

Fauquier County
Water and Sanitation Authority

Warrenton, Virginia

**Comprehensive Annual
Financial Report**



**YEARS ENDED
JUNE 30, 2016 AND 2015**

FAUQUIER COUNTY WATER AND SANITATION AUTHORITY

WARRENTON, VIRGINIA

Comprehensive Annual Financial Report
Years Ended June 30, 2016 and 2015

Prepared by:

William Skinker
Associate General Manager and Chief Financial Officer

FAUQUIER COUNTY WATER AND SANITATION AUTHORITY

Comprehensive Annual Financial Report
Years Ended June 30, 2016 and 2015

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OFFICERS AND BOARD MEMBERS

Raymond E. Graham – Chairperson
L. Paul Blackmer, Jr. – Vice Chairperson
William G. Downey – 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

FAUQUIER COUNTY

WATER & SANITATION AUTHORITY

7172 Kennedy Road • Vint Hill Farms

Warrenton, Virginia 20187-3907

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



September 15, 2016

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, 2016 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 for the year ended June 30, 2016.

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 for a period of 50 years and extended to 2025 in 1975. The Authority is chartered by the State Corporation Commission and is an independent public body responsible for providing comprehensive county-wide water and sewer services.

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 68,248. This is expected to exceed 70,000 by the year 2017 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 2016, the Authority's customer base increased by 266 accounts to 10,125 or 2.6%.

Employment within the service area is well diversified. According to the Virginia Employment Commission, as of July 15, 2016, the total civilian labor force in Fauquier County is 36,209, of which 34,978 are employed and 1,231 unemployed, resulting in an unemployment rate of 3.4 %.

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. This project is in progress and scheduled to be completed in FY2016. With completion of the well and water treatment facility, the construction loan of \$4 million will be converted to a permanent loan.

The Authority has adopted a 5-year capital budget that will be used to increase water sources, storage, and treatment facilities, at an estimated cost of \$19 million. The Board has committed to an \$8.5 million construction loan for five projects that will meet the objectives of the capital budget.

The Board has acknowledged a number of unfunded projects in the 5-year replacement and renewal and capital improvement programs. With interest rates historically low, the Authority, with Board approval, will borrow \$1 million a year to supplement and fund some of these unfunded projects.

*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, assurances regarding: (1) the safeguarding of assets against 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 require estimates and judgments made by management. Management reviews internal controls on a continuing basis.

The Finance Department prepares an annual budget for current revenue, 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 dated December 31, 2010 on the nutrient quality of wastewater entering the Chesapeake Bay and its tributaries. The Authority implemented a two phase plan to meet these regulatory requirements. 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 FY2016 was \$1,028,381 million. This amount will be reduced by FY2025 to \$954,000. 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, Remington and Marshall, to meet the nutrient requirements. The estimated cost of this phase of upgrades is \$30 million.

The capital improvement program includes future upgrades to the water distribution systems for new sources, treatment and storage at an estimated cost of \$19 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, 2016 have been audited by Robinson, Farmer, Cox Associates, an independent firm of licensed certified public accountants. The fiscal year 2016 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, 2015. 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. We believe our current comprehensive annual financial report conforms to the Certificate of Achievement Program requirements and we are submitting the CAFR to the 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.

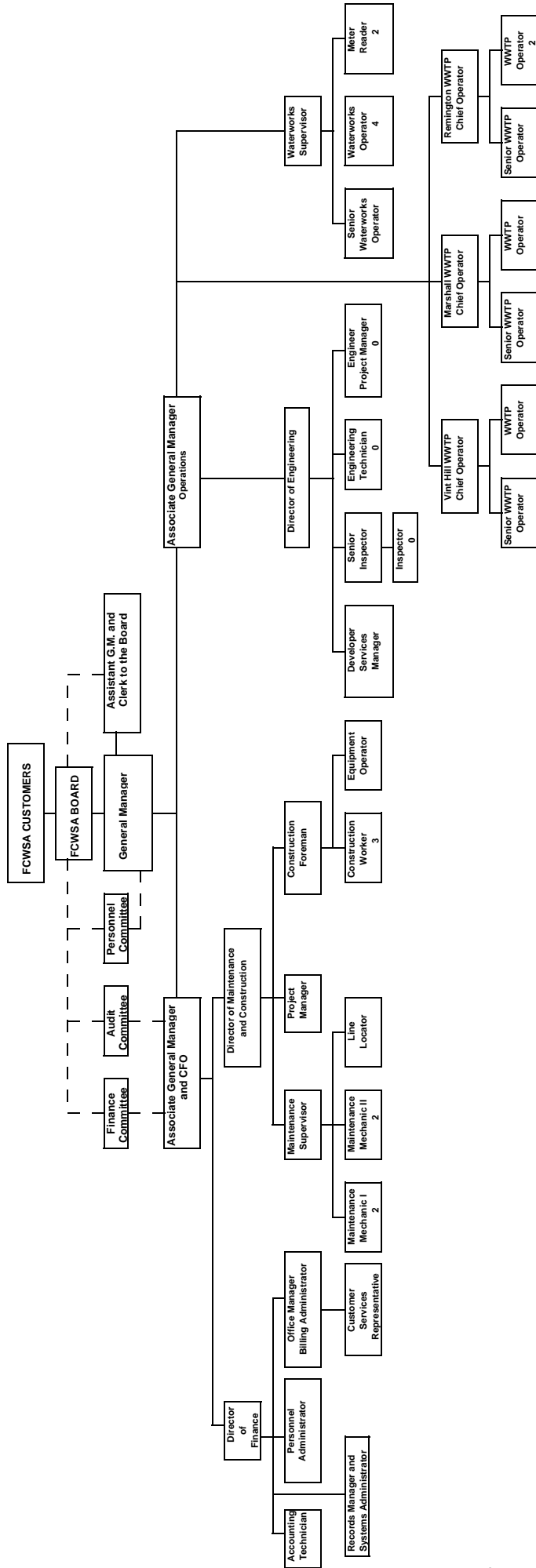
Respectfully submitted,

A handwritten signature in black ink, appearing to read "William Skinker". The signature is written in a cursive, slightly slanted style.

