Fauquier County Water and Sanitation Authority

Warrenton, Virginia

Comprehensive Annual Financial Report

YEARS ENDED JUNE 30, 2014 AND 2013

FAUQUIER COUNTY WATER AND SANITATION AUTHORITY

WARRENTON, VIRGINIA

Comprehensive Annual Financial Report
Years Ended June 30, 2014 and 2013

Prepared by:

William Skinker
Associate General Manager and Chief Financial Officer

FAUQUIER COUNTY WATER AND SANITATION AUTHORITY

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OFFICERS AND BOARD MEMBERS

Raymond E. Graham – Chairperson
L. Paul Blackmer, Jr. – Vice Chairperson
Maureen S. Riordan, Esquire – Secretary/Treasurer
Steven G. Cosby
Michael J. Focazio

AUDIT COMMITTEE

L. Paul Blackmer, Jr.
Michael J. Focazio

SENIOR MANAGEMENT

Phillip Farley, General Manager
William Skinker, Associate General Manager and Chief Financial Officer
Cheryl St. Amant, Associate General Manager of Operations

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FAUQUIER COUNTY

WATER & SANITATION AUTHORITY

7172 Kennedy Road • Vint Hill Farms
Warrenton, Virginia 20187-3907
Phone (540) 349-2092 • Fax (540) 347-7689

September 8, 2014

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, 2014 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.

Generally Accepted Accounting Principles require that management provide a narrative introduction, overview and analysis to accompany the basic statements in the form of Management's Discussion and Analysis (MD&A). This transmittal letter is designed to complement the MD&A and should be read in conjunction with it. The Authority's MD&A is included in the Financial Section of this report immediately following the report of the independent auditors.

The Authority

The Authority was created by a resolution of the Board of 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 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. The service area of the Authority is traversed by several highways 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 68,500 by the year 2015 and 74,118 by the year 2020. The Authority's major customers are well-established entities comprised of single and multi-family housing developments, county schools, a federal complex and shopping centers.

The local economy, like the national economy, has improved from the prior year. The Authority's customer base continues to grow each year. In fiscal year 2014, the Authority's customer base increased by 347 accounts to 10,070, or 3.6 %.

Employment within the service area is well diversified. According to the Virginia Employment Commission, as of December 31, 2013, the total civilian labor force in Fauquier County was 37,131, of which 35,464 were employed and 1,667 were unemployed, resulting in an unemployment rate of 4.5 %.

The Authority obtained a construction loan of $4 million in FY2013 to repair and upgrade the damage to the water system caused by the 2011 earthquake. Also, the loan will be used to develop a well and build a water treatment facility. This work is in progress and scheduled to be completed in FY2016. The Authority has adopted a 5-year capital budget that will be used to increase water sources, storage, and treatment facilities. This program has an estimated cost of $9.4 million.

Internal Control Structure and Budgetary Controls

The Authority's management is responsible for establishing and maintaining internal controls. Estimates and judgments by management are required to assess the expected benefits and related costs of internal control policies and procedures. Internal controls are designed to provide reasonable, but not absolute, assurance regarding: (1) the safeguarding of assets against the loss from unauthorized use or disposition; and (2) the reliability of financial records used to prepare financial statements that are free of any material misstatements. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the evaluation of costs and benefits required estimates and judgments made by management. Management reviews internal controls on a continuing basis.

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

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.

Relevant Financial Policies

Investments are made according to a formal Investment Policy that seeks to safeguard principal, meet liquidity objectives, and seek fair value rates of return within the parameters of the *Code of Virginia.* Funds held for capital projects are invested in accordance with these objectives in addition to ensuring compliance with U.S. Treasury arbitrage regulations.

The state and federal governments have enacted regulations on the nutrient quality of wastewater entering the Chesapeake Bay's tributaries. The effective date of these regulations was 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 were awarded in early 2009 for the upgrades necessary to achieve compliance with regulations. The first phase was completed in FY 2012. 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 ten to fifteen year window before starting the major upgrades required in phase two.

Debt service in FY2014 was $1.1 million. This amount will be reduced by FY2025 to the amount of $208 thousand. With these facts in mind, the Authority's management developed the two stage plan to produce the best effect on user rates to cover new debt service. When necessary, the Authority will begin soliciting bids for the second phase of upgrades of the two wastewater treatment plants to meet the nutrient requirements. The estimated cost of this phase of upgrades is $30 million.

The water distribution systems for all Service District need upgrading and/or new sources of water at an estimated cost of $8 million.

Independent Audit

The Virginia State Code requires that an annual audit be performed. The Authority's financial statements for the year ended June 30, 2014 have been audited by Robinson, Farmer, Cox Associates, a firm of licensed certified public accountants. The fiscal year 2014 Independent Auditors' Report is located in the financial section of this report.

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, 2013. 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 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,

William Skinker
Associate General Manager and Chief Financial Officer

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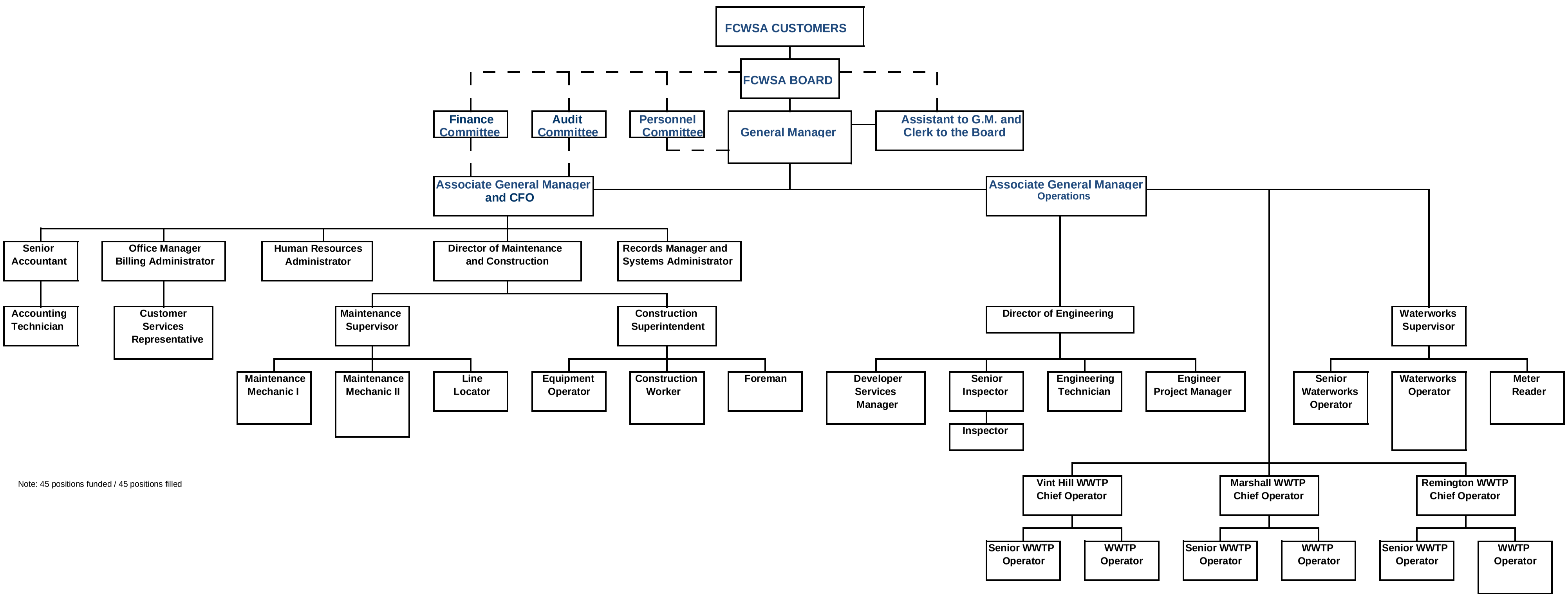
FCWSA ORGANIZATION

Updated April 21, 2014



Note: 45 positions funded / 45 positions filled

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Government Finance Officers Association

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, 2013

Jeffrey R. Emer

Executive Director/CEO

Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Fauquier County Water and Sanitation Authority as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; 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 from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Fauquier County Water and Sanitation Authority, as of June 30, 2014 and 2013, and the respective changes in financial position, and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3-10 and schedule of pension funding progress on page 43 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Fauquier County Water and Sanitation Authority's basic financial statements. The introductory section and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 8, 2014, 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Fauquier County Water and Sanitation Authority's internal control over financial reporting and compliance.

Robinson, Farmer, Cox Associates

Charlottesville, Virginia
September 8, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis of the Fauquier County Water and Sanitation Authority's (the "Authority") financial performance provides a narrative overview of the financial activities of the Authority for the Fiscal Year (FY) ending June 30, 2014. Due to the current economic conditions, the Authority has set its primary budget focus on maintaining customer service and the infrastructure of the organization. Due to the increasing demand for water, the Authority is planning to upgrade and expand our water systems. We encourage readers to consider the information presented here in conjunction with the audited financial statements that follow this section.

FINANCIAL HIGHLIGHTS

- Total net position increased by $6,276,448 to $65,710,873. This is due in part to the capital contribution of $4,733,104 of which $4,299,073 is non-cash revenue.

- Total revenues including capital contributions and expenses were $15,847,196 and $9,570,748, respectively.

- Operating revenues decreased by 0.25% to $7.4 million. Operating expenses increased 10.98% to $9.4 million.

- Construction was completed on several Capital Improvement Plan (CIP) projects at a cost of $327,005. Also, completed Repair and Replacement (R&R) maintenance projects at a cost of $397,414.

- Construction in progress projects for wells, infrastructure and water studies cost $1,097,312 in FY14.

- A note receivable for sewer availability fees of $1,825,000 due in FY15 was paid in FY14.

- The Authority has received unqualified audit opinions for over thirty years and has received the GFOA's Certificate of Achievement for Excellence in Financial Reporting for the past seven years.

OVERVIEW OF THE FINANCIAL STATEMENTS

This comprehensive annual financial report (CAFR) is presented in three main sections. The Introductory Section includes the letter of transmittal, the GFOA Certificate of Achievement, a list of Authority Board members and officers, and an organization chart. The Financial Section includes the Independent Auditors' Report, Management Discussion and Analysis, financial statements with related notes and required supplementary information. The Statistical Section includes selected financial and demographic information about the Authority and the surrounding area.

