

Fauquier County
Water and Sanitation Authority

Warrenton, Virginia

**Comprehensive Annual
Financial Report**



**YEARS ENDED
JUNE 30, 2009 AND 2008**

FAUQUIER COUNTY WATER AND SANITATION AUTHORITY

WARRENTON, VIRGINIA

Comprehensive Annual Financial Report
Years Ended June 30, 2009 and 2008

Prepared by:

William Skinker
Chief Financial Officer / Director of Finance

FAUQUIER COUNTY WATER AND SANITATION AUTHORITY

Comprehensive Annual Financial Report
Years Ended June 30, 2009 and 2008

Table of Contents

| | <u>Page</u> |
|--|-------------|
| <u>Introductory Section</u> | |
| Title Page | i |
| Table of Contents | iii-iv |
| Authority Officials | v |
| Letter of Transmittal | vii-x |
| Organizational Chart | xi |
| Certificate of Achievement for Excellence in Financial Reporting | xiii |
| <u>Financial Section</u> | |
| Independent Auditors' Report | 1-2 |
| Management's Discussion and Analysis | 3-9 |
| <u>Basic Financial Statements</u> | |
| Exhibit 1 Statements of Net Assets at June 30, 2009 and 2008 | 13-14 |
| Exhibit 2 Statements of Revenues, Expenses and Changes in Net Assets – Years Ended June 30, 2009 and 2008 | 15 |
| Exhibit 3 Statements of Cash Flows –Years Ended June 30, 2009 and 2008 | 16 |
| Notes to Financial Statements | 17-30 |
| <u>Required Supplementary Information</u> | |
| Schedule of Funding Progress for Defined Benefit Pension Plan | 33 |

FAUQUIER COUNTY WATER AND SANITATION AUTHORITY

Comprehensive Annual Financial Report
Years Ended June 30, 2009 and 2008

Table of Contents

| | <u>Page</u> |
|---|-------------|
| <u>Statistical Section</u> | |
| Table 1 Net Assets by Component | 37 |
| Table 2 Changes in Net Assets | 38-39 |
| Table 3 Schedule of Operating Revenues | 40 |
| Table 4 Schedule of Rates | 41 |
| Table 5 Schedule of New Connections | 42 |
| Table 6 Schedule of Water Processed and Wastewater Treated | 43 |
| Table 7 Schedule of Operating Expenses | 44 |
| Table 8 Outstanding Debt by Type | 45 |
| Table 9 Revenue Bond Coverage | 46 |
| Table 10 Demographic and Economic Statistics | 47 |
| Table 11 Principal Employers | 48 |
| Table 12 Operating and Capital Indicators | 49 |
| Table 13 Principal Water and Sewer Customers | 50 |
| <u>Compliance Section</u> | |
| Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> | 51-52 |

OFFICERS AND BOARD MEMBERS

L. Paul Blackmer, Jr. – Chairperson
James R. Green, Jr. – Vice Chairperson
Earl 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 2, 2009

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, 2009 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 67,000 and expected to exceed 69,000 by the year 2012 and 71,300 by the year 201.

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 2009, the Authority's customer base increased by 85 accounts to 9,120, or .94 % above the fiscal year 2008.

Employment within the service area is well diversified. However, the unemployment rate has increased over fiscal year 2008. As of June 30, 2009, the total civilian labor force in Fauquier County was 38,306, of which 36,123 were employed and 2,182 were unemployed, resulting in an unemployment rate of 5.7 %.

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.

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 have been 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 \$8,000,000. 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, 2009 have been audited by Robinson, Farmer, Cox Associates a firm of licensed certified public accountants. The fiscal year 2009 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, 2008. 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

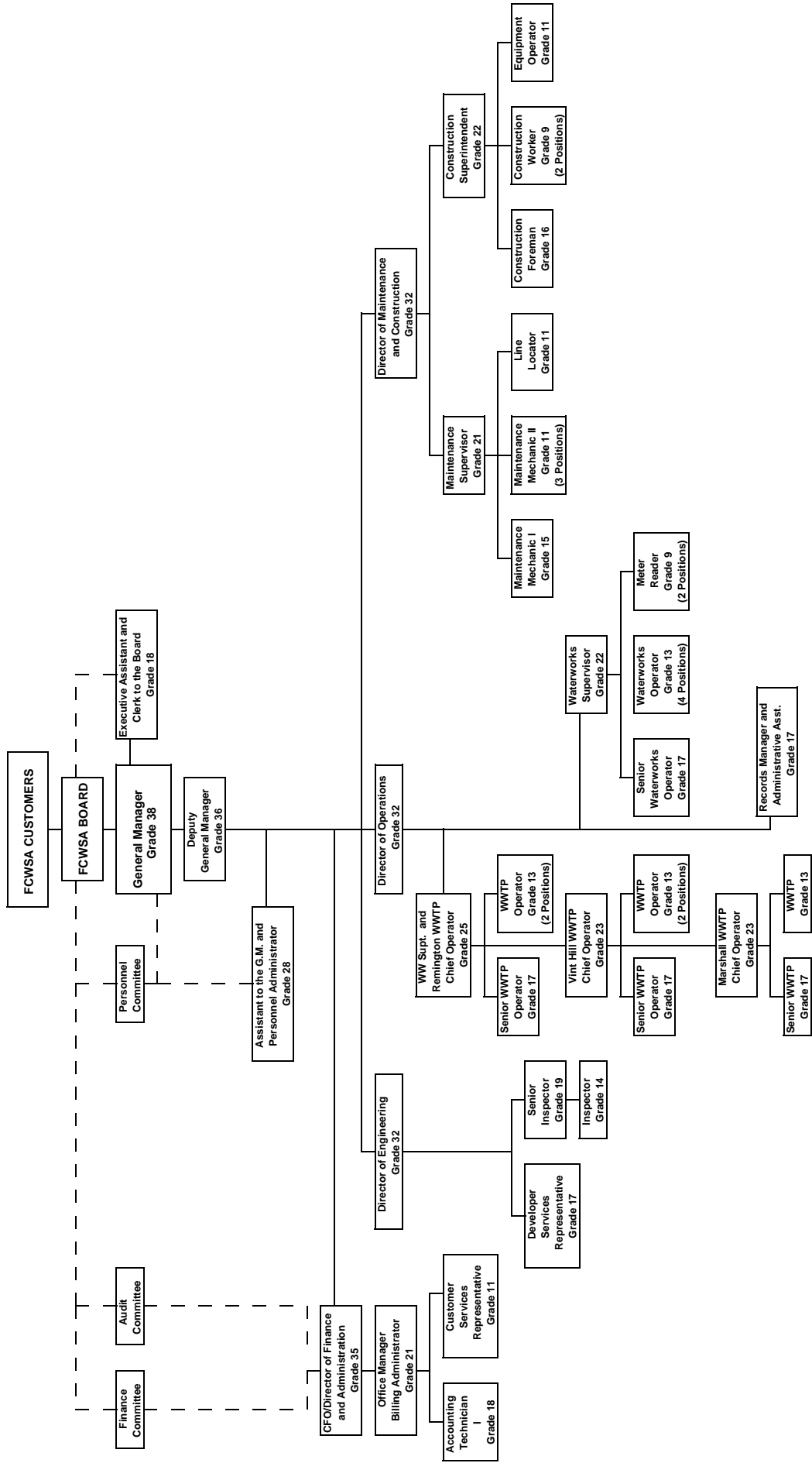
The preparation of this report could not have been accomplished without the efficient and dedicated services of the entire Finance staff of the Authority. All members of the division have my sincere appreciation for their contributions to the preparation of this report. I would also like to thank the 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
Virginia

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2008

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.