William Skinker
Associate General Manager and Chief Financial Officer

FCWSA ORGANIZATION CHART

FY 2016



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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, 2015

Executive Director/CEO

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ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

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, 2016 and 2015, 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, 2016 and 2015, 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.

Change in Accounting Principle

As described in Note 2 to the financial statements, in 2016, the Authority adopted new accounting guidance, GASB Statement No. 79 Certain External Investment Pools and Pool Participants, 82 Pension Issues – an amendment of GASB Statements No. 67, and No. 68. Our opinion is not modified with respect to this matter.

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 schedules related to pension on page 51-53 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 August 31, 2016, 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
August 31, 2016

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, 2016. 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

- Construction was completed on several Capital Improvement Program (CIP) projects at a cost of \$2.1 million. Also Repair and Replacement (R&R) maintenance projects were completed at a cost of \$729,000.
- The Authority experienced an earthquake in 2011 resulting in the construction of a water treatment facility in the Bealeton Service District at a cost of \$3.7 million. A smaller water treatment filtration system was installed in Paris for \$309,000.
- The majority of the Schoolhouse Road water line was replaced in FY2016 for \$569,000.
- Total net position increased by \$4.9 million to \$73 million.
- Total revenues, including capital contributions and expenses, were \$14.9 and \$10.0 million respectively.
- Operating revenues increased by 3.0% to \$8.1 million. Operating expenses increased 8.5% to \$9.8 million.
- 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 nine 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 its' liquidity and flexibility. All current and prior years' 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. It can 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 during the year. These two statements help determine the financial health of the Authority and whether or not its 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 FY2016, due primarily to a combination of availability revenues and the controlling of expenses, as described in the following sections of this report.

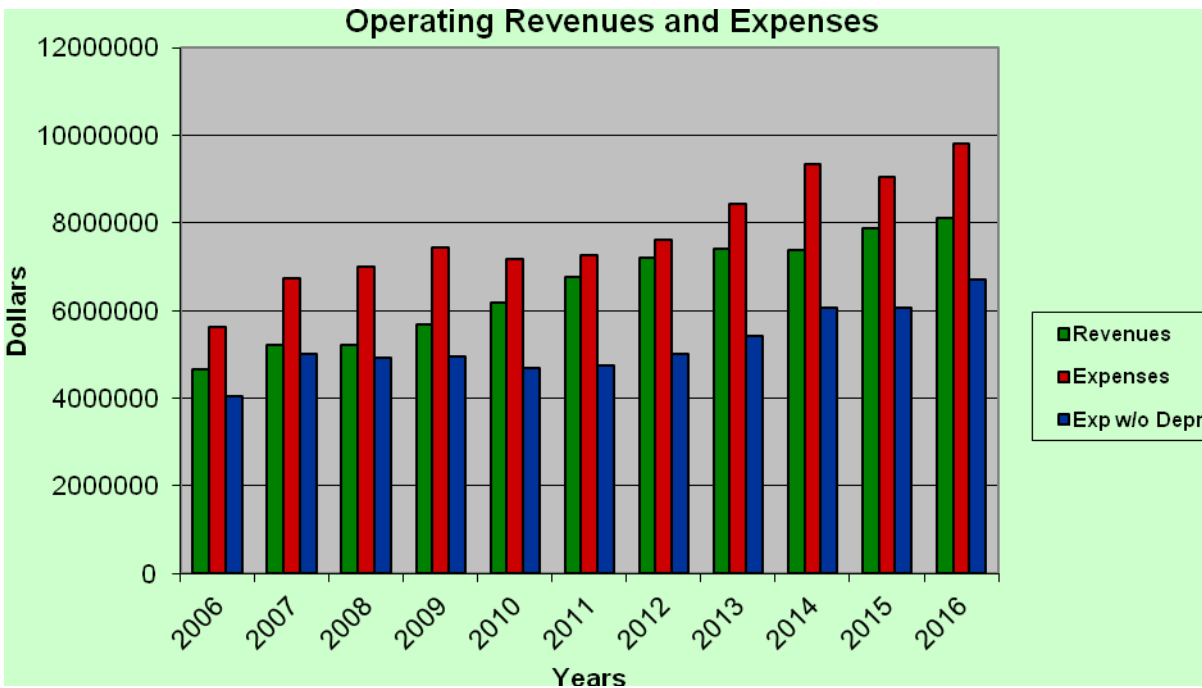
Net Position and Liabilities -The Authority's total net position increased in FY2016 by \$4.9 million or 7.3% compared to FY2015, as restated, and FY2015 by \$2.5 million or 3.8% compared to FY2014. In FY2014, the total net position increased by \$6.3 million or 10.1%. A significant portion of this increase was due to capital contributions of \$4.9, \$1.9, and \$4.7 million in FY2016, FY2015, and FY2014, respectively. In FY2016 the liabilities increased by \$0.73 million or 7.9% compared to FY 2015. This increase is due to additional draws on construction loan. Total liabilities decreased by \$0.13 million during FY2015 due to debt service payments, and \$3.0 million during FY2014. The decrease in FY 2014 is from the early payment of the unearned revenue obligation, note payable and debt service payments. The following table depicts the Authority's assets and liabilities as of June 30, 2016, 2015, and 2014:

	Net Position		
	2016	2015	2014
Current and other assets	\$ 8,995,473	\$ 9,396,499	\$ 8,517,872
Capital assets	73,928,285	68,140,805	66,961,368
Deferred outflows of resources:			
Pension contribution subsequent to measurement date	145,955	93,060	-
Pension differences between expected and actual experience	63,584	-	-
Total assets and deferred outflows of resources	<u>\$ 83,133,297</u>	<u>\$ 77,630,364</u>	<u>\$ 75,479,240</u>
Noncurrent liabilities	\$ 8,224,587	\$ 7,393,288	\$ 7,990,114
Other liabilities	1,707,554	1,810,121	1,724,224
Total liabilities	<u>\$ 9,932,141</u>	<u>\$ 9,203,409</u>	<u>\$ 9,714,338</u>
Deferred inflows of resources	<u>\$ 181,253</u>	<u>\$ 385,186</u>	<u>\$ 54,029</u>
Net position:			
Net investment in capital assets	\$ 65,023,527	\$ 60,030,622	\$ 58,184,968
Restricted	-	-	111,972
Unrestricted	7,996,376	8,011,147	7,413,933
Total net position	<u>\$ 73,019,903</u>	<u>\$ 68,041,769</u>	<u>\$ 65,710,873</u>

Operating Income – In FY2016, **Operating Revenues** were \$8.1 million, an increase of 3% over FY2015. Operating revenues totaled \$7.9 million in FY2015, an increase of 6.5% over FY2014. In FY2014, revenues totaled \$7.4 million, a decrease of 0.25% over FY2013. In FY2016 and FY2015, the rates and fees increase produced additional operating revenues. In FY2014, revenues were affected by decrease in the Septic hauling from the Fauquier County Landfill. **Operating Expenses** for FY2016 increased to \$9.8 million or 8.2%. In FY2015, expenses decreased to \$9.1 million or a decrease of 2.9%. FY2014 expenses totaled \$9.3 million which was an increase of 10.98%. FY 2016 saw an increase in personnel cost, legal, maintenance and depreciation expenses. A significant portion of the decrease in FY2015 was due to a reduced depreciation expense from assets completing their useful life.

FINANCIAL ANALYSIS: (Continued)

In FY2014, the increase for operating expense was from depreciation. Depreciation expense represents 32%, 33.0% and 35.0%, of operating expense in FY2016, FY2015 and FY2014, respectively. In FY2015 the decrease of expenses was due to reduction in depreciation and other departments coming in under budget. Also, the FY2014 expenses increase was from salaries, developers' agreements, Replacement & Renewal(R&R) expenses and depreciation. The FY2016, FY2015 and FY2014 increases were influenced by growth of the customer base, fuel costs, utilities, chemicals, 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 not-for-profit 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.

Following no user rates increases in FY2015 and FY2014, the Authority increased user rates in FY2016. There were Capital Improvement, R & R project and operating expenses that made it necessary to increase the user rates. 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, repairs, fuel and debt service resulting from new regulatory requirements, in addition to the planned capital investments, the Authority's Board anticipates further rate increases. These additional rate adjustments will further strengthen and match the Authority's Operating Revenues and Operating Expenses.

FINANCIAL ANALYSIS: (Continued)

The following table is a comparison of operating revenues, operating expenses, non-operating revenues and expenses, net income and capital contributions for the years ending June 30, 2016, 2015, and 2014.

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Operating revenues:			
Water service	\$ 3,438,450	\$ 3,519,398	\$ 3,290,504
Sewer service	3,874,505	3,524,999	3,390,211
Late charges	129,880	151,975	161,898
Other operating revenues	672,158	679,187	551,509
Total operating revenues	<u>\$ 8,114,993</u>	<u>\$ 7,875,559</u>	<u>\$ 7,394,122</u>
Operating expenses:			
Salaries	\$ 2,848,966	\$ 2,622,093	\$ 2,515,181
Fringe benefits	1,138,118	882,093	829,358
General and administrative	556,190	477,316	537,264
Operations and maintenance	2,128,639	2,082,445	2,192,251
Depreciation expense	3,113,765	2,982,641	3,276,736
Total operating expenses	<u>\$ 9,785,678</u>	<u>\$ 9,046,588</u>	<u>\$ 9,350,790</u>
Net operating income (loss)	<u>\$ (1,670,685)</u>	<u>\$ (1,171,029)</u>	<u>\$ (1,956,668)</u>
Nonoperating revenue and expenses:			
Availability fees	\$ 2,095,670	\$ 1,952,908	\$ 3,687,466
Interest earned	31,869	40,078	32,504
Interest expense	(168,652)	(188,494)	(219,958)
Net nonoperating revenue	<u>\$ 1,958,887</u>	<u>\$ 1,804,492</u>	<u>\$ 3,500,012</u>
Net income (loss) before capital contributions	\$ 288,202	633,463	1,543,344
Capital Contributions	<u>4,689,932</u>	<u>1,868,668</u>	<u>4,733,104</u>
Change in net position	\$ 4,978,134	\$ 2,502,131	\$ 6,276,448
Net position, at beginning of year	<u>68,041,769</u>	<u>65,539,638</u>	<u>59,434,425</u>
Net position, at end of year	<u>\$ 73,019,903</u>	<u>\$ 68,041,769</u>	<u>\$ 65,710,873</u>

CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets - The increase in capital assets for FY2016 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:

Bealeton Water Treatment Facility	\$ 3,717,412
Paris filtration system	308,635
Contributed capital	4,689,932
Vehicles	77,412
SCADA systems	184,007
Other R&R projects	409,413

CAPITAL ASSETS AND LONG-TERM DEBT: (Continued)

The largest construction-in-progress projects as of June 30, 2016 were:

Schoolhouse road project	\$ 568,910
Inflow & infiltration projects	196,049
Mosby woods well rehabilitation	109,353

The following table shows capital asset balances for the fiscal years ending June 30, 2016, 2015, and 2014:

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Land	\$ 651,060	\$ 651,060	\$ 651,060
Construction in progress	1,147,619	1,624,258	2,372,162
Structures and improvements	53,773,398	51,916,817	51,266,833
Deferred outflows of resources:			
Pension contribution subsequent to measurement date		145,955	93,060
Pension differences between expected and actual experience	51,458,242	63,584	
Vehicles	1,050,503	973,091	897,450
Machinery and equipment	<u>13,895,843</u>	<u>53,750,614</u>	<u>53,732,055</u>
Total property & equipment	\$ 121,976,665	\$ 109,125,379	\$ 109,012,620
Less: accumulated depreciation	<u>48,048,380</u>	<u>44,925,688</u>	<u>42,452,385</u>
Net property & equipment	<u>\$ 73,928,285</u>	<u>\$ 64,199,691</u>	<u>\$ 66,560,235</u>

Additional information on the capital assets can be reviewed in Note 6.

Cash Balances – The Authority Board and Management determined that a multi-year rate setting will provide the Authority's customers a basis for future user rate adjustments. According to Commonwealth of Virginia's code, an increase in the user rate from the published and approved rates will require an advertisement of new rates. Also, it was determine that a portion of the water and sewer availability fees would be set aside to cover future CIP and R&R projects. By analyzing rates on an 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:

Cash Balance:	<u>Operations</u>	<u>Restricted for Capital</u>
FY2017	\$ 5,621,574	\$ 226,863
FY2018	6,862,833	680,589
FY2019	7,333,034	1,058,967
FY2020	7,765,652	1,500,408
FY2021	8,329,015	2,004,914

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

CAPITAL ASSETS AND LONG TERM DEBT: (Continued)

Capital Projects

Below is a summary schedule of our planned capital projects (CIP) and replacement and renewals(R&R) for the next five years:

Five Year Capital Improvement Program (FY 17 - 21)						
FY 2017 Approved Budget						
Project	FY2017	FY2018	FY2019	FY2020	FY2021	5 YR Totals
New Baltimore supply - wells	\$ 720,120	\$ 100,000	\$ 1,298,436	\$ 1,298,436	\$ -	\$ 3,416,992
New Baltimore storage - tanks	1,850,000	863,000	-	-	-	2,713,000
New Baltimore treatment	50,000	1,536,028	-	-	-	1,586,028
Bealeton Supply - wells	659,000	-	1,354,360	1,487,640	-	3,501,000
Marshall Supply - wells	1,328,000	1,734,000	-	-	-	3,062,000
The Plains - treatment	250,000	-	-	-	-	250,000
Bethel treatment	250,000	-	-	-	-	250,000
Botha treatment	250,000	-	-	-	-	250,000
Exploratory and others	400,000	400,000	1,000,000	1,000,000	1,000,000	3,800,000
<i>Total</i>	<u>\$ 5,757,120</u>	<u>\$ 4,633,028</u>	<u>\$ 3,652,796</u>	<u>\$ 3,786,076</u>	<u>\$ 1,000,000</u>	<u>\$ 18,829,020</u>
Five Year Replacement and Renewal Program (FY 17 - 21)						
FY 2017 Approved Budget						
Project	FY2017	FY2018	FY2019	FY2020	FY2021	5 YR Totals
GENERAL						
Refurbish administration building	\$ 75,000	\$ 75,000	\$ -	\$ -	\$ -	\$ 150,000
SCADA communication maintenance	50,000	50,000	50,000	50,000	50,000	250,000
SCADA master planning	40,000	-	-	-	-	40,000
Generator replacement	69,200	71,970	60,000	60,000	60,000	321,170
Arc Flash analysis	50,000	50,000	-	-	-	100,000
Road maintenance - gravel, seal pave	20,000	20,000	20,000	20,000	20,000	100,000
Maintenance shop - drainage and lot work	45,000	-	-	-	-	45,000
WATER SYSTEMS						
New Baltimore						
Marstella water system	-	248,866	352,656	680,993	680,993	1,963,508
Rock Spring water system	-	237,045	233,385	298,524	359,222	1,128,176
Grapewood pressure relief work	-	-	100,000	-	-	100,000
Millwood rehabilitation, value intersection work	-	-	-	100,000	-	100,000
Marshall						
Piedmont well house repair project	-	100,000	-	-	-	100,000
Green Meadows						
Electrical upgrade	-	-	60,000	-	-	60,000
Waterloo						
Rehabilitation, redrill, tie in well	-	-	100,000	-	-	100,000
Systemwide Work						
Water system - Hydrotank replacement projects	60,000	60,000	60,000	60,000	60,000	300,000
Repair well houses	-	-	67,922	21,600	21,600	111,122
Upgrade water meters with radio read	70,000	70,000	70,000	70,000	-	280,000
Water tank maintenance	126,000	126,000	109,745	109,745	110,231	581,721
Utility services main valve exercise program	50,000	-	-	-	-	50,000
Fire hydrant testing program	-	-	108,000	-	-	108,000
Hydrotank automation	14,800	-	-	-	-	14,800
Treatment media exchange	50,000	50,000	50,000	50,000	50,000	250,000
Water systems major replacements	60,000	61,800	63,654	65,564	67,531	318,549