There are three financial statements included in the Financial Section of this report – Statement of Net Position; Statement of Revenues, Expenses and Changes in Net Position; and Statement of Cash Flows. The Statement of Net Position includes all of the Authority's assets and liabilities using accrual based 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 Statement of Revenues, Expenses and Changes in Net Position. This statement measures the performance of the Authority's operations over the past year and it can

OVERVIEW OF THE FINANCIAL STATEMENTS: (Continued)

be used to determine whether the Authority has successfully recovered its costs through user fees and other charges. The Statement of Cash Flows reports 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

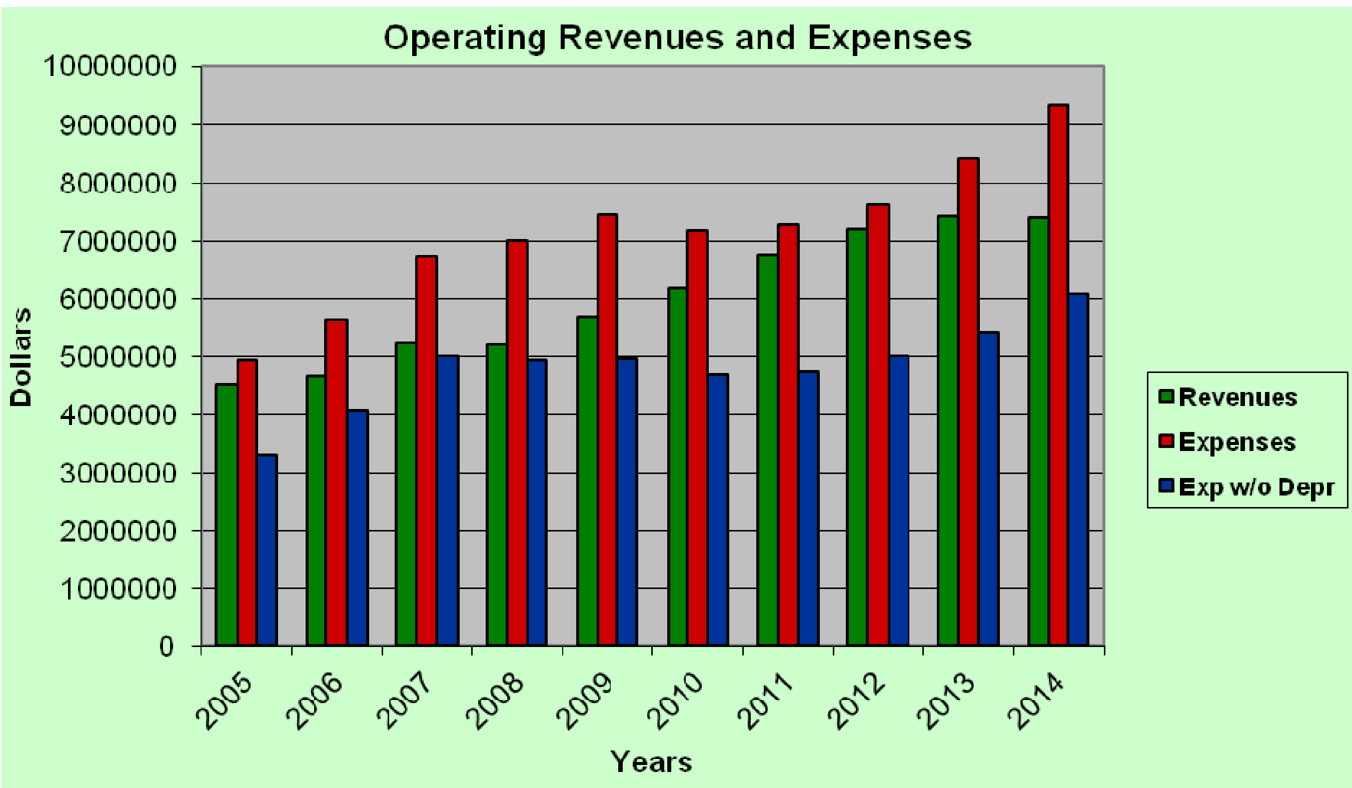
The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position report information about the Authority's activities that determine if the overall financial position has improved over the year. These reports help determine the financial health of the Authority and whether or not 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 has continued to improve during FY2014, due primarily to a combination of availability revenues and the controlling of expenses, as described in the following sections of this report.

Net Position and Liabilities -The Authority's total net position increased in FY2014 by $6.3 million or 10.1% compared to FY2013, and increased in FY2013 by $1.7 million or 3% compared to FY2012. A significant portion of this increase was due to capital contributions of $4.7, $2.0, and $1.4 in FY2014, FY2013, and FY2012, respectively. Total liabilities decreased by $3,019,216 during FY2014, $741,284 during FY2013, and $1,368,800 during FY2012. The decrease in FY 2014 is from the early payment of the unearned revenue obligation, note payable and debt service payments. In FY2013, the decrease is due to maturing of a VRA loan and debt service payments. In FY2012, the decrease was due to the completion of the upgrades of the wastewater treatment plant (WWTP) and maturing of some notes payable. The following table depicts the Authority's assets and liabilities as of June 30, 2014, 2013, and 2012:

	Net Position		
	2014	**2013**	**2012**
Current and other assets	$ 8,517,872	$ 8,365,306	$ 7,765,774
Capital assets	66,961,368	63,869,523	63,403,986
Total assets	$ 75,479,240	$ 72,234,829	$ 71,169,760
Non-current liabilities	$ 7,990,114	$ 9,403,789	$ 11,940,244
Other liabilities	1,724,224	3,329,765	1,524,594
Total liabilities	$ 9,714,338	$ 12,733,554	$ 13,464,838
Deferred inflows	$ 54,029	$ 66,850	$ -
Net position:			
Invested in capital assets	$ 58,238,997	$ 54,323,804	$ 53,333,168
Restricted	111,972	-	31,915
Unrestricted	7,359,904	5,110,621	4,339,839
Total net position	$ 65,710,873	$ 59,434,425	$ 57,704,922

FINANCIAL ANALYSIS: (Continued)

Operating Income - Operating Revenues totaled $7,394,122 in FY2014, a decrease of .25% over FY2013. In FY2013, revenue totaled $7.4 million, an increase of 3.0% over FY2012. In FY2012, revenue totaled $7.2 million, an increase of 6.5% over FY2011. In FY2014, there was a decrease in the Septic hauling from the Fauquier County Landfill. FY2013 had a normal growth factor. In FY2012, however, the rates and fees increase produced additional Operating Revenues. Operating Expenses totaled $9.3 million in FY2014 which is an increase of 10.98 %, and FY2013 Expense of $8.4 million was an increase of 10.8% over FY2012, which had a $7.6 million or 4.6% increase over FY2011. A significant portion of the increase in FY2014, FY2013 and FY2012 Operating Expense is from depreciation expenses, which represents 35.0%, 35.6% and 34.2% of the Operating Expenses, respectively. Also, the FY2014 expenses increase was from salaries, developers' agreements, R&R expenses and depreciation. The FY2013 expense increase was due to salaries and benefits, and depreciation. The FY2014, FY2013 and FY2012 increases were influenced by growth of the customer base, high fuel costs, utilities, chemical, maintenance and depreciation. The following chart depicts Operating Revenues compared to Operating Expenses with depreciation and Operating Expenses without depreciation expense during the last ten years.



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

FINANCIAL ANALYSIS: (Continued)

The Authority has seen the affects of the increase in the rates and fees set in FY2012 and FY2011. In FY2014 and FY2013 there were no users' rates increases. However, in recognition of the trend towards shortfalls between the Authority's Operating Revenues and Operating Expenses, which is further compounded by significant increases in operating expenses such as chemicals, utilities and fuel and debt service resulting from new regulatory requirements, the Authority's Board anticipates further rate increases. These additional rate increases will further strengthen and match the Authority's Operating Revenues and Operating Expenses.

The following table is a comparison of operating revenues, operating expenses, non-operating revenues and expenses, net income and capital contributions for the years ending June 30, 2014, 2013, and 2012.

	2014	2013	2012
Operating revenues:			
Water service	$ 3,290,504	$ 3,278,523	$ 3,110,188
Sewer service	3,390,211	3,202,582	3,178,717
Late charges	161,898	147,231	171,640
Other operating revenues	551,509	784,518	736,376
Total operating revenues	$ 7,394,122	$ 7,412,854	$ 7,196,921
Operating expenses:			
Salaries	$ 2,515,181	$ 2,338,834	$ 2,308,237
Fringe benefits	829,358	926,274	847,748
General and administrative	537,264	388,643	428,523
Operations and maintenance	2,192,251	1,768,958	1,419,252
Depreciation expense	3,276,736	3,002,676	2,599,488
Total operating expenses	$ 9,350,790	$ 8,425,385	$ 7,603,248
Net operating income (loss)	$ (1,956,668)	$ (1,012,531)	$ (406,327)
Non-operating revenue and expenses:			
Availability fees	$ 3,687,466	$ 1,168,821	$ 603,542
Interest earned	32,504	26,253	32,346
Interest expense	(219,958)	(495,053)	(331,064)
Net nonoperating revenue	$ 3,500,012	$ 700,021	$ 304,824
Net income (loss) before capital contributions	$ 1,543,344	(312,510)	(101,503)
Capital Contributions	4,733,104	2,042,013	1,422,189
Change in net assets	$ 6,276,448	$ 1,729,503	$ 1,320,686
Net position, at beginning of year	59,434,425	57,704,922	56,384,236
Net position, at end of year	$ 65,710,873	$ 59,434,425	$ 57,704,922

CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets - The increase in capital assets for FY2014 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:

17/66 Generator	$	61,184
Remington WWTP Communitor		176,185
Contributed capital		4,621,132
Vehicles		76,983
New Servers		34,785
Other R&R projects		136,489

The largest construction-in-progress projects as of June 30, 2014 were:

Bealeton Water Treatment Plant	$	365,567
New Baltimore H wells		937,308
Marshall 17/66		698,667

The following table shows capital asset balances for the fiscal years ending June 30, 2014, 2013, and 2012:

		2014		2013		2012
Land	$	651,060	$	614,625	$	614,625
Construction in progress		2,372,162		1,178,205		475,750
Structures and improvements		51,266,833		48,405,568		48,288,973
Infrastructure		40,442,348		38,367,534		35,828,502
Vehicles		897,450		1,048,040		961,203
Machinery and equipment		13,783,900		13,623,690		13,556,291
Total property & equipment	$	109,413,753	$	103,237,662	$	99,725,344
Less: depreciation		42,452,385		39,368,139		36,321,358
Net property & equipment	$	66,961,368	$	63,869,523	$	63,403,986

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

CAPITAL ASSETS AND LONG TERM DEBT: (Continued)

Cash Balances – The Authority Board and Management sets rates on an annual basis and have determined that a multi-year rate setting is not in the best interests of its customers. By analyzing rates on annual basis, the five year cash flow is used to indicate the probability of, or necessity for, future rate adjustments. The following is the projected ending cash balances for the next five years:

FY2015	$	5,923,444
FY2016		5,894,030
FY2017		4,011,645
FY2018		3,400,934
FY2019		3,038,190

These projected cash flow balances are presuming an economic recovery in future years including availability fee revenues.

