SOUTHEASTERN PUBLIC SERVICE AUTHORITY OF VIRGINIA

Basic Financial Statements and
Supplemental Information

June 30, 2012 and 2011

(With Independent Auditors' Reports Thereon)

DIXON HUGHES GOODMAN LLP
Certified Public Accountants and Advisors

SOUTHEASTERN PUBLIC SERVICE AUTHORITY OF VIRGINIA

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DIXON HUGHES GOODMAN LLP
Certified Public Accountants and Advisors

Independent Auditors' Report

The Board of Directors
Southeastern Public Service Authority of Virginia

We have audited the accompanying basic financial statements of the ***Southeastern Public Service Authority of Virginia*** as of and for the years ended June 30, 2012 and 2011, as listed in the accompanying table of contents. These financial statements are the responsibility of the ***Southeastern Public Service Authority of Virginia'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 ***Southeastern Public Service Authority of Virginia'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 ***Southeastern Public Service Authority of Virginia*** as of June 30, 2012 and 2011, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 9, 2012, on our consideration of the ***Southeastern Public Service Authority of Virginia's*** internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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.

Accounting princples generally accepted in the United States of America require that the Management's Discussion and Analysis information on pages 3 through 10 and the Schedules of Pension Funding Progress and Postretirement Medical Benefit Plan Funding Progress on page 36 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Dixon Hughes Goodman LLP

Newport News, Virginia
November 9, 2012

This discussion and analysis of ***Southeastern Public Service Authority of Virginia*** (Authority or SPSA) provides an overview and analysis of the financial activities for the fiscal year ending June 30, 2012. 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 2012 were $16,653,518 representing an increase of $7,446,615 from fiscal year 2011.
- Effective June 1, 2012, the Authority reduced the municipal tipping fee to $125 per ton from $145 per ton.
- The Authority experienced an increase in municipal waste tonnages of less than 1%.
- The Authority used excess cash on hand to provide for the early retirement of debt in the principal amount of $16.3 million.
- As of June 30, 2012, the principal debt outstanding was approximately $32.7 million compared to the $58.74 million outstanding at the end of the previous fiscal year.

Sale of the Waste to Energy Facilities

On April 29, 2010, the Authority completed the sale of its waste to energy facilities to Wheelabrator Portsmouth, Inc., an affiliate of Waste Management, Inc. The details of the sale and service agreement are available on the Authority's website at www.spsa.com. In summary, Wheelabrator agreed 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 less a series of credits that are applied against the monthly fee. Please see Note 9 to the basic financial statements for more details on the service fee paid to Wheelabrator Portsmouth, Inc.

SPSA delivers to Wheelabrator all processible waste of the Authority's member communities and commercial haulers. Wheelabrator hauls away 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 has undergone major changes. The core business is the disposal of municipal waste collected at nine transfer stations. Additionally, SPSA continues 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 148 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, solid 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. SPSA is paid a hauling fee from Wheelabrator to transport the commercial waste to its Portsmouth, Virginia facility in the form of a credit against its monthly invoice from Wheelabrator.

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 $16,653,518 as compared to the previous year's net assets of $9,206,903. Capital assets shown below represent the acquisition cost less accumulated depreciation, not fair market value.

The Authority's cash and investments decreased to $18.7 million at the end of fiscal year 2012 from $30 million at the end of fiscal year 2011. This decline is a direct result of paying off long term debt prior to its maturity. The $18.7 million includes a $10 million operating reserve.

The following table presents a condensed summary of net assets as of June 30, 2012, 2011 and 2010.

		2012	2011	2010
Assets:				
Current and other assets	$	37,323,054	52,091,648	70,162,069
Capital assets - net		40,468,065	43,746,827	47,912,441
Total assets		77,791,119	95,838,475	118,074,510
Liabilities:				
Current liabilities		8,558,373	10,587,397	14,749,441
Long-term liabilities		52,579,228	76,044,175	92,623,003
Total liabilities		61,137,601	86,631,572	107,372,444
Net assets (deficit):				
Invested in capital assets - net of related debt		12,758,805	(8,227,177)	(24,385,951)
Restricted		9,849,632	7,928,497	12,769,258
Unrestricted		(5,954,919)	9,505,583	22,318,759
Total net assets (deficit)		16,653,518	9,206,903	10,702,066
Total liabilities and net assets	$	77,791,119	95,838,475	118,074,510

Net assets invested in capital assets, such as land, buildings and equipment, net of related debt is approximately $12.8 million as compared to the deficit of ($8.2) million in the prior fiscal year. This positive change is a result of the early retirement of debt.

The deficit of ($5.9) million in unrestricted net assets demonstrates that as of June 30, 2012, the Authority did not have sufficient unrestricted assets to meet its stated liabilities as of the statement date. The Authority intends to fund its liabilities each year as they come due versus as the expense is incurred.

Summary of Revenues, Expenses and Changes in Net Assets

The Authority's net assets increased in fiscal year 2012 by $7.4 million primarily due to a reduction in expenses resulting in operating income of nearly $10 million as compared to $2.1 million in the previous fiscal year. 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:

	2012	2011	2010
Operating revenue:			
Municipal tipping fees	$ 52,839,473	54,045,775	74,132,528
Other tipping fees	2,289,717	2,618,621	15,961,205
Sale of steam and electricity	-	-	10,671,895
Recycling revenue	-	-	3,309,847
Other operating revenue	1,187,068	1,321,973	2,303,837
Total operating revenue	56,316,258	57,986,369	106,379,312
Operating expenses:			
Personnel	9,712,283	9,781,555	22,825,872
Depreciation and amortization	4,666,412	5,392,885	12,874,578
Routine maintenance operations	2,564,372	2,482,920	14,183,523
Ash and residue agreement	13,541,206	15,338,526	22,276,504
Wheelabrator service contract	12,550,758	15,141,186	1,900,687
Other operating expenses	3,160,515	7,711,735	17,507,885
Total operating expenses	46,195,546	55,848,807	91,569,049
Operating income	10,120,712	2,137,562	14,810,263
Nonoperating revenue (expense):			
Gain (loss) on the sale of assets	5,071	(773,331)	48,151,441
Investment income	62,061	110,360	140,619
Interest expense	(3,105,451)	(3,835,617)	(26,185,802)
Other income (expense) - net	364,222	865,863	2,623,093
Total nonoperating revenue (expense)	(2,674,097)	(3,632,725)	24,729,351
Net change in assets (deficit)	7,446,615	(1,495,163)	39,539,614
Total net assets (deficit):			
Beginning of year	9,206,903	10,702,066	(28,837,548)
End of year	$ 16,653,518	9,206,903	10,702,066

