SOUTHEASTERN PUBLIC SERVICE AUTHORITY OF VIRGINIA

Basic Financial Statements and
Supplemental Information

June 30, 2013 and 2012

(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 Auditor's Report

The Board of Directors
Southeastern Public Service Authority of Virginia

We have audited the accompanying financial statements of ***Southeastern Public Service Authority of Virginia***, as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to ***Southeastern Public Service Authority of Virginia***'s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of ***Southeastern Public Service Authority of Virginia***, as of June 30, 2013 and 2012, and the respective changes in financial position and its cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and budgetary comparison information on pages 3 through 10 and the Schedule of Funding Progress on page 39 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 5, 2013, 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* in considering ***Southeastern Public Service Authority of Virginia's*** internal control over financial reporting and compliance.

Dixon Hughes Goodman LLP

Newport News, Virginia
December 5, 2013

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, 2013. This discussion and analysis should be read in conjunction with the basic financial statements.

Financial and Operating Highlights

- The net position of the Authority at the close of fiscal year 2013 was $13,974,934 representing a decrease of $2,678,584 from fiscal year 2012.
- The municipal tipping fee was $125 per ton as compared to an average rate of $143.33 in FY 2012, $147.50 in FY 2011 and $170 in FY 2010.
- The Authority experienced a decline in the municipal waste stream of approximately 8,326 tons or 2%.
- As of June 30, 2013, the principal debt outstanding was approximately $30.3 million compared to the $32.7 million outstanding at the end of the previous fiscal year.

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 Position, Statements of Revenue, Expenses, and Changes in Net Position, Statements of Cash Flows, and notes to the financial statements.

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

The Statements of Revenues, Expenses, and Changes in Net Position present information showing how the Authority's net position 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.

(Continued)

Summary of Net Position

As described earlier, the net position 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 $13,974,934 as compared to the previous year's net position of $16,653,518. Capital assets shown below represent the acquisition cost less accumulated depreciation, not fair value.

The Authority's cash and investments increased to $20.7 million at the end of fiscal year 2013 from $18.7 million at the end of fiscal year 2012. These amounts include a $10 million operating reserve in each fiscal year.

The following table presents a condensed summary of net position as of June 30, 2013, 2012 and 2011.

	2013	2012	2011
Assets:			
Current and other assets	$ 28,640,125	37,323,054	52,091,648
Capital assets - net	37,252,805	40,468,065	43,746,827
Total assets	65,892,930	77,791,119	95,838,475
Liabilities:			
Current liabilities	6,826,740	8,558,373	10,587,397
Long-term liabilities	45,091,256	52,579,228	76,044,175
Total liabilities	51,917,996	61,137,601	86,631,572
Net position:			
Invested in capital assets - net of related debt	8,723,182	12,758,805	(8,227,177)
Restricted	2,150,351	9,849,632	7,928,497
Unrestricted	3,101,401	(5,954,919)	9,505,583
Total net position	13,974,934	16,653,518	9,206,903
Total liabilities and net position	$ 65,892,930	77,791,119	95,838,475

Net assets invested in capital assets, such as land, buildings and equipment, net of related debt is approximately $8.7 million as compared to the $12.8 million in the prior fiscal year. The decrease is primarily due to normal depreciation exceeding the value of assets purchased.

The unrestricted portion of net position increased to $3.1 million as compared to a deficit of ($5.9) million in the prior year. This increase is primarily due to a decrease in the amount required to be held in a restricting sinking fund for satisfying financial assurance requirements as it relates to closure and post closure costs of the regional landfill.

Summary of Revenues, Expenses and Changes in Net Position

The Authority's net position decreased in fiscal year 2013 by approximately $2.7 million primarily due to the writeoff of an intangible asset associated with the City of Va. Beach landfill. Operating revenues declined $8.1 million as compared to the previous year primarily due to the decline in the municipal tip fee from $145 per ton in fiscal year 2012 to $125 per ton in 2013. Municipal waste also declined approximately 8,326 tons or 2% as compared to the prior fiscal year. The changes in the Authority's net position can be determined by reviewing the following condensed statements of revenues, expenses, and changes in net position:

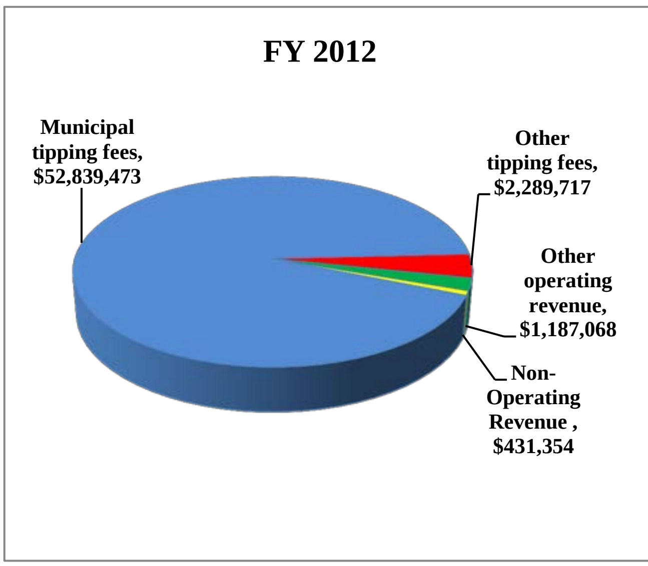
		2013	2012	2011
Operating revenue:				
Municipal tipping fees	$	45,108,711	52,839,473	54,045,775
Other tipping fees		2,044,404	2,289,717	2,618,621
Other operating revenue		1,049,139	1,187,068	1,321,973
Total operating revenue		48,202,254	56,316,258	57,986,369
Operating expenses:				
Personnel		9,075,510	9,712,283	9,781,555
Depreciation and amortization		4,329,529	4,666,412	5,392,885
Routine maintenance operations		2,504,106	2,564,372	2,482,920
Ash and residue agreement		10,312,506	13,541,206	15,338,526
Wheelabrator service contract		16,308,633	12,550,758	15,141,186
Other operating expenses		4,388,203	3,160,515	7,711,735
Total operating expenses		46,918,487	46,195,546	55,848,807
Operating income		1,283,767	10,120,712	2,137,562
Nonoperating revenue (expense):				
Gain (loss) on the sale of assets		(2,054,323)	5,071	(773,331)
Investment income		39,244	62,061	110,360
Interest expense		(2,242,553)	(3,105,451)	(3,835,617)
Other income (expense) - net		295,281	364,222	865,863
Total nonoperating revenue (expense)		(3,962,351)	(2,674,097)	(3,632,725)
Change in Net Position		(2,678,584)	7,446,615	(1,495,163)
Net Position:				
Beginning of year		16,653,518	9,206,903	10,702,066
End of year	$	13,974,934	16,653,518	9,206,903

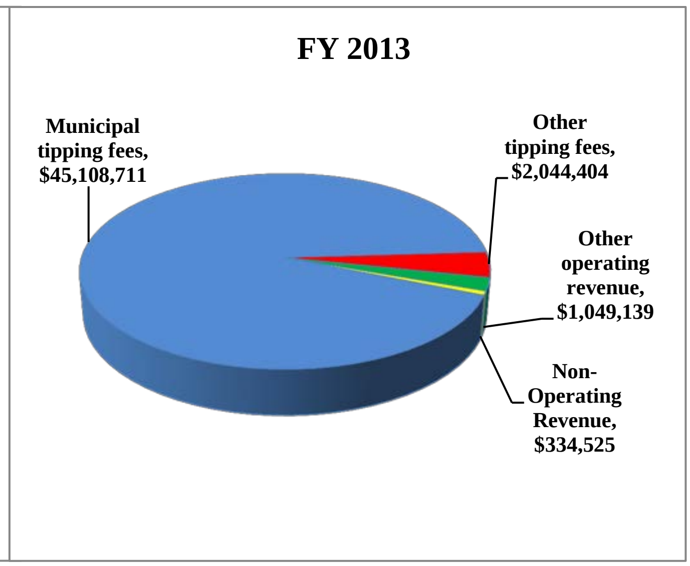
It is important to note that the $45.1 million in municipal tipping fees excludes the rebate that is paid to the City of Virginia Beach for tipping fees paid in excess of a capped rate, as established in the ash and residue agreement. The City of Virginia Beach is the largest of the Authority's eight 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 2013, 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 $125 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 $10.3 million expense for the "ash and residue agreement", approximately $2.3 million is for operating and maintaining the Virginia Beach landfill and $8 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.

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, 2013 and 2012:





The Authority's operating expenses increased approximately 2% or $722,941 in comparison to the prior fiscal year. Expenses increased for costs incurred with the Wheelabrator Service Contract and other operating costs associated with landfill closure and post closure care, however, savings were achieved in the areas of personnel costs, routine maintenance and costs associated with the Ash and Residue agreement.

The increase in the Wheelabrator Service Contract is a result of an increase in the annual service fee ($1 million), a reduction in diverted waste to the regional landfill, of which the Authority received approximately $1.6 million credit in fiscal year 2012 and a return of nearly $700,000 for funds previously withheld in the prior year. Please see Note 9 to the basic financial statements for more information.

The most significant increase in other operating expenses was approximately $1 million for the cost of landfill closure and post closure costs associated with the Va. Beach landfill. In February 2013, the Authority paid the City of Va. Beach $9.5 million for the Authority's share of closure and post closure costs associated with Va. Beach's phase 1 cell of its landfill. The Authority is no longer obligated for any future closure and post closure costs at the Va. Beach landfill unless the Authority redirects the disposal of ash from the regional landfill to the Va. Beach landfill. Since it costs less to dispose of ash at the regional landfill versus the Va. Beach landfill, it is highly unlikely the Authority will incur any future costs.