Capital Projects

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

Five Year Capital Improvement Program (FY 15 - 19)
FY 2015 Approved Budget

Project	FY2015	FY2016	FY2017	FY2018	FY2019	5 YR Totals
New Baltimore supply - wells	$ 300,000	$ 10,000	$ 1,342,671	$ -	$ -	$ 1,652,671
New Baltimore storage - tanks	775,000	650,000	-	-	-	1,425,000
New Baltimore treatment	400,000	3,000,000	-	-	-	3,400,000
Bealeton Supply - wells	410,000	265,190	-	533,600	-	1,208,790
Bealeton treatment	**	**	**	**	**	**
Marshall supply - wells	300,800	212,970	-	-	-	513,770
Remington storage - tanks	-	60,000	747,500	-	-	807,500
Paris treatment	80,000	-	-	-	-	80,000
Turnbull treatment	-	-	300,000	-	-	300,000
Total	$ 2,265,800	$ 4,198,160	$ 2,390,171	$ 533,600	$ -	$ 9,387,731

** FY 14 carryovers to include $2.1 million for Bealeton water plant and $561,950 for New Baltimore H Well

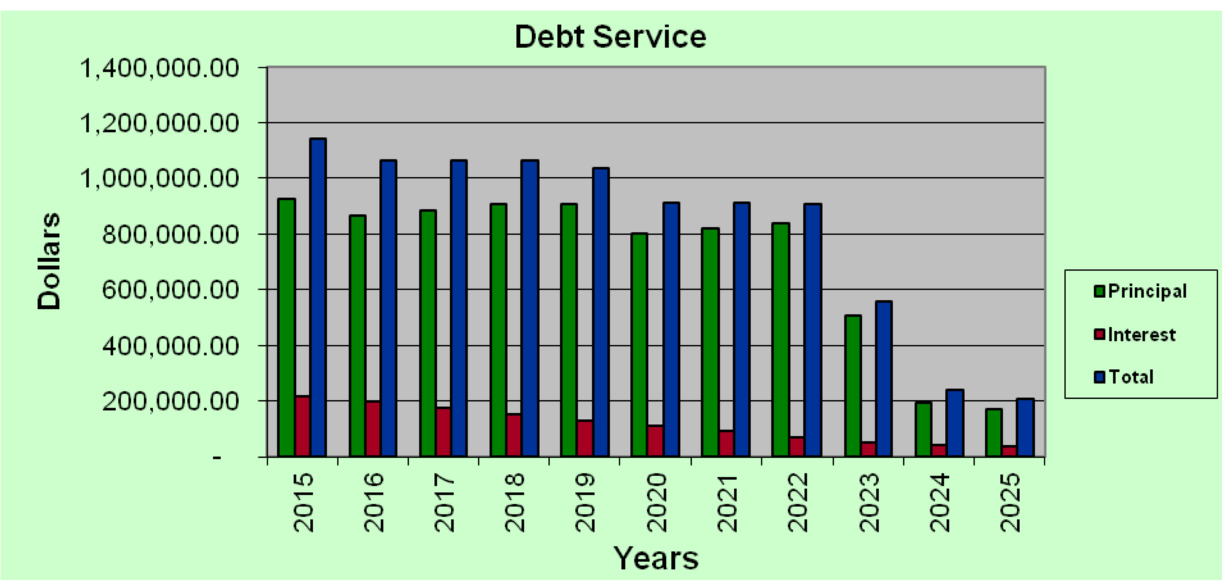
CAPITAL ASSETS AND LONG TERM DEBT: (Continued)

Five Year Replacement and Renewal Program (FY 15 - 19)
FY 2015 Approved Budget

Project	FY2015	FY2016	FY2017	FY2018	FY2019	5 YR Totals
I & I pipe replacement	$ 43,464	$ 44,768	$ 46,110	$ 47,494	$ 48,900	$ 230,736
Repair well houses	51,505	18,540	-	-	67,922	137,967
(3) lift station bypasses	20,000	20,000	20,000	20,000	20,000	100,000
Refurbish administration building	-	32,000	-	-	-	32,000
SCADA communications	-	50,000	50,000	50,000	50,000	200,000
Blow off valve installation	51,688	-	-	-	-	51,688
Backflow valve installation	45,800	47,174	-	-	-	92,974
Lift station improvements	30,000	-	-	-	-	30,000
Upgrade Marshall L/S F	40,000	-	-	-	-	40,000
Marshall water system	-	-	-	248,866	352,656	601,522
Water meters - radio read	46,650	48,286	49,973	51,470	48,050	244,429
Generator replacement	32,000	66,560	69,200	71,970	60,000	299,730
Water tank maintenance	100,000	100,000	100,000	100,000	100,000	500,000
Rock Spring water system	-	237,045	233,385	298,524	359,222	1,128,176
Meadowbrook service line repl	-	150,000	168,700	331,450	344,700	994,850
School House Road	358,330	-	-	-	-	358,330
Wastewater systems major R & M	39,117	40,291	41,499	42,744	40,291	203,942
Water systems major R & M	37,254	38,372	39,523	40,708	38,372	194,229
Total	$ 895,808	$ 893,036	$ 818,390	$ 1,303,226	$ 1,530,113	$ 5,440,573

Long-Term Debt - The Authority's outstanding debt as of June 30, 2014 consists of four notes, see Note 8 to the financial statements for additional details. The Authority has a $4 million construction loan which is committed to two projects; a new well and water distribution system in New Baltimore Service District and a water treatment plant in the Bealeton Service District.

The graph below provides the detail of how much principal and interest are due each year over the next ten years.



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

ECONOMIC FACTORS

In FY2014, The Authority's non-cash revenue from developer contribution increased. The Authority received contributions from the 17/66 commercial property and received a community water distribution system from Waterloo Estates. Although availability fee revenue is high compared to the prior few years, the Authority has had years in the past that generated higher fees. In FY2014 and FY2013, availability fee revenues were $3,687,466 and $1,168,821, respectively. An early payment of $1,825,000 for a note receivable for sewer availability fees increased revenue in FY2014. The Authority experienced limited growth during FY2014 in comparison to prior years. As such, revenues will continue to be forecasted in a conservative manner. In addition, the Authority will continue to monitor its operational and capital requirements in order to ensure that water and sewer 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 FY2014, 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 in the user rates probable over the next several fiscal years.

REQUEST FOR INFORMATION

This report is intended to provide 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, Vint Hill Farms, Warrenton VA 20187-3907.

Basic Financial Statements

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FAUQUIER COUNTY WATER AND SANITATION AUTHORITY

Statement of Net Position
At June 30, 2014 and 2013

	2014	2013
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 6,900,713	$ 5,082,642
Accounts receivable (net of allowance for doubtful accounts)	1,101,982	1,016,190
Due from other governments	131,061	180,264
Note receivable	-	1,825,000
Prepaid items	146,198	147,639
Total current assets	$ 8,279,954	$ 8,251,735
Noncurrent Assets:		
Restricted Assets:		
Cash and cash equivalents:		
Security deposits	$ 116,525	$ 104,150
Mintbrook well project	111,972	-
Other Asset:		
Performance bond	9,421	9,421
Total restricted assets	$ 237,918	$ 113,571
Capital Assets:		
Capital assets not being depreciated:		
Land	$ 651,060	$ 614,625
Construction in progress	2,372,162	1,178,205
Capital assets being depreciated:		
Structures and improvements	51,266,833	48,405,568
Infrastructure	40,442,348	38,367,534
Vehicles	897,450	1,048,040
Machinery and equipment	13,783,900	13,623,690
Accumulated depreciation	(42,452,385)	(39,368,139)
Net capital assets	$ 66,961,368	$ 63,869,523
Total noncurrent assets	$ 67,199,286	$ 63,983,094
Total Assets	$ 75,479,240	$ 72,234,829

FAUQUIER COUNTY WATER AND SANITATION AUTHORITY

Statement of Net Position
At June 30, 2014 and 2013 (Continued)

	2014	2013
LIABILITIES		
Current Liabilities:		
Accounts payable	$ 596,754	$ 463,676
Accrued interest	55,995	62,854
Unearned revenue	-	1,825,000
Revenue bonds - current portion	924,202	903,869
Compensated absences - current portion	21,327	20,658
Liabilities payable from Restricted Assets:		
Performance bonds	9,421	9,421
Security deposits	116,525	104,150
Total current liabilities	$ 1,724,224	$ 3,389,628
Noncurrent Liabilities:		
Revenue bonds - less current portion	$ 7,798,168	$ 8,641,850
Note payable	-	516,150
Compensated absences-less current portion	191,946	185,926
Total noncurrent liabilities	$ 7,990,114	$ 9,343,926
Total liabilities	$ 9,714,338	$ 12,733,554
DEFERRED INFLOWS OF RESOURCES		
Deferred amount on refunding	$ 54,029	$ 66,850
NET POSITION		
Net investment in capital assets	$ 58,238,997	$ 54,323,804
Restricted:		
Mintbrook well project	111,972	-
Unrestricted	7,359,904	5,110,621
Total net position	$ 65,710,873	$ 59,434,425
Total Liabilities, deferred inflows and net position	$ 75,479,240	$ 72,234,829

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

FAUQUIER COUNTY WATER AND SANITATION AUTHORITY

Statements of Revenues, Expenses, and Changes in Net Position
Years Ended June 30, 2014 and 2013

	2014	2013
Operating revenues:		
Water service	$ 3,290,504	$ 3,278,523
Sewer service	3,390,211	3,202,582
Septic service	222,908	490,042
Late charges	161,898	147,231
Other operating revenues	328,601	294,476
Total operating revenues	$ 7,394,122	$ 7,412,854
Operating expenses:		
Salaries	$ 2,515,181	$ 2,338,834
Fringe benefits	829,358	926,274
General and administrative	537,264	388,643
Operations and maintenance	2,192,251	1,768,958
Depreciation expense	3,276,736	3,002,676
Total operating expenses	$ 9,350,790	$ 8,425,385
Net operating income (loss)	$ (1,956,668)	$ (1,012,531)
Nonoperating revenue (expenses):		
Availability fees	$ 3,687,466	$ 1,168,821
Interest income	32,504	26,253
Interest expense	(219,958)	(495,053)
Net nonoperating revenue (expenses)	$ 3,500,012	$ 700,021
Net income (loss) before capital contributions	$ 1,543,344	$ (312,510)
Capital Contributions	4,733,104	2,042,013
Change in net position	$ 6,276,448	$ 1,729,503
Net position, beginning of year	59,434,425	57,704,922
Net position, end of year	$ 65,710,873	$ 59,434,425