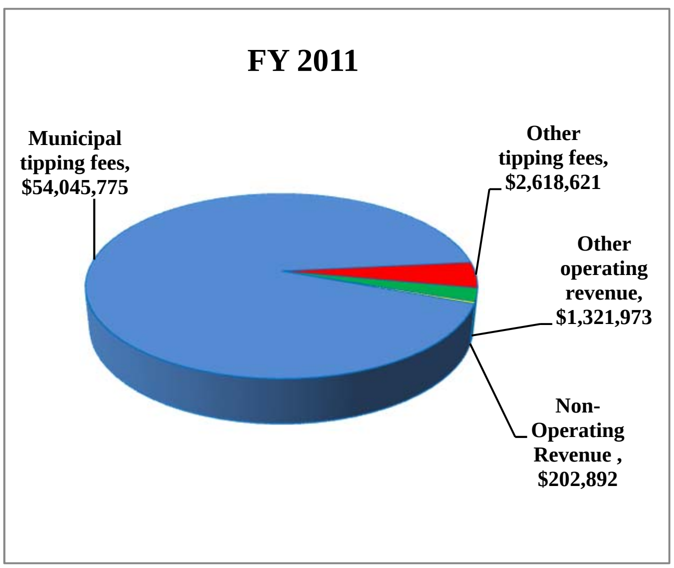
The municipal tipping fee was a blended rate of $143.33 per ton in fiscal year 2012 as compared to $147.50 per ton in fiscal year 2011 and $170 per ton in fiscal year 2010. Municipal tonnages increased less than 1% as compared to 2011. The slight increase in tonnages is due partly to the City of Virginia Beach delivering more tons directly to the Authority instead of disposing the waste in its landfill.

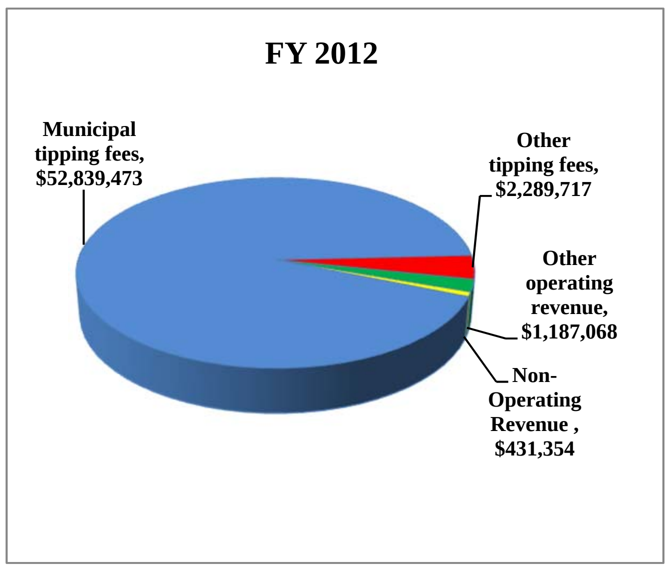
The decline in municipal tipping fees, as compared to 2011, is a reflection of the reduction in the per ton municipal tipping fee. It is important to note that the $52.8 million in municipal tipping fees excludes the rebate that is paid to the City of Virginia Beach for tipping fees paid in excess of a capped rate, as established in the ash and residue agreement. The City of Virginia Beach is the largest of the Authority's eight member communities, providing approximately 33% 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 2012, the City of Virginia Beach's tipping fee was capped at $65.35 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 a blended rate of $143.33 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 $13.5 million expense for the "ash and residue agreement", approximately $2.8 million is for operating and maintaining the Virginia Beach landfill and $10.7 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 consist of construction, demolition and debris, solid waste received from the Navy, sludge, soils, fines etc. In previous fiscal years, other tipping fees also included commercial and proprietary waste which is now the property of Wheelabrator Portsmouth, Inc.

Other operating revenue represents approximately 2% of total revenues and includes charges for services to properly dispose of household hazardous waste, tires, white goods, sale of methane gas generated at the regional landfill, and other miscellaneous fees.

The following graph illustrates the major revenues by source for the fiscal year ending June 30, 2012 and 2011:





The Authority's operating expenses decreased approximately 17% in comparison to the prior fiscal year primarily in other operating expenses, the Wheelabrator Service Contract, and the Ash & Residue Agreement. Other operating expenses are representative of legal and professional services, rent, utilities, insurance and other miscellaneous expenses; however, the largest component is the estimated cost associated with closure and post closure of the regional landfill and the City of Virginia Beach landfill of which reflected a significant one time adjustment in the prior fiscal year.

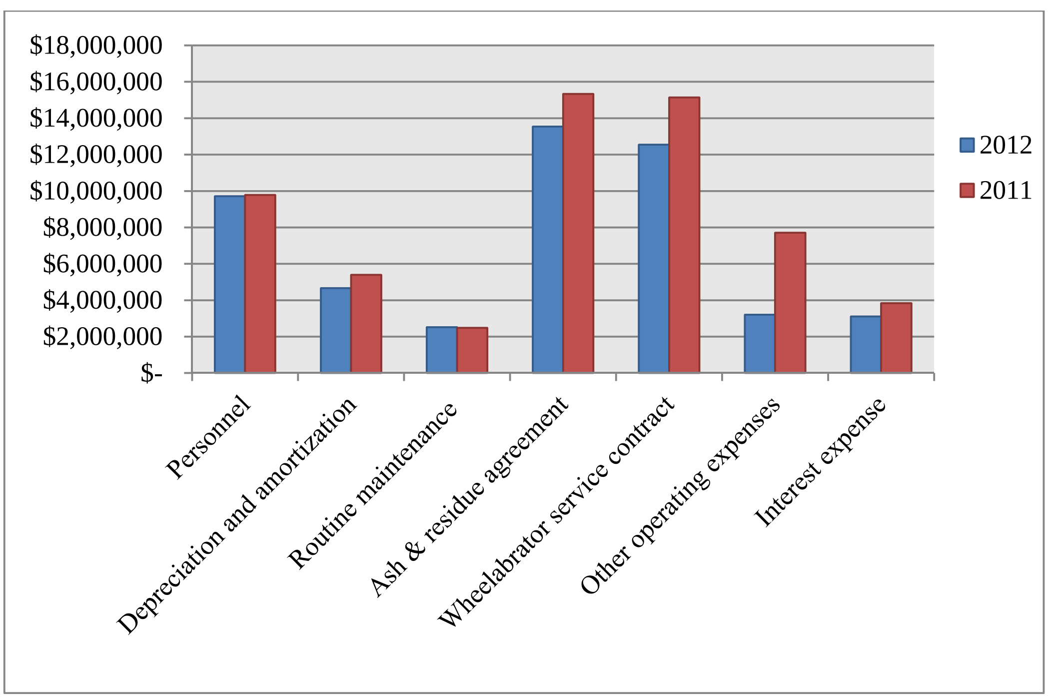
The decrease in the Wheelabrator Service Contract includes a credit of approximately $1.6 million for diverted waste disposed in the regional landfill and a $696,725 credit as a result of annual real estate taxes paid by Wheelabrator to the City of Portsmouth being lower than the stipulated threshold. Please see Note 6 to the basic financial statements for more information.

