Authority provides for maximum levels for the city of Virginia Beach's tipping fees. As of fiscal year 2010, the city of Virginia Beach's tipping fee was capped at $56.01 per ton. For all other municipalities except the city of Suffolk (which as host to the regional landfill pays no tipping fee), the municipal tipping fee was $170 per ton. In accordance with Governmental Accounting Standards Board (GASB), the tipping fees paid by the City of Virginia Beach must be reported at the gross amount with the rebate illustrated as an expense. Of the $22.3 million expense for "ash and residue agreement", approximately $2.6 million is for operating and maintaining the Virginia Beach landfill and $19.7 million represents the rebate or excess tipping fees paid by the City in accordance with the 1985 Ash and Residue Agreement. Please see note 6 to the basic financial statements for more details on the ash and residue agreement.

Other tipping fees, consisting of commercial waste, construction demolition and debris and proprietary waste, have continued to decline primarily due to commercial haulers disposing of waste at non-SPSA facilities and a weak economy.

The Authority realized a 70% reduction in electrical sales from the previous fiscal year primarily driven by the reduction in the electrical resale rate and the downtime of the boilers due to a carbon monoxide issue. SPSA terminated its recycling program in May 2010 because it was no longer cost effective with the decline in the customer base. Other operating revenue including charges for services to properly dispose of household hazardous waste, tires, white goods, sale of methane gas generated at the regional landfill, ferrous and nonferrous metal recovery and other miscellaneous fees, has experienced an 8% – 10% reduction in each of last three years primarily due to a weak economy.

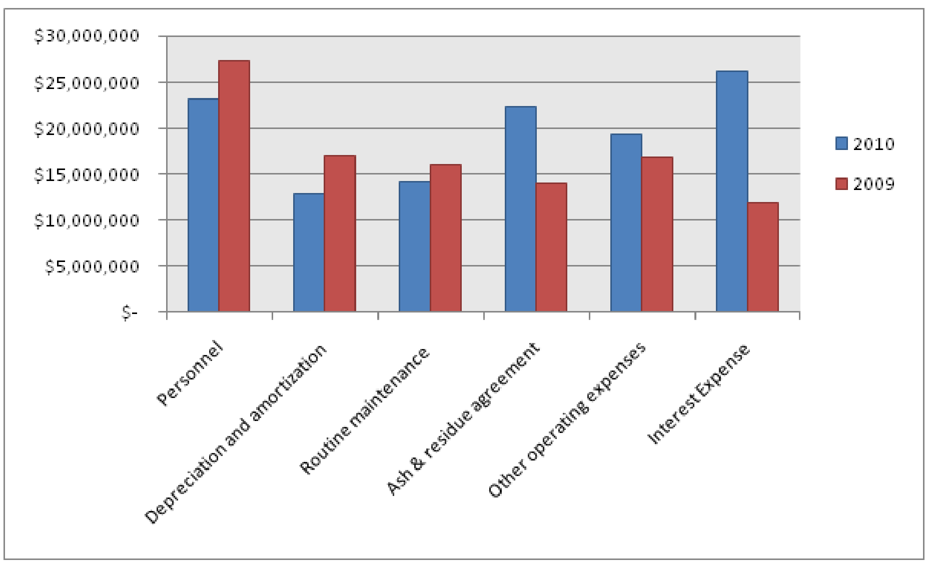
The following graph illustrates the major revenues by source for the fiscal year ending June 30, 2010 and 2009:



The Authority's cost for personnel decreased by approximately 15% due to several reductions in force implemented beginning in November 2008. The Authority's workforce has been reduced from approximately 411 positions in fiscal year 2008 to 163 positions effective June 30, 2010. This reduction included approximately 172 positions that transferred with the sale of the waste to energy facilities. Management continues to review the staffing necessary to effectively manage the waste disposal of its member communities.

Routine maintenance was reduced by approximately 12% primarily in the areas of vendor support, consumables and equipment and vehicle maintenance. The largest change in expenses is reflective in the ash and residue agreement. As reported previously, the increase is primarily attributed to the increase in the municipal tipping fee which resulted in a significant increase in the rebate due to the City of Virginia Beach. Other operating expenses are representative of legal and professional services, rent, utilities, insurance and other miscellaneous expenses. Interest on long term debt increased by approximately 82% reflective of the debt retirement plan implemented following the sale of the waste to energy facilities.

The following graph illustrates the expenses by source for the fiscal year ending June 30, 2010 and 2009:



Capital Assets

At the end of 2010, the Authority had $48,418,058 (net of accumulated depreciation and depletion) invested in a broad range of capital assets, including the regional landfill, transfer stations, heavy equipment, and rolling stock. This amount represents a net decrease (net of additions and deductions) of $110,697,561, or 70% less than last year, reflective of the sale of the waste to energy facilities. The details of capital asset values for the various categories are included in note 4 of the basic financial statements.