President

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, 2009 and 2008 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, 2009 and 2008, 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 August 28, 2009, 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
August 28, 2009

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, 2009. Due to the current economic downturn, the Authority has set its budgeting to maintain customer service and infrastructure of the organization. Due to unfunded mandates related to the Chesapeake Bay Program, the wastewater treatment plants are being upgraded and expanded to meet the more stringent effluent quality requirements and the attendant deadline of December 2010. 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 \$8,136,750 and \$7,787,445 respectively during FY2009.
- Operating revenues increased by 9% in FY2009 to \$5.7 million. Operating expenses increased 6.4% to \$7.5 million. Depreciation expense, due to completion of major projects, represents 92.5% of the increase in the Operating Expense.
- Construction was completed on the Marshall Water Main Line at a cost of \$1.3 Million.
- Construction for all three (3) Wastewater Treatment Plants (WWTP) started in the fourth quarter of FY2009 with a budget cost of \$14.5 million.
- The financing for Remington and Marshall WWTP have been completed at a principal cost of \$4.4 million.
- The Authority obtained grants on the Remington WWTP from the Commonwealth equaling 53.4% of the construction cost or \$3.5 million and a Federal grant for 2.2% or \$144,300.
- Fauquier County and the IDA are financing the upgrade and expansion of the Vint Hill WWTP at a cost of \$6.5 million.
- Total net assets increased by \$349,305 to \$47,751,669 during FY2009.
- 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

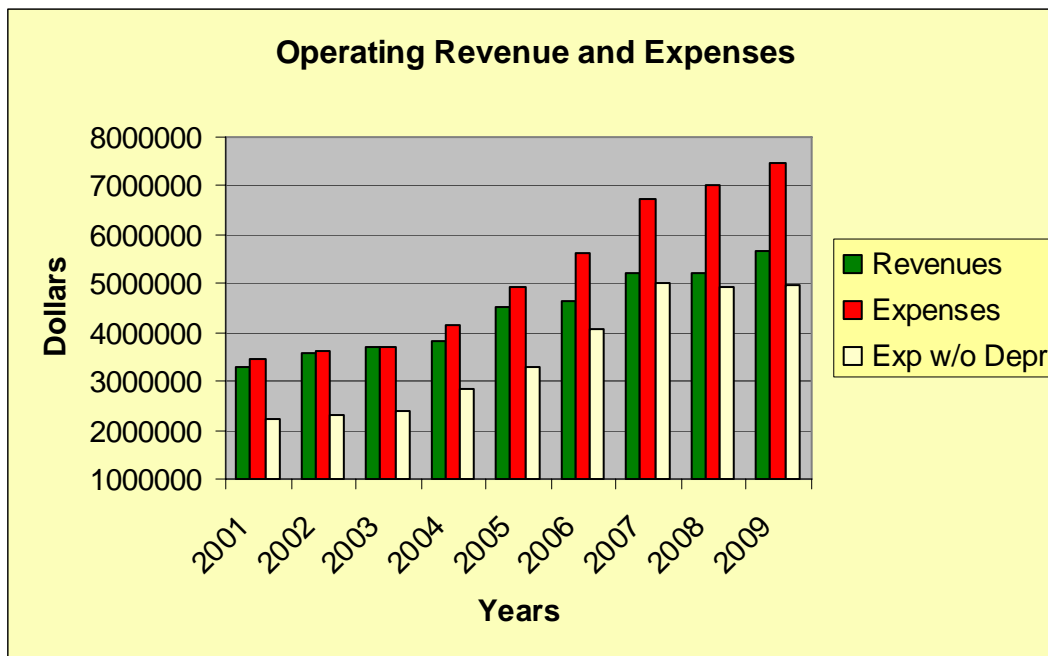
The Statements of Net Assets and the Statements of Revenues, Expenses and Changes in Net Assets report information about the Authority's activities to determine if, overall, the financial position improved over the year. These reports help determine the financial health of the Authority and whether the 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 2009, but not at the rate of previous years as described in the following sections of this report.

Net Assets and Liabilities - The Authority's total net assets increased in FY 2009 by \$349,305 or 0.7% and \$2.0 million or 4.5%, during FY 2008. A significant portion of this increase was due to capital contributions of \$2.1 and \$2.7 million in FY09 and FY08 respectively. Total liabilities increased by \$79 thousand and \$2.8 million during FY09 and FY08 respectively. In FY09 the increase is due to the Marshall WWTP upgrade, an unfunded regulatory mandate. In FY08, The borrowing was for the purchase and infrastructure for Marshall Water system. The following table depicts the Authority's assets and liabilities as of June 30, 2009, 2008, and 2007:

| | Net Assets | | |
|---|----------------------|----------------------|----------------------|
| | <u>2009</u> | <u>2008</u> | <u>2007</u> |
| Current and other assets | \$ 7,339,023 | \$ 8,334,008 | \$ 7,138,308 |
| Capital assets | <u>54,353,487</u> | <u>52,930,260</u> | <u>49,310,909</u> |
| Total assets | <u>\$ 61,692,510</u> | <u>\$ 61,264,268</u> | <u>\$ 56,449,217</u> |
| Long-term liabilities outstanding | \$ 12,242,611 | \$ 9,994,471 | \$ 8,813,885 |
| Other liabilities | <u>1,698,230</u> | <u>3,867,433</u> | <u>2,272,869</u> |
| Total liabilities | <u>\$ 13,940,841</u> | <u>\$ 13,861,904</u> | <u>\$ 11,086,754</u> |
| Net assets: | | | |
| Invested in capital assets, net of related debt | \$ 45,261,874 | \$ 43,108,473 | \$ 40,806,516 |
| Restricted | - | - | - |
| Unrestricted | <u>2,489,795</u> | <u>4,293,891</u> | <u>4,555,947</u> |
| Total net assets | <u>\$ 47,751,669</u> | <u>\$ 47,402,364</u> | <u>\$ 45,362,463</u> |

FINANCIAL ANALYSIS: (Continued)

Operating Income - Operating revenues totaled \$5.6 million in FY 2009, an increase of 9.0% over FY08. FY08's Operating Revenue was \$5.2 million, a decrease of .41% over FY 2007. In FY09 the affect of the increase in the rate and fees has increased the Operating Revenue. In FY08 the Operating Revenue decrease can be attributed to the slow down in the real estate market. Operating Expenses totaled \$7.5 million in FY09, an increase of 6.5% over FY08. A significant portion of this increase is from depreciation expense, which represents 92.5% of the increase in Operating Expenses. The Operating Expenses were \$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 and to operating expenses without depreciation expense during the last eight 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.

The Authority has seen the effects of the increase in the rates and fees set in FY09 and FY08. However, in recognition of the trend towards 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 2010. It is anticipated that these rate increases, when applied during FY 2010 and future periods, will better match the Authority's operating revenues and expenses.

FINANCIAL ANALYSIS: (Continued)

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, 2009, 2008, and 2007:

| | <u>2009</u> | <u>2008</u> | <u>2007</u> |
|--|-----------------------|-----------------------|-----------------------|
| Operating revenues: | | | |
| Water service | \$ 3,031,716 | \$ 2,695,893 | \$ 2,287,085 |
| Sewer service | 2,054,634 | 2,070,737 | 2,266,749 |
| Late charges | 117,598 | 115,791 | 111,070 |
| Other operating revenues | 471,748 | 322,335 | 561,128 |
| Total operating revenues | <u>\$ 5,675,696</u> | <u>\$ 5,204,756</u> | <u>\$ 5,226,032</u> |
| Operating expenses: | | | |
| Salaries | \$ 2,204,681 | \$ 2,200,437 | \$ 1,969,118 |
| Fringe benefits | 818,458 | 742,049 | 676,891 |
| General and administrative | 277,897 | 388,294 | 526,150 |
| Legal expense | 98,701 | 153,447 | 567,185 |
| Operations and maintenance | 1,564,933 | 1,446,519 | 1,272,715 |
| Depreciation expense | 2,486,274 | 2,068,985 | 1,731,653 |
| Total operating expenses | <u>\$ 7,450,944</u> | <u>\$ 6,999,731</u> | <u>\$ 6,743,712</u> |
| Net operating income (loss) | <u>\$ (1,775,248)</u> | <u>\$ (1,794,975)</u> | <u>\$ (1,517,680)</u> |
| Non-operating revenue and expenses: | | | |
| Availability fees | \$ 331,482 | \$ 1,137,703 | \$ 2,337,713 |
| Interest earned | 60,748 | 197,179 | 639,736 |
| Litigation settlement expenses | - | - | (1,950,000) |
| Interest expense | (336,501) | (239,161) | (262,603) |
| Net nonoperating revenue | <u>\$ 55,729</u> | <u>\$ 1,095,721</u> | <u>\$ 764,846</u> |
| Net income (loss) before capital contributions | \$ (1,719,519) | (699,254) | (752,834) |
| Capital Contributions | <u>2,068,824</u> | <u>2,739,155</u> | <u>3,400,665</u> |
| Change in net assets | \$ 349,305 | \$ 2,039,901 | \$ 2,647,831 |
| Net assets, at beginning of year | <u>47,402,364</u> | <u>45,362,463</u> | <u>42,714,632</u> |
| Net assets, at end of year | <u>\$ 47,751,669</u> | <u>\$ 47,402,364</u> | <u>\$ 45,362,463</u> |

CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets - The increase in capital assets for FY 2009 is the result of a CIP project having been completed and placed into service, and contributed capital of infrastructure. The detail of these major capital asset additions is as follows:

| | |
|-------------------------------|--------------|
| Marshall Water System Phase 1 | \$ 1,297,357 |
| Marshall Pump Station | 206,571 |
| SCADA System | 96,047 |
| The Plains Hydro Study | 123,579 |

CAPITAL ASSETS AND LONG TERM DEBT: (Continued)

The three largest construction in progress projects as of June 30, 2009:

| | | |
|--------------------|----|---------|
| Vint Hill WWTP ENR | \$ | 911,234 |
| Remington WWTP ENR | | 572,989 |
| Marshall WWTP ENR | | 447,899 |

The following table shows capital asset balances for the fiscal year ending June 30, 2009, 2008, and 2007:

| | <u>2009</u> | <u>2008</u> | <u>2007</u> |
|-----------------------------|----------------------|----------------------|----------------------|
| Land | \$ 1,553,425 | \$ 1,553,425 | \$ 1,553,425 |
| Construction in progress | 2,664,013 | 2,111,549 | 9,828,057 |
| Structures and improvements | 31,924,619 | 31,480,307 | 21,112,151 |
| Infrastructure | 32,667,827 | 29,908,787 | 27,388,366 |
| Vehicles | 930,829 | 930,829 | 680,527 |
| Machinery and equipment | <u>13,285,414</u> | <u>13,043,615</u> | <u>12,720,255</u> |
| Total property & equipment | \$ 83,026,127 | \$ 79,028,512 | \$ 73,282,781 |
| Less: depreciation | <u>28,672,640</u> | <u>26,098,252</u> | <u>23,971,872</u> |
| Net property & equipment | <u>\$ 54,353,487</u> | <u>\$ 52,930,260</u> | <u>\$ 49,310,909</u> |

Additional information on the capital assets can be reviewed in Note 7 beginning on page 22.

Cash Balances – The Board, with the assistance of Management, establishes rates on an annual basis, since multi-year rate setting is not in the best interest of the customers. The five year cash flow indicates the necessity or likelihood of future rate adjustments. The following is the projected ending cash balances for the next five years:

| | | |
|---------|----|-----------|
| FY 2010 | \$ | 3,950,092 |
| FY 2011 | | 3,922,524 |
| FY 2012 | | 4,249,046 |
| FY 2013 | | 4,539,349 |
| FY 2014 | | 4,968,717 |

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, various rate increases were implemented for FY 2010. It is anticipated that said rate increases for FY 2010 and future periods will match the Authority's operating revenues and expenses. These cash flow balances are estimating an economic recovery in the last two years and that availability sales will increase from zero in the beginning years to twenty-five in the last year.

CAPITAL ASSETS AND LONG TERM DEBT: (Continued)

Capital Projects

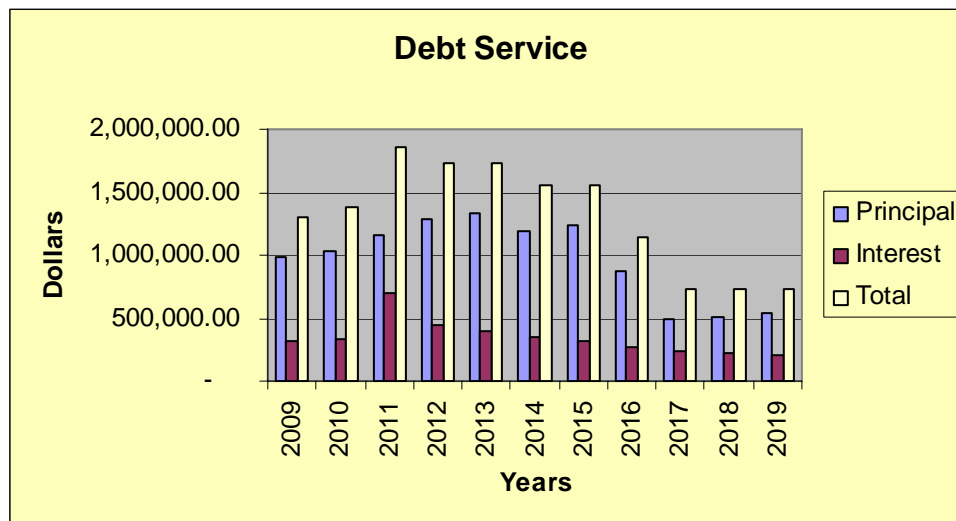
Below is a summary schedule of our planned capital projects and replacement and renewals for the next five years:

| FAUQUIER COUNTY WATER & SANITATION AUTHORITY | | | | | | |
|---|---------------------|---------------------|---------------------|---------------------|-------------------|----------------------|
| Five Years Capital Improvement Program (FY 10 - 14) | | | | | | |
| Project: | FY 2010 | FY 2011 | FY2012 | FY2013 | FY2014 | 5 YR Totals |
| Utility Master Plan | \$ - | \$ 46,800 | \$ - | \$ - | \$ - | \$ 46,800 |
| General - Water - New Service Water Meters | 6,750 | - | 3,650 | 6,327 | 5,264 | 21,992 |
| Construct Maintenance Facility | 100,000 | - | - | - | 552,000 | 652,000 |
| Marshall WWTP ENR Project + Carryover balance | 500,000 | - | - | - | - | 500,000 |
| Remington WWTP ENR Project | 4,200,000 | 2,000,000 | - | - | - | 6,200,000 |
| Vint Hill WWTP ENR Project & Expansion | 4,100,000 | 2,000,000 | - | - | - | 6,100,000 |
| **New Baltimore Zone H Well (2) | - | - | 146,250 | 158,250 | - | 304,500 |
| **New Baltimore E-6 Well | - | - | 363,000 | 292,000 | - | 655,000 |
| **Construct New Well in The Plains | - | - | 149,250 | 164,250 | - | 313,500 |
| **Marshall Waterworks Phase 2 Improvements | - | - | 551,200 | 681,200 | - | 1,232,400 |
| Cash Funded | 106,750 | 46,800 | 3,650 | 6,327 | 5,264 | 168,791 |
| Debt Funded | 4,700,000 | 2,000,000 | - | - | - | 6,700,000 |
| County Funded | 4,100,000 | 2,000,000 | - | - | - | 6,100,000 |
| Not Funded | - | - | 1,209,700 | 1,295,700 | 552,000 | 3,057,400 |
| Totals by Fiscal Year: | \$ 8,906,750 | \$ 4,046,800 | \$ 1,213,350 | \$ 1,302,027 | \$ 557,264 | \$ 16,026,191 |
| Five Year Total: | | | | | | \$ 16,026,192 |

** Not Funded projects

Long-Term Debt - The Authority's outstanding debt as of June 30, 2009 consists of five separate notes. The first note is with the Virginia Resource Authority (VRA). The June 30, 2009 outstanding balance of this note is \$675,000 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, 2009 outstanding balance of this note is \$4.8 million with an interest rate of 3% over the next eight years. The third note is a taxable note and non-taxable bond from SunTrust Bank. The outstanding debt is \$545,486 and \$1,914,426 respectively. Both debts are for fifteen years. In FY09, the Authority borrowed \$1,515,000, a non-taxable bond, with a principal balance at end of the year of \$1,478,391 from SunTrust for fifteen years.

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 starting on page 24.

ECONOMIC FACTORS

In FY 2009 and 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 recover and have a small growth in FY 2010, 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 2009, 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.

