

Fauquier County
Water and Sanitation Authority

Warrenton, Virginia

**Comprehensive Annual
Financial Report**



**YEARS ENDED
JUNE 30, 2008 AND 2007**

FAUQUIER COUNTY WATER AND SANITATION AUTHORITY

WARRENTON, VIRGINIA

Comprehensive Annual Financial Report
Years Ended June 30, 2008 and 2007

Prepared by:

William Skinker
Chief Financial Officer / Director of Finance

FAUQUIER COUNTY WATER AND SANITATION AUTHORITY

Comprehensive Annual Financial Report
Years Ended June 30, 2008 and 2007

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OFFICERS AND BOARD MEMBERS

L. Paul Blackmer, Jr. – Chairperson
James R. Green, Jr. – Vice Chairperson
Earle H. Douple, Jr. – Secretary/Treasurer
Maureen S. Riordan, Esquire
Raymond E. Graham

AUDIT COMMITTEE

L. Paul Blackmer, Jr.
James R. Green, Jr.

SENIOR MANAGEMENT

Barney E. Durrett, Jr., General Manager
Philip Farley, Deputy General Manager
William Skinker, Chief Financial Officer/Director of Finance
J. Wayne Stephens, Director of Engineering
Thomas P. Dineen, Executive Assistant and Personnel Administrator
Wesley Basore, Director of Operations

FAUQUIER COUNTY

WATER & SANITATION AUTHORITY

7172 Kennedy Road • Vint Hill Farms

Warrenton, Virginia 20187-3907

Phone (540) 349-2092 • Fax (540) 347-7689



September 15, 2008

Board of Directors of the
Fauquier County Water and Sanitation Authority
Fauquier County, Virginia

Ladies and Gentlemen:

The Comprehensive Annual Financial Report for the Fauquier County Water and Sanitation Authority (the Authority) for the year ended June 30, 2008 is submitted herewith. Financial data, including all appropriate disclosures, have been prepared in accordance with the standards for financial reporting promulgated or permitted by the Governmental Accounting Standards Board.

Management is responsible, in all material respects, for the accuracy of the data and the completeness and fairness of the presentations, including all disclosures. We believe the data presents fairly the financial position and results of operations of the Authority.

The Comprehensive Annual Financial Report (CAFR) is presented in three sections: introductory, financial and statistical. The introductory section includes the letter of transmittal and organizational chart. The financial section includes the Independent Auditors' Report, Management's Discussion and Analysis (MD&A), and the basic financial statements. The statistical section includes selected financial and demographic information about the Authority. This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The Authority's MD&A can be found immediately following the Independent Auditors' Report.

The Authority

The Authority was created by a resolution of the Board of County Supervisors of Fauquier County, Virginia (the County) in 1964 and reincorporated in 1975. The Authority is chartered by the State Corporation Commission and is an independent public body responsible for providing a comprehensive county-wide water and sewer system.

The management of the Authority is vested in a board of five members appointed by the Board of County's Supervisors. The Authority Board appoints the General Manager, who is responsible for the daily management of the Authority.

*Economic
Conditions and
Outlook*

The County is located approximately 40 miles southwest of Washington, D.C. and is an integral part of the Washington metropolitan area. The service area of the Authority is traversed by one major interstate providing access to the metropolitan area and surrounding jurisdictions. The Authority is located in a growing county with a current estimated population of approximately 64,000 and expected to exceed 67,700 by the year 2011 and 69,600 by the year 2016.

The local economy, like the national economy, has declined from the prior year. The Authority's customer base continues to grow each year. In fiscal year 2008, the Authority's customer base increased by 266 accounts to 9,035, or 3 % above the fiscal year 2007.

Employment within the service area is well diversified. However, the unemployment rate has increased over fiscal year 2007. As of June 30, 2008, the total civilian labor force in Fauquier County was 37,183, of which 36,216 were employed and 967 were unemployed, resulting in an unemployment rate of 2.6 %.

The Authority's major customers are well-established entities composed of multi-family housing complexes, county schools, federal complex and shopping centers.

*Internal Control
Structure and
Budgetary
Controls*

The Authority's management is responsible for establishing and maintaining a system of internal accounting controls. The objectives of internal controls are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition and that those financial records for preparing financial statements and maintaining asset accountability are reliable. The concept of reasonable assurance recognizes that estimates and judgments made by management are required to assess the expected benefits and related costs of control procedures. Management reviews internal controls on a continuing basis.

The Authority prepares an annual budget for current expenses and capital outlays. The proposed budget is prepared by management and submitted to the Board of Directors for approval.

*Cash
Management*

The Authority controls current expenses at both the functional and operating division levels. Division managers are responsible for budgetary items that are controllable within their divisions. The Finance office is responsible for general Authority costs, as well as monitoring expenses by function for the Authority as a whole. Controlling all expenses at different levels strengthens overall budgetary and management controls.

The Authority has a conventional approach to managing its cash, which complies with the guidelines provided by the Auditor of Public Accounts of the Commonwealth of Virginia. Our primary goal is the preservation of invested capital. All funds are designated for specific purposes, ranging from meeting day-to-day expenses to funding our long-term water and sewer commitments. In making investments, the Authority considers cash flow requirements as well as the quality and return of potential investments.

*Major
Initiation*

The state and federal governments have enacted regulations on the nutrient quality of wastewater entering the Chesapeake Bay's tributaries. The effective date is December 31, 2010. The Authority is in the early stages of implementing a two phase plan to meet these regulatory requirements. In the first phase, contracts will be awarded in early 2009 to have the minimum upgrades necessary to match compliance with regulations. Our engineering firms have estimated the cost for the two wastewater treatment plants at \$6,000,000. These upgrades will allow credit trading of nutrients between the plants to assist in meeting the regulatory requirements. The Authority estimates that this process will give a seven to eight year window before starting the major upgrades required in phase two.

In year 2016, the Authority will begin soliciting bids for the second phase in upgrading the two wastewater treatment plants to meet the nutrient requirements. The estimated cost on the phase 2 upgrades on the two plants is \$20,000,000.

The above plan included reviewing the financial requirements. Fiscal Year 2016 will be the end of a debt service payment of about \$1 million. With this knowledge, the Authority's management developed the two phase plan to produce the best effect on the user's rate and customer, and to cover the new debt service.

*Risk
Management*

The Authority contracts with an outside insurance agency to ensure that policy coverage's provide adequate protection against losses from accidents, fires, floods and other natural disasters. The Authority's insurance company performs physical inspections of our facilities and provides a report, including recommendations, if necessary, on safety regulations.

*Independent
Audit*

The Virginia State Code requires that an annual audit be performed. The Authority's financial statements for the year ended June 30, 2008 have been audited by Robinson, Farmer, Cox Associates a firm of licensed certified public accountants. The fiscal year 2008 Independent Auditors' Report is located in the financial section of this document.

Awards

The Governmental Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Fauquier County Water & Sanitation Authority for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2007. This is a prestigious national award recognizing conformance with the highest standards for preparation of state and local governmental financial reports.

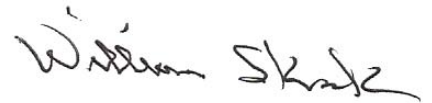
In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards. Such report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current comprehensive annual financial report conforms to the Certificate of Achievement Program requirements and we are submitting it to GFOA to determine its eligibility for another Certificate.

Acknowledgments

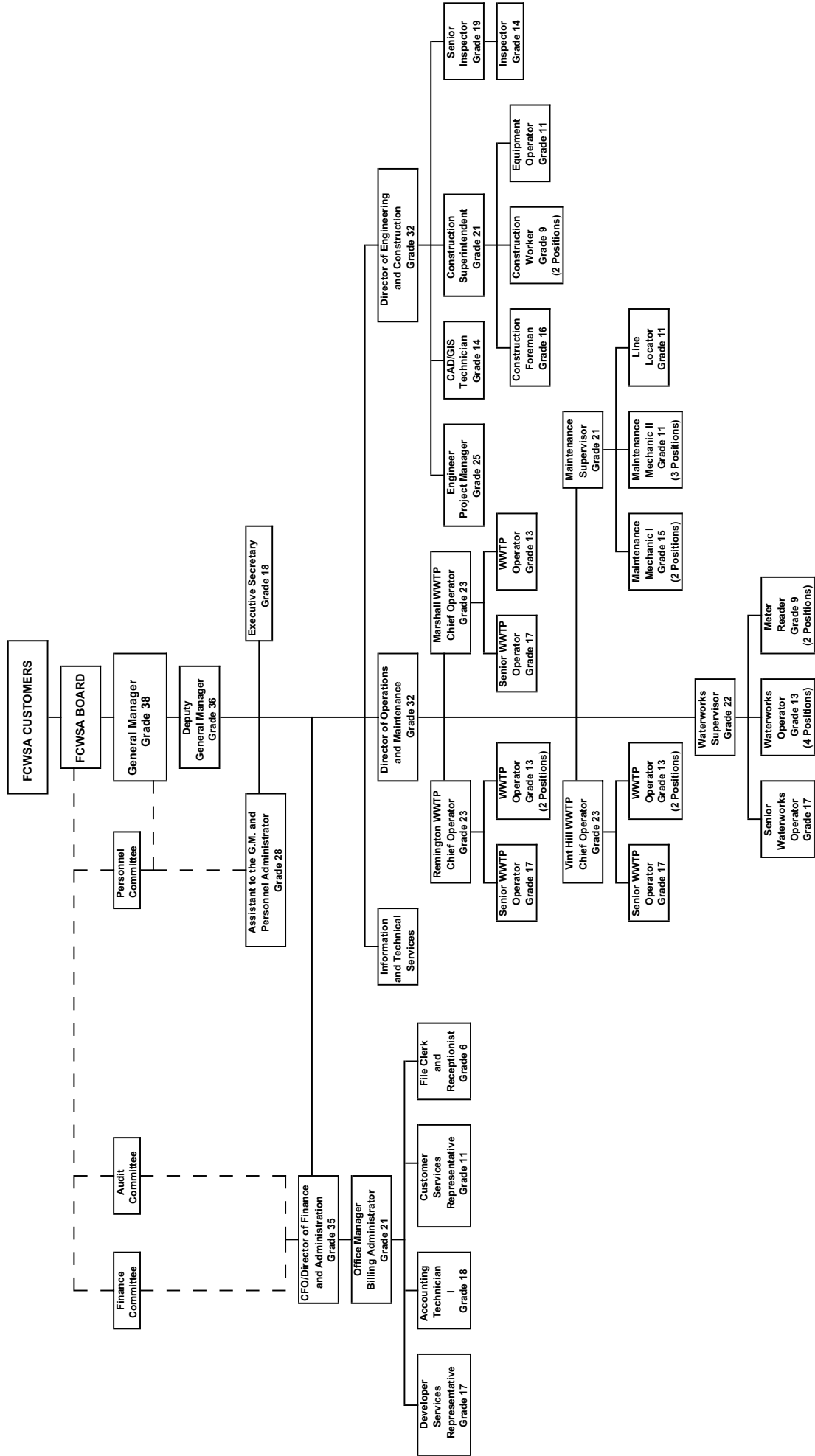
The preparation of this report could not have been accomplished without the efficient and dedicated services of the entire Finance staff of the Authority. All members of the division have my sincere appreciation for their contributions to the preparation of this report. I would also like to thank the General Manager, Deputy General Manager, and Board of Directors for their interest and support in planning and conducting the financial operations of the Authority in a responsible and progressive manner.