The reduction in the expense for the Ash & Residue Agreement is two-fold: (1) the cost to operate and maintain the Virginia Beach landfill was reduced, and (2) the capped rate at which the City of Virginia Beach pays for disposal of municipal waste increased in fiscal year 2012 to $65.35 per ton whereby reducing the excess tip fee returned to the City and classified as an expense to the Authority. A contract provision in the service agreement with Wheelabrator requires the Authority to provide landfill space for the disposal of the ash and residue generated from the Wheelabrator power plant. Since the Virginia Beach landfill is reaching capacity in its phase 1 cell, the Authority elected to redirect the ash and residue generated from the power plant to the regional landfill. In doing so, the City of Virginia Beach was able to reduce its personnel expense and the Authority will avoid additional development costs associated with expanding the Virginia Beach landfill.

The cost for personnel decreased slightly due to a reduction in administrative staff. The Authority's workforce has been reduced from approximately 411 positions in fiscal year 2010 to 148 positions effective June 30, 2012. Management continues to review the staffing necessary to effectively manage the waste disposal of its member communities.

Routine maintenance increased approximately 2% primarily due to the increased cost of diesel fuel. The Authority's average per gallon cost for diesel fuel in fiscal year 2012 and 2011 was $3.17 and $2.30 respectively. Interest on long term debt decreased 19% due to the reduction in debt.

The following graph illustrates the expenses by source for the fiscal year ending June 30, 2012 and 2011:



Capital Assets

At the end of 2012, the Authority had $40,468,065 (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 $3,278,765, or 7% less than last year, primarily due to normal depreciation exceeding the value of assets purchased. 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 2012 and 2011 is presented below:

	Balance July 1, 2011	Increases	Decreases	Balance June 30, 2012
Land	$ 2,646,251	-	-	2,646,251
Improvements (regional landfill)	64,179,318	-	-	64,179,318
Other land improvements	495,511	-	-	495,511
Buildings	42,560,055	-	-	42,560,055
Vehicles and equipment	32,382,855	1,387,778	(946,092)	32,824,541
Construction in progress	227,260	15,175	(227,260)	15,175
Total assets	142,491,250	1,402,953	(1,173,352)	142,720,851
Accumulated depreciation	98,744,423	4,179,051	(670,688)	102,252,786
Total assets - less depreciation	$ 43,746,827	(2,776,098)	(502,664)	40,468,065

	Balance July 1, 2010	Increases	Decreases	Balance June 30, 2011
Land	$ 2,646,251	-	-	2,646,251
Improvements (regional landfill)	64,162,020	17,298	-	64,179,318
Other land improvements	495,511	-	-	495,511
Buildings	43,149,949	619,856	(1,209,750)	42,560,055
Vehicles and equipment	39,479,683	2,531,329	(9,628,157)	32,382,855
Construction in progress	71,789	227,260	(71,789)	227,260
Total assets	150,005,203	3,395,743	(10,909,696)	142,491,250
Accumulated depreciation	102,092,762	4,905,522	(8,253,861)	98,744,423
Total assets - less depreciation	$ 47,912,441	(1,509,779)	(2,655,835)	43,746,827

(Continued)

Long Term Debt

At year end, the Authority had a total of $32,700,000 in bonds outstanding, versus $58,735,000 last year, a decrease of 44%.

Summary of Outstanding Long-Term Bonds

June 30, 2012 and 2011

		2012	2011
Senior debt	$	-	15,375,000
Senior subordinated debt		2,515,000	13,175,000
Guaranteed subordinated debt		30,185,000	30,185,000
Total outstanding debt	$	32,700,000	58,735,000

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

Post 2018 Discussions

The Use and Support Agreements with the member jurisidictions expire in January 2018. The Hampton Roads Planning District Commission is coordinating discussions amongst the member localities regarding waste disposal options post 2018.

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 and Chief Financial Officer at 723 Woodlake Drive, Chesapeake, Virginia 23320.

BASIC FINANCIAL STATEMENTS

SOUTHEASTERN PUBLIC SERVICE
AUTHORITY OF VIRGINIA

Enterprise Fund

Statement of Net Assets

June 30, 2012 and 2011

Assets		**2012**	**2011**
Current assets:			
Cash and cash equivalents	$	8,765,852	30,001,093
Investments		10,012,405	-
Accounts receivable:			
Authority members		4,045,224	5,013,527
Other customers		554,250	570,654
Allowance for doubtful accounts		(185,000)	(200,000)
Prepaid expenses		240,945	261,895
Accrued interest receivable		4,822	2,079
Total current assets		23,438,498	35,649,248
Noncurrent assets:			
Restricted assets:			
Investments		10,216,591	11,971,393
Accrued interest receivable		8,423	4,827
Total restricted assets		10,225,014	11,976,220
Maintenance parts		193,488	296,002
Capital assets - net of accumulated depreciation and depletion		40,468,065	43,746,827
Intangible assets - net of accumulated amortization		2,494,809	2,982,170
Debt issue costs - net		971,245	1,188,008
Total noncurrent assets		54,352,621	60,189,227
Total assets	$	77,791,119	95,838,475

The accompany notes are an integral part of these basic financial statements.