A summary of capital assets for fiscal years 2010 and 2009 is presented below:

		Balance June 30, 2009	Additions	Deletions	Balance June 30, 2010
Land	$	4,544,605	—	(1,392,737)	3,151,868
Improvements (regional landfill)		64,105,130	56,890	—	64,162,020
Buildings		87,542,540	116,202	(44,508,793)	43,149,949
Vehicles and equipment		204,150,029	550,009	(165,220,355)	39,479,683
Assets under construction		654,023	71,789	(654,023)	71,789
Total assets		360,996,327	794,890	(211,775,908)	150,015,309
Accumulated depreciation		201,880,708	12,387,217	(112,670,674)	101,597,251
Total assets less depreciation	$	159,115,619	(11,592,327)	(99,105,234)	48,418,058

		Balance June 30, 2008	Additions	Deletions	Balance June 30, 2009
Land	$	4,544,605	—	—	4,544,605
Improvements (regional landfill)		63,743,219	361,911	—	64,105,130
Buildings		87,208,240	334,300	—	87,542,540
Vehicles and equipment		202,565,578	5,654,639	(4,070,188)	204,150,029
Assets under construction		845,034	6,159,839	(6,350,850)	654,023
Total assets		358,906,676	12,510,689	(10,421,038)	360,996,327
Accumulated depreciation		188,639,379	16,518,193	3,276,864	201,880,708
Total assets less depreciation	$	170,267,297	(4,007,504)	(7,144,174)	159,115,619

(Continued)

Long Term Debt

At year-end, the Authority had a total of $80,970,000 in bonds outstanding, versus $210,030,000 last year, a decrease of 61.4%.

Summary of Outstanding Long-Term Bonds

June 30, 2010 and 2009

		2010	2009
Senior debt	$	33,935,000	69,320,000
Senior subordinated debt		16,850,000	68,725,000
Guaranteed subordinated debt		30,185,000	71,985,000
Total outstanding debt	$	80,970,000	210,030,000

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

Contacting the Authority's Financial Management

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

BASIC FINANCIAL STATEMENTS

SOUTHEASTERN PUBLIC SERVICE AUTHORITY OF VIRGINIA

Enterprise Fund

Statements of Net Assets

June 30, 2010 and 2009

Assets	**2010**	**2009**
Current assets:		
Cash and cash equivalents	$ 34,236,116	12,715,128
Accounts receivable:		
Authority members	6,405,510	7,118,968
Other customers	2,266,060	3,989,821
Allowance for doubtful accounts	(180,000)	(80,000)
	8,491,570	11,028,789
Prepaid expenses	472,673	874,384
Accrued interest receivable	6,788	—
Total current assets	43,207,147	24,618,301
Noncurrent assets:		
Restricted assets:		
Investments	21,876,080	32,400,140
Accrued interest receivable	11,851	36,485
Total restricted assets	21,887,931	32,436,625
Maintenance parts	214,603	3,074,572
Capital assets, net of accumulated depreciation and depletion	48,418,058	159,115,619
Intangible assets, net of accumulated amortization	3,469,532	3,956,893
Debt issue costs, net	1,382,856	2,701,769
Total noncurrent assets	75,372,980	201,285,478
Total assets	$ 118,580,127	225,903,779

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SOUTHEASTERN PUBLIC SERVICE
AUTHORITY OF VIRGINIA

Enterprise Fund

Statements of Net Assets

June 30, 2010 and 2009

Liabilities and Net Deficit		**2010**	**2009**
Liabilities:			
Current liabilities, payable from current assets:			
Accounts payable	$	4,984,855	3,471,088
Accrued expenses		1,774,789	2,651,964
Line of credit		—	9,195,835
Landfill closure and postclosure care liability – current portion		115,000	2,000,000
Total current liabilities, payable from current assets		6,874,644	17,318,887
Current liabilities, payable from restricted assets:			
Accounts payable		374,291	3,377,926
Current maturities of bonds payable		6,650,000	9,960,000
Accrued interest on revenue bonds		850,506	1,875,544
Total current liabilities, payable from restricted assets		7,874,797	15,213,470
Total current liabilities		14,749,441	32,532,357
Noncurrent liabilities:			
Bonds payable		72,093,681	192,454,303
Other post employment benefits		926,059	662,904
Virginia beach deferral		—	11,639,523
Landfill closure and postclosure care liability – noncurrent		19,603,263	16,946,623
Total noncurrent liabilities		92,623,003	221,703,353
Total liabilities		107,372,444	254,235,710
Net assets (deficit):			
Invested in capital assets, net of related debt		(23,880,334)	(31,184,052)
Restricted for debt service		9,108,570	16,312,544
Restricted for other purposes		3,660,688	1,473,470
Unrestricted		22,318,759	(14,933,893)
Total net assets (deficit)		11,207,683	(28,331,931)
Total liabilities and net assets (deficit)	$	118,580,127	225,903,779

See accompanying notes to basic financial statements.