CAPITAL ASSETS AND LONG TERM DEBT: (Continued)

Capital Projects: (Continued)

Five Year Replacement and Renewal Program (FY 17 - 21)						
FY 2017 Approved Budget						
Project	FY2017	FY2018	FY2019	FY2020	FY2021	5 YR Totals
WASTEWATER SYSTEMS						
Remington WWTP						
I&I pipe replacement program	500,000	500,000	500,000	500,000	500,000	2,500,000
Replace centrifuge	-	-	-	500,000	-	500,000
Secondary clarifier mechanism replacement	15,000	-	-	-	-	15,000
RAS valves/actuators	21,000	-	-	-	-	21,000
Sludge transport are concrete replacement	-	25,000	-	-	-	25,000
Asphalt roads	-	50,000	-	-	-	50,000
Post air blower replacement	7,000	-	-	-	-	7,000
SCADA software upgrage	-	60,000	-	-	-	60,000
Digester and sludge holding tank crack repair	80,000	-	-	-	-	80,000
Reactor tracks	16,000	-	-	-	-	16,000
Sludge feed pump replacement	30,000	-	-	-	-	30,000
Vint Hill WWTP						
Manhole repair - creek	40,000	-	-	-	-	40,000
Brookside PS electrical upgrade	12,000	-	-	-	-	12,000
Replace belt press	-	-	500,000	-	-	500,000
Install influent magmeter/wetwell bypass	-	100,000	-	-	-	100,000
UV PLC Screen and motherboard	12,000	-	-	-	-	12,000
Protective roof over rmethanol	-	5,000	-	-	-	5,000
Mill Run PS upgrade pumps	50,000	-	-	-	-	50,000
SCADA remote pump stations	78,200	-	-	-	-	78,200
Sand filter structure	18,000	-	-	-	-	18,000
Marshall WWTP						
I&I pipe replacement program	200,000	200,000	500,000	500,000	500,000	1,900,000
Microstrainer rebuild	-	20,000	-	-	-	20,000
Well house fencing	-	-	-	15,280	15,280	30,560
Reacter effluent pump replacement project	20,000	-	-	-	-	20,000
Digeter rebuild - steel	20,000	-	-	-	-	20,000
LS I improvements	50,000	-	-	-	-	50,000
Railroad crossing at Rt 55	100,000	-	-	-	-	100,000
Systemwide Work						
Wastewater systems major replacements	60,000	61,800	63,654	65,564	67,531	318,549
<i>Total replacement and renewal program</i>	<u>\$ 2,109,200</u>	<u>\$ 2,242,481</u>	<u>\$ 3,069,016</u>	<u>\$ 3,167,270</u>	<u>\$ 2,562,388</u>	<u>\$ 13,150,355</u>
PROJECT FUNDING						
Cash funded	\$ 250,000	\$ 56,570	\$ 175,053	\$ 400,872	\$ 415,292	\$ 1,297,787
Cash funded - not identified	-	443,430	324,947	99,128	84,708	952,213
Loan to cover 50% cash spending	500,000	500,000	500,000	500,000	500,000	2,500,000
Not funded	1,359,200	1,242,481	2,069,016	2,167,270	1,562,388	8,400,355
<i>Total</i>	<u>\$ 2,109,200</u>	<u>\$ 2,242,481</u>	<u>\$ 3,069,016</u>	<u>\$ 3,167,270</u>	<u>\$ 2,562,388</u>	<u>\$ 13,150,355</u>

CAPITAL ASSETS AND LONG TERM DEBT: (Continued)

Capital Projects: (Continued)

Long-Term Debt - The Authority's outstanding debt as of June 30, 2016 consists of four notes (see Note 7 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 facility in the Bealeton Service District. The debt service includes the affects of the construction loan to a permanent loan, the annual CIP and R&R borrowings and loans for CIP projects for water storage, sources and treatment. The following graph provides the detail of principal and interest amounts that are due each year over the next ten years.



More detailed information on the Authority's long-term liabilities is presented in Note 7.

ECONOMIC FACTORS

In FY2016, the Authority's non-cash revenue from developer contribution is \$4.7 million. The Authority received contributions of infrastructure from New Baltimore and Bealeton Service District. Although availability fee revenue is comparable to the prior years, the Authority has had years in the past that generated higher fees. In FY2016, FY2015 and FY2014, availability fee revenues were \$2.1 million, \$2.0 million and \$3.7, respectively. An early payment of \$1.8 million for a note receivable for sewer availability fees increased revenue in FY2014. The Authority experienced comparative growth during FY2016 and FY2015. 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 FY2016, 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