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, 2014 and 2013

	2014	2013
Cash flows from operating activities:		
Receipts from customers and users	$ 7,369,908	$ 8,164,539
Payments to suppliers for goods and services	(2,594,996)	(2,051,650)
Payments to employees for services	(3,351,228)	(3,304,411)
Net cash provided by (used for) operating activities	$ 1,423,684	$ 2,808,478
Cash flows from capital and related financing activities:		
Purchases of property, equipment and construction in progress	$ (2,095,490)	$ (1,466,512)
Capital contributions	434,030	-
Interest payments	(200,278)	(437,768)
Principal payments on long-term debt	(1,339,498)	(1,105,769)
Proceeds from availability fees	3,687,466	1,168,821
Net cash (used for) capital and related financing activities	$ 486,230	$ (1,841,228)
Cash flows from noncapital financing activities:		
Performance bond	$ -	$ (579)
Cash flows from investing activities:		
Interest income	$ 32,504	$ 26,253
Net increase (decrease) in cash and cash equivalents	$ 1,942,418	$ 992,924
Cash and cash equivalents at beginning of year	5,196,213	4,203,289
Cash and cash equivalents at end of year	$ 7,138,631	$ 5,196,213
Reconciliation of operating (loss) to net cash provided by (used for) operating activities:		
Cash flows from operations:		
Income (loss) from operations	$ (1,956,668)	$ (1,012,531)
Adjustment to reconcile net income to net cash provided by (used for) operating activities:		
Changes in operating accounts:		
Depreciation expense	3,276,736	3,002,676
Increase / Decrease in:		
Accounts receivables	(85,792)	55,250
Due from other governments	49,203	684,185
Prepaid items	1,441	(14,701)
Compensated absenses	(6,689)	(39,303)
Accounts payable	133,078	120,652
Security deposits	12,375	12,250
Net cash provided by (used for) operating activities	$ 1,423,684	$ 2,808,478
Noncash Investing, Capital and Financing Activities		
Contributions of capital assets	$ 4,299,074	$ 2,042,013
Capitalized depreciation on self-constructed assets	$ 44,105	$ 44,105
Reconciliation of Cash:		
Cash and cash equivalents	$ 6,900,713	$ 5,082,642
Restricted cash and cash equivalents	237,918	113,571
Total	$ 7,138,631	$ 5,196,213

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

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 15.2-5100 et. 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. Financial 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 Position
  - Statement of Revenues, Expenses, and Changes in Net Position
  - Statement of Cash Flows
  - Notes to Financial Statements

- Schedule of Pension Funding Progress for Pension Plan

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

B. Basis of Accounting

The Authority operates as an enterprise fund 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 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 Cash Equivalents

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 and infrastructure. 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 the asset's life are not capitalized.

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

E. Capital Assets: (Continued)

Major outlays for capital assets 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 $3,320,842 for the year ended June 30, 2014 and $3,046,781 for the year ended June 30, 2013. A portion of depreciation expense, $44,105 was capitalized as part of self-constructed assets for the year ended June 30, 2014 and $44,105 for the year ended June 30, 2013.

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

Assets	Years
Treatment plant	28 years
Buildings and improvements	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 doubtful accounts. The Authority calculates its allowance for doubtful accounts using historical collection data and, in certain cases, specific account analysis. The allowance totaled $96,468 at June 30, 2014 and $72,086 for the year ended June 30, 2013.

- 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 Position

Net position is the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources. Net investment in capital assets represents capital assets, less accumulated depreciation less any outstanding debt related to the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are also included in this component of net position.

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

I. Compensated Absences

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

J. Restatement / Reclassifications

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

K. 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 position.

L. Deferred outflows/inflows of resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The Authority does not have any deferred outflows of resources as of June 30, 2014 or 2013.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources,* represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The Authority's deferred inflows at June 30, 2014 and June 30, 2013 consist of a deferred amount on refunding.

M. Net position flow assumption

Sometimes the government will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Authority's position to consider restricted - net position to have been depleted before unrestricted – net position is applied.

NOTE 3–DEPOSITS AND INVESTMENTS:

Deposits

Deposits with banks are covered by the Federal Deposit Insurance Corporation (FDIC) and collateralized in accordance with the Virginia Security for Public Deposits Act (the "Act") Section 2.2-4400 et. seq. of the Code of Virginia. Under the Act, banks and savings institutions holding public deposits in excess of the amount insured by FDIC must pledge collateral to the Commonwealth of Virginia Treasury Board. Financial Institutions may choose between two collateralization methodologies and depending upon that choice will pledge collateral that ranges in amounts from 50% to 130% of excess deposits. Accordingly, all deposits are considered fully collateralized.

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, 2014 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
	AAAm
Local Government Investment Pool	$ 2,254,789
Total	$ 2,254,789

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. LGIP maintains a policy to operate in a manner consistent with SEC Rule 2a-7.

NOTE 4–RESTRICTED ASSETS:

Restricted assets and net position at June 30, 2014 and 2013 consist of the following:

	Balance June 30, 2014	Balance June 30, 2013
Restricted Assets:		
Security deposits	$ 116,525	$ 104,150
Mintbrook well project	111,972	-
Performance bonds	9,421	9,421
Total restricted assets	$ 237,918	$ 113,571
Restricted net position:		
Less:		
Security deposits	(116,525)	(104,150)
Performance bonds	(9,421)	(9,421)
Total restricted net position	$ 111,972	$ -

NOTE 5–DUE TO/FROM OTHER GOVERNMENTS:

At June 30, 2014 and 2013, respectively, the Authority has receivables from other governments as follows:

	Balance June 30, 2014	Balance June 30, 2013
Fauquier County	$ 131,061	$ 176,403
Vint Hill Economic Development Authority	-	3,861
Total	$ 131,061	$ 180,264

NOTE 6–NOTE RECEIVABLE - VHEDA / UNEARNED 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. During the fiscal year ending June 30, 2014 this note was paid off. At June 30, 2013 the balance of the note receivable and unearned revenue is $1,825,000. As payments on the note are made, revenue is recognized.

NOTE 7–CAPITAL ASSETS:

Property and Equipment

The following is a summary of changes to property and equipment for the year ending June 30, 2014:

	Balance July 1, 2013	Additions	Deletions	Balance June 30, 2014
Capital assets, not being depreciated:				
Land	$ 614,625	$ 36,435	$ -	$ 651,060
Construction in progress	1,178,205	1,875,711	681,754	2,372,162
Total capital assets not being depreciated	$ 1,792,830	$ 1,912,146	$ 681,754	$ 3,023,222
Capital assets being depreciated:				
Structures and improvements	$ 48,405,568	$ 2,861,265	$ -	$ 51,266,833
Infrastructure	38,367,534	2,074,814	-	40,442,348
Vehicles	1,048,040	6,800	157,390	897,450
Machinery and equipment	13,623,690	239,416	79,206	13,783,900
Total capital assets being depreciated	$ 101,444,832	$ 5,182,295	$ 236,596	$ 106,390,531
Accumulated depreciation:				
Structures and improvements	$ 15,349,197	$ 1,817,033	$ -	$ 17,166,230
Infrastructure	11,354,748	767,351	-	12,122,099
Vehicles	845,490	73,132	157,390	761,232
Machinery and equipment	11,818,704	663,326	79,206	12,402,824
Total accumulated depreciation	$ 39,368,139	$ 3,320,842	$ 236,596	$ 42,452,385
Total capital assets being depreciated, net	$ 62,076,693	$ 1,861,453	$ -	$ 63,938,146
Business-type activities capital assets, net	$ 63,869,523	$ 3,773,599	$ 681,754	$ 66,961,368

Depreciation expense for the year ended June 30, 2014 totaled $3,320,842.

NOTE 7–CAPITAL ASSETS: (CONTINUED)

Property and Equipment: (Continued)

The following is a summary of changes to property and equipment for the year ending June 30, 2013:

	Balance July 1, 2012	Additions	Deletions	Balance June 30, 2013
Capital assets, not being depreciated:				
Land	$ 614,625	$ -	$ -	$ 614,625
Construction in progress	475,750	1,210,427	507,972	1,178,205
Total capital assets not being depreciated	$ 1,090,375	$ 1,210,427	$ 507,972	$ 1,792,830
Capital assets being depreciated:				
Structures and improvements	$ 48,288,973	$ 116,595	$ -	$ 48,405,568
Infrastructure	35,828,502	2,539,032	-	38,367,534
Vehicles	961,203	86,837	-	1,048,040
Machinery and equipment	13,556,291	67,399	-	13,623,690
Total capital assets being depreciated	$ 98,634,969	$ 2,809,863	$ -	$ 101,444,832
Accumulated depreciation:				
Structures and improvements	$ 13,740,278	$ 1,608,919	$ -	$ 15,349,197
Infrastructure	10,638,178	716,570	-	11,354,748
Vehicles	782,433	63,057	-	845,490
Machinery and equipment	11,160,469	658,235	-	11,818,704
Total accumulated depreciation	$ 36,321,358	$ 3,046,781	$ -	$ 39,368,139
Total capital assets being depreciated, net	$ 62,313,611	$ (236,918)	$ -	$ 62,076,693
Business-type activities capital assets, net	$ 63,403,986	$ 973,509	$ 507,972	$ 63,869,523

Depreciation expense for the year ended June 30, 2013 totaled $3,046,781.