SOUTHEASTERN PUBLIC SERVICE
AUTHORITY OF VIRGINIA

Enterprise Fund

Statements of Revenues, Expenses, and Changes in Net Assets (Deficit)

Years ended June 30, 2010 and 2009

	2010	2009
Operating revenue:		
Municipal tipping fees	$ 74,132,528	52,229,293
Other tipping fees	15,961,205	20,293,065
Sale of steam and electricity	10,671,895	21,318,859
Recycling revenue	3,309,847	4,460,998
Charges for household hazardous waste and tire program	1,415,581	1,374,018
Ferrous and Nonferrous Metal Recovery	463,151	614,252
Sale of methane gas	362,321	241,418
Other revenue	62,784	280,195
Total operating revenues	106,379,312	100,812,098
Operating expenses:		
Compensation and related payroll costs	22,575,616	27,010,037
Payment for temporary services	250,256	367,588
Depreciation, depletion and amortization of intangibles	12,874,578	17,005,555
Postage, printing, and supplies	270,194	384,240
Rent and utilities	1,995,868	2,694,818
Equipment fuel	1,510,125	2,068,276
Routine maintenance and vehicle operations	14,183,523	16,059,797
Nonroutine maintenance and repairs	7,558,270	5,711,737
Insurance	1,585,390	1,577,526
Virginia Beach ash disposal agreement costs	22,276,504	13,943,759
Legal and professional services	3,411,459	3,084,609
Bad debts	102,613	15,669
Landfill closure and postclosure care cost accrual	771,640	773,929
Proprietary waste expense	247,493	401,041
Wheelabrator service contract	1,900,687	—
Other	54,833	104,862
Total operating expenses	91,569,049	91,203,443
Operating income	14,810,263	9,608,655
Nonoperating revenue (expense):		
Net gain (loss) on disposal of capital assets	48,151,441	(595,907)
Interest expense:		
Interest on long-term debt	(19,388,627)	(10,632,663)
Amortization of loss on defeasance	(6,812,276)	(1,332,379)
Amortization of bond issue costs, discounts and premiums, net	15,101	88,898
Total interest expense	(26,185,802)	(11,876,144)
Other revenue:		
Insurance recoveries	1,810,244	116,397
Investment income	140,619	1,611,901
Other	812,849	28,399
Total other revenue	2,763,712	1,756,697
Total nonoperating revenue (expense), net	24,729,351	(10,715,354)
Change in net assets (deficit)	39,539,614	(1,106,699)
Total net assets (deficit):		
Beginning of year	(28,331,931)	(27,225,232)
End of year	$ 11,207,683	(28,331,931)

See accompanying notes to basic financial statements.

SOUTHEASTERN PUBLIC SERVICE AUTHORITY OF VIRGINIA

Enterprise Fund

Statements of Cash Flows

Years ended June 30, 2010 and 2009

		2010	2009
Cash flows from operating activities:			
Receipts from customers	$	108,813,918	97,908,075
Payments to suppliers for operations		(53,222,534)	(35,866,725)
Payments to employees for compensation		(23,439,892)	(26,749,209)
Net cash provided by operating activities		32,151,492	35,292,141
Cash flows from capital and related financing activities:			
Purchases of capital assets		(794,890)	(6,159,839)
Proceeds from sale of capital assets		147,256,675	197,417
Proceeds from insurance recoveries		1,810,244	116,397
Deferral of payment to Virginia Beach		(11,639,523)	—
Proceeds from issuance of bonds payable		—	84,085,000
Principal payments on bonds payable		(129,060,000)	(106,805,000)
Payment of debt issue costs		(88,884)	(2,192,979)
Interest paid		(20,413,665)	(12,127,071)
Payment to escrow agent for refunding		—	(5,068,456)
Other income		812,849	28,399
Net cash used in capital and related financing activities		(12,117,194)	(47,926,132)
Cash flows from noncapital financing activity – (payments on) proceeds from line of credit		(9,195,835)	9,195,835
Cash flows from investing activities:			
Proceeds from maturity and sale of investments		66,767,214	92,235,366
Payments for investments purchased		(56,243,154)	(77,864,787)
Interest and dividends received from investments		158,465	1,763,274
Net cash provided by investing activities		10,682,525	16,133,853
Increase in cash and cash equivalents		21,520,988	12,695,696
Cash and cash equivalents at beginning of year		12,715,128	19,432
Cash and cash equivalents at end of year	$	34,236,116	12,715,128
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	$	14,810,263	9,608,655
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation, depletion and amortization of intangibles		12,874,578	17,005,555
Postretirement medical benefit plan expense		263,155	662,904
Provision for bad debts		102,613	15,669
Landfill closure and postclosure care cost accrual		884,663	773,930
Virginia Beach deferral		—	11,639,523
Changes in operating assets and liabilities:			
Accounts receivable		2,434,606	(2,904,023)
Maintenance parts		2,859,969	81,641
Prepaid expenses		401,711	(134,664)
Accounts payable – operations		1,513,767	1,706,402
Accrued expenses		(877,175)	(34,489)
Accounts payable – restricted		(3,003,635)	1,198,344
Landfill closure and postclosure care liability settlement		(113,023)	(4,327,306)
Net cash provided by operating activities	$	32,151,492	35,292,141

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).

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

For seven of the Members, the Solid Waste Disposal Agreements became effective on January 22, 1985, the date on which the Authority's landfill (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. 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 RDF and Power Plants are collectively referred to as the waste to energy (WTE) facilities. The Solid Waste Disposal Agreements remain in effect until January 24, 2018.