Statements of Net Position
At June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 7,378,764	\$ 7,730,084
Accounts receivable (net of allowance for doubtful accounts)	1,140,943	1,103,318
Due from other governments	136,101	132,173
Performance bond	25,000	-
Net pension asset	-	128,072
Prepaid items	<u>154,215</u>	<u>160,077</u>
Total current assets	\$ <u>8,835,023</u>	\$ <u>9,253,724</u>
Noncurrent Assets:		
Restricted Assets:		
Cash and cash equivalents:		
Security deposits	<u>\$ 160,450</u>	<u>\$ 142,775</u>
Total restricted assets	\$ <u>160,450</u>	\$ <u>142,775</u>
Capital Assets:		
Capital assets not being depreciated:		
Land	\$ 651,060	\$ 651,060
Construction in progress	1,147,619	1,624,258
Capital assets being depreciated:		
Structures and improvements	53,773,398	51,916,817
Infrastructure	51,458,242	44,260,250
Vehicles	1,050,503	973,091
Machinery and equipment	13,895,843	13,641,017
Accumulated depreciation	<u>(48,048,380)</u>	<u>(44,925,688)</u>
Net capital assets	<u>\$ 73,928,285</u>	<u>\$ 68,140,805</u>
Total noncurrent assets	\$ <u>74,088,735</u>	\$ <u>68,283,580</u>
Total assets	\$ <u>82,923,758</u>	\$ <u>77,537,304</u>
DEFERRED OUTFLOWS OF RESOURCES		
Pension contribution subsequent to measurement date	\$ 145,955	\$ 93,060
Pension differences between expected and actual experience	<u>63,584</u>	<u>-</u>
Total deferred outflows of resources	\$ <u>209,539</u>	\$ <u>93,060</u>
Total assets and deferred outflows of resources	\$ <u>83,133,297</u>	\$ <u>77,630,364</u>

FAUQUIER COUNTY WATER AND SANITATION AUTHORITY

Statements of Net Position
At June 30, 2016 and 2015 (Continued)

	<u>2016</u>	<u>2015</u>
LIABILITIES		
Current Liabilities:		
Accounts payable	\$ 590,244	\$ 729,318
Accrued interest	39,748	44,481
Revenue bonds - current portion	892,390	871,632
Compensated absences - current portion	24,722	21,915
Liabilities payable from Restricted Assets:		
Security deposits	<u>160,450</u>	<u>142,775</u>
Total current liabilities	\$ <u>1,707,554</u>	\$ <u>1,810,121</u>
Noncurrent Liabilities:		
Revenue bonds - less current portion	\$ 7,980,075	\$ 7,196,050
Net pension liability	22,012	-
Compensated absences-less current portion	<u>222,500</u>	<u>197,238</u>
Total noncurrent liabilities	\$ <u>8,224,587</u>	\$ <u>7,393,288</u>
Total liabilities	\$ <u>9,932,141</u>	\$ <u>9,203,409</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred amount on refunding	\$ 32,293	\$ 42,501
Items related to measurement of net pension liability	<u>148,960</u>	<u>342,685</u>
Total deferred inflows of resources	\$ <u>181,253</u>	\$ <u>385,186</u>
NET POSITION		
Net investment in capital assets	\$ 65,023,527	\$ 60,030,622
Unrestricted	<u>7,996,376</u>	<u>8,011,147</u>
Total net position	\$ <u>73,019,903</u>	\$ <u>68,041,769</u>
Total liabilities, deferred inflows of resources and net position	\$ <u>83,133,297</u>	\$ <u>77,630,364</u>

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, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Operating revenues:		
Water service	\$ 3,438,450	\$ 3,519,398
Sewer service	3,874,505	3,524,999
Septic service	337,780	295,896
Late charges	129,880	151,975
Other operating revenues	334,378	383,291
Total operating revenues	<u>\$ 8,114,993</u>	<u>\$ 7,875,559</u>
Operating expenses:		
Salaries	\$ 2,848,966	\$ 2,622,093
Fringe benefits	1,138,118	882,093
General and administrative	556,190	477,316
Operations and maintenance	2,128,639	2,082,445
Depreciation expense	3,113,765	2,982,641
Total operating expenses	<u>\$ 9,785,678</u>	<u>\$ 9,046,588</u>
Net operating income (loss)	<u>\$ (1,670,685)</u>	<u>\$ (1,171,029)</u>
Nonoperating revenue (expenses):		
Availability fees	\$ 2,095,670	\$ 1,952,908
Interest income	31,869	40,078
Interest expense	(168,652)	(188,494)
Net nonoperating revenue (expenses)	<u>\$ 1,958,887</u>	<u>\$ 1,804,492</u>
Net income (loss) before capital contributions	\$ 288,202	\$ 633,463
Capital Contributions	<u>4,689,932</u>	<u>1,868,668</u>
Change in net position	\$ 4,978,134	\$ 2,502,131
Net position, beginning of year	<u>68,041,769</u>	<u>65,539,638</u>
Net position, end of year	<u><u>\$ 73,019,903</u></u>	<u><u>\$ 68,041,769</u></u>