Respectfully submitted,

A handwritten signature in black ink that reads "William Skinker". The signature is written in a cursive style with a prominent initial "W".

William Skinker
Chief Financial Officer/Director of Finance

FCWSA ORGANIZATION



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Certificate of Achievement for Excellence in Financial Reporting

Presented to

Fauquier County Water & Sanitation Authority

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2007

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Charles S. Cox

President

Jeffrey R. Emer

Executive Director

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ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

Independent Auditors' Report

To The Honorable Members of Board of Directors Fauquier County Water and Sanitation Authority Warrenton, Virginia

We have audited the accompanying statements of net assets of the Fauquier County Water and Sanitation Authority as of June 30, 2008 and 2007 and the related statements of revenues, expenses and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Fauquier County Water and Sanitation Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and the Specifications for Audits of Authorities, Boards and Commissions issued by the Auditor of Public Accounts of the Commonwealth of Virginia. 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Fauquier County Water and Sanitation Authority, as of June 30, 2008 and 2007, and the changes in financial position and cash flows thereof 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 September 10, 2008, on our consideration of the Fauquier County Water and Sanitation Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and important for assessing the results of our audit.

The Management's Discussion and Analysis and the Schedule of Funding Progress for Defined Benefit Pension Plan as listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements that collectively comprise the Fauquier County Water and Sanitation Authority's basic financial statements. The introductory and statistical sections are presented for purposes of additional analysis and are not a required part of the basic financial statements. These sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Robinson, Farmer, Cox Associates

Charlottesville, Virginia
September 10, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis of the Fauquier County Water and Sanitation (the "Authority") financial performance provides a narrative overview of the financial activities of the Authority for the fiscal year ended June 30, 2008. We encourage readers to consider the information presented here in conjunction with the audited financial statements that follow this section.

FINANCIAL HIGHLIGHTS

- Total revenues and expenses were \$9,278,793 and \$7,238,892 respectively during FY2008.
- Operating revenues were flat in FY2008 at \$5.2 million. Operating expenses increased 3.8% to \$6.9 million.
- Construction was completed on two major projects. First, the Vint Hill WWTP upgrade and phase I expansion at a cost of \$9.2 million. The second, Rogues Road Water Tank Booster Facility at a cost of \$2.6 million.
- Construction on the Marshall Water Main Line started in the fourth quarter of FY2008 with a budget of \$1.2 Million.
- Total net assets increased by \$2,039,901 to \$47,402,364 during FY2008.
- The Authority has received unqualified audit opinions for over thirty years.

OVERVIEW OF THE FINANCIAL STATEMENTS

There are three types of financial statements included in the financial section of this report – Statements of Net Assets, Statements of Revenues, Expenses and Changes in Net Assets and Statements of Cash Flows. The Statements of Net Assets includes all of the Authority's assets and liabilities using the accrual basis of accounting. It provides the basis for evaluating the capital structure of the Authority and assessing the liquidity and flexibility of the Authority. All current and prior year's revenues and expenses are accounted for in the Statements of Revenues, Expenses and Changes in Net Assets. This statement measures the performance of the Authority's operations over the past year and it can be used to determine whether the Authority has successfully recovered its costs through user fees and other charges. The Statements of Cash Flow report the cash provided and used by operating activities as well as other cash sources such as investment income and cash payments for debt and capital additions. The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the statements.

FINANCIAL ANALYSIS

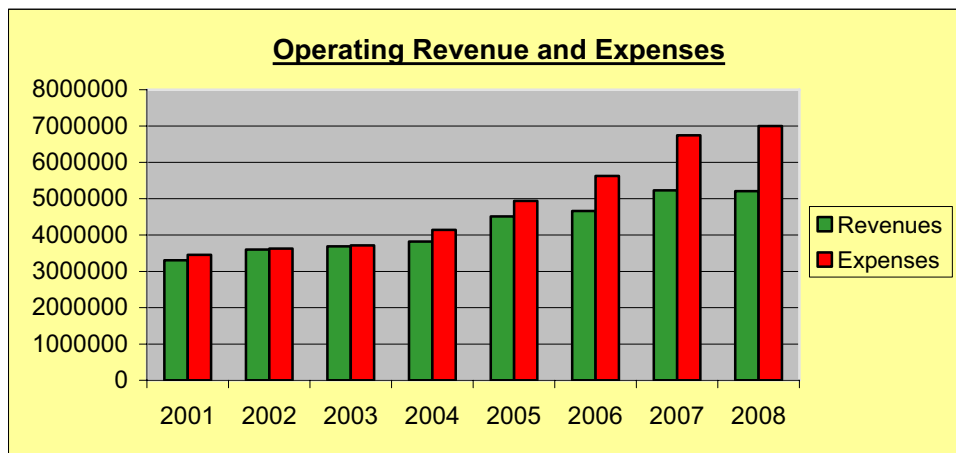
The Statements of Net Assets and the Statements of Revenues, Expenses and Changes in Net Assets report information about the Authority's activities to determine if, overall, the financial position improved over the year. These reports help determine the financial health of the Authority and whether the Authority's financial position is improving or deteriorating. Non-financial factors such as economic conditions, population growth and changes in governmental legislation need to be considered as well. The Authority's financial strength continued to improve during FY 2008 as described in the following sections of this report.

FINANCIAL ANALYSIS: (Continued)

Net Assets and Liabilities - The Authority's total assets increased by \$2,039,901 or 4.5%, during FY 2008. A significant portion of this increase was due to capital contributions of \$2.7 million during FY2008. Total liabilities increased by \$2,775,150 during this period. This was due to recognizing the deferred revenue and refundable availabilities collected for the New Baltimore Collection System. The following table depicts the Authority's assets and liabilities as of June 30, 2008, 2007, and 2006:

	Net Assets		
	2008	2007	2006
Current and other assets	\$ 8,334,008	\$ 7,138,308	\$ 18,139,956
Capital assets	<u>52,930,260</u>	<u>49,310,909</u>	<u>38,910,734</u>
Total assets	<u>\$ 61,264,268</u>	<u>\$ 56,449,217</u>	<u>\$ 57,050,690</u>
Long-term liabilities outstanding	\$ 9,994,471	\$ 8,813,885	\$ 12,219,411
Other liabilities	<u>3,867,433</u>	<u>2,272,869</u>	<u>2,116,647</u>
Total liabilities	<u>\$ 13,861,904</u>	<u>\$ 11,086,754</u>	<u>\$ 14,336,058</u>
Net assets:			
Invested in capital assets, net of related debt	\$ 43,108,473	\$ 40,806,516	\$ 31,052,290
Restricted	-	-	6,536,105
Unrestricted	<u>4,293,891</u>	<u>4,555,947</u>	<u>5,126,237</u>
Total net assets	<u>\$ 47,402,364</u>	<u>\$ 45,362,463</u>	<u>\$ 42,714,632</u>

Operating Income - Operating revenues totaled \$5.2 million in FY 2008, a decrease of .41% over FY 2007. This decrease can be attributed to the slow down in the real estate market. Operating expenses totaled \$7 million in FY 2008, an increase of 3.8% over FY 2007. This increase was due to a number of factors, including growth of the customer base, high fuel cost, chemical cost and depreciation. The following chart depicts operating revenues compared to operating expenses during the last seven years.



As a governmental entity, the Authority's goal is to match revenues with expenses and not generate a profit. As such, the Authority will generally experience a small loss or profit, neither of which adversely affects the financial condition of the organization.

FINANCIAL ANALYSIS: (Continued)

In recognition of the trend towards increasing shortfalls between the Authority's operating revenues and expenses, which is being further compounded by significant increases in operating expenses such as chemicals, utilities and fuel as well as increases in our debt service to comply with new regulatory requirements, the Authority Board adopted various rate increases for implementation during FY 2009. It is anticipated that these rate increases, when applied during FY 2009 and future periods, will better match the Authority's operating revenues and expenses.

The following table is a comparison of operating revenues, operating expenses, non-operating revenues and expenses, net income and capital contributions for the years ending June 30, 2008, 2007, and 2006:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Operating revenues:			
Water service	\$ 2,695,893	\$ 2,287,085	\$ 1,861,932
Sewer service	2,070,737	2,266,749	2,191,139
Plan review and inspection fees	74,006	193,518	93,737
Late charges	115,791	111,070	97,090
Vint Hill Reimbursement	-	-	61,830
Marshall WW reimbursement	-	-	45,664
Other operating revenues	248,329	367,610	309,521
Total operating revenues	<u>\$ 5,204,756</u>	<u>\$ 5,226,032</u>	<u>\$ 4,660,913</u>
Operating expenses:			
Salaries	\$ 2,200,437	\$ 1,969,118	\$ 1,500,903
Fringe benefits	742,049	676,891	511,155
General and administrative	388,294	526,150	369,935
Legal expense	153,447	567,185	713,830
Operations and maintenance	1,446,519	1,272,715	961,767
Depreciation expense	2,068,985	1,731,653	1,569,966
Total operating expenses	<u>\$ 6,999,731</u>	<u>\$ 6,743,712</u>	<u>\$ 5,627,556</u>
Net operating income (loss)	<u>\$ (1,794,975)</u>	<u>\$ (1,517,680)</u>	<u>\$ (966,643)</u>
Non-operating revenue and expenses:			
Availability fees	\$ 1,137,703	\$ 2,337,713	\$ 4,229,644
Gain (loss) on sale of assets	-	-	11,708
Interest earned	197,179	639,736	607,943
Contribution	-	-	-
Litigation settlement expenses	-	(1,950,000)	-
Bad debt expense	-	-	(12,731)
Interest expense	(239,161)	(262,603)	(258,635)
Net nonoperating revenue	<u>\$ 1,095,721</u>	<u>\$ 764,846</u>	<u>\$ 4,577,929</u>
Net income (loss) before capital contributions	\$ (699,254)	(752,834)	3,611,286
Capital Contributions	<u>2,739,155</u>	<u>3,400,665</u>	<u>6,538,800</u>
Change in net assets	\$ 2,039,901	\$ 2,647,831	\$ 10,150,086
Net assets, at beginning of year	<u>45,362,463</u>	<u>42,714,632</u>	<u>32,564,546</u>
Net assets, at end of year	<u>\$ 47,402,364</u>	<u>\$ 45,362,463</u>	<u>\$ 42,714,632</u>

CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets - The increase in capital assets for FY 2008 is the result of several CIP projects having been completed and placed into service, and capital contributions. Major capital asset additions are summarized as follows:

Vint Hill WWTP (Structure, Improv & Equip)	\$	9,238,999
Vehicles		250,303
Rogues Road Tank & Booster Sys (Structure, Improv & Equip)		2,641,288
Rock Springs Water Lines		258,179
Paris Water Lines		372,016
Canterbury and Marshall Lane/Piedmont wells		240,936
Office Equipment		30,427
New Meters		56,337

The seven largest construction projects as of June 30, 2008 are as follows:

Marshall Water System Phase I	\$	1,126,848
Marshall WWTP ENR		117,806
Remington WWTP ENR		381,744
Vint Hill WWTP Expansion & ENR		78,190
The Plains Hydro Study		117,806
SCADA System		91,946
GBS Maintenance System		32,885

The following table shows capital asset balances for the fiscal year ending June 30, 2008, 2007, and 2006:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Water Facilities	\$ 7,723,237	\$ 6,623,237	\$ 6,473,545
Sewer Facilities	31,942,209	22,674,053	22,566,628
Infrastructure	29,908,787	27,388,366	22,622,593
Headquarters Building	869,919	869,919	857,919
Machinery/Equipment	4,283,668	3,769,275	1,456,773
Construction Equipment	535,718	476,449	346,449
Land	1,553,425	1,553,425	1,553,425
CIP and R&R	<u>2,111,549</u>	<u>9,828,057</u>	<u>5,191,331</u>
Total property & equipment	\$ <u>78,928,512</u>	\$ <u>73,182,781</u>	\$ <u>61,068,663</u>
Less: depreciation	\$ <u>26,098,252</u>	\$ <u>23,871,872</u>	\$ <u>22,157,929</u>
Net property & equipment	\$ <u><u>52,830,260</u></u>	\$ <u><u>49,310,909</u></u>	\$ <u><u>38,910,734</u></u>

Additional information on the capital assets can be reviewed in Note 5 beginning on page 20.

CAPITAL ASSETS AND LONG TERM DEBT: (Continued)

Cash Balances – The Board and Management are setting rates on an annual basis. The multi-year rate setting is not in the best interest of the customer. By reporting on annual increase, the five year cash flow will indicate the probability of future rate adjustments. The following is the projected ending cash balances for the next five years:

FY 2009	\$	4,103,863
FY 2010		3,310,366
FY 2011		2,347,839
FY 2012		1,131,329
FY 2013		(5,439)

Due to significant increases in operating expenses such as chemicals, utilities and fuel as well as increases in our debt service to comply with new regulatory requirements, the Authority Board implemented various rate increases for FY 2009. It is anticipated that said rate increases for FY 2009 and future periods will better match the Authority's operating revenues and expenses.

Capital Projects

Below is a summary schedule of our planned capital projects and replacement and renewals for the next five years:

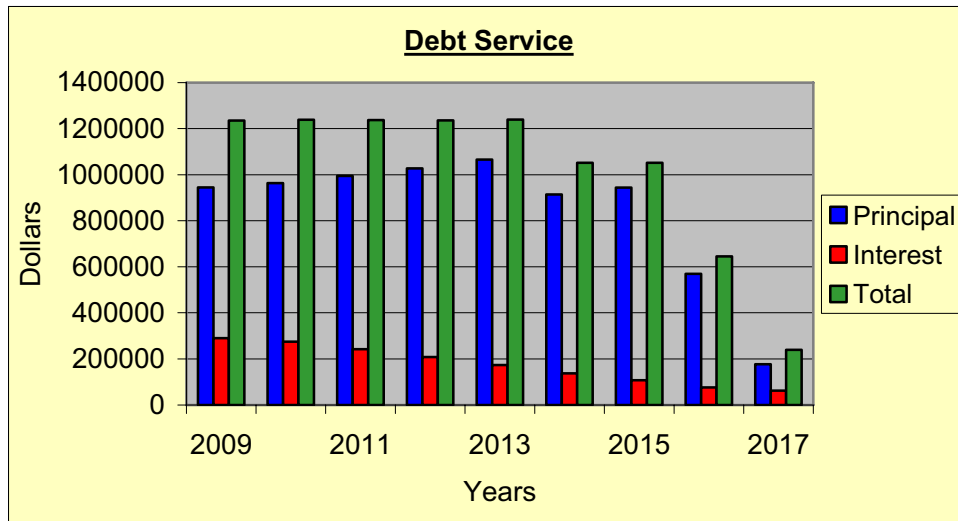
FY 2009 Five Year Five Years Capital Improvement Program						
	FY 2009	FY 2010	FY 2011	FY2012	FY2013	5 YR Totals
Utility Master Plan	\$ 40,000	\$ -	\$ -	\$ -	\$ -	\$ 40,000
GIS Systems Upgrade/Contracted Services	73,141	54,080	56,250	58,500	-	241,971
**New Baltimore Zone H Well (2)	130,000	-	-	-	-	130,000
**New Baltimore E-6 Well	310,000	240,000	-	-	-	550,000
**Construct New Well in The Plains	130,000	135,000	-	-	-	265,000
Construct Maintenance Facility	180,000	-	-	-	-	180,000
Marshall WWTP ENR Project	1,000,000	-	-	-	-	1,000,000
Remington WWTP ENR Project	2,214,500	2,058,500	-	-	-	4,273,000
**Vint Hill WWTP ENR Project & Expansion	2,575,000	2,265,000	-	-	-	4,840,000
**Upgrade Remington WWTP Biosolids Treatment	-	173,100	117,000	1,090,250	-	1,380,350
Marshall Waterworks Phase 1 Improvements & Hydro Study	1,500,000	-	-	-	-	1,500,000
**Marshall Waterworks Phase 2 Improvements	-	530,000	655,000	-	-	1,185,000
**Marshall Waterworks Phase 3 Improvements	-	-	-	1,013,000	-	1,013,000
Cash Funded	293,141	54,080	56,250	58,500	-	461,971
Debt Funded	4,714,500	2,058,500	-	-	-	6,773,000
County Funded	-	-	-	-	-	-
Not Funded	3,145,000	3,343,100	772,000	2,103,250	-	9,363,350
Totals by Fiscal Year:	\$ 8,152,641	\$ 5,455,680	\$ 828,250	\$ 2,161,750	\$ -	\$ 16,598,321
Five Year Total:						16,598,321

** Not Funded projects

Long-Term Debt - The Authority's outstanding debt as of June 30, 2008 consists of four separate notes. The first note is with the Virginia Resource Authority (VRA). The June 30, 2008 outstanding balance of this note is \$825,000 with an interest rate ranging from 3% to 4% over the next five years. The second note is with the Virginia Revolving Loan Fund (VRLF). The June 30, 2008 outstanding balance of this note is \$5.4 million with an interest rate of 3% over the next eight years. The Authority borrowed in FY 2008 a taxable note and non-taxable bond from SunTrust Bank. The outstanding debt is \$575,000 and \$2,025,000 respectively. Both debts are for fifteen years.

CAPITAL ASSETS AND LONG TERM DEBT: (Continued)

The graph below provides the detail of how much principal and interest are due each year until the last payment is made in 2017.



More detailed information on the Authority's long-term liabilities is presented in Note 8.

ECONOMIC FACTORS

In FY 2008, the Authority's revenue declined in terms of availabilities fees and developer contributions collected. Although it is possible that the region's economic conditions will continue to grow, but at a lesser rate into FY 2009 than in the past, revenues will continue to be forecast in a conservative manner. In addition, the Authority will continue to monitor its operational and capital requirements in order to ensure that water and wastewater services will meet customer needs.

The Authority's rates, fees and other charges are structured to produce sufficient revenue to service debt and to meet all operational expenses. While user rates met these goals in FY 2008, the effects of inflation, cost increases due to regulatory changes and the need to establish set-aside funds to continue to cover the costs of Capital replacement make increases to the user rates probable over the next several fiscal years.

REQUEST FOR INFORMATION

This report is intended to provide our customers, note holders and creditors with a general overview of the Authority's financial position and to demonstrate its ability to provide services to its customers. Questions concerning information provided in this report or request for additional financial information should be directed to the Authority at 540-349-2092 or to our administrative office located at 7172 Kennedy Road, Warrenton, VA 20187.

Basic Financial Statements

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FAUQUIER COUNTY WATER AND SANITATION AUTHORITY

Statements of Net Assets
At June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
ASSETS		
Current Assets:		
Cash and temporary investments	\$ 2,923,470	\$ 5,545,524
Accounts receivable (net of allowance for doubtful accounts)	808,321	855,135
Due from other governments	2,129,143	183,334
Prepaid expenses	<u>101,618</u>	<u>35,959</u>
Total current assets	\$ <u>5,962,552</u>	\$ <u>6,619,952</u>
Noncurrent Assets:		
Restricted Assets:		
Cash and temporary investments:		
Security deposits	\$ 54,625	\$ 56,525
Capital improvement funds for other governments	451,831	451,831
Other Asset:		
Performance bond	<u>35,000</u>	<u>10,000</u>
Total restricted assets	\$ <u>541,456</u>	\$ <u>518,356</u>
Other Assets:		
Note receivable	<u>1,830,000</u>	<u>-</u>
Capital Assets:		
Capital assets not being depreciated:		
Land	\$ 1,553,425	\$ 1,553,425
Construction in progress	2,111,549	9,828,057
Capital assets being depreciated:		
Structures and improvements	31,480,307	48,500,517
Infrastructure	29,908,787	-
Vehicles	930,829	680,527
Machinery and equipment	13,043,615	12,720,255
Less accumulated depreciation	<u>(26,098,252)</u>	<u>(23,971,872)</u>
Total capital assets	<u>\$ 52,930,260</u>	<u>\$ 49,310,909</u>
Total noncurrent assets	\$ <u>55,301,716</u>	\$ <u>49,829,265</u>
Total Assets	\$ <u><u>61,264,268</u></u>	\$ <u><u>56,449,217</u></u>

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

FAUQUIER COUNTY WATER AND SANITATION AUTHORITY

Statements of Net Assets
At June 30, 2008 and 2007 (Continued)

	<u>2008</u>	<u>2007</u>
LIABILITIES		
Current Liabilities:		
Accounts payable	\$ 875,455	\$ 812,125
Retainage payable	45,054	521,887
Accrued interest	88,768	66,050
Current maturities of long-term obligations	962,557	797,194
Accrued payroll and related liabilities	28,832	19,088
Liabilities payable from Restricted Assets:		
Security deposits	<u>54,625</u>	<u>56,525</u>
Total current liabilities	\$ <u>2,055,291</u>	\$ <u>2,272,869</u>
Noncurrent Liabilities:		
Long-term debt	\$ 7,899,807	\$ 6,244,506
Notes Payable	977,281	1,479,481
Compensated absences	160,725	151,098
Other long-term liabilities	938,800	938,800
Deferred revenue	<u>1,830,000</u>	<u>-</u>
Total noncurrent liabilities	\$ <u>11,806,613</u>	\$ <u>8,813,885</u>
Total liabilities	\$ <u>13,861,904</u>	\$ <u>11,086,754</u>
NET ASSETS		
Invested in capital assets, net of related debt	\$ 43,108,473	\$ 40,806,516
Unrestricted net assets	<u>4,293,891</u>	<u>4,555,947</u>
Total net assets	\$ <u>47,402,364</u>	\$ <u>45,362,463</u>
Total Liabilities and Net Assets	\$ <u><u>61,264,268</u></u>	\$ <u><u>56,449,217</u></u>