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

In 2009, legislation was enacted, commonly referred to as House Bill 1872, which established a new board of directors and imposed a series of actions required by the Authority. Effective January 1, 2010 the governing board of directors consists of sixteen members of which eight (one representative of each member community) are appointed by the Governor and eight members are employed and appointed by the respective member community. Elected officials are no longer eligible to serve on the board of directors. Alternate board members may be selected in the same manner as board members. As of June 30, 2010, the Governor had not appointed any such alternates and only five of the member communities had appointed alternate board members. The Authority's core purpose is the management of the safe and environmentally sound disposal of regional waste. Other requirements of the new legislation include developing and maintaining a strategic plan, a financial plan and the consideration of outsourcing any and all functions that may result in reduced costs.

On April 29, 2010, the Authority sold its WTE facilities and related equipment to Wheelabrator Technologies, Inc. (Wheelabrator), an affiliate of Waste Management Inc. The Authority's recycling services were terminated in May 2010. The Authority continues to operate nine transfer stations, the Regional Landfill located in Suffolk, a fleet maintenance facility, a household hazardous waste program, a tire shredder processing facility and a white goods program.

(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 Assets (Deficit)

Net assets represent 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 may be designated for specific purposes by action of management or the board of directors. A net deficit is shown when the liabilities of the Authority exceed its assets.

(d) Cash and Cash Equivalents

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

(e) Investments

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, the Authority reports its investment securities at fair value. Fair value is determined as of the statement of net assets 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 2010 and 2009. Assets are depreciated by using the straight-line method over the estimated useful lives of the various classes as follows:

Buildings	30 years
Equipment and motor vehicles	3 – 30 years

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

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

(i) Intangible Assets

Intangible assets consist of various payments made to or on the behalf of the city of Virginia Beach under the Ash and Residue 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 and sick leave on a bi-weekly basis in amounts which vary depending on years of service. A liability for unused annual leave and sick leave is recorded as accrued by each employee.

(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.

(Continued)

(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) Intercompany Transactions

All significant intercompany balances and transactions have been eliminated in consolidation.

(2) Cash and Cash Equivalents

At June 30, 2010 and 2009, the Authority's cash and cash equivalents balance totaled $34,236,116 and $12,715,128, respectively. The deposits are covered by federal depository insurance or collateralized in accordance with the Virginia Security for Public Deposits Act (the Act). In 2009, the Authority's depository institution participated in the state's collateral pool whereby banks holding public deposits in excess of the amounts insured by the Federal Deposit Insurance Corporation (FDIC) 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, failed, the entire market value of the collateral pool would become 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. In 2010, the Authority's depository institution withdrew from the state's collateral pool. In accordance with the Act, the depository institution pledged collateral in the form of federal agency obligations with a market value equal to 110% of the Authority's deposits with a third party trustee in the name of the Treasurer of the Commonwealth of Virginia. In the event that the banking institution fails, the Treasurer will take possession of the collateral, liquidate it and reimburse the Authority up to the value of its deposits. The State Treasury Board is responsible for monitoring compliance with the collateralization and reporting requirements of the Act and for notifying local governments of compliance by banks.

(3) Restricted Assets

Total restricted and designated assets amounted to $21,887,931 and $32,436,625 as of June 30, 2010 and 2009, respectively, and are held for the purposes and in the respective accounts described below:

		2010		
		Investments	**Accrued interest receivable**	**Total**
Revenue bond construction accounts	$	6,445,289	—	6,445,289
Debt service reserve account		3,356,361	—	3,356,361
Bond accounts		6,590,865	1,033	6,591,898
Landfill closure fund		2,882,993	8,518	2,891,511
Environmental trust fund accounts		777,694	2,300	779,994
Escrow from sale proceeds		1,822,878	—	1,822,878
	$	21,876,080	11,851	21,887,931

		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
	$	32,400,140	36,485	32,436,625

(a) Revenue Bond Construction Accounts

The Authority holds bond proceeds for the improvement of the Disposal System 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.

(Continued)

(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 Regional 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 Member cities of Suffolk and Virginia Beach. The Environmental Trust Fund Accounts include the Suffolk Environmental Trust Fund and the Virginia Beach Environmental Trust Fund. The purpose of these accounts is to provide for all costs relating to legal suits and other similar claims activity relating to environmental pollution that are made against the Regional Landfill and the Virginia Beach Landfill during a 30-year period after cessation of each landfill's operations. The Authority must contribute a minimum of $5,000 and $10,000 annually to the Suffolk and Virginia Beach Environmental Trust Funds, respectively. Upon expiration of the 30-year period, all remaining amounts will be proportionately distributed to each of the Members using the Disposal System during the terms of the Environmental Trust Funds, based upon the tipping fees generated by such Members. The Members' proportionate shares of the Environmental Trust Funds at June 30, 2010 and 2009 are as follows:

	2010		2009	
	Suffolk Environmental Trust Fund	**Virginia Beach Environmental Trust Fund**	**Suffolk Environmental Trust Fund**	**Virginia Beach Environmental Trust Fund**
Cities:				
Norfolk	$ 98,701	101,657	95,440	98,049
Chesapeake	93,455	97,218	88,258	91,665
Virginia Beach	112,814	118,863	115,170	121,393
Portsmouth	40,794	42,164	38,654	39,851
Franklin	6,392	6,557	6,232	6,375
Suffolk	1,518	1,600	1,397	1,347
Counties:				
Southampton	11,017	11,489	10,764	11,217
Isle of Wight	16,316	17,139	15,171	15,933
	$ 381,007	396,687	371,086	385,830

(f) Escrow from Sale Proceeds

Upon closing on the sale of the WTE facilities, Wheelabrator disputed the pre-closing assessment of the facilities in the amount of $2,500,000. In accordance with Section 2.06 of the Purchase and Sale

Agreement, the disputed amount was deposited to a joint escrow account pending the determination, by a resolving engineer, as to whether the condition of the facilities deteriorated in value, in excess of normal wear and tear, from the pre-sale assessment. In September 2010, the resolving engineer determined the amount owed Wheelabrator was $677,122. Accordingly, $1,822,878 remains in escrow, as reflected in the table above.