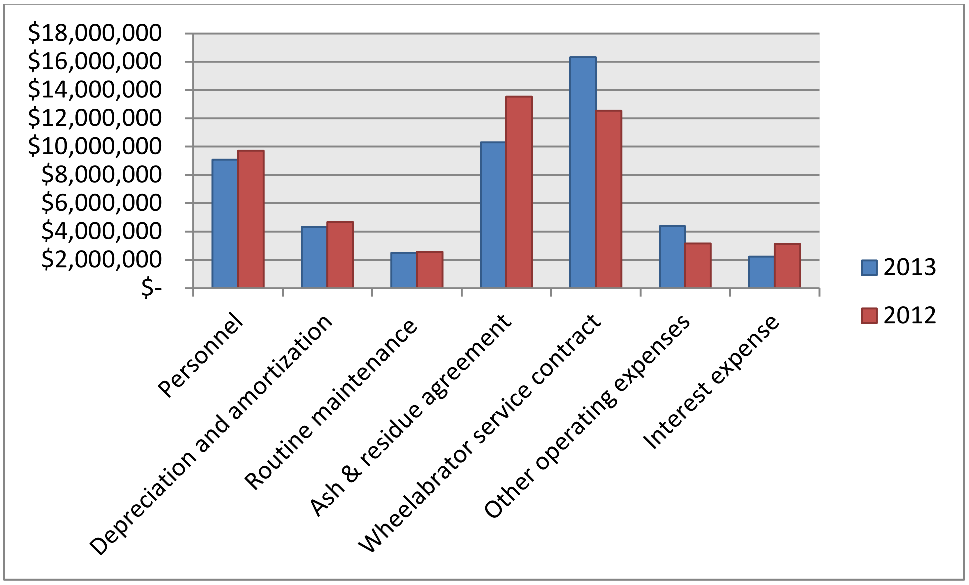
The cost for personnel decreased slightly due to a reduction in overtime. Historically, the Authority compensated non-exempt personnel two and one half times their rate of pay when they were required to work on a designated holiday. In fiscal year 2013, the Authority changed its policy whereby providing an alternate holiday schedule (alternate time off) for those employees required to work on a designated holiday. This change in policy resulted in a reduction of overtime costs by nearly $200,000. Since employees were provided alternate time off, the amount of time used for annual leave was reduced resulting in an increase in the liability for compensated absences.

As of July 1, 2012, legislation was enacted that required employees participating in the Virginia Retirement System (VRS) to contribute 5% of their pay towards retirement. Previously, the Authority had made such contribution on behalf of the employee. The Authority had the choice of phasing this change in at least one percent per year for five years or implementing the five percent in one year. However, the legislation also required the Authority provide a like percent increase in pay. The Authority chose to implement this change effective July 1, 2012 at the full 5% and provided a 7% increase in pay of which 5% was for the change in VRS and 2% was a cost of living adjustment.

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 municipal tip fee was reduced from a blended rate of $143.33 per ton in fiscal year 2012 to $125 per ton in fiscal year 2013 whereby reducing the dollars in excess of the City's capped rate of $65.35.

The Authority's workforce has been reduced from approximately 411 positions in fiscal year 2010 to 151 positions effective June 30, 2013. Management continues to review the staffing necessary to effectively manage the waste disposal of its member communities.

The following graph illustrates the expenses by source for the fiscal year ending June 30, 2013 and 2012:



Capital Assets

At the end of 2013, the Authority had $37,252,805 (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 $3,215,260, or 8% 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 2013 and 2012 is presented below:

	Balance July 1, 2012	Increases	Decreases	**Balance June 30, 2013**
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	32,622	-	42,592,677
Vehicles and equipment	32,824,541	829,305	(995,508)	32,658,338
Construction in progress	15,175	15,525	(8,316)	22,384
Total assets	142,720,851	877,452	(1,003,824)	142,594,479
Accumulated depreciation	102,252,786	4,043,916	(955,028)	105,341,674
Total assets - less depreciation	$ 40,468,065	($3,166,464)	(48,796)	37,252,805

		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

Long Term Debt

At year end, the Authority had a total of $30,335,000 in bonds outstanding, versus $32,700,000 last year, a decrease of 7%.

Summary of Outstanding Long-Term Bonds

June 30, 2013 and 2012

		2013	2012
Senior subordinated debt	$	150,000	2,515,000
Guaranteed subordinated debt		30,185,000	30,185,000
Total outstanding debt	$	30,335,000	32,700,000

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 jurisdictions expire in January 2018. A Post 2018 Technical Committee was formed comprised of employees from each of the eight member jurisdictions, SPSA staff and staff of the Hampton Roads Planning District Commission. As a result of the meetings, the eight member jurisdictions have each adopted a resolution supporting the continued operation of SPSA post 2018 based on certain principles which continue to be discussed. The next objective of the committee is to draft a memorandum of understanding (MOA) outlining the basis for a new use and support agreement.