Computation of net investment in capital assets:

	Balance June 30, 2014	Balance June 30, 2013
Net capital assets	$ 66,961,368	$ 63,869,523
Revenue bonds	(8,722,371)	(9,545,719)
Net investment in capital assets	$ 58,238,997	$ 54,323,804

NOTE 7–CAPITAL ASSETS: (CONTINUED)

The following is a summary of capital project activity for the fiscal year ending June 30, 2014 and 2013:

	Balance July 1, 2013	Additions	Deletions	Balance June 30, 2014
Bealeton Water Treatment Plant	$ 281,479	$ 84,088	$ -	$ 365,567
New Baltimore zone wells	445,055	663,234	170,981	937,308
Marshall 17/66	-	698,667	-	698,667
Miscellaneous projects	451,671	429,722	510,773	370,620
Total contruction in progress	$ 1,178,205	$ 1,875,711	$ 681,754	$ 2,372,162

	Balance July 1, 2012	Additions	Deletions	Balance June 30, 2013
Bealeton Water Treatment Plant	$ 51,250	$ 230,229	$ -	$ 281,479
New Baltimore zone wells	-	445,055	-	445,055
Catlett saddles	136,475	200,086	336,561	-
Miscellaneous projects	288,025	335,057	171,411	451,671
Total contruction in progress	$ 475,750	$ 1,210,427	$ 507,972	$ 1,178,205

NOTE 8–LONG-TERM OBLIGATIONS:

The following is a summary of changes in long-term obligation transactions for the year ended June 30, 2014 and 2013:

Description	Beginning Balance July 1, 2013	Issuances/ Additions	Retirements/ Deletions	Ending Balance June 30, 2014	Due Within One Year
Revenue Bonds	$ 9,545,719	$ -	$ 823,348	$ 8,722,371	$ 924,202
Note payable - Brookside	516,150	-	516,150	-	-
Compensated absences	206,584	48,451	41,762	213,273	21,327
Total	$ 10,268,453	$ 48,451	$ 1,381,260	$ 8,935,644	$ 945,529

NOTE 8–LONG-TERM OBLIGATIONS: (CONTINUED)

Description	Beginning Balance July 1, 2012	Issuances/ Additions	Retirements/ Deletions	Ending Balance June 30, 2013	Due Within One Year
Revenue Bonds	$ 10,435,573	$ 6,407,341	$ 7,297,195	$ 9,545,719	$ 903,869
Note payable - Brookside	516,150	-	-	516,150	-
Compensated absences	167,281	57,507	18,204	206,584	20,658
Total	$ 11,119,004	$ 6,464,848	$ 7,315,399	$ 10,268,453	$ 924,527

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

Year Ending June 30,	Revenue Bonds Principal	Revenue Bonds Interest
2015	$ 924,202	$ 219,043
2016	864,919	197,985
2017	886,538	176,367
2018	908,733	154,172
2019	907,408	131,385
2020	800,870	109,932
2021	820,050	90,752
2022	839,722	71,080
2023	507,375	51,835
2024	164,245	43,376
2025	170,127	37,493
2026	176,220	31,400
2027	182,532	25,089
2028	189,069	18,551
2029	195,841	11,780
2030	184,520	4,766
Total	$ 8,722,371	$ 1,375,006

NOTE 8–LONG-TERM OBLIGATIONS: (CONTINUED)

Details of long-term obligations as of June 30, 2014 and 2013 are as follows:

	2014	2013
Revenue Bonds:		
$5,870,600 revenue refunding bonds, issued November 16, 2012, payable in quarterly installments of $162,320, including principal and interest, beginning February 1, 2013 through November 1, 2022, interest payable at 2.02% .	$ 5,059,374	$ 5,599,617
$4,000,000 revenue bonds, issued November 16, 2012, amount advanced through June 30, 2013, interest payable at 2.02%.	80,341	80,341
$456,400 revenue refunding bonds, issued November 16, 2012, payable in quarterly installments of $13,476, including principal and interest, beginning February 1, 2013 through November 1, 2022, interest payable at 2.02% .	396,782	436,432
Revenue bonds, issued September 20, 2010 payable in 20 semi-annual installments of $76,051 through September 1, 2020, interest at 3.12%.	678,480	806,412
Revenue bonds, issued July 9, 2009 payable in 35 semiannual installments of $103,810 through September 1, 2019, final payment of $83,981 due March 1, 2030, interest at 3.55%.	2,507,394	2,622,917
Total Revenue bonds	$ 8,722,371	$ 9,545,719

NOTE 8–LONG-TERM OBLIGATIONS: (CONTINUED)

	2014	2013
Other Obligations:		
Note Payable		
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 FY14.	$ -	$ 516,150
Compensated absences	213,273	206,584
Total long-term obligations	$ 8,935,644	$ 10,268,453

NOTE 9–COMPENSATED ABSENCES:

In accordance with GASB statement 16 “Accounting for Compensated Absences,” the Authority has accrued the liability arising from outstanding compensated absences.

Authority employees accrue vacation and sick leave at various rates. No benefits or pay are received for unused sick leave upon termination. The Authority has outstanding accrued vacation pay at June 30 in the amount of $213,373 for fiscal year ended June 30, 2014 and $206,584 for fiscal year ended June 30, 2013.

NOTE 10–LITIGATION:

At June 30, 2014 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 Authority has no material construction commitments outstanding at June 30, 2014.

NOTE 12–PENSION PLAN:

A. Plan Description

Name of Plan:	Virginia Retirement System (VRS)
Identification of Plan:	Agent and Cost-Sharing Multiple-Employer Pension Plan
Administering Entity:	Virginia Retirement System (System)

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

Within the VRS Plan, the System administers three different benefit plans for local government employees – Plan 1, Plan 2, and, Hybrid. Each plan has different eligibility and benefit structures as set out below:

VRS – PLAN 1

1. **Plan Overview** - VRS Plan 1 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. Employees are eligible for VRS Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.

2. **Eligible Members** - Employees are in VRS Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.

3. **Hybrid Opt-In Election** - VRS non-hazardous duty covered Plan 1 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.

   The Hybrid Retirement Plan's effective date for eligible VRS Plan 1 members who opted in was July 1, 2014.

   If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.

   Members who were eligible for an optional retirement plan (ORP) and had prior service under VRS Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as VRS Plan 1 or ORP.

NOTE 12–PENSION PLAN: (CONTINUED)

A. Plan Description (Continued)

VRS − PLAN 1 (CONTINUED)

4. **Retirement Contributions** - Members contribute up to 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some school divisions and political subdivisions elected to phase in the required 5% member contribution; all employees will be paying the full 5% by July 1, 2016. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment.

5. **Creditable Service** - Creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.

6. **Vesting** - Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least five years (60 months) of creditable service. Vesting means members are eligible to qualify for retirement if they meet the age and service requirements for their plan. Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund.

   Members are always 100% vested in the contributions that they make.

7. **Calculating the Benefit** - The Basic Benefit is calculated based on a formula using the member's average final compensation, a retirement multiplier and total service credit at retirement. It is one of the benefit payout options available to a member at retirement.

   An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit.

8. **Average Final Compensation** - A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.

9. **Service Retirement Multiplier** - The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.7%. The retirement multiplier for sheriffs and regional jail superintendents is 1.85%. The retirement multiplier of eligible political subdivision hazardous duty employees other than sheriffs and regional jail superintendents is 1.7% or 1.85% as elected by the employer.

10. **Normal Retirement Age -** Age 65.

NOTE 12–PENSION PLAN: (CONTINUED)

A. Plan Description (Continued)

VRS – PLAN 1 (CONTINUED)

11. **Earliest Unreduced Retirement Eligibility** - Members who are not in hazardous duty positions are eligible for an unreduced retirement benefit at age 65 with at least five years (60 months) of creditable service or at age 50 with at least 30 years of creditable service.

    Hazardous duty members are eligible for an unreduced retirement benefit at age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service.

12. **Earliest Reduced Retirement Eligibility** - Members may retire with a reduced benefit as early as age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service.

13. **Cost-of-Living Adjustment (COLA) in Retirement** - The Cost-of-Living Adjustment (COLA) matches the first 3% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4%) up to a maximum COLA of 5%.

14. **Eligibility -** For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full calendar year from the retirement date.

    For members who retire with a reduced benefit and who have less than 20 years of creditable service, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date.

15. **Exceptions to COLA Effective Dates** - The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances:

    - The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013.
    - The member retires on disability.
    - The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP).
    - The member is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program.
    - The member dies in service and the member's survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins.

NOTE 12–PENSION PLAN: (CONTINUED)

A. Plan Description (Continued)

VRS – PLAN 1 (CONTINUED)

16. **Disability Coverage** - Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.7% on all service, regardless of when it was earned, purchased or granted.

    Most state employees are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement.

    VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.

17. **Purchase of Prior Service** - Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as creditable service in their plan. Prior creditable service counts toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. When buying service, members must purchase their most recent period of service first. Members also may be eligible to purchase periods of leave without pay.

VRS – PLAN 2

1. **Plan Overview** - VRS Plan 2 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. Employees are eligible for VRS Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.

2. **Eligible Members** - Employees are in VRS Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.

3. **Hybrid Opt-In Election** - VRS Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.

   The Hybrid Retirement Plan's effective date for eligible VRS Plan 2 members who opted in was July 1, 2014.

   If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.

   Members who were eligible for an optional retirement plan (ORP) and have prior service under VRS Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as VRS Plan 2 or ORP.

NOTE 12–PENSION PLAN: (CONTINUED)

A. Plan Description (Continued)

VRS − PLAN 2 (CONTINUED)

4. **Retirement Contributions** – Same as VRS Plan 1−Refer to Section 4.

5. **Creditable Service** – Same as VRS Plan 1− Refer to Section 5.

6. **Vesting** – Same as VRS Plan 1−Refer to Section 6.

7. **Calculating the Benefit** – Same as VRS Plan 1−Refer to Section 7.

8. **Average Final Compensation -** A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.

9. **Service Retirement Multiplier -** Same as Plan1 for service earned, purchased or granted prior to January 1, 2013. For non-hazardous duty members the retirement multiplier is 1.65% for creditable service earned, purchased or granted on or after January 1, 2013.

10. **Normal Retirement Age -** Normal Social Security retirement age.

11. **Earliest Unreduced Retirement Eligibility -** Members who are not in hazardous duty positions are eligible for an unreduced retirement benefit when they reach normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90.

    Hazardous duty members are eligible for an unreduced retirement benefit at age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service.

12. **Earliest Reduced Retirement Eligibility -** Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service.

13. **Cost-of-Living Adjustment (COLA) in Retirement -** The Cost-of-Living Adjustment (COLA) matches the first 2% increase in the CPI-U and half of any additional increase (up to 2%), for a maximum COLA of 3%.

14. **Eligibility** – Same as VRS Plan 1−Refer to Section 14.

15. **Exceptions to COLA Effective Dates** – Same as VRS Plan 1−Refer to Section 15.

NOTE 12–PENSION PLAN: (CONTINUED)

A. Plan Description (Continued)

VRS – PLAN 2 (CONTINUED)

16. **Disability Coverage** - Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service, regardless of when it was earned, purchased or granted.

    Most state employees are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement.

    VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.