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

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

Credit Risk

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

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

As of June 30, 2010, the credit risk of the restricted assets portfolio holdings were:

	Rating	Percentage
Government sponsored enterprise obligations	AAA	13.1%
PFM Funds – Prime Series Money Market Fund includes Institutional Class and SNAP Fund Class Shares	AAAm	24.3
Ridgeworth – U.S. Treasury Money Market Fund	AAAm	0.4
Suntrust Bank Money Market	No rating	8.3
U.S. Bank Money Market Deposit Account	No rating	30.1
Wachovia Government Advantage Interest Checking	No rating	23.0
Certificate of deposit	No rating	0.8

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 – U.S. Treasury Money Market Fund	AAAm	4.5
Certificate of deposit	No rating	0.5

Concentration of Credit Risk

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

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

As of June 30, 2010, approximately 13% of SPSA's restricted asset portfolio was invested in Federal Home Loan Bank (FHLB) notes.

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

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.

As of June 30, 2010, 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 – PFM Funds – Prime Series – Institutional and SNAP Classes	$ 5,325,226	5,325,226	—	—
Registered money market mutual fund – Ridgeworth – U.S. Treasury Money Market Fund	92,965	92,965	—	—
Suntrust Money Market	1,822,878	1,822,878	—	—
U.S. Bank Money Market Deposit Account	6,590,865	6,590,865	—	—
Wachovia Government Advantage Interest Checking	5,009,636	5,009,636	—	—
Government sponsored enterprise obligations	2,855,000	—	2,855,000	—
Certificate of deposit	179,510	179,510	—	—
Total investments	$ 21,876,080	19,021,080	2,855,000	—

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	$ 14,785,296	14,785,296	—	—
Registered money market mutual fund – PFM Funds – Prime Series – Institutional and SNAP Classes	13,614,032	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	2,368,359	—	—	2,368,359
Certificate of deposit	175,067	175,067	—	—
Total investments	$ 32,400,140	30,031,781	—	2,368,359

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, 2010 and 2009, 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, 2010 and 2009 consist of the following:

	Ending balance June 30, 2009	Additions	Deletions	Ending balance June 30, 2010
Capital assets not being depreciated or depleted:				
Land	$ 4,544,605	—	(1,392,737)	3,151,868
Construction in process	654,023	71,789	(654,023)	71,789
Total capital assets not being depreciated or depleted	5,198,628	71,789	(2,046,760)	3,223,657
Other capital assets:				
Improvements (regional landfill)	64,105,130	56,890	—	64,162,020
Buildings	87,542,540	116,202	(44,508,793)	43,149,949
Equipment	186,249,621	—	(162,302,454)	23,947,167
Motor vehicles	17,900,408	550,009	(2,917,901)	15,532,516
Total other capital assets	355,797,699	723,101	(209,729,148)	146,791,652
Less accumulated depreciation and depletion:				
Improvements (regional landfill)	47,720,455	344,311	—	48,064,766
Buildings	50,592,502	2,761,499	(25,333,781)	28,020,220
Equipment	94,103,336	7,882,151	(85,573,304)	16,412,183
Motor vehicles	9,464,415	1,399,256	(1,763,589)	9,100,082
Total accumulated depreciation and depletion	201,880,708	12,387,217	(112,670,674)	101,597,251
Other capital assets, net	153,916,991	(11,664,116)	(97,058,474)	45,194,401
Total	$ 159,115,619	(11,592,327)	(99,105,234)	48,418,058

	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:				
Improvements (regional landfill)	63,743,219	361,911	—	64,105,130
Buildings	87,208,240	334,300	—	87,542,540
Equipment	184,685,594	5,116,964	(3,552,937)	186,249,621
Motor vehicles	17,879,984	537,675	(517,251)	17,900,408
Total other capital assets	353,517,037	6,350,850	(4,070,188)	355,797,699
Less accumulated depreciation and depletion:				
Improvements (regional landfill)	45,828,439	1,892,016	—	47,720,455
Buildings	47,439,717	3,152,785	—	50,592,502
Equipment	86,906,800	9,956,149	(2,759,613)	94,103,336
Motor vehicles	8,464,423	1,517,243	(517,251)	9,464,415
Total accumulated depreciation and depletion	188,639,379	16,518,193	(3,276,864)	201,880,708
Other capital assets, net	164,877,658	(10,167,343)	(793,324)	153,916,991
Total	$ 170,267,297	(4,007,504)	(7,144,174)	159,115,619

(Continued)

(5) Long-Term Debt

(a) Bonds Payable

Bonds payable at June 30, 2010 and 2009 consist of the following:

		2010	2009
Senior Revenue Refunding Bonds, Tax-Exempt dated April 1, 1998, and issued in the original amount of $33,535,000, due July 2015	$	11,920,000	33,535,000
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
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
Senior Subordinated Tax-Exempt Bonds, Series 9, dated December 1, 2002, and issued in the original amount of $16,005,000, due April 2014 (held by VRA)		2,005,000	6,445,000
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
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)		7,590,000	28,445,000
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)		2,050,000	2,425,000
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)		325,000	465,000
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)		2,285,000	5,950,000
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
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)		2,250,000	14,245,000
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)		345,000	3,495,000

		2010	2009
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	$	22,015,000	23,685,000
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)		30,185,000	71,985,000
Total bonds payable	$	80,970,000	210,030,000
Debt outstanding by lender:			
Virginia Resources Authority	$	47,035,000	140,710,000
Wachovia Bank		22,015,000	35,785,000
SPSA Bonds insured by AMBAC		11,920,000	33,535,000
	$	80,970,000	210,030,000

		2010	2009
Total bonds payable	$	80,970,000	210,030,000
Plus:			
Unamortized bond premiums		381,278	2,796,716
Less:			
Unamortized bond discounts		(776,740)	(1,769,280)
Deferred loss on defeasance		(1,830,857)	(8,643,133)
Current maturities of bonds payable		(6,650,000)	(9,960,000)
Noncurrent portion of bonds payable	$	72,093,681	192,454,303

Rates of interest on the bonds outstanding and payable range from 3.125% to 5.59% for the year ended June 30, 2010 and 2.9% to 5.8% for the year ended June 30, 2009.

The Authority used the proceeds from the sale of the WTE facilities to retire approximately $122,100,000 of its long term debt as follows: redeemed in whole its $12,100,000 Senior Parity Revenue Bonds, Series 2008A; called for redemption on June 1, 2010 $1,670,000 of its Senior Revenue Bonds, Series 2007A; and defeased to their respective maturity or earlier sinking fund redemption dates $21,615,000 of its Senior Revenue Refunding Bonds, Series 1998. In addition, in cooperation with the Virginia Resources Authority (VRA), the Authority arranged for VRA to call for redemption (i) on June 1, 2010 $41,800,000 of its Infrastructure Revenue Bonds (Virginia Pooled Financing Program) Series 2009A Bonds and $3,150,000 of its Infrastructure Revenue Bonds (Virginia Pooled Financing Program) Series 2006A (Taxable) and (ii) on May 1, 2012 $17,365,000 its Infrastructure Revenue Bonds (Pooled Loan Bond Program) Series 2003B (AMT); and provide for the defeasance an additional $24,400,000 of VRA Infrastructure Revenue Bonds (Virginia Pooled Financing Program) and (Pooled Loan Bond Program) of various series. In each case, the Authority defeased all or a portion of its corresponding principal of its outstanding debt to VRA.

Due to various restrictions in the Authority's bond resolutions, the Authority obtained the consents of its three lenders; the VRA, Wachovia Bank and the bond insurance company (AMBAC) prior to executing the debt retirement plan. As part of the VRA's consent, the proceeds from the sale were to be applied proportionately amongst the lenders resulting in a residual level debt service. Additionally, the VRA required the eight member communities' guarantee, by general obligation, repayment of the remaining VRA bonds outstanding. Previous guarantee agreements with the communities were rescinded. The member community guarantees percentages were calculated based on a three year average of proportional municipal tonnages. Accordingly, the member jurisdictions guarantees as of June 30, 2010 were as follows:

Member community	Guarantee percentage		Principal guarantee
City of Chesapeake	22.49%	$	10,578,172
City of Franklin	0.97		456,240
Isle of Wight County	3.98		1,871,993
City of Norfolk	16.98		7,986,543
City of Portsmouth	10.27		4,830,495
Southampton County	2.10		987,735
City of Suffolk	12.87		6,053,405
City of Virginia Beach	30.34		14,270,417
	100.00%	$	47,035,000

The Authority and VRA also entered into a closing agreement with the Internal Revenue Service the terms of which generally provide that the IRS will not challenge the tax-exempt status of such bonds on account of the sale of the waste to energy facilities provided (i) the facilities continue to be operated as "qualifying solid waste disposal facilities" within the meaning of Section 141 of the Internal Revenue Code of 1986. Wheelabrator has covenanted to cause the WTE Facilities to be operated as "qualifying solid waste disposal facilities" so long as any of SPSA's or VRA's tax-exempt bonds remains outstanding, and (ii) the Authority obtained an allocation from the Governor of the Commonwealth of volume cap equal to the principal amount of certain SPSA and VRA tax-exempt bonds portions of the proceeds of which SPSA determined were spent on the waste to energy facilities.

On April 29, 2010, Moody's Investor Service affirmed its A3 rating on SPSA's Senior Revenue Refunding Bonds, Series 1998.

A portion of the investment income on certain of the Authority's bonds may be subject to Internal Revenue Service arbitrage rebate requirements, but based on its current calculations, management believes that the effect on the Authority is insignificant.