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Basic Financial Statements

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FAUQUIER COUNTY WATER AND SANITATION AUTHORITY

Statements of Net Assets
At June 30, 2009 and 2008

| | <u>2009</u> | <u>2008</u> |
|--|------------------------------------|------------------------------------|
| ASSETS | | |
| Current Assets: | | |
| Cash and temporary investments | \$ 2,089,971 | \$ 2,923,470 |
| Accounts receivable (net of allowance for doubtful accounts) | 159,221 | 808,321 |
| Due from other governments | 129,525 | 2,129,143 |
| Prepaid expenses | <u>73,529</u> | <u>101,618</u> |
| Total current assets | \$ <u>2,452,246</u> | \$ <u>5,962,552</u> |
| Noncurrent Assets: | | |
| Restricted Assets: | | |
| Cash and temporary investments: | | |
| Security deposits | \$ 77,630 | \$ 54,625 |
| Vint Hill wastewater treatment plant | 588,784 | - |
| Marshall wastewater treatment plant | 1,232,075 | - |
| Marshall water system | 707,457 | - |
| Capital improvement funds for other governments | 451,831 | 451,831 |
| Other Asset: | | |
| Performance bond | <u>4,000</u> | <u>35,000</u> |
| Total restricted assets | \$ <u>3,061,777</u> | \$ <u>541,456</u> |
| Other Assets: | | |
| Note receivable | <u>\$ 1,825,000</u> | <u>\$ 1,830,000</u> |
| Capital Assets: | | |
| Capital assets not being depreciated: | | |
| Land | \$ 1,553,425 | \$ 1,553,425 |
| Construction in progress | 2,664,013 | 2,111,549 |
| Capital assets being depreciated: | | |
| Structures and improvements | 31,924,619 | 31,480,307 |
| Infrastructure | 32,667,827 | 29,908,787 |
| Vehicles | 930,829 | 930,829 |
| Machinery and equipment | 13,285,414 | 13,043,615 |
| Less accumulated depreciation | <u>(28,672,640)</u> | <u>(26,098,252)</u> |
| Total capital assets | \$ <u>54,353,487</u> | \$ <u>52,930,260</u> |
| Total noncurrent assets | \$ <u>59,240,264</u> | \$ <u>55,301,716</u> |
| Total Assets | \$ <u><u>61,692,510</u></u> | \$ <u><u>61,264,268</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, 2009 and 2008 (Continued)

| | <u>2009</u> | <u>2008</u> |
|---|------------------------------------|------------------------------------|
| LIABILITIES | | |
| Current Liabilities: | | |
| Accounts payable | \$ 403,660 | \$ 875,455 |
| Retainage payable | 19,940 | 45,054 |
| Accrued interest | 101,943 | 88,768 |
| Current maturities of long-term obligations | 1,055,897 | 962,557 |
| Accrued payroll and related liabilities | 39,160 | 28,832 |
| Liabilities payable from Restricted Assets: | | |
| Security deposits | <u>77,630</u> | <u>54,625</u> |
| Total current liabilities | \$ <u>1,698,230</u> | \$ <u>2,055,291</u> |
| Noncurrent Liabilities: | | |
| Long-term debt | \$ 8,340,225 | \$ 7,899,807 |
| Notes Payable | 977,281 | 977,281 |
| Compensated absences | 161,305 | 160,725 |
| Other long-term liabilities | 938,800 | 938,800 |
| Deferred revenue | <u>1,825,000</u> | <u>1,830,000</u> |
| Total noncurrent liabilities | \$ <u>12,242,611</u> | \$ <u>11,806,613</u> |
| Total liabilities | \$ <u>13,940,841</u> | \$ <u>13,861,904</u> |
| NET ASSETS | | |
| Invested in capital assets, net of related debt | \$ 45,261,874 | \$ 43,108,473 |
| Unrestricted net assets | <u>2,489,795</u> | <u>4,293,891</u> |
| Total net assets | \$ <u>47,751,669</u> | \$ <u>47,402,364</u> |
| Total Liabilities and Net Assets | \$ <u><u>61,692,510</u></u> | \$ <u><u>61,264,268</u></u> |

FAUQUIER COUNTY WATER AND SANITATION AUTHORITY

Statements of Revenues, Expenses, and Changes in Net Assets--
Years Ended June 30, 2009 and 2008

| | <u>2009</u> | <u>2008</u> |
|--|-----------------------|-----------------------|
| Operating revenues: | | |
| Water service | \$ 3,031,716 | \$ 2,695,893 |
| Sewer service | 2,054,634 | 2,070,737 |
| Septic service | 209,495 | 187,178 |
| Late charges | 117,598 | 115,791 |
| Other operating revenues | 262,253 | 135,157 |
| Total operating revenues | <u>\$ 5,675,696</u> | <u>\$ 5,204,756</u> |
| Operating expenses: | | |
| Salaries | \$ 2,204,681 | \$ 2,200,437 |
| Fringe benefits | 818,458 | 742,049 |
| General and administrative | 376,598 | 541,741 |
| Operations and maintenance | 1,564,933 | 1,446,519 |
| Depreciation expense | 2,486,274 | 2,068,985 |
| Total operating expenses | <u>\$ 7,450,944</u> | <u>\$ 6,999,731</u> |
| Net operating income (loss) | <u>\$ (1,775,248)</u> | <u>\$ (1,794,975)</u> |
| Non-operating revenue and expenses: | | |
| Availability fees | \$ 331,482 | \$ 1,137,703 |
| Interest earned | 60,748 | 197,179 |
| Interest expense | (336,501) | (239,161) |
| Net nonoperating revenue | <u>\$ 55,729</u> | <u>\$ 1,095,721</u> |
| Net income (loss) before capital contributions | \$ (1,719,519) | (699,254) |
| Capital Contributions | <u>2,068,824</u> | <u>2,739,155</u> |
| Change in net assets | \$ 349,305 | \$ 2,039,901 |
| Net assets, at beginning of year | <u>47,402,364</u> | <u>45,362,463</u> |
| Net assets, at end of year | <u>\$ 47,751,669</u> | <u>\$ 47,402,364</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, 2009 and 2008

| | <u>2009</u> | <u>2008</u> |
|---|-----------------------|-----------------------|
| Cash flows from operating activities: | | |
| Receipts from customers and users | \$ 6,375,177 | \$ 5,362,919 |
| Payments to suppliers for goods and services | (2,385,237) | (2,015,589) |
| Payments to employees for services | (3,012,231) | (2,923,115) |
| Net cash provided (used) by operating activities | <u>\$ 977,709</u> | <u>\$ 424,215</u> |
| Cash flows from capital and related financing activities: | | |
| Acquisitions of property, equipment and construction in progress | \$ (2,780,478) | \$ (6,165,169) |
| Capital contributions from developers and other governments | 860,000 | 681,167 |
| Interest payments | (323,326) | (216,443) |
| Principal payments on long-term debt | (981,307) | (1,282,606) |
| Proceeds from long-term debt issued | 1,515,000 | 2,600,000 |
| Proceeds from availability fees | 331,482 | 1,137,703 |
| Net cash (used in) capital and related financing activities | <u>\$ (1,378,629)</u> | <u>\$ (3,245,348)</u> |
| Cash flows from noncapital and related financing activities: | | |
| Payment from DEQ | \$ 2,057,994 | \$ - |
| Cash flows from investing activities: | | |
| Interest on deposits and investments | \$ 60,748 | \$ 197,179 |
| Net increase (decrease) in cash and cash equivalents | \$ 1,717,822 | \$ (2,623,954) |
| Cash and cash equivalents at beginning of year | 3,429,926 | 6,053,880 |
| Cash and cash equivalents at end of year | <u>\$ 5,147,748</u> | <u>\$ 3,429,926</u> |
| Reconciliation of Operating Loss to Net Cash (used in) operating activities: | | |
| Cash flows from operations: | | |
| Income (loss) from operations | \$ (1,775,248) | \$ (1,794,975) |
| 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 | 2,486,274 | 2,068,985 |
| Increase / Decrease in: | | |
| Receivables and due from other governments | 941,710 | 160,063 |
| Prepaid and other assets | 28,089 | (90,659) |
| Accounts payable and accrued liabilities | 505,708 | 80,801 |
| Net cash provided (used) by operating activities | <u>\$ 977,709</u> | <u>\$ 424,215</u> |
| Noncash Investing, Capital and Financing Activities | | |
| Contributions of capital assets | \$ 1,208,824 | \$ - |
| Capitalized depreciation on self-constructed assets | <u>\$ 87,934</u> | <u>\$ 88,205</u> |
| Reconciliation of Cash: | | |
| Cash and temporary investments | \$ 2,089,971 | \$ 2,923,470 |
| Restricted cash and temporary investments | 2,350,320 | 506,456 |
| Total | <u>\$ 4,440,291</u> | <u>\$ 3,429,926</u> |

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, 2009

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

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.