FAUQUIER COUNTY WATER AND SANITATION AUTHORITY

Statements of Revenues, Expenses, and Changes in Net Assets--
Years Ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Operating revenues:		
Water service	\$ 2,695,893	\$ 2,287,085
Sewer service	2,070,737	2,266,749
Septic service	187,178	214,678
Plan review and inspection fees	74,006	193,518
Late charges	115,791	111,070
Other operating revenues	61,151	152,932
Total operating revenues	<u>\$ 5,204,756</u>	<u>\$ 5,226,032</u>
Operating expenses:		
Salaries	\$ 2,200,437	\$ 1,969,118
Fringe benefits	742,049	676,891
General and administrative	388,294	526,150
Legal expense	153,447	567,185
Operations and maintenance	1,446,519	1,272,715
Depreciation expense	2,068,985	1,731,653
Total operating expenses	<u>\$ 6,999,731</u>	<u>\$ 6,743,712</u>
Net operating income (loss)	<u>\$ (1,794,975)</u>	<u>\$ (1,517,680)</u>
Non-operating revenue and expenses:		
Availability fees	\$ 1,137,703	\$ 2,337,713
Interest earned	197,179	639,736
Litigation settlement expenses	-	(1,950,000)
Interest expense	(239,161)	(262,603)
Net nonoperating revenue	<u>\$ 1,095,721</u>	<u>\$ 764,846</u>
Net income (loss) before capital contributions	\$ (699,254)	(752,834)
Capital Contributions	<u>2,739,155</u>	<u>3,400,665</u>
Change in net assets	\$ 2,039,901	\$ 2,647,831
Net assets, at beginning of year	<u>45,362,463</u>	<u>42,714,632</u>
Net assets, at end of year	<u>\$ 47,402,364</u>	<u>\$ 45,362,463</u>

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

FAUQUIER COUNTY WATER AND SANITATION AUTHORITY

Statements of Cash Flows
Years Ended June 30, 2008 and 2007

	2008	2007
Cash flows from operating activities:		
Receipts from customers and users	\$ 5,362,919	\$ 5,067,650
Payments to suppliers for goods and services	(2,015,589)	(2,440,192)
Payments to employees for services	(2,923,115)	(2,764,804)
Net cash provided (used) by operating activities	\$ 424,215	\$ (137,346)
Cash flows from capital and related financing activities:		
Acquisitions of property, equipment and construction in progress	\$ (6,165,169)	\$ (11,706,243)
Payments on other current liabilities	-	(59,334)
Capital contributions from developers and other governments	681,167	23,065
Interest payments	(216,443)	(402,564)
Principal payments on long-term debt	(1,282,606)	(930,882)
Proceeds from long-term debt issued	2,600,000	-
Proceeds from availability fees	1,137,703	1,360,613
Net cash used in capital and related financing activities	\$ (3,245,348)	\$ (11,715,345)
Cash flows from investing activities:		
Interest on deposits and investments	\$ 197,179	\$ 639,736
Net increase (decrease) in cash and cash equivalents	\$ (2,623,954)	\$ (11,212,955)
Cash and cash equivalents at beginning of year	6,053,880	17,266,835
Cash and cash equivalents at end of year	\$ 3,429,926	\$ 6,053,880
Reconciliation of Operating Loss to Net Cash (used in) operating activities:		
Cash flows from operations:		
Income (loss) from operations	\$ (1,794,975)	\$ (1,517,680)
Adjustment to reconcile net income to net cash provided (used) by operations:		
Changes in operating accounts:		
Adjustments to reconcile income to net cash provided (used) by operating activities:		
Depreciation and amortization	2,068,985	1,744,450
Increase / Decrease in:		
Receivables	47,884	(98,540)
Due from other governments	112,179	(92,495)
Prepaid and other assets	(65,659)	(33,069)
Performance bond	(25,000)	-
Accounts payable and accrued expenses	82,701	(159,934)
Security deposits	(1,900)	21,525
Capital improvement funds due to other governments	-	(1,603)
Net cash provided (used) by operating activities	\$ 424,215	\$ (137,346)
Noncash Investing, Capital and Financing Activities		
Contributions of capital assets	\$ -	\$ 577,600
Capitalized depreciation on self-constructed assets	88,205	82,290
Noncash reduction in note payable	-	50,000
Reconciliation of Cash:		
Cash and temporary investments	\$ 2,923,470	\$ 5,545,524
Restricted cash and temporary investments	506,456	508,356
Total	\$ 3,429,926	\$ 6,053,880

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

FAUQUIER COUNTY WATER AND SANITATION AUTHORITY

Notes to Financial Statements
As of June 30, 2008

NOTE 1—BASIS OF PRESENTATION:

A. Organization and Purpose

The Fauquier County Water and Sanitation Authority was created by the Fauquier County Board of Supervisors, pursuant to the provisions of the Virginia Water and Sanitation Authorities Act, Section 15.2-5100et. seq. of the Code of Virginia, 1950, as amended. The By-laws and rules for the transaction of the business of the Fauquier County Water and Sanitation Authority are made pursuant to authority vested in this Authority by the general provisions of the Virginia Water and Waste Authorities Act. The Authority is authorized to acquire, construct, operate, and maintain an integrated water and sewer system for Fauquier County, Virginia.

B. Reporting Entity

The Fauquier County Water and Sanitation Authority has determined that it is a related organization to Fauquier County in accordance with Governmental Accounting Standards Board Statement 14. The Authority is a legally separate organization whose Board members are appointed by the Fauquier County Board of Supervisors. Since the Board of Supervisors cannot impose its will on the Authority and since there is no potential financial benefit (or burden) in the relationship, the Board of Supervisors is not financially accountable for the Authority. Accordingly, the Authority is not considered a component unit of the County.

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

A. Basic Financial Statements

Since the Authority is only engaged in business-type activities, it is required to present only the financial statements required for enterprise funds. For the Authority, the basic financial statements and required supplementary information consist of:

- Management's discussion and analysis
- Enterprise fund financial statements
 - Statement of Net Assets
 - Statement of Revenues, Expenses, and Changes in Net Assets
 - Statement of Cash Flows
 - Notes to Financial Statements

FAUQUIER COUNTY WATER AND SANITATION AUTHORITY

Notes to Financial Statements
As of June 30, 2008 (Continued)

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

B. Basis of Accounting

The Authority operates as an enterprise activity and its accounts are maintained on the accrual basis of accounting. Under this method, revenues are recognized when earned, and expenses are recorded as liabilities when incurred, without regard to receipt or payment of cash. The Authority accrues revenue for services rendered but not yet billed at the end of the fiscal year. The Authority follows all applicable GASB pronouncements and FASB pronouncements issued before November 30, 1989 unless these pronouncements conflict with or contradict GASB pronouncements.

The Authority distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Authority's principal ongoing operations. The principal operating revenues of the Authority are charges to customers for sales and services. The Authority also recognizes as operating revenue the portion of availability charges intended to recover the cost of connecting new customers to the system. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

C. Cash and Deposits

The Authority's cash and cash equivalents consist of cash on hand, demand deposits, certificates of deposit and short-term investments with original maturities of three months or less from the date of acquisition.

D. Restricted Assets

Certain proceeds of the Authority's revenue bonds are classified as restricted assets on the balance sheet because they are to be expended on various water and sewer capital projects and/or used for certain purposes.

E. Capital Assets

Capital assets include property, plant, and equipment. Capital assets are defined by the Authority as assets with an initial, individual cost of more than \$3,500, except for water meters for new construction, and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

FAUQUIER COUNTY WATER AND SANITATION AUTHORITY

Notes to Financial Statements
As of June 30, 2008 (Continued)

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

E. Capital Assets: (Continued)

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. There was no interest capitalized to construction projects during the current fiscal year. Depreciation expense totaled \$2,157,190 for the year ending June 30, 2008. A portion of depreciation expense, \$57,395 was capitalized as part of self-constructed assets for the year ending June 30, 2008.

Property and equipment is being depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Treatment plant	28 years
Buildings	28 years
Water and sewer lines	50 years
Meters	10-15 years
Vehicles	6 years
Other furnishings and equipment	5-10 years

F. Other Significant Accounting Policies

- All trade receivables are shown net of an allowance for uncollectibles. The Authority calculates its allowance for uncollectible accounts using historical collection data and, in certain cases, specific account analysis. The allowance amounted to \$18,118 at June 30, 2008.
- Investments are stated at fair value.

G. Use of Estimates

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

H. Net Assets

Net assets are the difference between assets and liabilities. Net assets invested in capital assets represent capital assets, less accumulated depreciation less any outstanding debt related to the acquisition, construction or improvement of those assets.

FAUQUIER COUNTY WATER AND SANITATION AUTHORITY

Notes to Financial Statements
As of June 30, 2008 (Continued)

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

I. Compensated Absences

The Authority accrues compensated absences (annual and sick leave benefits) when vested. The current and non-current portions of the compensated absences liabilities are recorded as accrued liabilities.

K. Restatement

Certain amounts in previously issued financial statements have been restated to conform to current year classifications.

L. Nonexchange Transactions

The Authority receives nonexchange transactions from developers of property, lines and improvements. These nonexchange transactions are considered capital contributions on the Statements of Revenues, Expenses and Changes in Net Assets.

NOTE 3—DEPOSITS AND INVESTMENTS:

Deposits

All cash of the Authority is maintained in accounts collateralized in accordance with Virginia Security for Public Deposits Act, Section 2.2-4400 et. seq. of the Code of Virginia or covered by federal depository insurance. Under the Act, banks holding public deposits in excess of the amounts insured by FDIC must pledge collateral in the amount of 50% of excess deposits to a collateral pool in the name of the State Treasury Board. Savings and loan institutions are required to collateralize 100% of deposits in excess of FDIC limits. Deposits covered by the Act are considered insured since the Treasury Board is authorized to make additional assessments.

Investments

Statutes authorize the Authority to invest in obligations of the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, obligations of the International Bank for Reconstruction and Development (World Bank), the Asian Development Bank, the African Development Bank, "prime quality" commercial paper and certain corporate notes, banker's acceptances, repurchase agreements and the State Treasurer's Local Government Investment Pool (LGIP).

Credit Risk of Debt Securities

The Authority does not have a policy regarding credit risk of debt securities.