(Continued)

The following presents the changes in bonds payable for the Authority as a whole for the years ended June 30, 2010 and 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
Principal paid and defeased	(129,060,000)
Balances as of June 30, 2010	$ 80,970,000

Aggregate maturities of bonds payable (principal and interest) at June 30, 2010, are as follows:

	Principal	Interest	Total
Year ending June 30:			
2011	$ 6,650,000	3,156,061	9,806,061
2012	7,505,000	3,213,770	10,718,770
2013	8,260,000	2,792,617	11,052,617
2014	9,630,000	2,352,856	11,982,856
2015	13,100,000	2,047,052	15,147,052
2016 – 2017	35,825,000	2,673,600	38,498,600
	$ 80,970,000	16,235,956	97,205,956

(b) Line of Credit

In May 2009, the Authority consolidated its 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. At June 30, 2009, there was $9,195,835 outstanding. The consolidated line bore interest at LIBOR plus 2.0%. Outstanding amounts were paid in full in September 2009 and the line was subsequently closed effective March 30, 2010.

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

(a) Ash and Residue Disposal Agreement

The authority entered into an agreement with Virginia Beach for disposal of ash generated from the Power Plant and the residue generated in the production of RDF. The Authority has acquired the right to use land located in Virginia Beach for disposal of the materials. Virginia Beach incurred costs in developing the land for use as a landfill and the Authority reimbursed Virginia Beach for its share of these costs. Such costs are included in intangible assets in the accompanying statements of net assets. The Authority also must reimburse Virginia Beach for operating and maintenance costs incurred by Virginia Beach in the operation of the Virginia Beach Landfill, and for its share of the closure and postclosure care (see note 7). These costs are reduced by income received by Virginia Beach from private haulers for use of the Virginia Beach Landfill and by Virginia Beach's own use of the landfill for municipal waste. Additionally, the rate at which Virginia Beach pays for municipal tipping fees is capped per the agreement. During fiscal years 2010 and 2009, the Authority recorded $22,276,504 and $13,943,759, respectively, for expenses related to reimbursements to Virginia Beach in accordance with the ash disposal agreement.

The per ton capped rate for fiscal years 2010 and 2009 was $56.01 and $53.88, respectively, compared to the per ton municipal tipping fee of $170 in 2010 and a blended rate of $115 in 2009. Pursuant to the underlying agreement, excess tipping fees paid by Virginia Beach convert to an expense of the Authority and are reimbursed to Virginia Beach on a monthly basis.

(b) Forbearance Agreement

In the interest of providing needed financial assistance to the Authority, Virginia Beach agreed to defer payment, in an amount not to exceed $26,600,000, of operating and maintenance costs incurred by Virginia Beach 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 discussed above. The total amount deferred was $18,081,187 at the time it was paid in full on April 29, 2010 from the proceeds from the sale of the WTE facilities. The amount deferred as of June 30, 2009 was $11,639,523.

(7) Landfill Closure and Postclosure Care Costs

State and federal laws and regulations require a final cover to be placed on a landfill when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for 30 years after closure. Although closure and postclosure care costs are paid only near or after the date that each discrete Section of the landfill stops accepting waste and closure activities commence, the Authority reports a portion of these closure and postclosure care costs as an operating expense in each period based on landfill capacity used as of each balance sheet date, in accordance with GASB Statement No. 18. The total landfill closure and postclosure care liabilities at June 30, 2010 and 2009 are $19,718,263 and $18,946,623, respectively. The four components are described as follows:

The first component of the liability relates to Cells I-IV, which totaled $3,277,677 and $3,390,700 as of June 30, 2010 and 2009, 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, 2010 and 2009, 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 40% of Cell VI of the Regional Landfill is $11,268,678 and $10,644,621 as of June 30, 2010 and 2009, respectively. Cell V of the Regional Landfill stopped accepting waste in 2007. The amounts for Cell V and Cell VI are based on what it would cost to perform all closure and postclosure care as of June 30, 2010 and 2009, respectively.

The final component relates to the Virginia Beach Landfill. The Authority has recorded $5,171,908 and $4,911,302 for its share of the landfill closure and postclosure care liabilities for the Virginia Beach Landfill Phase I cell as of June 30, 2010 and 2009, 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, 2010 and 2009, 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 with operating revenues. The Authority meets its closure and postclosure care financial assurance requirements through bank issued letters of credit ($22,164,025 at June 30, 2010), 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, 2010 and 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
Revision of estimate		884,663
Payments made		(113,023)
Balance as of June 30, 2010	$	19,718,263

(8) Commitments

In the normal course of operations, the Authority enters into various construction contracts. As of June 30, 2010 and 2009, total commitments under these contracts amounted to approximately $973,607 and $2,672,711, respectively.