SOUTHEASTERN PUBLIC SERVICE
AUTHORITY OF VIRGINIA

Enterprise Fund

Statement of Net Assets (Deficit)

June 30, 2012 and 2011

Liabilities and Net Assets (Deficit)	2012	2011
Liabilities:		
Current liabilities, payable from current assets:		
Accounts payable	$ 4,421,305	4,530,709
Accrued expenses	1,197,596	1,396,765
Landfill closure and postclosure care liability - current portion	191,926	115,000
Total current liabilities, payable from current assets	5,810,827	6,042,474
Current liabilities, payable from restricted assets:		
Accounts payable	-	196,229
Current maturities of bonds payable	2,365,000	3,840,000
Accrued interest on revenue bonds	382,546	508,694
Total current liabilities, payable from restricted assets	2,747,546	4,544,923
Total current liabilities	8,558,373	10,587,397
Noncurrent liabilities:		
Bonds payable	27,839,069	51,675,112
Other post employment benefits	1,450,903	1,194,807
Landfill closure and postclosure care liability – noncurrent	23,289,256	23,174,256
Total noncurrent liabilities	52,579,228	76,044,175
Total liabilities	61,137,601	86,631,572
Net assets (deficit):		
Invested in capital assets - net of related debt	12,758,805	(8,227,177)
Restricted for debt service	1,565,121	1,702,943
Restricted for other purposes	8,284,511	6,225,554
Unrestricted	(5,954,919)	9,505,583
Total net assets (deficit)	16,653,518	9,206,903
Total liabilities and net assets (deficit)	$ 77,791,119	95,838,475

The accompany notes are an integral part of these 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, 2012 and 2011

		2012	**2011**
Operating revenue:			
Municipal tipping fees	$	52,839,473	54,045,775
Other tipping fees		2,289,717	2,618,621
Charges for household hazardous waste and tire program		649,011	812,306
Sale of methane gas		526,807	425,578
Other revenue		11,250	84,089
Total operating revenues		56,316,258	57,986,369
Operating expenses:			
Compensation and related payroll costs		9,712,283	9,781,555
Depreciation, depletion and amortization of intangibles		4,666,412	5,392,885
Postage, printing, and supplies		43,177	181,790
Rent and utilities		389,957	449,435
Equipment fuel		1,171,158	967,585
Routine maintenance and vehicle operations		2,564,372	2,482,920
Nonroutine maintenance and repairs		516,447	928,066
Insurance		241,048	286,774
Virginia Beach Ash Disposal Agreement costs		13,541,206	15,338,526
Legal and professional services		572,408	1,234,697
Bad debts		3,595	56,290
Landfill closure and postclosure care cost accrual		191,926	3,570,993
Wheelabrator Service Contract		12,550,758	15,141,186
Other		30,799	36,105
Total operating expenses		46,195,546	55,848,807
Operating income		10,120,712	2,137,562
Nonoperating revenue (expense):			
Net gain (loss) on disposal of capital assets		5,071	(773,331)
Interest expense:			
Interest on long-term debt		(2,164,731)	(2,493,558)
Amortization of loss on defeasance		(780,948)	(752,986)
Amortization of bond issue costs, discounts and premiums - net		(159,772)	(589,073)
Total interest expense		(3,105,451)	(3,835,617)
Other revenue:			
Insurance recoveries		46,178	-
Investment income		62,061	110,360
Other		318,044	865,863
Total other revenue		426,283	976,223
Total nonoperating revenue (expense) - net		(2,674,097)	(3,632,725)
Change in net assets (deficit)		7,446,615	(1,495,163)
Total net assets:			
Beginning of year		9,206,903	10,702,066
End of year	$	16,653,518	9,206,903

The accompany notes are an integral part of these basic financial statements.

SOUTHEASTERN PUBLIC SERVICE AUTHORITY OF VIRGINIA

Enterprise Fund

Statements of Cash Flows

Years ended June 30, 2012 and 2011

		2012	2011
Cash flows from operating activities:			
Receipts from customers	$	57,282,370	61,037,468
Payments to suppliers for operations		(31,734,227)	(37,549,913)
Payments to employees for compensation		(9,724,628)	(9,890,831)
Net cash provided by operating activities		15,823,515	13,596,724
Cash flows from capital and related financing activities:			
Purchases of capital assets		(1,175,693)	(3,323,955)
Proceeds from sale of capital assets		280,475	1,810,715
Proceeds from insurance recoveries		46,178	-
Principal payments on bonds payable		(26,035,000)	(22,235,000)
Payment of debt issue costs		-	(2,140,780)
Interest paid		(2,290,879)	(2,835,370)
Other income		318,044	865,863
Net cash used in capital and related financing activities		(28,856,875)	(27,858,527)
Cash flows from investing activities:			
Proceeds from maturity and sale of investments		50,028,029	29,524,151
Payments for investments purchased		(58,285,632)	(19,619,464)
Interest and dividends received from investments		55,722	122,093
Net cash provided by (used in) investing activities		(8,201,881)	10,026,780
Decrease in cash and cash equivalents		(21,235,241)	(4,235,023)
Cash and cash equivalents at beginning of year		30,001,093	34,236,116
Cash and cash equivalents at end of year	$	8,765,852	30,001,093
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	$	10,120,712	2,137,562
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation, depletion and amortization of intangibles		4,666,412	5,392,885
Postretirement medical benefit plan expense		256,096	268,748
Provision for bad debts		3,595	56,290
Landfill closure and postclosure care cost accrual		309,163	3,684,016
Changes in operating assets and liabilities:			
Accounts receivable		966,112	3,051,099
Maintenance parts		102,514	(81,399)
Prepaid expenses		20,950	210,778
Accounts payable - operations		(109,404)	(454,146)
Accrued expenses		(199,169)	(378,024)
Accounts payable - restricted		(196,229)	(178,062)
Landfill closure and postclosure care liability settlement		(117,237)	(113,023)
Net cash provided by operating activities	$	15,823,515	13,596,724

The accompany notes are an integral part of these basic financial statements.

(1) Nature of Business and Significant Accounting Policies

(a) Nature of Business

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

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

Effective July 1, 1999, in a modification of the Navy Contract, the Navy transferred to the Authority all of the assets of the Power Plant. These assets included $105.2 million of property and equipment, $3.6 million of materials and supplies, and $0.8 million of cash restricted for power plant improvements. In addition, unamortized costs related to the contract were eliminated and long-term obligations and payables were satisfied. These transactions resulted in $100.1 million of capital contributions to the Authority's net 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, 2011, 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 Portsmouth, 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 2012 and 2011. Assets are depreciated by using the straight-line method over the estimated useful lives of the various classes as follows:

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

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.