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 Position

June 30, 2013 and 2012

Assets		**2013**	**2012**
Current assets:			
Cash and cash equivalents	$	2,402,000	8,765,852
Investments		18,325,752	10,012,405
Accounts receivable:			
Authority members		3,793,076	4,045,224
Other customers		308,443	554,250
Allowance for doubtful accounts		(45,000)	(185,000)
Prepaid expenses		237,468	240,945
Inventory - maintenance parts		242,083	193,488
Accrued interest receivable		11,596	4,822
Total current assets		25,275,418	23,631,986
Noncurrent assets:			
Restricted assets:			
Investments		2,498,309	10,216,591
Accrued interest receivable		66	8,423
Total restricted assets		2,498,375	10,225,014
Capital assets, net of accumulated depreciation and depletion		37,252,805	40,468,065
Intangible assets, net of accumulated amortization		-	2,494,809
Debt issue costs, net		866,332	971,245
Total noncurrent assets		40,617,512	54,159,133
Total assets	$	65,892,930	77,791,119

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

SOUTHEASTERN PUBLIC SERVICE
AUTHORITY OF VIRGINIA

Enterprise Fund

Statement of Net Position

June 30, 2013 and 2012

Liabilities and Net Position	**2013**	**2012**
Liabilities:		
Current liabilities, payable from current assets:		
Accounts payable	$ 5,023,500	4,421,305
Accrued expenses	1,249,495	1,197,596
Landfill closure and postclosure care liability - current portion	55,721	191,926
Total current liabilities, payable from current assets	6,328,716	5,810,827
Current liabilities, payable from restricted assets:		
Current maturities of bonds payable	150,000	2,365,000
Accrued interest on revenue bonds	348,024	382,546
Total current liabilities, payable from restricted assets	498,024	2,747,546
Total current liabilities	6,826,740	8,558,373
Noncurrent liabilities:		
Bonds payable	28,379,623	27,839,069
Other post employment benefits	1,586,997	1,450,903
Landfill closure and postclosure care liability - noncurrent	15,124,636	23,289,256
Total noncurrent liabilities	45,091,256	52,579,228
Total liabilities	51,917,996	61,137,601
Net position (deficit):		
Net investment in capital assets	8,723,182	12,758,805
Restricted for debt service	112,567	1,565,121
Restricted for other purposes	2,037,784	8,277,347
Unrestricted	3,101,401	(5,947,755)
Total net position	13,974,934	16,653,518
Total liabilities and net position	$ 65,892,930	77,791,119

The accompanying 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 Position

Years ended June 30, 2013 and 2012

		2013	2012
Operating revenue:			
Municipal tipping fees	$	45,108,711	52,839,473
Other tipping fees		2,044,404	2,289,717
Charges for household hazardous waste and tire program		520,381	649,011
Sale of methane gas		523,215	526,807
Other revenue		5,543	11,250
Total operating revenues		48,202,254	56,316,258
Operating expenses:			
Compensation and related payroll costs		9,075,510	9,712,283
Depreciation, depletion and amortization of intangibles		4,329,529	4,666,412
Postage, printing, and supplies		44,275	43,177
Rent and utilities		379,930	389,957
Equipment fuel		1,137,821	1,171,158
Routine maintenance and vehicle operations		2,504,106	2,564,372
Nonroutine maintenance and repairs		736,409	516,447
Insurance		238,186	241,048
Virginia Beach Ash Disposal Agreement costs		10,312,506	13,541,206
Legal and professional services		533,253	572,408
Bad debts		72,530	3,595
Landfill closure and postclosure care cost accrual		1,199,175	191,926
Wheelabrator Service Contract		16,308,633	12,550,758
Other		46,624	30,799
Total operating expenses		46,918,487	46,195,546
Operating income		1,283,767	10,120,712
Nonoperating revenue (expense):			
Net gain (loss) on disposal of capital and intangible assets		(2,054,323)	5,071
Interest expense:			
Interest on long-term debt		(1,447,085)	(2,164,731)
Amortization of loss on defeasance		(725,255)	(780,948)
Amortization of bond issue costs, discounts and premiums - net		(70,213)	(159,772)
Total interest expense		(2,242,553)	(3,105,451)
Other revenue:			
Insurance recoveries		-	46,178
Investment income		39,244	62,061
Other		295,281	318,044
Total other revenue		334,525	426,283
Total nonoperating revenue (expense) -net		(3,962,351)	(2,674,097)
Change in net position		(2,678,584)	7,446,615
Total net position:			
Beginning of year		16,653,518	9,206,903
End of year	$	13,974,934	16,653,518

The accompanying 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, 2013 and 2012