FAUQUIER COUNTY WATER AND SANITATION AUTHORITY

Notes to Financial Statements
As of June 30, 2009 (Continued)

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

B. Basis of Accounting: (Continued)

The Authority distinguishes operating revenues and expenses from non-operating 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 non-operating 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.

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 \$2,574,388 for the year ending June 30, 2009. A portion of depreciation expense, \$87,934 was capitalized as part of self-constructed assets for the year ending June 30, 2009.

FAUQUIER COUNTY WATER AND SANITATION AUTHORITY

Notes to Financial Statements
As of June 30, 2009 (Continued)

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

E. Capital Assets: (Continued)

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 un-collectibles. The Authority calculates its allowance for uncollectible accounts using historical collection data and, in certain cases, specific account analysis. The allowance amounted to \$45,796 at June 30, 2009.
- 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.

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.

FAUQUIER COUNTY WATER AND SANITATION AUTHORITY

Notes to Financial Statements
As of June 30, 2009 (Continued)

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

L. Non-exchange Transactions

The Authority receives non-exchange transactions from developers of property, lines and improvements. These non-exchange 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.

The Authority's rated debt investments as of June 30, 2009 were rated by Standard & Poor's and the ratings are presented below using Standard & Poor's rating scale.

| Authority's Rated Debt Investments' Values | |
|---|-----------------------------|
| Rated Debt Investments | Fair Quality Ratings |
| | AAA |
| LGIP | \$ 2,126,305 |
| U.S. Agency Securities | 1,232,075 |
| Total | \$ <u>3,358,380</u> |

FAUQUIER COUNTY WATER AND SANITATION AUTHORITY

Notes to Financial Statements
As of June 30, 2009 (Continued)

NOTE 3—DEPOSITS AND INVESTMENTS: (CONTINUED)

External Investment Pool

The fair value of the positions in the external investment pool (Local Government Investment Pool) is 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, 2009 consist of the following:

| | Balance June 30, 2009 | Balance June 30, 2008 |
|---|--------------------------------------|--------------------------------------|
| Security deposits | \$ 77,630 | \$ 54,625 |
| Capital improvement funds for other governments | 451,831 | 451,831 |
| Marshall wastewater treatment plant | 1,232,075 | - |
| Marshall water system | 707,457 | - |
| Vint Hill wastewater treatment plant | 588,784 | - |
| Performance bonds | <u>4,000</u> | <u>35,000</u> |
| Total | <u>\$ 3,061,777</u> | <u>\$ 541,456</u> |

NOTE 5—DUE TO/FROM OTHER GOVERNMENTS:

At June 30, 2009, the Authority has receivables from other governments as follows:

| | |
|--|-------------------|
| Local: | |
| Fauquier County | \$ 22,891 |
| Vint Hill Economic Development Authority | <u>106,634</u> |
| Total | <u>\$ 129,525</u> |

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, 2009 the balance of the note receivable and deferred revenue is \$1,825,000. As payments on the note are made revenue is recognized.

FAUQUIER COUNTY WATER AND SANITATION AUTHORITY

Notes to Financial Statements
As of June 30, 2009 (Continued)

NOTE 7—CAPITAL ASSETS:

Property and Equipment

The following is a summary of changes to property and equipment for the years ending June 30, 2009 and 2008:

| | <u>Balance July 1, 2008</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance June 30, 2009</u> |
|---|-------------------------------------|---------------------|---------------------|--------------------------------------|
| Capital assets, not being depreciated: | | | | |
| Land | \$ 1,553,425 | \$ - | \$ - | \$ 1,553,425 |
| Construction in progress | <u>2,111,549</u> | <u>2,781,303</u> | <u>2,228,839</u> | <u>2,664,013</u> |
| Total capital assets not being depreciated | <u>\$ 3,664,974</u> | <u>\$ 2,781,303</u> | <u>\$ 2,228,839</u> | <u>\$ 4,217,438</u> |
| Capital assets being depreciated: | | | | |
| Structures and improvements | \$ 31,480,307 | \$ 444,312 | \$ - | \$ 31,924,619 |
| Infrastructure | 29,908,787 | 2,759,040 | - | 32,667,827 |
| Vehicles | 930,829 | - | - | 930,829 |
| Machinery and equipment | <u>13,043,615</u> | <u>241,799</u> | <u>-</u> | <u>13,285,414</u> |
| Total capital assets being depreciated | <u>\$ 75,363,538</u> | <u>\$ 3,445,151</u> | <u>\$ -</u> | <u>\$ 78,808,689</u> |
| Less accumulated depreciation | | | | |
| Structures and improvements | \$ 9,420,040 | \$ 1,049,783 | \$ - | \$ 10,469,823 |
| Infrastructure | 8,038,308 | 598,176 | - | 8,636,484 |
| Vehicles | 530,962 | 75,625 | - | 606,587 |
| Machinery and equipment | <u>8,108,942</u> | <u>850,804</u> | <u>-</u> | <u>8,959,746</u> |
| Total accumulated depreciation | <u>\$ 26,098,252</u> | <u>\$ 2,574,388</u> | <u>\$ -</u> | <u>\$ 28,672,640</u> |
| Total capital assets being depreciated, net | <u>\$ 49,265,286</u> | <u>\$ 870,763</u> | <u>\$ -</u> | <u>\$ 50,136,049</u> |
| Governmental activities capital assets, net | <u>\$ 52,930,260</u> | <u>\$ 3,652,066</u> | <u>\$ 2,228,839</u> | <u>\$ 54,353,487</u> |

Depreciation expense for the year ended June 30, 2009 totaled \$2,574,388.

FAUQUIER COUNTY WATER AND SANITATION AUTHORITY

Notes to Financial Statements
As of June 30, 2009 (Continued)

NOTE 7—CAPITAL ASSETS: (Continued)

Property and Equipment: (Continued)

Computation of investment in capital assets net of related debt:

| | Balance June 30, 2009 | Balance June 30, 2008 |
|--|--------------------------------------|--------------------------------------|
| Net capital assets | \$ 54,353,487 | \$ 52,930,260 |
| Revenues bonds | (9,378,199) | (8,844,506) |
| Notes payable | (977,281) | (977,281) |
| Unexpended bond proceeds | <u>1,263,867</u> | <u>-</u> |
| Net investment in capital assets net of debt | <u>\$ 45,261,874</u> | <u>\$ 43,108,473</u> |

| | Balance July 1, 2007 | Additions | Deletions | Balance June 30, 2008 |
|---|-------------------------------------|----------------------|----------------------|--------------------------------------|
| 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, 2009 (Continued)

NOTE 7—CAPITAL ASSETS: (Continued)

The following is a summary of capital project activity for the fiscal year ending June 30, 2009:

| | Balance July 1, 2008 | Additions | Deletions | Balance June 30, 2009 |
|-------------------------------|-------------------------------------|---------------------|---------------------|--------------------------------------|
| Vint Hill WWTP ENR | \$ 78,190 | \$ 833,044 | \$ - | \$ 911,234 |
| SCADA Replacement & Upgrade | 91,946 | 4,101 | 96,047 | - |
| GBS & Maintenance System | 32,885 | 5,869 | - | 38,754 |
| Remington WWTP ENR | 381,744 | 191,245 | - | 572,989 |
| Marshall WWTP ENR | 117,806 | 330,093 | - | 447,899 |
| Lift Station Spare Pumps | 58,451 | 27,429 | - | 85,880 |
| Opal Water System | 20,183 | 20,182 | 40,365 | - |
| Marshall Water System Phase I | 1,126,848 | 170,509 | 1,297,357 | - |
| The Plains Hydro Study | 100,405 | 23,174 | 123,579 | - |
| Miscellaneous projects | 103,091 | 1,175,657 | 671,491 | 607,257 |
| Totals | \$ 2,111,549 | \$ 2,781,303 | \$ 2,228,839 | \$ 2,664,013 |

NOTE 8—LONG-TERM OBLIGATIONS:

The following is a summary of changes in long-term obligation transactions for the year ended June 30, 2009 and 2008:

| Description | Beginning Balance July 1, 2008 | Additions | Deletions | Ending Balance June 30, 2009 | Due Within One Year |
|-----------------------------|---|---------------------|-------------------|---|------------------------------------|
| Revenue Bonds | \$ 8,844,506 | \$ 1,515,000 | \$ 981,307 | \$ 9,378,199 | \$ 1,037,974 |
| Notes payable | 451,831 | - | - | 451,831 | - |
| Other long-term liabilities | 938,800 | - | - | 938,800 | - |
| Note payable - Brookside | 525,450 | - | - | 525,450 | - |
| Compensated absences | 178,583 | 9,638 | 8,993 | 179,228 | 17,923 |
| Total | \$ 10,939,170 | \$ 1,524,638 | \$ 990,300 | \$ 11,473,508 | \$ 1,055,897 |

FAUQUIER COUNTY WATER AND SANITATION AUTHORITY

Notes to Financial Statements
As of June 30, 2009 (Continued)

NOTE 8—LONG-TERM OBLIGATIONS: (Continued)

| <u>Description</u> | <u>Beginning Balance July 1, 2007</u> | <u>Additions</u> | <u>Deletions</u> | <u>Ending Balance June 30, 2008</u> | <u>Due Within One Year</u> |
|-----------------------------|---|---------------------|---------------------|---|------------------------------------|
| 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 |
| Total | \$ 9,611,058 | \$ 2,625,748 | \$ 1,297,636 | \$ 10,939,170 | \$ 962,557 |

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> |
| 2010 | \$ 1,037,974 | \$ 340,748 | - | - |
| 2011 | 1,072,627 | 304,695 | 451,831 | - |
| 2012 | 1,107,592 | 267,403 | - | - |
| 2013 | 1,150,091 | 228,831 | - | - |
| 2014 | 1,002,996 | 188,726 | - | - |
| 2015 | 1,037,065 | 154,657 | - | - |
| 2016 | 666,159 | 119,381 | - | - |
| 2017 | 278,176 | 101,223 | - | - |
| 2018 | 290,895 | 88,504 | - | - |
| 2019 | 304,201 | 75,198 | - | - |
| 2020 | 318,123 | 61,276 | - | - |
| 2021 | 332,690 | 46,709 | - | - |
| 2022 | 347,932 | 31,467 | - | - |
| 2023 | 363,880 | 15,519 | - | - |
| 2024 | 67,797 | 1,549 | - | - |
| Total | \$ 9,378,199 | \$ 2,025,887 | \$ 451,831 | \$ - |

FAUQUIER COUNTY WATER AND SANITATION AUTHORITY

Notes to Financial Statements
As of June 30, 2009 (Continued)

NOTE 8—LONG-TERM OBLIGATIONS: (Continued)

Long-term obligations as of June 30, 2009 and 2008 are as follows:

| | <u>2009</u> | <u>2008</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%. | \$ 675,000 | \$ 825,000 |
| 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%. | 4,764,896 | 5,419,486 |
| Revenue bonds, issued March 6, 2008 payable in 30 semi-annual installments of \$91,151 through July 15, 2023, interest at 4.20% | 1,914,426 | 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% | 545,486 | 575,000 |
| Revenue bonds, issued December 19, 2008 payable in 30 semi-annual installments of \$70,087 through December 15, 2023, interest at 4.52% | <u>1,478,391</u> | <u>-</u> |
| Total Revenue bonds | \$ 9,378,199 | \$ 8,844,486 |
| Notes payable: | | |
| The Authority has non-negotiable conditional promissory notes, set to expire on December 6, 2011, 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> |

FAUQUIER COUNTY WATER AND SANITATION AUTHORITY

Notes to Financial Statements
As of June 30, 2009 (Continued)

NOTE 8—LONG-TERM OBLIGATIONS: (Continued)

| | <u>2009</u> | <u>2008</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, 2009 and 2008, \$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 there were no sewer availabilities sold in FY09. | 525,450 | 525,450 |
| Compensated absences | <u>179,228</u> | <u>178,583</u> |
| Total long-term obligations | <u>\$ 11,473,508</u> | <u>\$ 10,939,150</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, 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 \$179,228.

FAUQUIER COUNTY WATER AND SANITATION AUTHORITY

Notes to Financial Statements
As of June 30, 2009 (Continued)

NOTE 10—LITIGATION:

At June 30, 2009 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, 2009:

| <u>Projects</u> | <u>Contract Amount</u> | <u>Expenses to Date</u> | <u>Balance</u> |
|--|----------------------------|-----------------------------|----------------------|
| Remington WWTP Enhanced Nutrient Replacement | \$ 6,254,302 | \$ 512,115 | \$ 5,742,187 |
| Marshall WWTP Enhanced Nutrient Replacement | 515,963 | - | 515,963 |
| Vint Hill WWTP Enhanced Nutrient Replacement | <u>6,002,269</u> | <u>420,171</u> | <u>5,582,098</u> |
| Total | <u>\$ 12,772,534</u> | <u>\$ 932,286</u> | <u>\$ 11,840,248</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 (age 60 for participating local law enforcement officers, firefighters, and sheriffs) or at age 50 with at least 30 years of service if elected by the employer (age 50 with at least 25 years of service for participating local law enforcement officers, firefighters, and sheriffs) payable monthly for life in an amount equal to 1.7% of their average final compensation (AFC) for each year of credited service. (1.85% for sheriffs and if the employer elects, for other employees in hazardous duty positions receiving enhanced benefits). Benefits are actuarially reduced for retirees who retire prior to becoming eligible for full retirement benefits. In addition, retirees qualify for annual cost-of-living adjustment (COLA) beginning in their second year of retirement. The COLA is limited to 5.00% per year. AFC is defined as the highest consecutive 36 months of reported compensation. Participating local law enforcement officers, firefighters, and sheriffs may receive a monthly benefit supplement if they retire prior to age 65. 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, 2009 (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/2008AnnuRept.pdf> or obtained by writing to the System at P.O. Box 2500, Richmond, VA 23218-2500.

B. Funding Policy:

Plan members are required by Title 51.1 of the Code of Virginia (1950), as amended, to contribute 5.00% of their annual reported compensation to the VRS. This 5% member contribution may be and 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 2009 was 5.19% of the annual covered payroll.

C. Annual Pension Cost:

For fiscal year ended 2009, the Authority’s annual pension cost of \$91,424 (does not include the employee share assumed by the Authority which was \$109,098) and its contribution represented 4.19% of covered payroll. The required contribution was determined as a part of the June 30, 2007 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions at June 30, 2007 included (a) an investment rate of return (net of administrative expenses) of 7.50%, (b) projected salary increases ranging from 3.75% to 5.6% for general government and 3.5% 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 2.5% per year. Both the investment rate of return and the projected salary increases 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. Authority’s unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis.

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, 2007 | \$ 83,520 | 100% | \$ - |
| June 30, 2008 | 96,124 | 100% | - |
| June 30, 2009 | 91,424 | 100% | - |

(1) Employer portion

FAUQUIER COUNTY WATER AND SANITATION AUTHORITY

Notes to Financial Statements
As of June 30, 2009 (Continued)

NOTE 12—DEFINED BENEFIT PENSION PLAN:

D. Funding Status and Funding Progress

As of June 30, 2008, the most recent actuarial valuation date, the plan was 99.25% funded. The actuarial accrued liability for benefits was \$3,108,345 and the actuarial value of assets was \$3,084,973, resulting an unfunded (excess funded) actuarial accrued liability (UAAL) of \$23,372. The covered payroll (annual payroll of active employees covered by the plan) was \$2,129,407, and ratio of the UAAL to the covered payroll was 1.10%.

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 (AAL) for benefits.

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 Authority 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.

NOTE 14—SUBSEQUENT EVENT:

The Authority issued a loan on July 9, 2009 for the Remington wastewater treatment plant in the amount of \$2,903,781. This loan in addition to grant funding in the amount of \$3,486,221 will be used for this project which is anticipated to cost \$6,390,002.