(Continued)

(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.

(p) Revenue Recognition

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

(Continued)

(q) Subsequent Events

The Authority has evaluated subsequent events from the statements of net assets date through November 9, 2012, the date at which the statements were issued and determined there are no other items to disclose.

(2) Cash and Cash Equivalents

At June 30, 2012 and 2011, the Authority's cash and cash equivalents balance totaled $8,765,852 and $30,001,093, respectively. The deposits are covered by federal depository insurance or collateralized in accordance with the Virginia Security for Public Deposits Act (Act). In accordance with the Act, the Authority's 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) Investments

Total investments including restricted and designated assets amounted to $20,242,241 and $11,976,220 June 30, 2012 and 2011, respectively, and are held for the purposes and in the respective accounts described below:

2012	Investments	Accrued interest receivable	Total
Unrestricted	$ 10,012,405	4,822	10,017,227
Bond accounts	1,947,475	192	1,947,667
Landfill closure fund (designated)	7,455,077	7,164	7,462,241
Environmental trust fund accounts	814,039	1,067	815,106
	$ 20,228,996	13,245	20,242,241

2011	Investments	Accrued interest receivable	Total
Revenue bond construction accounts	$ 3,541,108	-	3,541,108
Bond accounts	2,204,731	84	2,204,815
Landfill closure fund (designated)	5,429,923	4,557	5,434,480
Environmental trust fund accounts	795,631	186	795,817
	$ 11,971,393	4,827	11,976,220

(a) Unrestricted Accounts

These funds represent the operating reserve account as required by the Authority's bond resolutions. The operating reserve was presented under cash and cash equivalents in the fiscal year ending June 30, 2012.

(b) 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.

(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 and post closure costs for both, the Regional Landfill and the Authority's share of the Virginia Beach landfill, to be drawn down when funds are dispersed for closure or post closure costs. See Note 7 for more information.

(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, 2012 and 2011, are as follows:

		2012		**2011**	
		Suffolk Environmental Trust Fund	Virginia Beach Environmental Trust Fund	Suffolk Environmental Trust Fund	Virginia Beach Environmental Trust Fund
Cities:					
Chesapeake	$	96,994	102,259	95,193	99,774
Franklin		6,211	6,463	6,311	6,527
Norfolk		97,986	102,373	98,120	101,869
Portsmouth		42,170	44,221	41,513	43,258
Suffolk		1,548	1,650	1,529	1,622
Virginia Beach		122,756	130,790	117,865	124,971
Counties:					
Isle of Wight		17,548	18,651	16,857	17,825
Southampton		10,904	11,515	10,924	11,473
	$	396,117	417,922	388,312	407,319

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

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

Credit Risk

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

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

 (Continued)

As of June 30, 2012, the credit risk of the total investments were:

	Rating	Percentage
Government sponsored enterprise obligations	AAA	76.2%
PFM Funds - Prime Series Money Market fund includes:		
Institutional Class	AAAm	2.5
Federated Treasury Obligations Fund	AAAm	0.6
U.S. Bank Money Market Deposit Account	No rating	9.6
Wells Fargo Commercial Checking Account Public Funds	No rating	0.2
Certificate of deposit	No rating	0.9
Local Government Investment Pool	AAAm	10.0

As of June 30, 2011, the credit risk of the total investments were:

	Rating	Percentage
Government sponsored enterprise obligations	AAA	24.3%
PFM Funds - Prime Series Money Market fund includes:		
Institutional Class and SNAP Fund Class Shares	AAAm	4.2
Federated Treasury Obligations Fund	AAAm	0.9
U.S. Bank Money Market Deposit Account	No rating	18.4
Wachovia Government Advantage interest checking	No rating	50.7
Certificate of deposit	No rating	1.5

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

As of June 30, 2012, approximately 76.2% of SPSA's total investments were invested in Federal Home Loan Bank (FHLB) notes and Federal Farm Credit Bank (FFCB) bonds, however, each note did not exceed the 50% maximum allowable amount.

As of June 30, 2011, approximately 24.3% of SPSA's investments were invested in Federal Home Loan Bank (FHLB) 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.

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

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

As of June 30, 2012, SPSA had the following investments and maturities (excluding accrued interest):

		Investment Maturity (in years)		
	Fair Value	Less than 1 year	1-3 years	3-5 years
Registered money market mutual fund - PFM Funds - Prime Series - Institutional	$ 507,044	507,044	-	-
Federated Treasury Obligations Money market	123,001	123,001	-	-
U.S. Bank money market Deposit account	1,947,475	1,947,475	-	-
Wells Fargo Commercial Checking Account Account Public Funds	36,174	36,174	-	-
Government sponsored Enterprise obligations	15,419,913	12,887,559	2,532,354	-
Local Government Investment Pool	2,011,395	2,011,395	-	-
Certificate of deposit	183,994	183,994	-	-
	$ 20,228,996	17,696,642	2,532,354	-

As of June 30, 2011, SPSA had the following investments and maturities in its restricted assets portfolio (excluding accrued interest):

		Investment Maturity (in years)		
	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	$ 506,145	506,145	-	-
Federated Treasury Obligations Money market	107,990	107,990	-	-
U.S. Bank money market Deposit account	2,204,731	2,204,731	-	-
Wachovia Government Advantage interest checking	6,072,389	6,072,389	-	-
Government sponsored enterprise obligations	2,898,642	-	2,898,642	-
Certificate of deposit	181,496	181,496	-	-
	$ 11,971,393	9,072,751	2,898,642	-

(Continued)

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, 2012 and 2011, 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, 2012 and 2011, consist of the following:

	Balance July 1, 2011	Increases	Decreases	Balance June 30, 2012
Capital assets not being depreciated or depleted:				
Land	$ 2,646,251	-	-	2,646,251
Construction-in-progress	227,260	15,175	(227,260)	15,175
Total capital assets not being depreciated or depleted	2,873,511	15,175	(227,260)	2,661,426
Other capital assets				
Improvements (regional land fills)	64,179,318	-	-	64,179,318
Other land improvements	495,511	-	-	495,511
Buildings	42,560,055	-	-	42,560,055
Equipment	20,121,619	419,491	(695,122)	19,845,988
Motor vehicles	12,261,236	968,287	(250,970)	12,978,553
Total other capital assets	139,617,739	1,387,778	(946,092)	140,059,425
Less - accumulated depreciation and depletion:				
Improvements (regional land fills)	48,133,193	68,917	-	48,202,110
Other land improvements	495,511	-	-	495,511
Buildings	29,024,621	1,638,383	-	30,663,004
Equipment	12,778,764	1,566,459	(486,681)	13,858,542
Motor vehicles	8,312,334	905,292	(184,007)	9,033,619
Total accumulated depreciation and depletion	98,744,423	4,179,051	(670,688)	102,252,786
Other capital assets - net	40,873,316	(2,791,273)	(275,404)	37,806,639
Total	$ 43,746,827	(2,776,098)	(502,664)	40,468,065

	Balance July 1, 2010	Increases	Decreases	**Balance June 30, 2011**
Capital assets not being depreciated or depleted:				
Land	$ 2,646,251	-	-	2,646,251
Construction-in-progress	71,789	227,260	(71,789)	227,260
Total capital assets not being depreciated or depleted	2,718,040	227,260	(71,789)	2,873,511
Other capital assets				
Improvements (regional land fills)	64,162,020	17,298	-	64,179,318
Other land improvements	495,511	-	-	495,511
Buildings	43,149,949	619,856	(1,209,750)	42,560,055
Equipment	23,947,167	1,921,627	(5,747,175)	20,121,619
Motor vehicles	15,532,516	609,702	(3,880,982)	12,261,236
Total other capital assets	147,287,163	3,168,483	(10,837,907)	139,617,739
Less - accumulated depreciation and depletion:				
Improvements (regional land fills)	48,064,766	68,427	-	48,133,193
Other land improvements	495,511	-	-	495,511
Buildings	28,020,220	1,592,675	(588,274)	29,024,621
Equipment	16,412,183	1,612,209	(5,244,809)	12,779,583
Motor vehicles	9,100,082	1,632,211	(2,420,778)	8,311,515
Total accumulated depreciation and depletion	102,092,762	4,905,522	(8,253,861)	98,744,423
Other capital assets - net	45,194,401	(1,737,040)	(2,584,045)	40,873,316
Total	$ 47,912,441	(1,509,779)	(2,655,835)	43,746,827

(5) Long-Term Debt

(a) Bonds Payable

Bonds payable at June 30, 2012 and 2011, consist of the following:

	2012	**2011**
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).	$ 410,000	2,005,000
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
Totals *(carried forward)*	$ 410,000	9,595,000

	2012	2011
Totals *(brought forward)*	$ 410,000	9,595,000
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).	-	205,000
Senior Subordinated Taxable Bonds, Series 14, dated November 1, 2004, and issued in the original amount of $13,060,000, due October 2013 (held by VRA).	400,000	780,000
Senior Subordinated Taxable Bonds, Series 16, dated June 8, 2006, and issued in the original amount of $14,245,000, due October 2013 (held by VRA).	1,415,000	2,250,000
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).	290,000	345,000
Senior Subordinated Taxable Bonds, Series 2007A, dated October 4, 2007, and issued in the original amount of $25,145,000, due July 2013.	-	15,375,000
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	30,185,000
Total bonds payable	$ 32,700,000	58,735,000
Debt outstanding by lender:		
Virginia Resources Authority	$ 32,700,000	43,360,000
Wachovia Bank	-	15,375,000
	$ 32,700,000	58,735,000

	2012	2011
Total bonds payable	$ 32,700,000	58,735,000
Plus:		
Unamortized bond premiums	34,701	288,067
Less:		
Unamortized bond discounts	-	(196,375)
Deferred loss on defeasance	(2,530,632)	(3,311,580)
Current maturities of bonds payable	(2,365,000)	(3,840,000)
Noncurrent portion of bonds payable	$ 27,839,069	51,675,112

Rates of interest on the bonds outstanding and payable range from 3.85% to 5.59% for the year ended June 30, 2012, and 3.375% to 5.59% for the year ended June 30, 2011.

In March 2012, the Authority used excess cash on hand to call for early redemption the remaining balance of its Senior Subordinated Tax-Exempt Bonds, Series 11, held by the Virginia Resources Authority, in the amount of $6,820,000. The early redemption required payment of a 1% premium or $68,200.

In June 2012, the Authority used excess cash on hand to call for early redemption the remaining balance of its Senior Revenue Bonds, Series 2007A in the amount of $9,480,000.

In October 2010, the Authority used excess cash on hand to call for redemption $3,665,000 of its Senior Revenue Bonds, Series 2007A and defease the remaining Series 1998 Senior Revenue Refunding Bonds in an aggregate total of $11,920,000. A consequence of the defeasance was the liquidation of the Senior Debt Service Reserve Account by $3,356,361 which was applied to the defeasance. The excess cash on hand and the balance of the Senior Reserve Account in the total amount of $14,060,780 were deposited into an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1998 Senior Revenue Refunding Bonds. As a result, the Authority's 1998 Senior Revenue Refunding Bonds are considered to be defeased and the liability for those bonds has been removed from the balance sheet.

The refunding resulted in a loss on defeasance of $2,501,170 that has been deferred and is being amortized as a component of interest expense over the life of the old debt.

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, 2012, were as follows:

Member Community	Guarantee percentage	Principal guarantee
City of Chesapeake	22.49%	$ 7,354,230
City of Franklin	0.97	317,190
Isle of Wight County	3.98	1,301,460
City of Norfolk	16.98	5,552,460
City of Portsmouth	10.27	3,358,290
Southampton County	2.10	686,700
City of Suffolk	12.87	4,208,490
City of Virginia Beach	30.34	9,921,180
	100.00%	$ 32,700,000

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.

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.

The following presents the changes in bonds payable for the Authority as a whole for the years ended June 30, 2012 and 2011:

Balances as of June 30, 2010	$ 80,970,000
Principal paid and defeased	(22,235,000)
Balances as of June 30, 2011	58,735,000
Principal paid and defeased	(26,035,000)
Balances as of June 30, 2012	$ 32,700,000

Aggregate maturities of bonds payable (principal and interest) at June 30, 2012, are as follows:

	Principal	Interest	Total
2013	$ 2,365,000	1,460,172	3,825,172
2014	150,000	1,387,825	1,537,825
2015	6,180,000	1,264,063	7,444,063
2016	3,335,000	1,073,083	4,408,083
2017	10,775,000	747,850	11,522,850
2018	9,895,000	247,052	10,142,052
	$ 32,700,000	6,180,045	38,880,045

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

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). Additionally, the rate at which Virginia Beach pays for municipal tipping fees is capped per the agreement. During fiscal years 2012 and 2011, the Authority recorded $13,541,206 and $15,338,526, respectively, for expenses related to reimbursements to Virginia Beach in accordance with the ash disposal agreement.