		2013	2012
Cash flows from operating activities:			
Receipts from customers	$	48,487,679	57,282,370
Payments to suppliers for operations		(41,184,666)	(31,734,227)
Payments to employees for compensation		(8,887,517)	(9,724,628)
Net cash provided by (used in) operating activities		(1,584,504)	15,823,515
Cash flows from capital and related financing activities:			
Purchases of capital assets		(869,136)	(1,175,693)
Proceeds from sale of capital assets		195,353	280,475
Proceeds from insurance recoveries		-	46,178
Principal payments on bonds payable		(2,365,000)	(26,035,000)
Interest paid		(1,481,608)	(2,290,879)
Other income		295,281	318,044
Net cash used in capital and related financing activities		(4,225,110)	(28,856,875)
Cash flows from investing activities:			
Proceeds from maturity and sale of investments		38,785,970	50,028,029
Payments for investments purchased		(39,381,035)	(58,285,632)
Interest and dividends received from investments		40,827	55,722
Net cash used in investing activities		(554,238)	(8,201,881)
Decrease in cash and cash equivalents		(6,363,852)	(21,235,241)
Cash and cash equivalents at beginning of year		8,765,852	30,001,093
Cash and cash equivalents at end of year	$	2,402,000	8,765,852
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	$	1,283,767	10,120,712
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation, depletion and amortization of intangibles		4,329,529	4,666,412
Postretirement medical benefit plan expense		136,094	256,096
Provision for bad debts		72,530	3,595
Landfill closure and postclosure care cost accrual		1,318,479	309,163
Changes in operating assets and liabilities:			
Accounts receivable		285,425	966,112
Maintenance parts		(48,595)	102,514
Prepaid expenses		3,477	20,950
Accounts payable - operations		602,195	(109,404)
Accrued expenses		51,899	(199,169)
Accounts payable - restricted			(196,229)
Landfill closure and postclosure care liability settlement		(9,619,304)	(117,237)
Net cash provided by operating activities	$	(1,584,504)	15,823,515

The accompanying 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 position.

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.

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, 2013, the Governor had not appointed any such alternates and only six of the member communities had appointed alternate board members.

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 serving its purpose of the management of the safe and environmentally sound disposal of regional waste.

(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 position, 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 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.

Effective with the financial statements for the fiscal year ended June 30, 2013, the Authority has adopted GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position.* This statement amends previous reporting requirements by incorporating the financial elements of deferred outflows of resources and deferred inflows of resources in the presentation of financial position. Under the provisions of this statement, net position, rather than net assets, represents the difference between all other elements on an entity's statement of financial position, or balance sheet. Accordingly, the Authority's financial statements, items on the balance sheet are now classified as assets, deferred outflows of resources, liabilities, deferred inflows of resources, or net position.

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 Position

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

(d) Cash and Cash Equivalents

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

(e) Investments

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools,* the Authority reports its investment securities at fair value. Fair value is determined as of the statement of net position 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, environmental trust funds (see Note 3) and landfill closure (see Note 7) 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) Inventory - Maintenance Parts

Inventory - 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 2013 and 2012. 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. During 2013, the remaining unamortized amount of approximately $2.5 million was written off since the Authority no longer uses the Virginia Beach landfill.

(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.

(Continued)

(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.

(q) Subsequent Events

The Authority has evaluated subsequent events from the statements of net position date through December 5, 2013, 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, 2013 and 2012, the Authority's cash and cash equivalents balance totaled $2,402,000 and $8,765,852, 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 $20,835,723 and $20,242,241 as of June 30, 2013 and 2012, respectively, and are held for the purposes and in the respective accounts described below:

2013	Investments	Accrued interest receivable	Total
Unrestricted (a)	$ 10,000,000	11,596	10,011,596
Tip Fee Stabilization Fund (designated) (b)	3,325,752	-	3,325,752
Bond accounts (c)	460,577	14	460,591
Landfill closure fund (designated) (d)	5,000,000	-	5,000,000
Landfill closure fund (restricted) (d)	1,206,000	-	1,206,000
Environmental trust fund accounts (e)	831,732	52	831,784
	$ 20,824,061	11,662	20,835,723

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

(a) Unrestricted Accounts

These funds represent the operating reserve account as required by the Authority's bond resolutions.

(b) Tip Fee Stabilization Fund

These funds represent money set aside in order to maintain a level municipal tip fee in future years.

(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 (designated and restricted)

This account holds funds designated and restricted 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, 2013 and 2012, are as follows:

		2013		2012	
		Suffolk Environmental Trust Fund	Virginia Beach Environmental Trust Fund	Suffolk Environmental Trust Fund	Virginia Beach Environmental Trust Fund
Cities:					
Chesapeake	$	99,152	104,796	96,994	102,259
Franklin		6,114	6,379	6,211	6,463
Norfolk		98,366	103,055	97,986	102,373
Portsmouth		43,335	45,576	42,170	44,221
Suffolk		1,554	1,659	1,548	1,650
Virginia Beach		126,727	135,263	122,756	130,790
Counties:					
Isle of Wight		18,018	19,188	17,548	18,651
Southampton		10,955	11,595	10,904	11,515
	$	404,221	427,511	396,117	417,922

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.