FAUQUIER COUNTY WATER AND SANITATION AUTHORITY

Notes to Financial Statements
As of June 30, 2008 (Continued)

NOTE 3—DEPOSITS AND INVESTMENTS: (CONTINUED)

The Authority's rated debt investments as of June 30, 2008 were rated by Standard & Poor's and the ratings are presented below using Standard & Poor's rating scale.

<u>Authority's Rated Debt Investments' Values</u>	
<u>Rated Debt Investments</u>	<u>Fair Quality Ratings</u>
	<u>AAA</u>
LGIP	\$ <u>3,393,099</u>

External Investment Pool

The fair value of the positions in the external investment pool (Local Government Investment Pool) are the same as the value of the pool shares. As this pool is not SEC registered, regulatory oversight of the pool rests with the Virginia State Treasury.

NOTE 4—RESTRICTED ASSETS:

Restricted assets at June 30, 2008 consist of the following:

Security deposits	\$ 54,625
Capital improvement funds for other governments	451,831
Performance bonds	<u>35,000</u>
Total	\$ <u>541,456</u>

NOTE 5—DUE TO/FROM OTHER GOVERNMENTS:

At June 30, 2008, the Authority has receivables from other governments as follows:

Local:	
Fauquier County	\$ 27,007
Vint Hill Economic Development Authority	44,148
Commonwealth of Virginia:	
Department of Environmental Quality	<u>2,057,988</u>
Total	\$ <u>2,129,143</u>

FAUQUIER COUNTY WATER AND SANITATION AUTHORITY

Notes to Financial Statements
As of June 30, 2008 (Continued)

NOTE 6—NOTE RECEIVABLE - VHEDA / DEFERRED REVENUE:

The Fauquier County Water and Sanitation Authority (FCWSA) entered into an amendment to purchase agreement dated November 27, 2007 with the Vint Hill Economic Development Authority (VHEDA) whereby the VHEDA will pay the FCWSA the total amount of \$1,925,000 for 385 EMU's of wastewater treatment capacity. \$5,000 of each EMU shall be retained by the FCWSA and applied to the note receivable. Final payment of the note is due on or before November 30, 2014. At June 30, 2008 the balance of the note receivable and deferred revenue is \$1,830,000. As payments on the note are made revenue is recognized.

NOTE 7—CAPITAL ASSETS:

Property and Equipment

The following is a summary of changes to property and equipment for the years ending June 30, 2008 and 2007:

	<u>Balance July 1, 2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2008</u>
Capital assets, not being depreciated:				
Land	\$ 1,553,425	\$ -	\$ -	\$ 1,553,425
Construction in progress	<u>9,828,057</u>	<u>5,227,874</u>	<u>12,944,382</u>	<u>2,111,549</u>
Total capital assets not being depreciated	<u>\$ 11,381,482</u>	<u>\$ 5,227,874</u>	<u>\$ 12,944,382</u>	<u>\$ 3,664,974</u>
Capital assets being depreciated:				
Structures and improvements	\$ 21,112,151	\$ 10,368,156	\$ -	\$ 31,480,307
Infrastructure	27,388,366	2,520,421	-	29,908,787
Vehicles	680,527	268,112	17,810	930,829
Machinery and equipment	<u>12,720,255</u>	<u>453,360</u>	<u>130,000</u>	<u>13,043,615</u>
Total capital assets being depreciated	<u>\$ 61,901,299</u>	<u>\$ 13,610,049</u>	<u>\$ 147,810</u>	<u>\$ 75,363,538</u>
Less accumulated depreciation:				
Structures and improvements	\$ 8,694,911	\$ 725,129	\$ -	\$ 9,420,040
Infrastructure	7,490,541	547,767	-	8,038,308
Vehicles	503,599	45,173	17,810	530,962
Machinery and equipment	<u>7,282,821</u>	<u>839,121</u>	<u>13,000</u>	<u>8,108,942</u>
Total accumulated depreciation	<u>\$ 23,971,872</u>	<u>\$ 2,157,190</u>	<u>\$ 30,810</u>	<u>\$ 26,098,252</u>
Total capital assets being depreciated, net	<u>\$ 37,929,427</u>	<u>\$ 11,452,859</u>	<u>\$ 117,000</u>	<u>\$ 49,265,286</u>
Governmental activities capital assets, net	<u>\$ 49,310,909</u>	<u>\$ 16,680,733</u>	<u>\$ 13,061,382</u>	<u>\$ 52,930,260</u>

Depreciation expense for the year ended June 30, 2008 totaled \$2,157,190.

FAUQUIER COUNTY WATER AND SANITATION AUTHORITY

Notes to Financial Statements
As of June 30, 2008 (Continued)

NOTE 7—CAPITAL ASSETS: (Continued)

Property and Equipment: (Continued)

	Balance July 1, 2006	Additions	Deletions	Balance June 30, 2007
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Capital assets, not being depreciated:				
Land	\$ 1,553,425	\$ -	\$ -	\$ 1,553,425
Construction in progress	<u>5,191,362</u>	<u>11,667,237</u>	<u>7,030,542</u>	<u>9,828,057</u>
Total capital assets not being depreciated	<u>\$ 6,744,787</u>	<u>\$ 11,667,237</u>	<u>\$ 7,030,542</u>	<u>\$ 11,381,482</u>
Capital assets being depreciated:				
Structures and improvements	\$ 20,972,174	\$ 155,405	\$ 15,428	\$ 21,112,151
Infrastructure	22,625,498	4,762,868	-	27,388,366
Vehicles	573,766	106,761	-	680,527
Machinery and equipment	<u>10,152,438</u>	<u>3,071,111</u>	<u>503,294</u>	<u>12,720,255</u>
Total capital assets being depreciated	<u>\$ 54,323,876</u>	<u>\$ 8,096,145</u>	<u>\$ 518,722</u>	<u>\$ 61,901,299</u>
Less accumulated depreciation				
Structures and improvements	\$ 8,004,741	\$ 690,170	\$ -	\$ 8,694,911
Infrastructure	7,038,031	452,510	-	7,490,541
Vehicles	462,592	41,007	-	503,599
Machinery and equipment	<u>6,652,565</u>	<u>630,256</u>	<u>-</u>	<u>7,282,821</u>
Total accumulated depreciation	<u>\$ 22,157,929</u>	<u>\$ 1,813,943</u>	<u>\$ -</u>	<u>\$ 23,971,872</u>
Total capital assets being depreciated, net	<u>\$ 32,165,947</u>	<u>\$ 6,282,202</u>	<u>\$ 518,722</u>	<u>\$ 37,929,427</u>
Governmental activities capital assets, net	<u>\$ 38,910,734</u>	<u>\$ 17,949,439</u>	<u>\$ 7,549,264</u>	<u>\$ 49,310,909</u>

Depreciation expense for the year ended June 30, 2007 totaled \$1,813,943.

FAUQUIER COUNTY WATER AND SANITATION AUTHORITY

Notes to Financial Statements
As of June 30, 2008 (Continued)

NOTE 7—CAPITAL ASSETS: (Continued)

The following is a summary of capital project activity for the fiscal year ending June 30, 2008:

	Balance July 1, 2007	Additions	Deletions	Balance June 30, 2008
Vint Hill WWTP	\$ 7,376,840	\$ 1,862,159	\$ 9,238,999	\$ -
SCADA Replacement & Upgrade	-	124,831	32,885	91,946
Rogues Road Water Tank & Wells	2,208,369	631,729	2,840,098	-
GBS & Maintenance System	-	32,885	-	32,885
Emergency Power Systems	15,481	314,404	329,885	-
Marshall Pump Station	-	37,481	11,696	25,785
Lift Station Spare Pumps	-	58,451	-	58,451
Opal Water System	-	20,183	-	20,183
Marshall Water System Phase I	98,717	1,051,931	23,800	1,126,848
Miscellaneous projects	128,650	1,093,819	467,018	755,451
	<u>\$ 9,828,057</u>	<u>\$ 5,227,873</u>	<u>\$ 12,944,381</u>	<u>\$ 2,111,549</u>
Totals	<u>\$ 9,828,057</u>	<u>\$ 5,227,873</u>	<u>\$ 12,944,381</u>	<u>\$ 2,111,549</u>

NOTE 8—LONG-TERM OBLIGATIONS:

The following is a summary of changes in long-term obligation transactions for the year ended June 30, 2008 and 2007:

Description	Beginning Balance July 1, 2007	Additions	Deletions	Ending Balance June 30, 2008	Due Within One Year
Revenue Bonds	\$ 7,024,892	\$ 2,600,000	\$ 780,386	\$ 8,844,506	\$ 944,699
Notes payable	451,831	-	-	451,831	-
Other long-term liabilities	938,800	-	-	938,800	-
Note payable - Brookside	1,027,650	-	502,200	525,450	-
Compensated absences	167,885	25,748	15,050	178,583	17,858
	<u>\$ 9,611,058</u>	<u>\$ 2,625,748</u>	<u>\$ 1,297,636</u>	<u>\$ 10,939,170</u>	<u>\$ 962,557</u>
Total	<u>\$ 9,611,058</u>	<u>\$ 2,625,748</u>	<u>\$ 1,297,636</u>	<u>\$ 10,939,170</u>	<u>\$ 962,557</u>

FAUQUIER COUNTY WATER AND SANITATION AUTHORITY

Notes to Financial Statements
As of June 30, 2008 (Continued)

NOTE 8—LONG-TERM OBLIGATIONS: (Continued)

<u>Description</u>	<u>Beginning Balance July 1, 2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance June 30, 2007</u>	<u>Due Within One Year</u>
Revenue Bonds	\$ 7,781,676	\$ -	\$ 756,784	\$ 7,024,892	\$ 780,406
Notes payable	551,831	-	100,000	451,831	-
Refundable advances	977,100	-	977,100	-	-
Other long-term liabilities	938,800	-	-	938,800	-
Note payable - Brookside	-	1,125,300	97,650	1,027,650	-
Compensated absences	137,587	46,809	16,511	167,885	16,788
Total	<u>\$ 10,386,994</u>	<u>\$ 1,172,109</u>	<u>\$ 1,948,045</u>	<u>\$ 9,611,058</u>	<u>\$ 797,194</u>

Annual requirements to amortize long-term obligations are as follows:

<u>FYE</u>	<u>Revenue Bonds</u>		<u>Notes Payable</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2009	\$ 944,699	\$ 289,849	-	-
2010	963,829	274,719	451,831	-
2011	995,094	242,055	-	-
2012	1,026,515	208,308	-	-
2013	1,065,307	173,441	-	-
2014	914,337	137,212	-	-
2015	944,353	107,196	-	-
2016	569,209	76,158	-	-
2017	176,795	62,431	-	-
2018	184,879	54,347	-	-
2019	193,339	45,886	-	-
2020	202,194	37,032	-	-
2021	211,461	27,764	-	-
2022	221,162	18,064	-	-
2023	231,313	7,908	-	-
Total	<u>\$ 8,844,486</u>	<u>\$ 1,762,370</u>	<u>\$ 451,831</u>	<u>\$ -</u>

FAUQUIER COUNTY WATER AND SANITATION AUTHORITY

Notes to Financial Statements
As of June 30, 2008 (Continued)

NOTE 8—LONG-TERM OBLIGATIONS: (Continued)

Long-term obligations as of June 30, 2008 and 2007 are as follows:

	<u>2008</u>	<u>2007</u>
Revenue Bonds:		
Revenue bonds, payable to Virginia Resources Authority, ("VRA") dated November 5, 2002, payable in semi-annual installments ranging from \$91,500 to \$93,600 through 2013. Interest payable at various rates ranging from 3% to 4%.	\$ 825,000	\$ 970,000
Revenue bonds, payable to Virginia Water Resources Facilities Fund, ("VRLF") dated May 1, 1994, payable in equal semi-annual installments of \$435,899 from 1996 through 2016, interest at 3%.	5,419,486	6,054,892
Revenue bonds, issued March 6, 2008 payable in 30 semi-annual installments of \$91,151 through July 15, 2023, interest at 4.20%	2,025,000	-
Revenue bonds, issued March 6, 2008 payable in 30 semi-annual installments of \$28,462 through July 15, 2023, interest at 5.65%	<u>575,000</u>	<u>-</u>
Total Revenue bonds	\$ 8,844,486	\$ 7,024,892

Notes payable:

The Authority has non-negotiable conditional promissory notes with various entities as a condition for expanding sewer entities to Opal, Virginia. These notes shall mature and become payable only in the event that the Authority receives payment for more than 458 sewer availability fees associated with connections to the Opal sewage collection system. The notes, if not paid in full, are cancelled fifteen years from the dates of the notes.