The per ton capped rate for fiscal years 2012 and 2011 was $65.35 and $56.01, respectively, compared to the per ton municipal tipping fee of a blended rate of $143.33 in 2012 and $147.50 in 2011. 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.

(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, 2012 and 2011, are $23,481,182 and $23,289,256 respectively. The four components are described as follows:

The first component of the liability relates to Cells I-IV, which totaled $3,221,217 and $3,282,650 as of June 30, 2012 and 2011, 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, 2012 and 2011, 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 $11,903,419 and $11,650,060 as of June 30, 2012 and 2011, 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, 2012 and 2011, respectively.

The final component relates to the Virginia Beach Landfill. The Authority has recorded $8,356,546 for its share of the estimated landfill closure and postclosure care liabilities for the Virginia Beach Landfill Phase I cell as of June 30, 2012 and June 30, 2011. This amount is based upon data provided by the City and calculations made by the Authority based on the Authority's interpretation of its contractual obligations under the Ash and Residue Disposal Agreement. Management believes this amount represents a reasonable estimate of the Authority's liability for such costs in light of the cost data provided to date and management's interpretation of the applicable contract language, therefore the amount was not adjusted as of June 30, 2012; however, discussions are underway between the Authority and Virginia Beach in an effort to more precisely quantifiy each party's responsible amount. The amounts for the Virginia Beach Landfill Phase I cell are based on professional present value estimates of the total costs that will be incurred in connection with all closure and postclosure care.

Actual closure and postclosure care costs for the Regional and Virginia Beach Landfills may differ from estimates due to inflation, changes in technology, or changes in regulations. The Authority currently plans to finance the landfill closure and postclosure care costs with operating revenues. In fiscal year 2012, the Authority demonstrated its closure and postclosure care financial assurance requirements through the local government financial test, as defined in the waste regulations issued by the State of Virginia, supplemented by a bank issued letter of credit ($1,000,000 at June 30, 2012), which is 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, 2012 and 2011:

Balances as of June 30, 2010	$ 19,718,263
Revision of estimate	3,684,016
Payments made	(113,023)
Balances as of June 30, 2011	23,289,256
Revision of estimate	309,163
Payments made	(117,237)
Balances as of June 30, 2012	$ 23,481,182

(8) Commitments

In the normal course of operations, the Authority enters into various construction contracts. As of June 30, 2012 and 2011, total commitments under these contracts amounted to approximately $115,575 and $562,842, 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 fiscal year 2012 and 2011,was comprised of the following:

		FY 2012	FY 2011
Service fee	$	20,000,000	19,000,000
Less:			
10% of steam revenue		(807,626)	(794,142)
SPSA hauling fee		(3,104,401)	(2,307,428)
Loading fee		(442,289)	(526,410)
10% of proprietary waste revenue		(74,441)	(111,209)
Liquidated damages for failure to remove trailer		(20,000)	(30,000)
Return of previously withheld liquidated damages		-	335,000
Fuel surcharge		(658,082)	(403,377)
Diverted waste disposal at regional landfill		(1,597,400)	(9,975)
Extended hours at transfer station		(48,278)	(11,273)
Credit for annual real estate tax threshold		(696,725)	-
Net service fee paid	$	12,550,758	15,141,186

The service agreement requires Wheelabrator to remove all fully loaded waste trailers from the Authority'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, the Authority withheld these liquidated damages from its monthly payments to Wheelabrator in May and June 2010. On July 16, 2010, the Authority received a letter from Wheelabrator contesting SPSA's documentary basis for these liquidated damages and the amounts withheld by the Authority. In March 2011, the Authority signed an Accord, Satisfaction and Release Agreement with Wheelabrator whereby returning to Wheelabrator $335,000 of the $670,000 previously withheld as liquidated damages. This agreement was mutually agreed upon by both parties to reflect the ongoing mutually beneficial nature of the relationship contemplated under the Service Agreement and as a one-time only accommodation.

A service agreement provision requires the Authority to pay for a portion of the annual real estate taxes paid by Wheelabrator to the City of Portsmouth, Virginia if the annual taxes exceed a certain threshold. The same provision also entitles the Authority to a credit against the service fee if the annual taxes are less than the stipulated threshold. The taxes assessed by the City of Portsmouth for the fiscal year ending June 30, 2012 were less than the stipulated threshold entitling the Authority to a credit in the amount of $696,725.

(10) Defined Benefit Pension Plan

(a) Plan Description

Name of Plan: Virginia Retirement System (VRS)

Identification of Plan: Agent and Cost Sharing, Multiple-Employer Defined Benefit Pension Plan

Administering Entity: Virginia Retirement System (System)

All full-time, salaried permanent (professional) employees of public school divisions and employees of participating employers are automatically covered by VRS upon employment. Benefits vest after five years of service credit. Members earn one month of service credit for each month they are employeed and their employer is paying into the VRS. Members are eligible to purchase prior public service, active duty military service, certain periods of leave and previously refunded VRS service as credit in their plan.

VRS administers two defined benefit plans for local government employees - Plan 1 and Plan 2:

- Members hired before July 1, 2010, and who have service credits before July 1, 2010, are covered under Plan 1. Nonhazardous duty members are eligible for an unreduced retirement benefit beginning at age 65 with at least five years of service credit or age 50 with at least 30 years of service credit. They may retire with a reduced benefit as early as age 55 with at least 10 years of service credit or age 50 with at least five years of service credit.

- Members hired or rehired on or after July 1, 2010, and who have no service credits before July 1, 2010, are covered under Plan 2. Nonhazardous duty members are eligible for an unreduced benefit beginning at their normal Social Security retirement age with at least five years of service credit or when the sum of their age and service equals 90. They may retire with a reduced benefit as early as age 60 with at leaste five years of service credit.