At June 30, 2013, the credit risk of the total investments were:

	Rating	Percentage
Wells Fargo Commercial Checking Account Public Funds	No rating	42.1%
TowneBank Money Market	No rating	27.7
Certificate of Deposit	No rating	24.9
PFM Funds - Prime Series Money Market Fund includes Institutional Class	AAAm	2.4
Federated Treasury Obligations Funds	AAAm	0.7
U.S. Bank Money Market Deposit Account	No rating	2.2

At 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

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, 2013, approximately 42.1% of SPSA's total investments were invested in Wells Fargo Commercial Checking Account for public funds and 27.7% were invested in TowneBank Money Market Account. Although the amount invested in each bank depository exceeds the 25% maximum per SPSA's policy, these funds were fully collateralized in accordance with the Virginia Security for Public Deposits Act (Act).

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.

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, 2013, 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	$ 507,920	507,920	-	-
Federated Treasury Obligations Money market	137,013	137,013	-	-
U.S. Bank money market Deposit account	460,577	460,577	-	-
Wells Fargo Commercial Checking Account Account Public Funds	8,773,426	8,773,426	-	-
TowneBank Money Market	5,756,902	5,756,902	-	-
Local Government Investment Pool	1,423	1,423	-	-
Certificate of deposit	5,186,800	5,186,800	-	-
	$ 20,824,061	20,824,061	-	-

As of June 30, 2012, 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	$ 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	-

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 counterparty to the investment transaction. As of June 30, 2013 and 2012, 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, 2013 and 2012, consist of the following:

	Balance July 1, 2012	Increases	Decreases	**Balance June 30, 2013**
Capital assets not being depreciated or depleted:				
Land	$ 2,646,251	-	-	2,646,251
Construction-in-progress	15,175	15,525	(8,316)	22,384
Total capital assets not being depreciated or depleted	2,661,426	15,525	(8,316)	2,668,635
Other capital assets				
Improvements (regional landfill)	64,179,318	-	-	64,179,318
Other land improvements	495,511	-	-	495,511
Buildings	42,560,055	32,622	-	42,592,677
Equipment	19,845,988	761,266	(288,098)	20,319,156
Motor vehicles	12,978,553	68,039	(707,410)	12,339,182
Total other capital assets	140,059,425	861,927	(995,508)	139,925,844
Less - accumulated depreciation and depletion:				
Improvements (regional landfill)	48,202,110	205,495	-	48,407,605
Other land improvements	495,511	-	-	495,511
Buildings	30,663,004	1,637,309	-	32,300,313
Equipment	13,858,542	1,366,281	(288,098)	14,936,725
Motor vehicles	9,033,619	834,831	(666,930)	9,201,520
Total accumulated depreciation and depletion	102,252,786	4,043,916	(955,028)	105,341,674
Other capital assets - net	37,806,639	(3,181,989)	(40,480)	34,584,170
Total	$ 40,468,065	(3,166,464)	(48,796)	37,252,805

	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 landfill)	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 landfill)	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

(Continued)

(5) Long-Term Debt

(a) Bonds Payable

Bonds payable at June 30, 2013 and 2012, consist of the following:

		2013	2012
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
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)		-	400,000
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)		-	1,415,000
Senior Subordinated Tax-Exempt Bonds, Series 17, dated June 8, 2006, and issued in the original amount of $3,495,000, due October 2013 (held by VRA)		150,000	290,000
Guaranteed Subordinated Refunding Bonds, 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
	$	30,335,000	32,700,000

		2013	2012
Total bonds payable	$	30,335,000	32,700,000
Plus:			
Unamortized bond premiums		-	34,701
Less:			
Deferred loss on defeasance		(1,805,377)	(2,530,632)
Current maturities of bonds payable		(150,000)	(2,365,000)
Noncurrent portion of bonds payable	$	28,379,623	27,839,069

Rates of interest on the bonds outstanding and payable range from 3.85% to 5.59% for the years ended June 30, 2013 and June 30, 2012.

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, 2013, were as follows:

Member Community	Guarantee percentage		Principal guarantee
City of Chesapeake	22.49%	$	6,822,342
City of Franklin	0.97		294,249
Isle of Wight County	3.98		1,207,333
City of Norfolk	16.98		5,150,883
City of Portsmouth	10.27		3,115,404
Southampton County	2.10		637,035
City of Suffolk	12.87		3,904,115
City of Virginia Beach	30.34		9,203,639
	100.00%	$	30,335,000

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.

(Continued)

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, 2013 and 2012:

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
Principal paid and defeased		(2,365,000)
Balances as of June 30, 2013	$	30,335,000

Aggregate maturities of bonds payable (principal and interest) at June 30, 2013, are as follows:

		Principal	Interest	Total
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
	$	30,335,000	4,719,873	35,054,873

(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 position. 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 2013 and 2012, the Authority recorded $10,312,506 and $13,541,206, respectively, for expenses related to reimbursements to Virginia Beach in accordance with the ash disposal agreement.