17. **Purchase of Prior Service** – Same as VRS Plan 1−Refer to Section 17.

HYBRID RETIREMENT PLAN

1. **Plan Overview** - The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan. Most members hired on or after January 1, 2014 are in this plan, as well as VRS Plan 1 and VRS Plan 2 members who were eligible and opted into the plan during a special election window. (See "Eligible Members")

    - The defined benefit is based on a member's age, creditable service and average final compensation at retirement using a formula.
    - The benefit from the defined contribution component of the plan depends on the member and employer contributions made to the plan and the investment performance of those contributions.
    - In addition to the monthly benefit payment payable from the defined benefit plan at retirement, a member may start receiving distributions from the balance in the defined contribution account, reflecting the contributions, investment gains or losses, and any required fees.

2. **Eligible Members** - Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes:

    - State employees*
    - School division employees
    - Political subdivision employees*
    - Judges appointed or elected to an original term on or after January 1, 2014

NOTE 12–PENSION PLAN: (CONTINUED)

A. Plan Description (Continued)

HYBRID RETIREMENT PLAN (CONTINUED)

2. **Eligible Members (Continued)**

   - Members in VRS Plan 1 or VRS Plan 2 who elected to opt into the plan during the election window held January 1-April 30, 2014; the plan's effective date for opt-in members was July 1, 2014

3. ***Non-Eligible Members** - Some employees are not eligible to participate in the Hybrid Retirement Plan. They include:

   - Members of the State Police Officers' Retirement System (SPORS)
   - Members of the Virginia Law Officers' Retirement System (VaLORS)
   - Political subdivision employees who are covered by enhanced benefits for hazardous duty employees

   Those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under VRS Plan 1 or VRS Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select VRS Plan 1 or VRS Plan 2 (as applicable) or ORP.

4. **Retirement Contributions** - A member's retirement benefit is funded through mandatory and voluntary contributions made by the member and the employer to both the defined benefit and the defined contribution components of the plan. Mandatory contributions are based on a percentage of the employee's creditable compensation and are required from both the member and the employer. Additionally, members may choose to make voluntary contributions to the defined contribution component of the plan, and the employer is required to match those voluntary contributions according to specified percentages.

5. **Creditable Service**

   Defined Benefit Component - Under the defined benefit component of the plan, creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.

   Defined Contribution Component - Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.

NOTE 12–PENSION PLAN: (CONTINUED)

A. Plan Description (Continued)

HYBRID RETIREMENT PLAN (CONTINUED)

6. Vesting

Defined Benefit Component - Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years (60 months) of creditable service. VRS Plan 1 or VRS Plan 2 members with at least five years (60 months) of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component.

Defined Contribution Component - Defined contribution vesting refers to the minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined contribution component of the plan.

Members are always 100% vested in the contributions that they make.

Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service.

- After two years, a member is 50% vested and may withdraw 50% of employer contributions.
- After three years, a member is 75% vested and may withdraw 75% of employer contributions.
- After four or more years, a member is 100% vested and may withdraw 100% of employer contributions.

Distribution is not required by law until age 70½.

7. Calculating the Benefit

Defined Benefit Component – Same as VRS Plan 1−Refer to Section 7.

Defined Contribution Component - The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions.

8. Average Final Compensation – Same as VRS Plan 2−Refer to Section 8. It is used in the retirement formula for the defined benefit component of the plan.

NOTE 12–PENSION PLAN: (CONTINUED)

A. Plan Description (Continued)

HYBRID RETIREMENT PLAN (CONTINUED)

9. **Service Retirement Multiplier** - The retirement multiplier is 1.0%.

   For members that opted into the Hybrid Retirement Plan from VRS Plan 1 or VRS Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans.

10. **Normal Retirement Age**

    Defined Benefit Component – Same as VRS Plan 2−Refer to Section 10.

    Defined Contribution Component - Members are eligible to receive distributions upon leaving employment, subject to restrictions.

11. **Earliest Unreduced Retirement Eligibility**

    Defined Benefit Component - Members are eligible for an unreduced retirement benefit when they reach normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90.

    Defined Contribution Component - Members are eligible to receive distributions upon leaving employment, subject to restrictions.

12. **Earliest Reduced Retirement Eligibility**

    Defined Benefit Component - Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service.

    Defined Contribution Component - Members are eligible to receive distributions upon leaving employment, subject to restrictions.

13. **Cost-of-Living Adjustment (COLA) in Retirement**

    Defined Benefit Component – Same as VRS Plan 2−Refer to Section 13.

    Defined Contribution Component – Not Applicable.

14. **Eligibility** – Same as VRS Plan 1 and VRS Plan 2−Refer to Section 14.

NOTE 12–PENSION PLAN: (CONTINUED)

A. Plan Description (Continued)

HYBRID RETIREMENT PLAN (CONTINUED)

15. **Exceptions to COLA Effective Dates** – Same as VRS Plan 1 and VRS Plan 2−Refer to Section 15.

16. **Disability Coverage** - Eligible political subdivision and school division members (including VRS Plan 1 and VRS Plan 2 opt-ins) participate in the Virginia Local Disability Program (VLDP) unless their local governing body provides an employer-paid comparable program for its members.

    State employees (including VRS Plan 1 and VRS Plan 2 opt-ins) participating in the Hybrid Retirement Plan are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement.

    Hybrid members (including VRS Plan 1 and VRS Plan 2 opt-ins) covered under VSDP or VLDP are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.

17. **Purchase of Prior Service**

    Defined Benefit Component - Same as VRS Plan 1 and VRS Plan 2−Refer to Section 17.

    Defined Contribution Component – Not Applicable.

The System issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for VRS. A copy of the most recent report may be obtained from the VRS website at http://www.varetire.org/Pdf/Publications/2013-annual-report.pdf, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

B. Funding Policy

Plan members are required by Title 51.1 of the Code of Virginia (1950), as amended, to contribute 5.00% of their compensation toward their retirement. All or part of the 5.00% member contribution may be assumed by the employer. Beginning July 1, 2012 new employees were required to pay the 5% member contribution. In addition, for existing employees, employers were required to begin making the employee pay the 5% member contribution. This could be phased in over a period up to 5 years and the employer is required to provide a salary increase equal to the amount of the increase in the employee-paid member contribution. In addition, the Authority is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the Code of Virginia and approved by the VRS Board of Trustees. The contribution rate for the fiscal year ended 2014 was 6.98% of annual covered payroll.

NOTE 12–PENSION PLAN: (CONTINUED)

C. Annual Pension Cost

For fiscal year 2014, the Authority's annual pension cost of $166,589 was equal to the Authority's required and actual contributions.

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2012	$ 102,513	100%	$ -
June 30, 2013	173,516	100%	-
June 30, 2014	166,589	100%	-

The FY 2014 required contribution was determined as part of the June 30, 2011 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions at June 30, 2011 included (a) an investment rate of return (net of administrative expenses) of 7.00%, (b) projected salary increases ranging from 3.75% to 5.60% per year for general government employees, 3.75% to 6.20% per year for teachers, and 3.50% to 4.75% for employees eligible for enhanced benefits available to law enforcement officers, firefighters, and sheriffs, and (c) a cost-of-living adjustment of 2.50% per year for Plan 1 employees and 2.25% for Plan 2 employees. Both the investment rate of return and the projected salary increases include an inflation component of 2.50%. The actuarial value of the Authority's assets is equal to the modified market value of assets. This method uses techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period. The Authority's unfunded actuarial accrued liability is being amortized as a level percentage of projected payrolls on an open basis. The remaining amortization period at June 30, 2011 for the Unfunded Actuarial Accrued Liability (UAAL) was 30 years

D. Funding Status and Progress

As of June 30, 2013, the most recent actuarial valuation date, the Authority's plan was 88.78% funded. The actuarial accrued liability for benefits was $5,097,161, and the actuarial value of assets was $4,525,432, resulting in an unfunded actuarial accrued liability (UAAL) of $571,729. The covered payroll (annual payroll of active employees covered by the plan) was $2,408,565 and ratio of the UAAL to the covered payroll was 23.74%.

The schedule of funding progress, presented as Required Supplementary Information (RSI) 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–PENDING GASB STATEMENTS:

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions.* The objective of this statement is to improve accounting and financial reporting by state and local governments for pensions and to better report pension expense and pension liabilities. This statement is effective for periods beginning after June 15, 2014.

Required Supplementary Information

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Schedule of Pension Funding Progress for Pension Plan

Actuarial Valuation Date	Actuarial Value of Assets (AVA)	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability	Funded Ratio (2)/(3)	Covered Payroll	UAAL as % of Payroll (4)/(6)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
6/30/2013	$ 4,525,432	$ 5,097,161	$ 571,729	88.78%	$ 2,408,565	23.74%
6/30/2012	4,145,380	4,756,801	611,421	87.15%	2,204,818	27.73%
6/30/2011	3,962,138	4,458,459	496,321	88.87%	2,230,104	22.26%

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Statistical Section

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

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Net Position by Component
Last Ten years

	Fiscal Years				
	2014	2013	2012	2011	2010
Net position:					
Net Investment in capital assets	$ 58,238,997	$ 54,323,804	$ 53,333,168	$ 53,412,822	$ 53,524,800
Restricted	111,972	-	31,915	445,567	528,970
Unrestricted	7,359,904	5,110,621	4,339,839	2,525,847	802,633
Total net position	$ 65,710,873	$ 59,434,425	$ 57,704,922	$ 56,384,236	$ 54,856,403

	Fiscal Years				
	2009	2008	2007	2006	2005
Net position:					
Net Investment in capital assets	$ 45,261,874	$ 43,108,473	$ 40,806,516	$ 31,052,290	$ 21,781,511
Restricted	1,720,280	541,456	518,356	6,536,105	8,988,420
Unrestricted	769,515	3,752,435	4,037,591	5,126,237	1,794,615
Total net position	$ 47,751,669	$ 47,402,364	$ 45,362,463	$ 42,714,632	$ 32,564,546

Source: Fauquier County Water and Sanitation Authority

FAUQUIER COUNTY WATER AND SANITATION AUTHORITY

Changes in Net Position
Last Ten Years

	2014	2013	2012
Operating revenues:			
Water service	$ 3,290,504	$ 3,278,523	$ 3,110,188
Sewer service	3,390,211	3,202,582	3,178,717
Septic service	222,908	490,042	468,705
Late charges	161,898	147,231	171,640
Other operating revenues	328,601	294,476	267,671
Total operating revenues	$ 7,394,122	$ 7,412,854	$ 7,196,921
Operating expenses:			
Salaries	$ 2,515,181	$ 2,338,834	$ 2,308,237
Fringe benefits	829,358	926,274	847,748
General and administrative	537,264	388,643	428,523
Operations and maintenance	2,192,251	1,768,958	1,419,252
Depreciation expense	3,276,736	3,002,676	2,599,488
Total operating expenses	$ 9,350,790	$ 8,425,385	$ 7,603,248
Net operating income (loss)	$ (1,956,668)	$ (1,012,531)	$ (406,327)
Nonoperating revenue (expenses):			
Availability fees	$ 3,687,466	$ 1,168,821	$ 603,542
Gain (loss) on sale of assets	-	-	-
Interest earned	32,504	26,253	32,346
Contribution	-	-	-
Litigation settlement expenses	-	-	-
Bad debt expense	-	-	-
Interest expense	(219,958)	(495,053)	(331,064)
Net nonoperating revenue (expenses)	$ 3,500,012	$ 700,021	$ 304,824
Net income (loss) before capital contributions	$ 1,543,344	$ (312,510)	$ (101,503)
Capital Contributions	4,733,104	2,042,013	1,422,189
Change in net position	$ 6,276,448	$ 1,729,503	$ 1,320,686
Net position, at beginning of year	59,434,425	57,704,922	56,384,236
Net position, at end of year	$ 65,710,873	$ 59,434,425	$ 57,704,922

Source: Fauquier County Water and Sanitation Authority.