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

FAUQUIER COUNTY WATER AND SANITATION AUTHORITY

Statements of Cash Flows
 Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Receipts from customers and users	\$ 8,091,115	\$ 7,899,361
Payments to suppliers for goods and services	(2,818,041)	(2,441,076)
Payments to employees for services	<u>(4,137,053)</u>	<u>(3,540,703)</u>
Net cash provided by (used for) operating activities	<u>\$ 1,136,021</u>	<u>\$ 1,917,582</u>
Cash flows from capital and related financing activities:		
Purchases of property, equipment and construction in progress	\$ (4,220,240)	\$ (2,348,071)
Interest payments	(156,748)	(164,159)
Principal payments on long-term debt	(871,633)	(847,524)
Proceeds from long-term debt issued	1,676,416	192,835
Proceeds from availability fees	<u>2,095,670</u>	<u>1,952,908</u>
Net cash (used for) capital and related financing activities	<u>\$ (1,476,535)</u>	<u>\$ (1,214,011)</u>
Cash flows from noncapital financing activities:		
Performance bond	<u>\$ (25,000)</u>	<u>\$ (9,421)</u>
Cash flows from investing activities:		
Interest income	<u>\$ 31,869</u>	<u>\$ 40,078</u>
Net increase (decrease) in cash and cash equivalents	<u>\$ (333,645)</u>	<u>\$ 734,228</u>
Cash and cash equivalents at beginning of year	<u>7,872,859</u>	<u>7,138,631</u>
Cash and cash equivalents at end of year	<u><u>\$ 7,539,214</u></u>	<u><u>\$ 7,872,859</u></u>
Reconciliation of operating (loss) to net cash provided by (used for) operating activities:		
Cash flows from operations:		
Income (loss) from operations	\$ (1,670,685)	\$ (1,171,029)
Adjustment to reconcile net income to net cash provided by (used for) operating activities:		
Depreciation expense	3,113,765	2,982,641
Increase / Decrease in:		
Accounts receivables	(37,625)	(1,336)
Due from other governments	(3,928)	(1,112)
Prepaid items	5,862	(13,879)
Statements of Net Position	(28,069)	(6,689)
Pension deferred outflows of resources	(78,259)	92,921
Pension deferred inflows of resources	(193,725)	342,685
Net pension liability / asset	150,084	(465,434)
Accounts payable	(139,074)	132,564
Security deposits	<u>17,675</u>	<u>26,250</u>
Net cash provided by (used for) operating activities	<u>\$ 1,136,021</u>	<u>\$ 1,917,582</u>
Noncash Investing, Capital and Financing Activities		
Contributions of capital assets	<u>\$ 4,689,932</u>	<u>\$ 1,868,668</u>
Capitalized depreciation on self-constructed assets	<u>\$ 8,927</u>	<u>\$ 31,733</u>
Reconciliation of Cash:		
Cash and cash equivalents	\$ 7,378,764	\$ 7,730,084
Restricted cash and cash equivalents	160,450	142,775
Total	<u><u>\$ 7,539,214</u></u>	<u><u>\$ 7,872,859</u></u>

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

FAUQUIER COUNTY WATER AND SANITATION AUTHORITY

Notes to Financial Statements
As of June 30, 2016 and 2015

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 Components of and Changes in Net Pension Liability (Asset) and Related Ratios
- Schedule of Employer Contributions
- Notes to Required Supplementary Information

FAUQUIER COUNTY WATER AND SANITATION AUTHORITY

Notes to Financial Statements
As of June 30, 2016 and 2015 (Continued)

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

C. Cash and 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

The Authority records, security deposit amounts received from customers as restricted assets on the statement of net position.

Also, certain proceeds of the Authority's revenue bonds are classified as restricted assets on the statement of net position 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 acquisition value at the date of donation.

FAUQUIER COUNTY WATER AND SANITATION AUTHORITY

Notes to Financial Statements
As of June 30, 2016 and 2015 (Continued)

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

E. Capital Assets: (Continued)

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.

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. Interest in the amount of \$10,830 was capitalized to construction projects during the current fiscal year and \$1,192 was capitalized in the prior year. Depreciation expense totaled \$3,122,692 for the year ended June 30, 2016 and \$3,014,374 for the year ended June 30, 2015. A portion of depreciation expense, \$8,927 was capitalized as part of self-constructed assets for the year ended June 30, 2016 and \$31,733 for the year ended June 30, 2015.

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

<u>Assets</u>	<u>Years</u>
Treatment plant	28 years
Buildings 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 \$86,454 at June 30, 2016 and \$70,861 for the year ended June 30, 2016.
- Investments - Money market investments, participating interest-earning investment contracts (repurchase agreements) that have a remaining maturity at time of purchase of one year or less, nonparticipating interest-earning investment contracts (nonnegotiable certificates of deposit (CDs)) and external investment pools are measured at amortized cost. All other 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.

FAUQUIER COUNTY WATER AND SANITATION AUTHORITY

Notes to Financial Statements
As of June 30, 2016 and 2015 (Continued)

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

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.

I. 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.

J. Compensated Absences

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

K. Restatement / Reclassifications

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

L. Non-exchange Transactions

The Authority receives non-exchange transactions from developers of property, lines and improvements. These non-exchange transactions are considered capital contributions on the statements of revenues, expenses and changes in net position.

M. 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 has one item that qualifies for reporting in this category which is comprised of contributions to the pension plan made during the current year and subsequent to the net pension asset or liability measurement date, which will be recognized as a reduction of the net pension asset or liability next fiscal year. For more detailed information on these items, reference the pension note.

FAUQUIER COUNTY WATER AND SANITATION AUTHORITY

Notes to Financial Statements
As of June 30, 2016 and 2015 (Continued)

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

M. Deferred Outflows/Inflows of Resources: (Continued)

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 has two types of items that qualify for reporting in this category. One is the deferred amount on refunding debt and certain items related to the measurement of the net pension asset. These include differences between expected and actual experience, change in assumptions, and the net difference between projected and actual earnings on pension plan investments. For more detailed information on these items, reference the pension note.

N. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Authority's Retirement Plan and the additions to/deductions from the Authority's Retirement Plan's net fiduciary position have been determined on the same basis as they were reported by the Virginia Retirement System (VRS). For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

O. Adoption of Accounting Principles

Governmental Accounting Standards Board Statement No. 79, *Certain External Investment Pools and Pool Participants*

The Authority implemented the provisions of the above Statement during the fiscal year ended June 30, 2016. This Statement addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. An external investment pool qualifies for that reporting if it meets all of the applicable criteria established in this Statement. There was no material impact on the Authority's financial statement as a result of the implementation of Statement No. 79. All required disclosures are located in Note 3.