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) |
| 6/30/2008 | \$ 3,084,973 | \$ 3,108,345 | \$ 23,372 | 99.25% | \$ 2,129,407 | 1.10% |
| 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%) |

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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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FAUQUIER COUNTY WATER AND SANITATION AUTHORITY

Table 1

Net Assets by Component
Last Ten years

| | Fiscal Years | | | | |
|--|----------------------|----------------------|----------------------|----------------------|----------------------|
| | 2009 | 2008 | 2007 | 2006 | 2005 |
| Net assets: | | | | | |
| Invested in capital assets, net of related debt | \$ 45,261,874 | \$ 43,108,473 | \$ 40,806,516 | \$ 31,052,290 | \$ 21,781,511 |
| Restricted | - | - | - | 6,536,105 | 8,988,420 |
| Unrestricted | <u>2,489,795</u> | <u>4,293,891</u> | <u>4,555,947</u> | <u>5,126,237</u> | <u>1,794,615</u> |
| Total net assets | <u>\$ 47,751,669</u> | <u>\$ 47,402,364</u> | <u>\$ 45,362,463</u> | <u>\$ 42,714,632</u> | <u>\$ 32,564,546</u> |

| | Fiscal Years | | | | |
|--|----------------------|----------------------|----------------------|----------------------|----------------------|
| | 2004 | 2003 | 2002 | 2001 | 2000 |
| Net assets: | | | | | |
| Invested in capital assets, net of related debt | \$ 20,206,661 | \$ 14,392,936 | \$ 14,361,474 | \$ 12,767,447 | \$ 11,577,629 |
| Restricted | 2,000,000 | 209,606 | 209,606 | 209,606 | 209,606 |
| Unrestricted | <u>222,071</u> | <u>6,220,307</u> | <u>2,059,474</u> | <u>3,275,295</u> | <u>4,243,897</u> |
| Total net assets | <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> |

Source: Fauquier County Water and Sanitation Authority

FAUQUIER COUNTY WATER AND SANITATION AUTHORITY

Changes in Net Assets Last Ten Years

| | <u>2009</u> | <u>2008</u> | <u>2007</u> | <u>2006</u> |
|--|-----------------------|-----------------------|-----------------------|----------------------|
| Operating revenues: | | | | |
| Water service | \$ 3,031,716 | \$ 2,695,893 | \$ 2,287,085 | \$ 1,861,932 |
| Sewer service | 2,054,634 | 2,070,737 | 2,266,749 | 2,191,139 |
| Plan review and inspection fees | 75,858 | 74,006 | 193,518 | 93,737 |
| Late charges | 117,598 | 115,791 | 111,070 | 97,090 |
| Vint Hill Reimbursement | - | - | - | 61,830 |
| Marshall WW reimbursement | - | - | - | 45,664 |
| Other operating revenues | 395,890 | 248,329 | 367,610 | 309,521 |
| Total operating revenues | <u>\$ 5,675,696</u> | <u>\$ 5,204,756</u> | <u>\$ 5,226,032</u> | <u>\$ 4,660,913</u> |
| Operating expenses: | | | | |
| Salaries | \$ 2,204,681 | \$ 2,200,437 | \$ 1,969,118 | \$ 1,500,903 |
| Fringe benefits | 818,458 | 742,049 | 676,891 | 511,155 |
| General and administrative | 277,897 | 388,294 | 526,150 | 369,935 |
| Legal expense | 98,701 | 153,447 | 567,185 | 713,830 |
| Operations and maintenance | 1,564,933 | 1,446,519 | 1,272,715 | 961,767 |
| Depreciation expense | 2,486,274 | 2,068,985 | 1,731,653 | 1,569,966 |
| Total operating expenses | <u>\$ 7,450,944</u> | <u>\$ 6,999,731</u> | <u>\$ 6,743,712</u> | <u>\$ 5,627,556</u> |
| Net operating income (loss) | <u>\$ (1,775,248)</u> | <u>\$ (1,794,975)</u> | <u>\$ (1,517,680)</u> | <u>\$ (966,643)</u> |
| Non-operating revenue and expenses: | | | | |
| Availability fees | \$ 331,482 | \$ 1,137,703 | \$ 2,337,713 | \$ 4,229,644 |
| Grant Income | - | - | - | - |
| Gain (loss) on sale of assets | - | - | - | 11,708 |
| Interest earned | 60,748 | 197,179 | 639,736 | 607,943 |
| Contribution | - | - | - | - |
| Litigation settlement expenses | - | - | (1,950,000) | - |
| Bad debt expense | - | - | - | (12,731) |
| Interest expense | (336,501) | (239,161) | (262,603) | (258,635) |
| Net nonoperating revenue | <u>\$ 55,729</u> | <u>\$ 1,095,721</u> | <u>\$ 764,846</u> | <u>\$ 4,577,929</u> |
| Net income (loss) before capital contributions | \$ (1,719,519) | \$ (699,254) | \$ (752,834) | \$ 3,611,286 |
| Capital Contributions | <u>2,068,824</u> | <u>2,739,155</u> | <u>3,400,665</u> | <u>6,538,800</u> |
| Change in net assets | \$ 349,305 | \$ 2,039,901 | \$ 2,647,831 | \$ 10,150,086 |
| Net assets, at beginning of year | <u>47,402,364</u> | <u>45,362,463</u> | <u>42,714,632</u> | <u>32,564,546</u> |
| Net assets, at end of year | <u>\$ 47,751,669</u> | <u>\$ 47,402,364</u> | <u>\$ 45,362,463</u> | <u>\$ 42,714,632</u> |

Source: Fauquier County Water and Sanitation Authority

Table 2

| | <u>2005</u> | <u>2004</u> | <u>2003</u> | <u>2002</u> | <u>2001</u> | <u>2000</u> |
|----|-------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| \$ | 1,666,859 | \$ 1,631,604 | \$ 1,563,532 | \$ 1,499,022 | \$ 1,377,812 | \$ 1,411,824 |
| | 1,955,416 | 1,993,968 | 1,909,961 | 1,912,405 | 1,810,754 | 1,637,672 |
| | 312,890 | - | - | - | - | - |
| | 81,252 | 78,335 | 82,976 | 80,352 | 66,742 | 67,126 |
| | 51,078 | 57,771 | 82,112 | 59,718 | - | - |
| | 110,498 | - | - | - | - | - |
| | 382,914 | 100,711 | 52,991 | 47,690 | 50,016 | 21,062 |
| \$ | <u>4,560,907</u> | <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> |
| \$ | 1,420,246 | \$ 1,368,152 | \$ 1,237,543 | \$ 1,131,549 | \$ 1,038,611 | \$ 868,638 |
| | 472,686 | 459,436 | 352,043 | 305,059 | 326,653 | 224,856 |
| | 258,758 | 256,417 | 212,895 | 216,097 | 212,930 | 476,263 |
| | 257,109 | - | - | - | - | - |
| | 896,003 | 792,361 | 699,120 | 650,516 | 663,477 | 359,188 |
| | 1,630,648 | 1,309,308 | 1,317,069 | 1,325,225 | 1,214,113 | 1,212,353 |
| \$ | <u>4,935,450</u> | <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>(374,543)</u> | <u>\$ (323,285)</u> | <u>\$ (127,098)</u> | <u>\$ (29,259)</u> | <u>\$ (150,460)</u> | <u>\$ (3,614)</u> |
| \$ | 3,042,621 | \$ 2,124,691 | \$ 3,005,000 | \$ - | \$ - | \$ - |
| | - | - | 615,000 | - | - | - |
| | 325 | (1,500) | - | 8,363 | 2,250 | 11,654 |
| | 178,609 | 103,165 | 137,949 | 217,051 | 314,619 | 253,089 |
| | 20,800 | 49,920 | 49,920 | 49,920 | 29,120 | - |
| | - | - | - | - | - | - |
| | (2,279) | (4,485) | - | (1,053) | (2,361) | (1,642) |
| | (318,139) | (342,623) | (536,588) | (487,312) | (512,835) | (537,543) |
| \$ | <u>2,921,937</u> | <u>\$ 1,929,168</u> | <u>\$ 3,271,281</u> | <u>\$ (213,031)</u> | <u>\$ (169,207)</u> | <u>\$ (274,442)</u> |
| \$ | 2,547,394 | \$ 1,605,883 | \$ 3,144,183 | \$ (242,290) | \$ (319,667) | \$ (278,056) |
| | 7,588,420 | - | 1,048,112 | 620,496 | 540,883 | 530,088 |
| \$ | 10,135,814 | \$ 1,605,883 | \$ 4,192,295 | \$ 378,206 | \$ 221,216 | \$ 252,032 |
| | 22,428,732 | 20,822,849 | 16,630,554 | 16,252,348 | 16,031,132 | 15,779,100 |
| \$ | <u>32,564,546</u> | <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> |