Table 2

2011	2010	2009	2008	2007	2006	2005
$ 3,150,219	$ 2,807,897	$ 3,031,716	$ 2,695,893	$ 2,287,085	$ 1,861,932	$ 1,666,859
3,132,887	2,807,471	2,054,634	2,070,737	2,266,749	2,191,139	1,955,416
176,063	87,990	75,858	74,006	193,518	93,737	312,890
147,980	129,235	117,598	115,791	111,070	97,090	81,252
148,189	347,874	395,890	248,329	367,610	417,015	544,190
$ 6,755,338	$ 6,180,467	$ 5,675,696	$ 5,204,756	$ 5,226,032	$ 4,660,913	$ 4,560,907
$ 2,172,426	$ 2,163,497	$ 2,204,681	$ 2,200,437	$ 1,969,118	$ 1,500,903	$ 1,420,246
786,446	748,240	818,458	742,049	676,891	511,155	472,686
400,482	406,526	376,598	541,741	1,093,335	1,083,765	515,867
1,388,562	1,366,460	1,564,933	1,446,519	1,272,715	961,767	896,003
2,521,187	2,485,492	2,486,274	2,068,985	1,731,653	1,569,966	1,630,648
$ 7,269,103	$ 7,170,215	$ 7,450,944	$ 6,999,731	$ 6,743,712	$ 5,627,556	$ 4,935,450
$ (513,765)	$ (989,748)	$ (1,775,248)	$ (1,794,975)	$ (1,517,680)	$ (966,643)	$ (374,543)
$ 520,656	$ 316,255	$ 331,482	$ 1,137,703	$ 2,337,713	$ 4,229,644	$ 3,042,621
-	-	-	-	-	11,708	325
34,240	26,370	60,748	197,179	639,736	607,943	178,609
-	-	-	-	-	-	20,800
-	-	-	-	(1,950,000)	-	-
-	-	-	-	-	(12,731)	(2,279)
(370,451)	(339,834)	(336,501)	(239,161)	(262,603)	(258,635)	(318,139)
$ 184,445	$ 2,791	$ 55,729	$ 1,095,721	$ 764,846	$ 4,577,929	$ 2,921,937
$ (329,320)	$ (986,957)	$ (1,719,519)	$ (699,254)	$ (752,834)	$ 3,611,286	$ 2,547,394
1,730,322	7,791,691	2,068,824	2,739,155	3,400,665	6,538,800	7,588,420
$ 1,401,002	$ 6,804,734	$ 349,305	$ 2,039,901	$ 2,647,831	$ 10,150,086	$ 10,135,814
54,983,234	47,751,669	47,402,364	45,362,463	42,714,632	32,564,546	22,428,732
$ 56,384,236	$ 54,556,403	$ 47,751,669	$ 47,402,364	$ 45,362,463	$ 42,714,632	$ 32,564,546

FAUQUIER COUNTY WATER AND SANITATION AUTHORITY **Table 3**

Schedule of Revenues
Last Ten Fiscal Years

Fiscal Years	Water Service	Sewer Service	Availability Fees	Other Revenues	Total
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
2010	2,807,897	2,807,471	316,255	591,469	6,523,092
2011	3,150,219	3,132,887	520,656	506,472	7,310,234
2012	3,110,188	3,178,717	603,542	940,362	7,832,809
2013	3,278,523	3,202,582	1,168,821	958,002	8,607,928
2014	3,290,504	3,390,211	3,687,466	745,911	11,114,092

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
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
2010	3.05	16.41	6.02	16.60
2011	3.36	18.04	6.63	18.26
2012	3.36	18.04	6.63	18.26
2013	3.47	18.59	6.83	18.81
2014	3.47	18.59	6.83	18.81

(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

	WATER			SEWER		
Fiscal Year	**New Connections**	**Cumulative Connections**	**% of Growth**	**New Connections**	**Cumulative Connections**	**% of Growth**
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%
2010	45	5,512	0.82%	52	3,705	1.40%
2011	76	5,588	1.38%	46	3,761	1.24%
2012	129	5,717	2.30%	93	3,854	2.47%
2013	73	5,790	1.28%	79	3,933	2.05%
2014	225	6,015	5.34%	122	4,055	2.28%

Source: Fauquier County Water and Sanitation Authority connection records
* Completed the purchase of Marshall Waterworks with 546 connections

FAUQUIER COUNTY WATER AND SANITATION AUTHORITY **Table 6**

Schedule of Water Processed and Wastewater Treated (in gallons)
Last Nine Calendar Years

Calendar Year*	Water Processed	Wastewater Treated
2005	435,000,000	384,000,000
2006	470,000,000	420,000,000
2007	580,000,000	343,000,000
2008	477,000,000	401,000,000
2009	458,000,000	450,000,000
2010	480,000,000	449,000,000
2011	473,000,000	504,000,000
2012	489,000,000	433,000,000
2013	489,000,000	519,000,000

Source: Fauquier County Water and Sanitation Authority

* Information for the 2004 calendar year is not available

FAUQUIER COUNTY WATER AND SANITATION AUTHORITY **Table 7**

Schedule of Operating Expenses
Last Ten Fiscal Years

Fiscal Years	Salaries	Fringe Benefits	General & Administrative	Operations & Maintenance	Depreciation Expense	Total
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
2010	2,163,497	748,240	406,526	1,366,460	2,485,492	7,170,215
2011	2,172,426	786,446	400,482	1,388,562	2,521,187	7,269,103
2012	2,308,237	847,748	428,523	1,419,252	2,599,488	7,603,248
2013	2,338,834	926,274	388,643	1,768,958	3,002,676	8,425,385
2014	2,515,181	829,358	537,264	2,192,251	3,276,736	9,350,790

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 2014	2013	2012	2011	2010
Note Payable - Brookside	$ -	$ 516,150	$ 516,150	$ 525,450	$ 525,450
Notes Payable Opal system	-	-	-	25,000	151,831
VRA Water Revenue Bond	-	-	455,811	491,089	519,019
VRA Water Revenue Bond	-	-	1,575,992	1,704,310	1,811,460
VRA Water Revenue Bond	-	-	1,246,396	1,326,713	1,404,247
Revenue Bond 7-9-2009	2,507,394	2,622,917	2,735,447	2,903,781	2,903,781
Revenue Bond 2011	-	-	3,113,956	3,417,208	-
Revenue Bond 9-20-10	678,480	806,412	1,127,971	1,242,201	-
Revenue Bond 2012	80,341	80,341	-	-	-
Revenue Refunding Bond 2012	5,059,374	5,599,617	-	-	-
Revenue Refunding Bond 2012	396,782	436,432	-	-	-
Virginia Water Facility Bond	-	-	180,000	350,000	515,000
Virginia Water Facility Bond	-	-	-	-	4,090,499
Total outstanding debt	$ 8,722,371	$ 10,061,869	$ 10,951,723	$ 11,985,752	$ 11,921,287
Debt per capita	$ 289	$ 345	$ 382	$ 476	$ 476

	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
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	2,025,000	-	1,086,768	1,218,147
VRA Water Revenue Bond	1,914,426	-	-	-	-
VRA Water Revenue Bond	1,478,391	-			
Virginia Water Facility Bond	675,000	825,000	970,000	-	-
Virginia Water Facility Bond	4,764,896	5,419,486	6,054,912	6,671,676	7,270,375
Total outstanding debt	$ 11,294,280	$ 10,185,567	$ 9,443,193	$ 9,249,075	$ 10,173,153
Debt per capita	$ 413	$ 398	$ 359	$ 391	$ 454

Source: Fauquier County Water and Sanitation Authority

(1) Population data can be found in the table of demographic and economic statistics, reference Table 10.

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 Principal	Interest	Total	Coverage
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	**	8,125,920	4,964,670	3,161,250	981,307	336,501	1,317,808	2.40
2010		6,523,092	4,684,723	1,838,369	1,037,974	339,834	1,377,808	1.33
2011		7,310,234	4,747,916	2,562,318	1,108,704	356,213	1,464,917	1.75
2012		7,832,809	5,003,760	2,829,049	999,729	454,370	1,454,099	1.95
2013		8,607,928	5,422,709	3,185,219	1,105,769	437,768	1,543,537	2.06
2014		11,114,092	6,074,054	5,040,038	1,339,498	200,278	1,539,776	3.27

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.

Revenue means:

i All rates, fees, rentals, charges, income and money property allocable to the System in accordance with general accepted accounting principles or resulting from the Borrow's ownership or operation of the System, excluding customer and other deposits subject to refund until such deposits have become the Borrow's property,

ii The proceeds of any insurance covering business interruption loss relating to the System,

iii Interest on any money or securities related to the System held by or on behalf of the Borrower,

iv Any other money from other sources pledged by the Borrower to the payment of its Local Bond.

** In FY09, FCWSA received a $2,057,994 WQIF award associated with capital improvement made to the Vint Hill WWTP funded by cash proffer by a developer. The award was included in FY09 Gross Revenue.