- Eligible hazardous duty members in Plan 1 and Plan 2 are eligible for an unreduced benefit beginning at age 60 with at least 5 years of service credit or age 50 with at least 25 years of service credit. These members include sheriffs, deputy sheriffs and hazardous duty employees of political subdivisions that have elected to provide enhanced coverage for hazardous duty service. They may retire with a reduced benefitas early as age 50 with at least five years of service credit. All other provisions of the member's plan apply.

The VRS Basic Benefit is a lifetime monthly benefit based on a retirement multiplier as a percentage of the member's average final compensation multiplied by the member's total service credit. Under Plan 1, average final compensation is the average of the member's 36 consecutive months of highest compensation. Under Plan 2, average final compensation is the average of the member's 60 consecutive months of highest compensation. The retirement multiplier for non-hazardous duty members is 1.70%. The retirement multiplier for sheriff's and regional jail superintendents is 1.85%. The retirement multiplier for eligible political subdivision hazardous duty employees other than sheriffs and jail superintendents is 1.70% or 1.85% as elected by the employer. At retirement, members can elect the Basic Benefit, the Survivor Option, a Partial Lump-Sum Option Payment (PLOP) or the Advance Pension Option. A retirement reduction factor is applied to the Basic Benefit amount for members electing the Survivor Option, PLOP or Advance Pension Option or those retiring with a reduced benefit.

Retirees are also eligible for an annual cost-of-living adjustment (COLA) effective July 1 of the second calendar year of retirement. Under Plan 1, the COLA cannot exceed 5.00%; under Plan 2, the COLA cannot exceed 6.00%. During years of no inflation or deflation, the COLA is 0.00%. 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 (CAFR) that includes financial statements and required supplementary information for the plans administered by VRS. A copy of that report may be obtained from the VRS Web site at http://www.varetire.org/Pdf/Publications/2011-annual-report.pdf or by writing to the System's Chief Financial Officer 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 2012 and 2011 was 5.08% of annual covered payroll.

Annual Pension Cost

For fiscal year 2012, the Authority's annual pension cost of $588,239 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, 2010	$ 1,507,630
June 30, 2011	614,633
June 30, 2012	588,239

The FY 2012 required contribution was determined as part of the June 30, 2009, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions at June 30, 2009, included (a) an investment rate of return (net of administrative expenses) of 7.50%, (b) projected salary increases ranging from 3.75% to 5.60% per year for general government employees and 3.5% to 4.75% per year for employees eligible for enhanced benefits available to law enforcement officers, firefighters, and sheriffs, and, (c) a cost-of-living adjustment of 2.50% per year. Both the investment rate of return and the projected salary increases also include 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 level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2009, for the Unfunded Actuarial Accrued Liability (UAAL) was 20 years.

(c) Funded Status and Funding Progress

As of June 30, 2011, the most recent actuarial valuation date, the plan was 101.3% funded. The actuarial accrued liability for benefits was $38,847,674, and the actuarial value of assets was $39,352,277 resulting in an overfunded actuarial accrued liability (UAAL) of $504,603. The covered payroll (annual payroll of active employees covered by the plan) was $5,865,951, and ratio of the UAAL to the covered payroll was (8.6%).

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.

(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 obligations as of June 30, 2011	$	1,194,807
ARC for 2012:		
Normal cost		214,000
Unamortized actuarial accrued liability (UAAL)		191,000
Interest		42,900
Total ARC for 2012		447,900
Interest on net OPEB obligation		47,792
Adjustment to ARC		(69,096)
Annual OPEB cost		426,596
Less - contributions made		(170,500)
Increast in net OPEB obligation		256,096
Net OPEB obligation as of June 30, 2012	$	1,450,903

Net OPEB obligations as of June 30, 2010	$	926,059
ARC for 2011:		
Normal cost		214,000
Unamortized actuarial accrued liability (UAAL)		191,000
Interest		21,100
Total ARC for 2011		426,100
Interest on net OPEB obligation		37,042
Adjustment to ARC		(51,494)
Annual OPEB cost		411,648
Less-contributions made		(142,900)
Increast in net OPEB obligation		268,748
Net OPEB obligation as of June 30, 2011	$	1,194,807

The Authority's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2012, 2011, 2010 and 2009, were as follows:

Year ended June 30		Annual OPEB cost	Percentage of annual OPEB cost contributed		Net OPEB obligation
2012	$	426,596	40.0%	$	1,450,903
2011		411,648	34.7%		1,194,807
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.

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

SOUTHEASTERN PUBLIC SERVICE
AUTHORITY OF VIRGINIA

Required Supplementary Information

Schedule of Pension Funding Progress (Unaudited)

June 30, 2012

Schedule of Pension Funding Progress (Unaudited)

June 30, 2012

Valuation date			June 30, 2011	June 30, 2010	June 30, 2009
Actuarial value of assets (AVA)	(1)	$	39,352,277	39,615,852	39,848,081
Actuarial accrued liability (AAL)	(2)	$	38,846,674	35,381,790	40,738,876
Unfunded (overfunded) actuarial accured liability (UAAL) (2) - (1)	(3)	$	(504,603)	(4,234,062)	890,795
Fund ratio (1)/(2)	(4)		101,30%	111.97%	97.81%
Annual covered payroll	(5)	$	5,865,951	6,948,776	15,857,736
UAAL as a % of payroll (3)/(5)	(6)		(8.60)%	(60.93)%	5.62%

Schedule of Postretirement Medical Benefit Plan Funding Progress (Unaudited)

June 30, 2010

Valuation date			June 30, 2010	June 30, 2008
Actuarial value of assets (AVA)	(1)	$	-	-
Actuarial accrued liability (AAL)	(2)	$	3,434,100	4,967,164
Unfunded (overfunded) actuarial accured 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.

DIXON HUGHES GOODMAN LLP
Certified Public Accountants and Advisors

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*** as of and for the year ended June 30, 2012, and have issued our report thereon dated November 9, 2012. 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

Management of the ***Southeastern Public Service Authority of Virginia*** is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the ***Southeastern Public Service Authority of Virginia'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 ***Southeastern Public Service Authority of Virginia's*** internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the ***Southeastern Public Service Authority of Virginia'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 and correct 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.

Fountain Plaza One, 701 Town Center Drive, Suite 700, Newport News, VA 23606 | T 757.873.1033 | F 757.873.1106 | dhgllp.com

Compliance and Other Matters

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

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

Dixon Hughes Goodman LLP

Newport News, Virginia
November 9, 2012