Schedule of Operating Revenues
Last Ten Fiscal Years

| Fiscal Years | Water Service | Sewer Service | Availability Fees | Other Revenues | Total |
|---------------------|----------------------|----------------------|--------------------------|-----------------------|--------------|
| 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 |
| 2009 | 3,031,716 | 2,054,634 | 331,482 | 589,346 | 6,007,178 |

Source: Fauquier County Water and Sanitation Authority

Schedule of Rates
Last Ten Years

| Fiscal Year | Water Usage Fee (1) | Water Base Service Fees | Sewer Usage Fee (2) | Sewer Base Service Fees |
|--------------------|----------------------------|--------------------------------|----------------------------|--------------------------------|
| 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 |
| 2009 | 2.93 | 15.77 | 5.42 | 14.96 |

- (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 |
| 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% |
| 2009 | 50 | 5,467 | 0.93% | 35 | 3,653 | 0.97% |

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

| <u>Calendar Year*</u> | <u>Water Processed</u> | <u>Wastewater Treated</u> |
|---------------------------|----------------------------|-------------------------------|
| 2005 | 435,000,000 | 384,000,000 |
| 2006 | 470,000,000 | 420,000,000 |
| 2007 | 580,000,000 | 343,000,000 |
| 2008 | 477,000,000 | 401,000,000 |

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 |
|---------------------|-------------------------|------------------------|-------------------------------------|------------------------------------|--|--------------|
| 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 |
| 2009 | 2,204,681 | 818,458 | 376,598 | 1,564,933 | 2,486,274 | 7,450,944 |

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 | | | | |
|-------------------------------|----------------------|----------------------|---------------------|---------------------|----------------------|
| | 2009 | 2008 | 2007 | 2006 | 2005 |
| Notes Payable VHEDA | \$ 938,800 | \$ 938,800 | \$ 938,800 | \$ 938,800 | \$ 1,082,800 |
| Notes Payable VHEDA | - | - | - | 100,000 | 150,000 |
| Notes Payable - Miscellaneous | - | - | - | - | - |
| Note Payable - Brookside | 525,450 | 525,450 | 1,027,650 | - | - |
| Notes Payable Opal system | 451,831 | 451,831 | 451,831 | 451,831 | 451,831 |
| VRA Water Revenue Bond | 545,486 | 575,000 | - | - | - |
| VRA Water Revenue Bond | 1,914,426 | 2,025,000 | - | - | - |
| VRA Water Revenue Bond | 675,000 | 825,000 | 970,000 | 1,086,768 | 1,218,147 |
| Virginia Water Facility Bond | 4,764,916 | 5,419,486 | 6,054,912 | 6,671,676 | 7,270,375 |
| Revenue Bond | 1,478,391 | - | - | - | - |
| Virginia Water Facility Bond | - | - | - | - | - |
| Total outstanding debt | \$ 11,294,300 | \$ 10,760,567 | \$ 9,443,193 | \$ 9,249,075 | \$ 10,173,153 |
| Debt per capita | \$ 418 | \$ 398 | \$ 359 | \$ 391 | \$ 454 |

| | Fiscal Year | | | | |
|-------------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| | 2004 | 2003 | 2002 | 2001 | 2000 |
| Notes Payable VHEDA | \$ 1,880,800 | \$ 2,468,800 | \$ 2,727,000 | \$ - | \$ - |
| Notes Payable VHEDA | 200,000 | - | - | - | - |
| Notes Payable - Miscellaneous | - | - | 13,200 | 112,300 | 195,000 |
| 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 | 1,344,527 | 1,465,906 | 1,689,725 | 1,780,979 | 1,867,232 |
| Virginia Water Facility Bond | 7,851,480 | 8,415,536 | 9,597,240 | 10,166,291 | 10,718,646 |
| Virginia Water Facility Bond | - | 1,501,980 | 1,583,888 | 1,662,040 | 1,736,608 |
| Total outstanding debt | \$ 11,728,638 | \$ 14,304,053 | \$ 16,062,884 | \$ 14,173,441 | \$ 14,969,317 |
| Debt per capita | \$ 555 | \$ 730 | \$ 878 | \$ 820 | \$ 948 |

Source: Fauquier County Water and Sanitation Authority

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

| Fiscal Year | Gross Revenue | Direct Operating Expenses | Net Revenue Available for Debt Service | Debt Service Requirements | | | Coverage |
|-------------|---------------|---------------------------|--|---------------------------|------------|--------------|----------|
| | | | | Principal | Interest | Total | |
| 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 |
| 2009 | 6,067,926 | 4,964,670 | 1,103,256 | 981,307 | 336,501 | 1,317,808 | 0.84 |

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> |
|-------------|-------------------------------------|---|---|----------------------------------|--|---|----------------------------------|
| 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 | 3,363,000 | 50,854 | 2.6% | 37,183 | 21,904 | 11,009 |
| 2008 | 27,051 | * | * | 3.6% | 38,808 | * | 11,046 |
| 2009 | 27,360 | * | * | 5.7% | 38,306 | * | 11,104 |

- 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 | 2009 | | 2000 | |
|---------------------------------|-------------|----------------------------|-------------|----------------------------|
| | 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 | 500 to 999 |
| US Department of Transportation | 4 | 250 to 499 | | |
| Wal Mart | 5 | 250 to 499 | 5 | 250 to 499 |
| Food Lion | 6 | 100 to 249 | 8 | 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 | | |
| Trinity Packaging Corporation | | | 4 | 250 to 499 |
| Imaging Acceptance | | | 6 | 250 to 499 |
| Ross Industries | | | 7 | 100 to 249 |
| USA Remediation Services | | | 8 | 100 to 249 |
| Giant Food | | | 9 | 100 to 249 |

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

Operating and Capital Indicators
at June 30, 2009

Water System:

| | |
|---|---------------------------|
| Number of water systems | 14 |
| Number of service connections | 5,467 |
| 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 | 3653 |
| 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: 45

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, 2009

| Principal Users of the Water System | Principal Business | in 000/gals | % of System |
|--|---------------------------|--------------------|--------------------|
| FAUQUIER COUNTY PUBLIC SCHOOLS | Public Schools | 10,569 | 2.22% |
| ASPEN CLUB APTS/NORTH 40 | Apartments | 3,141 | 0.66% |
| FEDERAL AVIATION ADM | Federal FFA buliding | 2,778 | 0.58% |
| ASPEN SOUTH | Apartments | 2,505 | 0.53% |
| NORTH FORTY ASPEN PLUS | Apartments | 1,483 | 0.31% |
| CEDAR LEE CONDO ASSOCIATES | Apartments | 1,350 | 0.28% |
| WAVERLY STATION | Apartments | 1,130 | 0.24% |
| VAN MANAGEMENT INC | Shopping Center | 1,025 | 0.21% |
| WAKEFIELD SCHOOL | Private School | 752 | 0.16% |
| SUFFIELD MEADOW CONDO | Condos | 573 | 0.12% |
| Total | | <u>25,306</u> | <u>5.31%</u> |
| Total Water System Annual Consumption | | <u>477,000</u> | |

| Principal Users of the Sewer System | Principal Business | in 000/gals | % of System |
|--|--------------------------------|--------------------|--------------------|
| FAUQUIER COUNTY PUBLIC SCHOOLS | Public Schools | 11,041 | 2.75% |
| ASPEN CLUB APTS/NORTH 40 | Apartments | 3,141 | 0.78% |
| ASPEN SOUTH | Apartments | 2,846 | 0.71% |
| CHUCK DAVIS | ODEC | 2,841 | 0.71% |
| FEDERAL AVIATION ADM | Federal FFA buliding | 2,778 | 0.69% |
| SHEETZ # 221 UTILITIES | Convenience Store, Gas Station | 1,708 | 0.43% |
| NORTH FORTY ASPEN PLUS | Apartments | 1,483 | 0.37% |
| CEDAR LEE CONDO ASSOCIATES | Condos | 1,350 | 0.34% |
| WAVERLY STATION | Apartments | 1,130 | 0.28% |
| VAN MANAGEMENT INC | Shopping Center | 1,025 | 0.26% |
| WAKEFIELD SCHOOL | Private School | 752 | 0.19% |
| Total | | <u>30,095</u> | <u>7.51%</u> |
| Total Sewer System Annual Flow | | <u>401,000</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, 2009, and have issued our report thereon dated August 28, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States 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
August 28, 2009