\$	<u>451,831</u>	\$	<u>451,831</u>
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FAUQUIER COUNTY WATER AND SANITATION AUTHORITY

Notes to Financial Statements
As of June 30, 2008 (Continued)

NOTE 8—LONG-TERM OBLIGATIONS: (Continued)

	<u>2008</u>	<u>2007</u>
Other Obligations:		
The Authority entered into an agreement on February 25, 2000 to purchase the Vint Hill Wastewater Treatment Plant (WWTP). The Authority must pay the Vint Hill Farms Economic Development Authority (VHEDA) \$6,000 for each connection made to the Vint Hill Sewer System. There are a total of 577 connections available to repay the debt. The Authority must pay this liability each year in correlation to the number of connections sold. The agreement terminates in 30 years upon which time the debt is considered paid in full regardless of the number of connections made by Vint Hill site customers. At June 30, 2001, a liability in the amount of \$3,462,000 was recorded as title to the plant was transferred to the Authority during fiscal year 2001. As of June 30, 2007 and 2006, \$938,800, and \$938,800, respectively, were outstanding on the liability.	\$ 938,800	\$ 938,800
The Authority entered into an agreement on February 9, 2007 with Brookside Development LLC and agreed to pay \$9,300 for each sewer connection made to the New Baltimore Service District, except for Vint Hill Economic Development Authority. Pursuant to this agreement 121 unassigned and uncommitted EMU's of Sewer Availability remain when the Second Tier Capacity is completed. Within 10 working days the Authority shall pay the availability fees to the Brookside Development. During the current fiscal year the Authority has paid \$97,650 to reduce the obligation to \$1,027,650.	525,450	1,027,650
Compensated absences	<u>178,583</u>	<u>167,885</u>
Total long-term obligations	<u>\$ 10,939,150</u>	<u>\$ 9,611,058</u>

NOTE 9—CLAIMS, JUDGEMENTS, AND COMPENSATED ABSENCES:

In accordance with GASB statement 16 “Accounting and Financial Reporting Principal for Claims and Judgments and Compensated Absences,” the Authority has accrued the liability arising from outstanding claims and judgments and compensated absences.

Authority employees accrue vacation and sick leave at various rates. No benefits or pay is received for unused sick leave upon termination. The Authority has outstanding accrued vacation pay at June 30 in the amount of \$178,583.

FAUQUIER COUNTY WATER AND SANITATION AUTHORITY

Notes to Financial Statements
As of June 30, 2008 (Continued)

NOTE 10–LITIGATION:

At June 30, 2008 there were no matters of litigation involving the Authority which would materially affect the Authority's financial position should any court decisions on pending matters not be favorable to the Authority.

NOTE 11–CONSTRUCTION COMMITMENT:

The following is a summary of construction commitments outstanding at June 30, 2008:

<u>Projects</u>	<u>Contract Amount</u>	<u>Expenses to Date</u>	<u>Balance</u>
Marshall Water System Phase 1	\$ 1,342,259	\$ 1,126,848	\$ 215,411
Remington WWTP Enhanced Nutrient Replacement	573,552	381,744	191,808
Marshall WWTP Enhanced Nutrient Replacement	534,124	117,806	416,318
Vint Hill WWTP Enhanced Nutrient Replacement	534,124	78,190	455,934
The Plains Hydro Investigation	114,000	100,405	13,595
Total	<u>\$ 3,098,059</u>	<u>\$ 1,804,993</u>	<u>\$ 1,293,066</u>

NOTE 12–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 (VRS)

The Authority contributes to the Virginia Retirement System (VRS), an agent multiple-employer defined benefit pension plan that acts as a common investment and administrative agent for political subdivisions in the Commonwealth of Virginia.

All full-time, salaried permanent employees of participating employers must participate in the VRS. Benefits vest after five years of service. Employees are eligible for an unreduced retirement benefit at age 65 with 5 years of service or at age 50 with 30 years of service if elected by the employer payable monthly for life in an amount equal to 1.7 percent of their average final compensation (AFC) for each year of credited service. Benefits are actuarially reduced for retirees who retire prior to becoming eligible for full retirement benefits. In addition, retirees qualify for an annual cost-of-living increase limited to 5% per year beginning in their second year of retirement. AFC is defined as the highest consecutive 36 months of reported compensation. The VRS also provides death and disability benefits. Title 51.1 of the Code of Virginia (1950), as amended, assigns the authority to establish and amend benefit provisions to the General Assembly of Virginia.

FAUQUIER COUNTY WATER AND SANITATION AUTHORITY

Notes to Financial Statements
As of June 30, 2008 (Continued)

NOTE 12—DEFINED BENEFIT PENSION PLAN:

A. Plan Description: (Continued)

The System issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for VRS. A copy of that report may be downloaded from their website at <http://www.varetire.org/PDF/2004AnnuRept.pdf> or obtained by writing to the System at P.O. Box 2500, Richmond, VA 23218-2500.

B. Funding Policy:

Plan members are required by Title 51.1 of the Code of Virginia (1950), as amended, to contribute 5% of their annual reported compensation to the VRS. This 5% member contribution has been assumed by the employer. 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 2008 was 4.55% of the annual covered payroll.

C. Annual Pension Cost:

For fiscal year ended 2008, the Authority's annual pension cost of \$96,124 was equal to the Authority's required and actual contributions. The required contributions were determined as part of the June 30, 2007 actuarial valuation using the entry age normal actuarial cost method.

Valuation date	June 30, 2007
Actuarial cost method	Entry Age Normal
Amortization method	Level percent, open
Payroll growth rate	2.50%
Remaining amortization period	20 Years
Asset valuation method	Modified market
Actuarial assumptions:	
Investment rate of return ¹	7.50%
Projected salary increases: ¹	
Non LEO Employees	3.75% to 5.60%
LEO Employees	3.50% to 4.75%
Cost-of-living adjustments	2.50%

¹ Includes inflation at 2.5%

FAUQUIER COUNTY WATER AND SANITATION AUTHORITY

Notes to Financial Statements
As of June 30, 2008 (Continued)

NOTE 12—DEFINED BENEFIT PENSION PLAN:

C. Annual Pension Cost: (Continued)

Trend information is as follows:

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC) 1</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2006	\$ 96,534	100%	\$ -
June 30, 2007	83,520	100%	-
June 30, 2008	96,124	100%	-

(1) Employer and employee portion

NOTE 13—RISK MANAGEMENT:

The Authority is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the government carries insurance.

The Authority is a member of the Virginia Municipal Group Self Insurance Association for workers' compensation. This program is administered by a servicing contractor, which furnishes claims review and processing.

Each Association member jointly and severally agrees to assume, pay and discharge any liability. The Authority pays Virginia Municipal Group contributions and assessments based upon classifications and rates into a designated cash reserve fund out of which expenses of the Association and claims and awards are to be paid. In the event of a loss deficit and depletion of all available excess insurance, the Association may assess all members in the proportion which the premium of each bears to the total premiums of all members in the year in which such deficit occurs.

The Authority continues to carry commercial insurance for all other risks of losses. During the last three fiscal years, settled claims from these risks have not exceeded commercial coverage.

Required Supplementary Information

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FAUQUIER COUNTY WATER AND SANITATION AUTHORITY

Required Supplementary Information
 Schedule of Funding Progress for Defined Benefit Pension Plan

Valuation Date	Actuarial Value of Assets (AVA)	Actuarial Accrued Liability (AAL)	Unfunded (Excess Funded) Actuarial Accrued Liability	Funded Ratio (2)/(3)	Annual Covered Payroll	UAAL as % of Payroll (4)/(6)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
6/30/2007 \$	2,581,882 \$	2,499,866 \$	(82,016)	103.28%	\$ 1,921,001	-4.27%
6/30/2006	2,152,436	1,919,389	(233,047)	112.14%	1,583,199	-14.72%
6/30/2005	1,932,804	1,896,769	(36,035)	101.90%	1,457,690	-2.47%

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Statistical Section

Contents

Tables

Financial Trends

These tables contain trend information to help the reader understand how the the Authority's financial performance has changed over time.

1-2

Revenue, Rates and Usage Information

These tables contain information to help the reader assess the factors affecting the Authority's change in revenues and its ability to generate revenues.

3-6

Expenses

This table contains comparative information about the Authority's expenses.

7

Debt Capacity

These tables present information to help the reader assess the affordability of the Authority's current levels of outstanding debt and the Authority's ability to issue debt in the future.

8-9

Demographic and Economic Information

These tables offer demographic and economic indicators to help the reader understand the environment within which the Authority's financial activities take place and to help make comparisons over time.

10-11

Operating Information

These tables contain information about the Authority's operations and resources to help the reader understand how the Authority's financial information relate to the activities it performs.

12

Other Information

These tables contain miscellaneous data

13

Sources: Unless otherwise noted, the information in these tables is derived from the comprehensive annual financial reports for the relevant year.