The per ton capped rate for fiscal years 2013 and 2012 was $65.35 in each year, compared to the per ton municipal tipping fee of $125 in 2013 and a blended rate of $143.33 in 2012. 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, 2013 and 2012, are $15,180,357 and $23,481,182 respectively. The four components are described as follows:

The first component of the liability relates to Cells I-IV, which totaled $3,156,674 and $3,221,217 as of June 30, 2013 and 2012, 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, 2013 and 2012, 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 41% of Cell VI of the Regional Landfill is $12,023,683 and $11,903,419 as of June 30, 2013 and 2012, 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, 2013 and 2012, respectively.

The final component relates to the Virginia Beach Landfill. The Authority has recorded $0 and $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, 2013 and June 30, 2012, respectively. In February 2013, the Authority and the City of Virginia Beach entered into an agreement whereby SPSA agreed to pay a one-time fixed amount of $9.5 million for its share of closure and postclosure costs as it relates to the Virginia Beach Landfill Phase 1cell. Since no more ash and residue is being disposed of in the Virginia Beach landfill, the Authority does not have any future obligation as it pertains to closure and postclosure costs.

Actual closure and postclosure care costs for the Regional Landfill 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 2013, 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 restricted sinking fund and a bank issued letter of credit ($1,000,000 at June 30, 2013), 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, 2013 and 2012:

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
Revision of estimate	1,318,479
Payments made	(9,619,304)
Balances as of June 30, 2013	$ 15,180,357

(8) Commitments

In the normal course of operations, the Authority enters into various construction contracts. As of June 30, 2013 and 2012, total commitments under these contracts amounted to $465,603 and $115,575, 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 2013 and 2012,was comprised of the following:

	FY 2013	FY 2012
Service fee	$ 21,000,000	20,000,000
Less:		
10% of steam revenue	(889,299)	(807,626)
SPSA hauling fee	(3,342,034)	(3,104,401)
Loading fee	(328,734)	(442,289)
10% of proprietary waste revenue	(82,922)	(74,441)
Liquidated damages for failure to remove trailer	(5,000)	(20,000)
Fuel surcharge	(690,804)	(658,082)
Diverted waste disposal at regional landfill	-	(1,597,400)
Extended hours at transfer station	(49,299)	(48,278)
Credit for annual real estate tax threshold	696,725	(696,725)
Net service fee paid	$ 16,308,633	12,550,758

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. In November 2012, the Authority signed a Release Agreement with Wheelabrator whereby returning the $696,725 previously withheld and simultaneously signed Addendum No. 5 which removed the real estate tax provision, mentioned above, from the service agreement and reduced the annual delivery guarantee from 500,000 tons in fiscal year 2013 to 497,500 tons for fiscal years 2014 and 2015; 496,250 tons in fiscal year 2016; 490,000 tons in fiscal year 2017. 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. In fiscal year 2012, Wheelabrator chose to divert some processible waste and the Authority agreed to accept and haul the diverted waste to the regional landfill at a price of $60 per ton plus increased transportation costs. This charge of $1,597,400 was applied as a credit against the service fee. No diverted waste was accepted at the regional landfill in fiscal year 2013.

(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 employed 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. Non-hazardous 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. Non-hazardous 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 least 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 reduced benefits 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/2012-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 compensation toward their retirement. All or part of the 5% member contribution may be assumed by the employer. Beginning July 1, 2012 new employees were required to pay the 5% member contribution. In addition for existing employees, employers were required to begin making the employee pay the 5% member contribution. This could be phased in over a period of up to 5 years and the employer is required to provide a salary increase equal to the amount of the increase in the employee-paid member contribution. 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 2013 was 4.89% of annual covered payroll.

Annual Pension Cost

For fiscal year ended June 30, 2013, the Authority's annual pension cost of $617,457 for VRS 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, 2011	$	614,633
June 30, 2012		588,239
June 30, 2013		617,457

The FY 2013 required contribution was determined as part of the June 30, 2011, actuarial valuation using the entry age actuarial cost method. The actuarial assumptions at June 30, 2011, included (a) an investment rate of return (net of administrative expenses) of 7.0%, (b) projected salary increases ranging from 3.75% to 5.60% per year for general government employees, 3.75% to 6.20% per year for teachers, and 3.50% to 4.75% 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 for Plan 1 employees and 2.25% for Plan 2 employees. 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, 2012 for the Unfunded Actuarial Accrued Liability (UAAL) was 30 years.

(c) Funded Status and Funding Progress

As of June 30, 2012, the most recent actuarial valuation date, the plan was 97.42% funded. The actuarial accrued liability for benefits was $39,227,810, and the actuarial value of assets was $38,216,556 resulting in an unfunded actuarial accrued liability (UAAL) of $1,011,254. The covered payroll (annual payroll of active employees covered by the plan) was $5,831,365, and ratio of the UAAL to the covered payroll was 17.34%.