(9) Service Fee Paid to Wheelabrator

During 2010, the Authority entered into an agreement engaging Wheelabrator to process solid waste of the Authority's Member communities at the WTE facilities. The Authority is obligated under this agreement through 2018 for an initial annual cost of $18,000,000, net of certain credits, as defined. The annual cost escalates by $1,000,000 increments each year. The net service fee paid to Wheelabrator for the period April 29, 2010 through June 30, 2010 was comprised of the following:

Service fee	$	3,049,316
Less:		
10% of steam revenues		(121,596)
SPSA hauling fee		(234,772)
Loading fee		(107,744)
10% of proprietary waste revenues		(19,517)
Liquidated damages for failure to remove trailer		(665,000)
Net service fee paid	$	1,900,687

The service agreement requires Wheelabrator to remove all fully loaded waste trailers from SPSA's transfer stations by no later than one hour after the close of business each day and imposes "liquidated damages" payable by Wheelabrator if it fails to do so. Under the terms of the agreement, SPSA withheld these liquidated damages from its monthly payments to Wheelabrator in May and June 2010. On July 16, 2010, SPSA received a letter from Wheelabrator contesting SPSA's documentary basis for these liquidated damages and the amounts withheld by SPSA. The matter remains under consideration between the parties.

(10) 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/2009Annual-Report.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 2010 was 5.81% of annual covered payroll.

Annual Pension Cost

For fiscal year 2010, the Authority's annual pension cost of $1,507,630 was equal to the Authority's required and actual contributions.

Three-Year Trend Information for Southeastern Public Service Authority:

Fiscal year ending	Annual Pension Cost (APC)
June 30, 2008	$ 2,030,148
June 30, 2009	1,868,430
June 30, 2010	1,507,630

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, 2009 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, 2009, the most recent actuarial valuation date, the plan was funded by 97.81%. The actuarial accrued liability for benefits was $40,738,876, and the actuarial value of assets was $39,848,081 resulting in an unfunded actuarial accrued liability (UAAL) of $890,795. The covered payroll (annual payroll of active employees covered by the plan) was $15,857,736, and ratio of the UAAL to the covered payroll was 5.62%.

The June 30, 2009 actuarial valuation reflects a change to the asset valuation method. The method used for the prior valuation was a five-year smoothed market value of assets, but not less than 80% or more than 120% of the actual market value of the assets as of the date of the valuation. VRS elected to suspend the corridor provision for the June 30, 2009 valuation. Had VRS not suspended

(Continued)

the corridor provision, the Authority's UAAL would have been $4,660,028 and the funded ratio would have been 88.56%.

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.

(11) 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.

(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:

Net OPEB obligation as of June 30, 2008	$	—
ARC for 2009		710,741
Adjustment to ARC		—
Annual OPEB cost		710,741
Less contributions made		47,837
Net OPEB obligation as of June 30, 2009		662,904
ARC for 2010:		
Normal cost		214,000
Unamortized actuarial accrued liability (UAAL)		191,000
Interest		—
Total ARC for 2010		405,000
Interest on net OPEB obligation		26,516
Adjustment to ARC		(36,861)
Annual OPEB cost		394,655
Less contributions made		131,500
Increase in net OPEB obligation		263,155
Net OPEB obligation as of June 30, 2010	$	926,059

The Authority's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2010 and 2009 were as follows:

Year ended June 30		Annual OPEB cost	Percentage of annual OPEB cost contributed		Net OPEB obligation
2010	$	394,655	33.3%	$	926,059
2009		710,741	6.7		662,904

(d) Funded Status and Funding Progress

As of June 30, 2010, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits and the UAAL was $3,434,100. The covered payroll (annual payroll of active employees covered by the plan) was $6,395,300, and the ratio of the UAAL to the covered payroll was 53.7%. 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.

(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 June 30, 2010 included a 4.0% investment rate of return and an annual healthcare cost trend rate increase of 8.2% grading down to 4.7% over 80 years. The Authority's unfunded actuarial accrued liability is being amortized on a level dollar amount basis over a period of 30 years.

(13) Contingencies

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

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

(14) Subsequent Events

The Authority has evaluated subsequent events from the statements of net assets date through October 22, 2010, the date at which the statements were issued and determined there are no other items to disclose.

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

SOUTHEASTERN PUBLIC SERVICE AUTHORITY OF VIRGINIA

Required Supplementary Information

Schedule of Pension Funding Progress (Unaudited)

June 30, 2010

Valuation date		June 30, 2009	June 30, 2008	June 30, 2007
Actuarial value of assets (AVA)	(1)	$ 39,848,081	38,542,721	34,106,134
Actuarial accrued liability (AAL)	(2)	40,738,876	38,465,440	35,949,424
Unfunded (overfunded) actuarial accrued liability (UAAL) (2) – (1)	(3)	890,795	(77,281)	1,843,290
Fund ratio (1)/(2)	(4)	97.81%	100.20%	94.87%
Annual covered payroll	(5)	$ 15,857,736	17,001,029	17,050,715
UAAL as a % of payroll (3)/(5)	(6)	5.62%	(0.45)%	10.81%

Schedule of Postretirement Medical Benefit Plan Funding Progress (Unaudited)

June 30, 2010

Valuation date		June 30, 2010	July 1, 2008
Actuarial value of assets (AVA)	(1)	$ —	—
Actuarial accrued liability (AAL)	(2)	3,434,100	4,967,164
Unfunded actuarial accrued liability (UAAL) (2) – (1)	(3)	3,434,100	4,967,164
Fund ratio (1)/(2)	(4)	0%	0%
Annual covered payroll	(5)	$ 6,395,300	17,001,029
UAAL as a % of payroll (3)/(5)	(6)	53.7%	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, 2010, and have issued our report thereon dated October 22, 2010. 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 deficiency, or combination of 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

October 22, 2010