Source: Fauquier County Water and Sanitation Authority

Demographic and Economic Statistics
Last Ten Fiscal Years

Year	Estimated Population (1)	Personal Income (expressed in thousands) (2)	Per Capita Personal Income (2)	Unemployment Rate (3)	County Civilian Labor Force (3)	At-Place Employment Annual Average (3)	School Enrollment (4)
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	3,402,174	50,597	3.6%	38,808	21,864	11,046
2009	27,289	3,320,398	48,822	5.7%	38,306	20,117	11,104
2010	27,645	3,364,254	51,454	5.6%	36,952	20,133	11,271
2011	28,047	3,426,035	52,399	5.0%	37,311	20,762	11,223
2012	28,713	3,594,251	54,400	4.8%	37,599	20,815	11,221
2013	29,169	*	*	4.8%	36,702	20,268	10,750
2014	30,210	*	*	4.5%	37,131	*	11,084

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

	2014		2005	
Employer	**Rank**	**Number of Employees**	**Rank**	**Number of Employees**
Fauquier County School Board	1	1,000 and over	1	1,000 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	4	500 to 999
Imaging Acceptance			5	250 to 499
Wal Mart	5	100 to 249	6	100 to 249
Buccaneer Computer System, Inc.	6	100 to 249		
Trinity Packaging Corporation			7	100 to 249
Food Lion	7	100 to 249		
America House Four			8	100 to 249
Town of Warrenton	8	100 to 249	9	100 to 249
McDonalds	9	100 to 249	10	100 to 249
Lord Fairfax Community College	10	100 to 249		

Source: Virginia Employment Commission Top 50 Employers

 Table 12

Operating and Capital Indicators
Last Eight Fiscal Years

	FY 2014	FY 2013	FY 2012	FY 2011	FY 2010	FY 2009	FY 2008	FY 2007
Water System:								
Number of water systems	16	14	14	14	14	14	14	14
Number of service connections	6,015	5,772	5,717	5,588	5,467	5,467	5,417	4,544
Miles of water mains	127	100	100	100	100	100	100	100
Daily average consumption per MGD	1.365	1.34	1.323	1.455	1.455	1.455	1.455	1.192
Average daily water distributed per MGD	1.365	1.34	1.323	1.455	1.455	1.455	1.455	1.192
Storage capacity in million gallons	5.154	5.154	5.154	5.154	5.154	1.911	1.911	1.586
Sewerage System:								
Number of treatment plants	3	3	3	3	3	3	3	3
Number of pump stations	14	13	13	16	16	16	16	14
Number of service connections	4,055	3,412	3,854	3,761	3,653	3,653	3,618	3,278
Miles of sanitary sewer mains	104	82	82	82	82	82	82	82
Daily average treatment per MGD	1.365	1.319	1.289	1.289	0.939	0.939	0.939	1.052
Design capacity of treatment plants per MGD	3.59	3.59	3.236	3.236	2.886	2.886	2.886	2.886
Number of Full-Time Employees:	42	44	44	44	45	45	44	37

MGD - Million Gallon per Day

Source: Fauquier County Water and Sanitation Authority

* Information for the previous two fiscal years are not available

FAUQUIER COUNTY WATER AND SANITATION AUTHORITY

Principal Water and Sewer Customers
Last Nine Fiscal Years

Principal Users of the Water System	Principal Business	FY 2014 000/gals	FY 2014 % of System	FY 2013 000/gals	FY 2013 % of System	FY 2012 000/gals	FY 2012 % of System
FAUQUIER COUNTY PUBLIC SCHOOLS	Public Schools	10,696	2.26%	9,684	2.05%	13,035	2.76%
CHUCK DAVIS	ODEC	9,029	1.91%	299	0.06%	1,931	0.41%
FEDERAL AVIATION ADM	Federal FFA buliding	3,911	0.83%	3,661	0.77%	4,487	0.95%
SUFFIELD MEADOW CONDO	Condos	3,480	0.74%	3,193	0.68%	773	0.16%
ASPEN SOUTH	Apartments	3,223	0.68%	3,168	0.67%	2,963	0.63%
ASPEN CLUB APTS/NORTH 40	Apartments	2,347	0.50%	2,753	0.58%	2,084	0.44%
NORTH FORTY ASPEN PLUS	Apartments	1,520	0.32%	1,402	0.30%	4,900	1.04%
WAVERLY STATION	Apartments	1,507	0.32%	1,055	0.22%	717	0.15%
VAN MANAGEMENT INC	Marshall McDonalds	1,234	0.26%			1,280	0.27%
R. B. DRUMHELLER INC.	Bealeton McDonalds	852	0.18%				
BEALETON VILLAGE CENTER LLC	Shopping Center			6,667	1.41%	1,377	0.29%
CEDAR LEE CONDO ASSOCIATES	Apartments			1,840	0.39%	526	
FAUQUIER HEALTH SYSTEM	Assisted Living						0.11%
TOLL BROTHERS	Developer						
VINT HILL EDA	Authority						
COUNTY PARKS AND RECREATION	County Swimming pool						
SHEETZ # 221 UTILITIES	Convenience Store, Gas Station						
Total		37,799	8.00%	33,722	7.13%	34,073	7.21%
Total Water System Annual Consumption		489,000		489,000		473,000	

*** Documents for the previous fiscal year is not available**

Principal Users of the Sewer System	Principal Business	FY 2014 000/gals	FY 2014 % of System	FY 2013 000/gals	FY 2013 % of System	FY 2012 000/gals	FY 2012 % of System
FAUQUIER COUNTY PUBLIC SCHOOLS	Public Schools	10,025	1.99%	8,397	1.67%	12,837	2.55%
CHUCK DAVIS	ODEC	9,029	1.79%	359	0.07%	3,880	0.77%
FEDERAL AVIATION ADM	Federal FFA building	3,911	0.78%	3,660	0.73%	4,487	0.89%
ASPEN SOUTH	Apartments	3,223	0.64%	3,168	0.63%	2,963	0.59%
ASPEN CLUB APTS/NORTH 40	Apartments	2,347	0.47%	2,753	0.55%	2,084	0.41%
SHEETZ # 221 UTILITIES	Convenience Store, Gas Station	2,190	0.43%	1,978	0.39%	1,875	0.37%
NORTH FORTY ASPEN PLUS	Apartments	1,520	0.30%	1,402	0.28%	4,900	0.97%
WAVERLY STATION	Apartments	1,507	0.30%	1,055	0.21%	717	0.14%
OPAL OIL, INC.	Quarles Q Stop	1,461	0.29%				
VAN MANAGEMENT INC	Marshall McDonalds	1,234	0.24%	1,084	0.22%	1,280	0.25%
BLUE RIDGE CHRISTIAN HOME	Nursing Home			930	0.18%	1,026	0.20%
WAKEFIELD SCHOOL	Private School			448	0.09%	586	0.12%
CEDAR LEE CONDO ASSOCIATES	Condos			1,840	0.37%	526	0.10%
Total		36,447	7.23%	27,074	5.37%	37,161	7.36%
Total Sewer System Annual Flow		519,000		433,000		504,000	

*** Documents for the previous fiscal year is not available**

Table 13

FY 2011		FY 2010		FY 2009		FY 2008		FY 2007		FY 2006	
000/gals	% of System	000/gals	% of System	000/gals	% of System	000/gals	% of System	000/gals	% of System	000/gals	% of System
17,338	3.61%	11,394	2.37%	10,569	2.22%	8,090	1.39%	6,434	1.37%	10,569	2.22%
957	0.20%	361	0.08%			887	0.15%	1,366	0.29%		
4,643	0.97%	2,552	0.53%	2,778	0.58%	2,730	0.47%	1,092	0.23%	2,778	0.58%
				573	0.12%	873	0.15%	186	0.04%	573	0.12%
3,348	0.70%	2,939	0.61%	2,505	0.53%	3,678	0.63%	194	0.04%	2,505	0.53%
3,231	0.67%	2,717	0.57%	3,141	0.66%	3,633	0.63%	3,292	0.70%	3,141	0.66%
1,649	0.34%	1,479	0.31%	1,483	0.31%	1,660	0.29%			1,483	0.31%
		910	0.19%	1,130	0.24%					1,130	0.24%
1,462	0.30%	1,224	0.26%	1,025	0.21%	1,233	0.21%			1,025	0.21%
1,012	0.21%										
		488	0.10%	1,350	0.28%	999	0.17%			1,350	0.28%
1,041	0.22%										
								385	0.08%		
								483	0.10%		
								748	0.16%		
								2,326	0.49%		
34,681	7.23%	24,064	5.02%	24,554	5.15%	23,783	4.10%	16,506	3.51%	24,554	5.15%
480,000		458,000		477,000		580,000		470,000		477,000	

000/gals	% of System	000/gals	% of System	000/gals	% of System	000/gals	% of System	000/gals	% of System	000/gals	% of System
15,024	3.35%	10,090	2.25%	11,041	2.75%	8,716	2.54%	6,569	1.56%	11,041	2.75%
2,993	0.67%	2,939	0.65%	2,846	0.71%	2,022	0.59%	4,057	0.97%	2,846	0.71%
4,643	1.03%	2,552	0.57%	2,778	0.69%	2,730	0.80%	1,092	0.26%	2,778	0.69%
3,343	0.74%	2,457	0.55%	2,841	0.71%	3,678	1.07%			2,841	0.71%
3,231	0.72%	2,717	0.61%	3,141	0.78%	3,633	1.06%	3,292	0.78%	3,141	0.78%
1,929	0.43%	1,811	0.40%	1,708	0.43%	1,937	0.56%	2,326	0.55%	1,708	0.43%
1,649	0.37%	1,479	0.33%	1,483	0.37%	1,660	0.48%			1,483	0.37%
	0.00%	910	0.20%	1,130	0.28%	159	0.05%	159	0.04%	1,130	0.28%
1,482	0.33%	1,224	0.27%	1,025	0.26%	1,233	0.36%			1,025	0.26%
1,212	0.27%										
	0.00%	871	0.19%	752	0.19%	1,314	0.38%	162	0.04%	752	0.19%
1,515	0.34%	488	0.11%	1,350	0.34%	999	0.29%			1,350	0.34%
37,021	8.25%	27,538	6.13%	30,095	7.50%	28,081	8.19%	19,019	4.53%	30,095	7.50%
449,000		450,000		401,000		343,000		420,000		401,000	

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

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

We have audited, in accordance with the 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, the financial statements of the Fauquier County Water and Sanitation Authority as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Authority's financial statements and have issued our report thereon dated September 8, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Fauquier County Water and Sanitation Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Fauquier County Water and Sanitation Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of Fauquier County Water and Sanitation Authority's internal control.

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Robinson, Farmer, Cox Associates

Charlottesville, Virginia
September 8, 2014