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. Effective July 1, 2011, 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 ten 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

For employees that retired prior to July 1, 2011, SPSA contributes up to 50% of the amount it 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.

For employees that retired after July 1, 2011, SPSA contributes up to 50% of the amount it normally pays for active employees for the lowest tier of coverage on the least expensive plan. 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, 2012	$	1,450,903
ARC for 2013:		
Normal cost		125,100
Unamortized actuarial accrued liability (UAAL)		113,500
Total ARC for 2013		238,600
Interest on net OPEB obligation		50,782
Adjustment to ARC		(78,888)
Annual OPEB cost		210,494
Less - contributions made		(74,400)
Increase in net OPEB obligation		136,094
Net OPEB obligation as of June 30, 2013	$	1,586,997

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)
Increase in net OPEB obligation		256,096
Net OPEB obligation as of June 30, 2012	$	1,450,903

The Authority's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2013, 2012, 2011, 2010 and 2009, were as follows:

Year ended June 30		Annual OPEB cost	Percentage of annual OPEB cost contributed		Net OPEB obligation
2013	$	210,494	35.3%	$	1,586,997
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, 2013, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits and the UAAL was $2,159,900. The covered payroll (annual payroll of active employees covered by the plan) was $6,132,300, and the ratio of the UAAL to the covered payroll was 35.2%. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The change in the net liability from June 30, 2010, to June 30, 2013, is the due to the following:

(1) Demographic experience differed from expected;

(2) Healthcare cost experience differed from expected;

(3) Updated demographic assumptions to match the most recent Virginia Retirement Assumptions;

(4) Updated medical trend assumption;

(5) Updated implicity subsidy assumption;

(6) Updated discount rate assumption from 4.00% as of June 30, 2010, to 3.50% as of June 30, 2013;

(7) A decrease in the number of covered retirees and dependents from 20 as of June 30, 2010 to 8 as of June 30, 2013; and,

(8) A change in the medical plans offered from the Optima HMO and POS plans to the lower cost Key Advantage 500 and 1000 plans.

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, 2013, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions at June 30, 2013, included a 3.5% investment rate of return and an annual healthcare cost trend rate increase of 7.0% grading down to 4.8% over 70 years. The Authority's unfunded actuarial accrued liability is being amortized on a level dollar amount basis over a period of 30 years.

(f) Actuarial Gain

The liability gain is a measure of the difference between assumed events and actual events. It includes the difference between assumed and actual healthcare cost increases, retirements, terminations, deaths, and other events. It also includes changes in benefits and actuarial methods and assumptions. At June 30, 2013, the plan realized an actuarial gain of $1,954,700.

(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)

Schedule of Funding Progress

Valuation date			June 30, 2012	June 30, 2011	June 30, 2010
Actuarial value of assets (AVA)	(1)	$	38,216,556	39,352,277	39,615,852
Actuarial accrued liability (AAL)	(2)	$	39,227,810	38,846,674	35,381,790
Unfunded (overfunded) actuarial accrued liability (UAAL) (2) - (1)	(3)	$	1,011,254	(504,603)	(4,234,062)
Fund ratio (1)/(2)	(4)		97.42%	101.30%	111.97%
Annual covered payroll	(5)	$	5,831,365	5,865,951	6,948,776
UAAL as a % of payroll (3)/(5)	(6)		17.34%	(8.60)%	(60.93)%

Schedule of Postretirement Medical Benefit Plan Funding Progress (Unaudited)

June 30, 2013

Valuation date			June 30, 2013	June 30, 2010	June 30, 2008
Actuarial value of assets (AVA)	(1)	$	-	-	-
Actuarial accrued liability (AAL)	(2)	$	2,159,900	3,434,100	4,967,164
Unfunded (overfunded) actuarial accrued liability (UAAL) (2) - (1)	(3)	$	2,159,900	3,434,100	4,967,164
Fund ratio (1)/(2)	(4)		0%	0%	0%
Annual covered payroll	(5)	$	6,132,300	6,395,300	17,001,029
UAAL as a % of payroll (3)/(5)	(6)		35.2%	53.7%	29.2%

(Continued)

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

The Board of Directors
Southeastern Public Service Authority of Virginia:

We have audited, in accordance with the 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, the financial statements of ***Southeastern Public Service Authority of Virginia***, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise ***Southeastern Public Service Authority of Virginia***'s basic financial statements, and have issued our report thereon dated December 5, 2013.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered ***Southeastern Public Service Authority of Virginia's*** internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of ***Southeastern Public Service Authority of Virginias*** internal control. Accordingly, we do not express an opinion on the effectiveness of ***Southeastern Public Service Authority of Virginia***'s internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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.*

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Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of ***Southeastern Public Service Authority of Virginia's*** internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Dixon Hughes Goodman LLP

Newport News, Virginia
December 5, 2013