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Net Assets by Component
Last Ten years

	Fiscal Years				
	2008	2007	2006	2005	2004
Net assets:					
Invested in capital assets, net of related debt	\$ 43,108,473	\$ 40,806,516	\$ 31,052,290	\$ 21,781,511	\$ 20,206,661
Restricted	-	-	6,536,105	8,988,420	2,000,000
Unrestricted	<u>4,293,891</u>	<u>4,555,947</u>	<u>5,126,237</u>	<u>1,794,615</u>	<u>222,071</u>
Total net assets	<u>\$ 47,402,364</u>	<u>\$ 45,362,463</u>	<u>\$ 42,714,632</u>	<u>\$ 32,564,546</u>	<u>\$ 22,428,732</u>

	Fiscal Years				
	2003	2002	2001	2000	1999
Net assets:					
Invested in capital assets, net of related debt	\$ 14,392,936	\$ 14,361,474	\$ 12,767,447	\$ 11,577,629	\$ 11,634,546
Restricted	209,606	209,606	209,606	209,606	-
Unrestricted	<u>6,220,307</u>	<u>2,059,474</u>	<u>3,275,295</u>	<u>4,243,897</u>	<u>4,144,554</u>
Total net assets	<u>\$ 20,822,849</u>	<u>\$ 16,630,554</u>	<u>\$ 16,252,348</u>	<u>\$ 16,031,132</u>	<u>\$ 15,779,100</u>

Source: Fauquier County Water and Sanitation Authority

FAUQUIER COUNTY WATER AND SANITATION AUTHORITY

Changes in Net Assets
Last Ten Years

	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Operating revenues:				
Water service	\$ 2,695,893	\$ 2,287,085	\$ 1,861,932	\$ 1,666,859
Sewer service	2,070,737	2,266,749	2,191,139	1,955,416
Plan review and inspection fees	74,006	193,518	93,737	312,890
Late charges	115,791	111,070	97,090	81,252
Vint Hill Reimbursement	-	-	61,830	51,078
Marshall WW reimbursement	-	-	45,664	110,498
Other operating revenues	248,329	367,610	309,521	382,914
Total operating revenues	<u>\$ 5,204,756</u>	<u>\$ 5,226,032</u>	<u>\$ 4,660,913</u>	<u>\$ 4,560,907</u>
Operating expenses:				
Salaries	\$ 2,200,437	\$ 1,969,118	\$ 1,500,903	\$ 1,420,246
Fringe benefits	742,049	676,891	511,155	472,686
General and administrative	388,294	526,150	369,935	258,758
Legal expense	153,447	567,185	713,830	257,109
Operations and maintenance	1,446,519	1,272,715	961,767	896,003
Depreciation expense	2,068,985	1,731,653	1,569,966	1,630,648
Total operating expenses	<u>\$ 6,999,731</u>	<u>\$ 6,743,712</u>	<u>\$ 5,627,556</u>	<u>\$ 4,935,450</u>
Net operating income (loss)	<u>\$ (1,794,975)</u>	<u>\$ (1,517,680)</u>	<u>\$ (966,643)</u>	<u>\$ (374,543)</u>
Non-operating revenue and expenses:				
Availability fees	\$ 1,137,703	\$ 2,337,713	\$ 4,229,644	\$ 3,042,621
Grant Income	-	-	-	-
Gain (loss) on sale of assets	-	-	11,708	325
Interest earned	197,179	639,736	607,943	178,609
Contribution	-	-	-	20,800
Litigation settlement expenses	-	(1,950,000)	-	-
Bad debt expense	-	-	(12,731)	(2,279)
Interest expense	(239,161)	(262,603)	(258,635)	(318,139)
Net nonoperating revenue	<u>\$ 1,095,721</u>	<u>\$ 764,846</u>	<u>\$ 4,577,929</u>	<u>\$ 2,921,937</u>
Net income (loss) before capital contributions	\$ (699,254)	\$ (752,834)	\$ 3,611,286	\$ 2,547,394
Capital Contributions	<u>2,739,155</u>	<u>3,400,665</u>	<u>6,538,800</u>	<u>7,588,420</u>
Change in net assets	\$ 2,039,901	\$ 2,647,831	\$ 10,150,086	\$ 10,135,814
Net assets, at beginning of year	<u>45,362,463</u>	<u>42,714,632</u>	<u>32,564,546</u>	<u>22,428,732</u>
Net assets, at end of year	<u>\$ 47,402,364</u>	<u>\$ 45,362,463</u>	<u>\$ 42,714,632</u>	<u>\$ 32,564,546</u>

Source: Fauquier County Water and Sanitation Authority

Table 2

	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>
\$	1,631,604	\$ 1,563,532	\$ 1,499,022	\$ 1,377,812	\$ 1,411,824	\$ 1,430,934
	1,993,968	1,909,961	1,912,405	1,810,754	1,637,672	1,685,555
	-	-	-	-	-	-
	78,335	82,976	80,352	66,742	67,126	61,648
	57,771	82,112	59,718	-	-	-
	-	-	-	-	-	-
	100,711	52,991	47,690	50,016	21,062	55,557
\$	<u>3,862,389</u>	<u>\$ 3,691,572</u>	<u>\$ 3,599,187</u>	<u>\$ 3,305,324</u>	<u>\$ 3,137,684</u>	<u>\$ 3,233,694</u>
\$	1,368,152	\$ 1,237,543	\$ 1,131,549	\$ 1,038,611	\$ 868,638	\$ 826,696
	459,436	352,043	305,059	326,653	224,856	201,965
	256,417	212,895	216,097	212,930	476,263	417,735
	-	-	-	-	-	-
	792,361	699,120	650,516	663,477	359,188	341,837
	1,309,308	1,317,069	1,325,225	1,214,113	1,212,353	1,273,557
\$	<u>4,185,674</u>	<u>\$ 3,818,670</u>	<u>\$ 3,628,446</u>	<u>\$ 3,455,784</u>	<u>\$ 3,141,298</u>	<u>\$ 3,061,790</u>
\$	<u>(323,285)</u>	<u>\$ (127,098)</u>	<u>\$ (29,259)</u>	<u>\$ (150,460)</u>	<u>\$ (3,614)</u>	<u>\$ 171,904</u>
\$	2,124,691	\$ 3,005,000	\$ -	\$ -	\$ -	\$ -
	-	615,000	-	-	-	-
	(1,500)	-	8,363	2,250	11,654	-
	103,165	137,949	217,051	314,619	253,089	217,564
	49,920	49,920	49,920	29,120	-	-
	-	-	-	-	-	-
	(4,485)	-	(1,053)	(2,361)	(1,642)	-
	(342,623)	(536,588)	(487,312)	(512,835)	(537,543)	(561,846)
\$	<u>1,929,168</u>	<u>\$ 3,271,281</u>	<u>\$ (213,031)</u>	<u>\$ (169,207)</u>	<u>\$ (274,442)</u>	<u>\$ (344,282)</u>
\$	1,605,883	\$ 3,144,183	\$ (242,290)	\$ (319,667)	\$ (278,056)	\$ (172,378)
	-	1,048,112	620,496	540,883	530,088	500,156
\$	1,605,883	\$ 4,192,295	\$ 378,206	\$ 221,216	\$ 252,032	\$ 327,778
	20,822,849	16,630,554	16,252,348	16,031,132	15,779,100	15,451,322
\$	<u>22,428,732</u>	<u>\$ 20,822,849</u>	<u>\$ 16,630,554</u>	<u>\$ 16,252,348</u>	<u>\$ 16,031,132</u>	<u>\$ 15,779,100</u>

FAUQUIER COUNTY WATER AND SANITATION AUTHORITY

Table 3

Schedule of Operating Revenues
Last Ten Fiscal Years

Fiscal Years	Water Service	Sewer Service	Availability Fees	Other Revenues	Total
1999	\$ 1,430,934	\$ 1,685,555	\$ 528,472	\$ 117,205	\$ 3,762,166
2000	1,411,824	1,637,672	344,071	88,188	3,481,755
2001	1,377,812	1,532,909	1,489,200	394,603	4,794,524
2002	1,499,022	1,654,046	1,352,635	446,119	4,951,822
2003	1,563,532	1,712,108	3,005,000	415,932	6,696,572
2004	1,631,604	1,813,615	2,124,691	417,170	5,987,080
2005	1,666,859	1,955,416	3,042,621	938,632	7,603,528
2006	1,861,932	2,191,139	4,229,644	607,842	8,890,557
2007	2,287,085	2,266,749	2,337,713	672,198	7,563,745
2008	2,695,893	2,070,737	1,137,703	438,126	6,342,459

Source: Fauquier County Water and Sanitation Authority

Schedule of Rates
Last Ten Years

<u>Fiscal Year</u>	<u>Water Usage Fee (1)</u>	<u>Water Base Service Fees</u>	<u>Sewer Usage Fee (2)</u>	<u>Sewer Base Service Fees</u>
1999	\$ 2.76	\$ 18.04	\$ 5.11	\$ 15.54
2000	2.76	18.04	5.11	15.54
2001	2.76	16.04	5.11	15.54
2002	2.76	16.04	5.11	15.54
2003	2.76	14.60	5.11	14.10
2004	2.76	14.60	5.11	14.10
2005	2.76	14.60	5.11	14.10
2006	2.76	14.60	5.11	14.10
2007	2.76	14.88	5.11	14.10
2008	2.76	14.88	5.11	14.10

- (1) This is the first step of several steps in the Water Usage Fee schedule.
- (2) There is only one rate for the Sewer Usage Fee.

Source: Fauquier County Water and Sanitation Authority

Schedule of New Connections
Last Ten Fiscal Years

Fiscal Year	WATER			SEWER		
	New Connections	Cumulative Connections	% of Growth	New Connections	Cumulative Connections	% of Growth
1999	119	2,961	4.02%	58	1,950	2.97%
2000	70	3,031	2.31%	34	1,984	1.71%
2001	352	3,383	10.40%	182	2,166	8.40%
2002	165	3,548	4.65%	192	2,358	8.14%
2003	240	3,788	6.34%	231	2,589	8.92%
2004	282	4,070	6.93%	265	2,854	9.29%
2005	230	4,300	5.35%	228	3,082	7.40%
2006	244	4,544	5.37%	196	3,278	5.98%
2007	751	* 5,295	14.18%	196	3,474	5.64%
2008	122	5,417	2.25%	144	3,618	3.98%

Source: Fauquier County Water and Sanitation Authority connection records

* Completed the purchase of Marshall Waterworks with 546 connections

Schedule of Water Processed and Wastewater Treated (in gallons)
 Calendar Year

Calendar Year*	Water Processed	Wastewater Treated
2005	435,000,000	384,000,000
2006	470,000,000	420,000,000
2007	580,000,000	343,000,000

Source: Fauquier County Water and Sanitation Authority

* Documents for the previous seven calendar years are not available

FAUQUIER COUNTY WATER AND SANITATION AUTHORITY

Table 7

Schedule of Operating Expenses
Last Ten Fiscal Years

Fiscal Years	Personal Service	Fringe Benefits	General & Administrative	Operation & Maintenance	Depreciation & Amortization	Total
1999	\$ 826,696	\$ 201,965	\$ 417,735	\$ 341,837	\$ 1,273,557	\$ 3,061,790
2000	868,638	224,856	476,263	359,188	1,212,355	3,141,300
2001	1,038,611	326,653	212,930	663,477	1,214,113	3,455,784
2002	1,131,549	305,059	216,097	650,516	1,325,225	3,628,446
2003	1,237,543	352,043	212,895	699,120	1,317,069	3,818,670
2004	1,368,152	459,436	256,417	792,361	1,309,308	4,185,674
2005	1,420,246	472,686	515,867	896,003	1,630,648	4,935,450
2006	1,500,903	511,155	1,083,765	961,767	1,569,966	5,627,556
2007	1,969,118	676,891	1,093,335	1,272,715	1,731,653	6,743,712
2008	2,200,437	742,049	541,741	1,446,519	2,068,985	6,999,731

Source: Fauquier County Water and Sanitation Authority

FAUQUIER COUNTY WATER AND SANITATION AUTHORITY

Table 8

Outstanding Debt by Type
Last Ten Fiscal Years

	Fiscal Year				
	2008	2007	2006	2005	2004
Notes Payable VHEDA	\$ 938,800	\$ 938,800	\$ 938,800	\$ 1,082,800	\$ 1,880,800
Notes Payable VHEDA	-	-	100,000	150,000	200,000
Notes Payable - Miscellaneous	-	-	-	-	-
Note Payable - Brookside	525,450	1,027,650	-	-	-
Notes Payable Opal system	451,831	451,831	451,831	451,831	451,831
VRA Water Revenue Bond	575,000	-	-	-	-
VRA Water Revenue Bond	2,025,000	-	-	-	-
VRA Water Revenue Bond	825,000	970,000	1,086,768	1,218,147	1,344,527
Virginia Water Facility Bond	5,419,486	6,054,912	6,671,676	7,270,375	7,851,480
Virginia Water Facility Bond	-	-	-	-	-
Total outstanding debt	\$ 10,760,567	\$ 9,443,193	\$ 9,249,075	\$ 10,173,153	\$ 11,728,638
Debt per capita	\$ 398	\$ 359	\$ 391	\$ 454	\$ 555

	Fiscal Year				
	2003	2002	2001	2000	1999
Notes Payable VHEDA	\$ 2,468,800	\$ 2,727,000	\$ -	\$ -	\$ -
Notes Payable VHEDA	-	-	-	-	-
Notes Payable - Miscellaneous	-	13,200	112,300	195,000	87,686
Note Payable - Brookside	-	-	-	-	-
Notes Payable Opal system	451,831	451,831	451,831	451,831	451,831
VRA Water Revenue Bond	-	-	-	-	-
VRA Water Revenue Bond	-	-	-	-	-
VRA Water Revenue Bond	1,465,906	1,689,725	1,780,979	1,867,232	1,953,485
Virginia Water Facility Bond	8,415,536	9,597,240	10,166,291	10,718,646	11,254,797
Virginia Water Facility Bond	1,501,980	1,583,888	1,662,040	1,736,608	1,807,756
Total outstanding debt	\$ 14,304,053	\$ 16,062,884	\$ 14,173,441	\$ 14,969,317	\$ 15,555,555
Debt per capita	\$ 730	\$ 878	\$ 820	\$ 948	\$ 1,003

Source: Fauquier County Water and Sanitation Authority

FAUQUIER COUNTY WATER AND SANITATION AUTHORITY

Table 9

Revenue Bond Coverage (Water and Sewer Bonds)
Last Ten Fiscal Years

<u>Fiscal Year</u>	<u>Gross Revenue</u>	<u>Direct Operating Expenses</u>	<u>Net Revenue Available for Debt Service</u>	<u>Debt Service Requirements</u>			<u>Coverage</u>
				<u>Principal</u>	<u>Interest</u>	<u>Total</u>	
1999	\$ 3,979,730	\$ 1,788,233	\$ 2,191,497	\$ 697,056	\$ 553,932	\$ 1,250,988	1.75
2000	3,734,844	1,928,945	1,805,899	712,299	560,175	1,272,474	1.42
2001	5,109,143	2,241,671	2,867,472	732,757	515,324	1,248,081	2.30
2002	5,168,873	2,303,221	2,865,652	773,991	487,312	1,261,303	2.27
2003	6,834,521	2,501,601	4,332,920	2,191,037	536,588	2,727,625	1.59
2004	6,090,245	2,876,366	3,213,879	711,105	286,943	998,048	3.22
2005	7,782,137	3,304,802	4,477,335	733,669	264,179	997,848	4.49
2006	9,498,500	4,057,590	5,440,910	756,764	240,684	997,448	5.45
2007	8,203,481	5,012,059	3,191,422	756,784	262,603	1,019,387	3.13
2008	6,539,638	4,930,746	1,608,892	780,406	239,161	1,019,567	1.58

Note: Details regarding the Authority's outstanding debt can be found in the notes to the financial statements. Gross revenues includes investment earnings and availability fees. Operating expenses do not include interest or depreciation.

Source: Fauquier County Water and Sanitation Authority

Demographic and Economic Statistics
Last Ten Fiscal Years

<u>Year</u>	<u>Estimated Population (1)</u>	<u>Personal Income (expressed in thousands) (2)</u>	<u>Per Capita Personal Income (2)</u>	<u>Unemployment Rate (3)</u>	<u>County Civilian Labor Force (3)</u>	<u>At-Place Employment Annual Average (3)</u>	<u>School Enrollment (4)</u>
1999	15,504	\$ 1,939,182	\$ 35,892	1.4%	28,539	16,084	9,269
2000	15,795	2,164,569	38,941	1.5%	30,037	17,138	9,588
2001	17,290	2,328,195	40,639	2.1%	30,807	17,715	9,623
2002	18,290	2,406,592	40,635	3.0%	32,148	18,766	9,675
2003	19,608	2,500,858	41,110	3.0%	33,065	19,365	10,054
2004	21,140	2,739,851	43,759	2.6%	34,540	20,713	10,295
2005	22,422	3,046,952	47,392	2.4%	35,595	21,579	10,717
2006	23,654	3,211,975	48,939	2.4%	36,663	22,022	10,940
2007	26,306	*	*	2.6%	37,183	*	11,009
2008	27,051	*	*	3.6%	38,808	*	11,046

Sources: (1) Fauquier County Water and Sanitation Authority
 (2) Bureau of Economic Analysis, calendar year data.
 (3) Virginia Employment Commission, calendar year data.
 (4) Fauquier County Schools

* Unavailable

Principal Employers
Current Year and Nine Years Ago

Employer	2008		1999	
	Rank	Number of Employees	Rank	Number of Employees
Fauquier County School Board	1	1000 and over	1	1000 and over
Fauquier Hospital	2	500 to 999	2	500 to 999
County of Fauquier	3	500 to 999	3	250 to 499
US Department of Transportation	4	250 to 499		
Wal Mart	5	250 to 499	5	250 to 499
Food Lion	6	100 to 249	6	100 to 249
General Excavation	7	100 to 249		
Airlie Foundation	8	100 to 249	10	100 to 249
The Fauquier Bank	9	100 to 249		
Oak Springs Nursing Home	10	100 to 249		
Giant Food			7	100 to 249
Trinity Packaging Corporation			4	250 to 499
USA Remediation Services			8	100 to 249
Ross Industries			9	100 to 249

Source: Virginia Employment Commission Top 50 Employers (4th Quarter of 2006)

Operating and Capital Indicators
at June 30, 2008

Water System:

Number of water systems	14
Number of service connections	5,417
Miles of water mains	100 miles
Daily average consumption in gallons	1,455,000 gallons per day
Average amount of water distributed from the Authority's facilities	1,455,000 gallons per day
Storage capacity	1,911,000 gallons

Sewerage System:

Number of treatment plants	3
Number of pump stations	16
Number of service connections	3618
Miles of sanitary sewer mains	82 miles
Daily average treatment in gallons	939,000 gallons per day
Design capacity of treatment plants	2,886,000 gallons per day

Number of Full-Time Employees: 44

Source: Fauquier County Water and Sanitation Authority

FAUQUIER COUNTY WATER AND SANITATION AUTHORITY

Table 13

Principal Water and Sewer Customers
For Fiscal Year Ended June 30, 2008

<u>Principal Users of the Water System</u>	<u>Principal Business</u>	<u>in 000/gals</u>	<u>% of System</u>
FAUQUIER COUNTY PUBLIC SCHOOLS	Public Schools	8,090	1.39%
ASPEN SOUTH	Apartments	3,678	0.63%
ASPEN CLUB APTS/NORTH 40	Apartments	3,633	0.63%
FEDERAL AVIATION ADM	Federal FFA buliding	2,730	0.47%
NORTH FORTY ASPEN PLUS	Apartments	1,660	0.29%
WAKEFIELD SCHOOL	Private School	1,314	0.23%
VAN MANAGEMENT INC	Shopping Center	1,233	0.21%
CEDAR LEE CONDO ASSOCIATES	Apartments	999	0.17%
R.B. DRUMHELLER INC	Convenience Store	887	0.15%
SUFFIELD MEADOW CONDO	Condos	873	0.15%
Total		<u>25,097</u>	<u>4.33%</u>
Total Water System Annual Consumption		<u>580,000</u>	

<u>Principal Users of the Sewer System</u>	<u>Principal Business</u>	<u>in 000/gals</u>	<u>% of System</u>
FAUQUIER COUNTY PUBLIC SCHOOLS	Public Schools	8,716	2.54%
ASPEN SOUTH	Apartments	3,678	1.07%
ASPEN CLUB APTS/NORTH 40	Apartments	3,633	1.06%
FEDERAL AVIATION ADM	Federal FFA buliding	2,730	0.80%
CHUCK DAVIS	ODEC	2,022	0.59%
SHEETZ # 221 UTILITIES	Convenience Store, Gas Station	1,937	0.56%
NORTH FORTY ASPEN PLUS	Apartments	1,660	0.48%
WAKEFIELD SCHOOL	Private School	1,314	0.38%
VAN MANAGEMENT INC	Shopping Center	1,233	0.36%
CEDAR LEE CONDO ASSOCIATES	Condos	999	0.29%
WAVERLY STATION	Apartments	159	0.05%
Total		<u>28,081</u>	<u>8.19%</u>
Total Sewer System Annual Flow		<u>343,000</u>	

ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

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

**To The Honorable Members of Board of Directors
Fauquier County Water and Sanitation Authority
Warrenton, Virginia**

We have audited the financial statements of the Fauquier County Water and Sanitation Authority as of and for the year ended June 30, 2008, and have issued our report thereon dated September 10, 2008. 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 and the *Specifications for Audits of Authorities, Boards, and Commissions* issued by the Auditor of Public Accounts of the Commonwealth of Virginia.

Internal Control Over Financial Reporting

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Authority's financial statements that is more than inconsequential will not be prevented or detected by the Authority's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Authority's internal control.

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

Compliance and Other Matters

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

This report is intended solely for the information and use of management and the Board of Directors and is not intended to be and should not be used by anyone other than these specified parties.

Robinson, Farmer, Cox Associates

Charlottesville, Virginia
September 10, 2008