FAUQUIER COUNTY WATER AND SANITATION AUTHORITY

Notes to Financial Statements
As of June 30, 2016 and 2015 (Continued)

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

O. Adoption of Accounting Principles: (Continued)

Governmental Accounting Standards Board Statement No. 82, *Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73*

The Authority early implemented provisions of the above Statement during the fiscal year ended June 30, 2016. The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. No restatement was required as a result of this implementation.

P. Upcoming Pronouncements

Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pension*, improves accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). This Statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple Employer Plans*, for OPEB. Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, establishes new accounting and financial reporting requirements for OPEB plans. This Statement is effective for fiscal years beginning after June 15, 2017.

Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, addresses a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions. The requirements of this Statement are effective for reporting periods beginning after December 15, 2015.

FAUQUIER COUNTY WATER AND SANITATION AUTHORITY

Notes to Financial Statements
As of June 30, 2016 and 2015 (Continued)

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, 2016 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	\$ 1,759,934
Total	<u>\$ 1,759,934</u>

FAUQUIER COUNTY WATER AND SANITATION AUTHORITY

Notes to Financial Statements
As of June 30, 2016 and 2015 (Continued)

NOTE 3—DEPOSITS AND INVESTMENTS: (CONTINUED)

Summarized by maturity below for interest rate risk disclosure:

<u>Investment type</u>	<u>Fair Value</u>	<u>Less than 1 yr</u>
Local Government Investment Pool	\$ <u>1,759,934</u>	\$ <u>1,759,934</u>

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 is an amortized cost basis portfolio under the provisions of GASB Statement No. 79. There are no withdrawal limitations or restrictions imposed on participants.

NOTE 4—RESTRICTED ASSETS:

Restricted assets and net position at June 30, 2016 and 2015 consist of the following:

	<u>Balance June 30, 2016</u>	<u>Balance June 30, 2015</u>
Restricted Assets:		
Security deposits	\$ 154,200	\$ 142,775
Construction meter deposits	<u>6,250</u>	<u>-</u>
Total restricted assets	<u>\$ 160,450</u>	<u>\$ 142,775</u>
Restricted net position:		
Less:		
Security deposits	\$ (154,200)	\$ (142,775)
Construction meter deposits	<u>(6,250)</u>	<u>-</u>
Total restricted net position	<u>\$ -</u>	<u>\$ -</u>

FAUQUIER COUNTY WATER AND SANITATION AUTHORITY

Notes to Financial Statements
As of June 30, 2016 and 2015 (Continued)

NOTE 5—DUE TO/FROM OTHER GOVERNMENTS:

At June 30, 2016 and 2015, respectively, the Authority has receivables from other governments as follows:

	Balance June 30, 2016	Balance June 30, 2015
Fauquier County	\$ <u>136,101</u>	\$ <u>132,173</u>
Total	\$ <u><u>136,101</u></u>	\$ <u><u>132,173</u></u>

NOTE 6—CAPITAL ASSETS:

Property and Equipment

The following is a summary of changes to property and equipment for the year ending June 30, 2016:

	Balance July 1, 2015	Additions	Deletions	Balance June 30, 2016
Capital assets, not being depreciated:				
Land	\$ 651,060	\$ -	\$ -	\$ 651,060
Construction in progress	<u>1,624,258</u>	<u>3,724,847</u>	<u>4,201,486</u>	<u>1,147,619</u>
Total capital assets not being depreciated	\$ <u>2,275,318</u>	\$ <u>3,724,847</u>	\$ <u>4,201,486</u>	\$ <u>1,798,679</u>
Capital assets being depreciated:				
Structures and improvements	\$ 51,916,817	\$ 1,856,581	\$ -	\$ 53,773,398
Infrastructure	44,260,250	7,197,992	-	51,458,242
Vehicles	973,091	77,412	-	1,050,503
Machinery and equipment	<u>13,641,017</u>	<u>254,826</u>	<u>-</u>	<u>13,895,843</u>
Total capital assets being depreciated	\$ <u>110,791,175</u>	\$ <u>9,386,811</u>	\$ <u>-</u>	\$ <u>120,177,986</u>
Accumulated depreciation:				
Structures and improvements	\$ 18,906,896	\$ 1,779,665	\$ -	\$ 20,686,561
Infrastructure	12,952,088	905,353	-	13,857,441
Vehicles	788,936	26,260	-	815,196
Machinery and equipment	<u>12,277,768</u>	<u>411,414</u>	<u>-</u>	<u>12,689,182</u>
Total accumulated depreciation	\$ <u>44,925,688</u>	\$ <u>3,122,692</u>	\$ <u>-</u>	\$ <u>48,048,380</u>
Total capital assets being depreciated, net	\$ <u>65,865,487</u>	\$ <u>6,264,119</u>	\$ <u>-</u>	\$ <u>72,129,606</u>
Business-type activities capital assets, net	<u>\$ 68,140,805</u>	<u>\$ 9,988,966</u>	<u>\$ 4,201,486</u>	<u>\$ 73,928,285</u>

Depreciation expense for the year ended June 30, 2016 totaled \$3,122,692.

FAUQUIER COUNTY WATER AND SANITATION AUTHORITY

Notes to Financial Statements
As of June 30, 2016 and 2015 (Continued)

NOTE 6—CAPITAL ASSETS: (CONTINUED)

Property and Equipment: (Continued)

The following is a summary of changes to property and equipment for the year ending June 30, 2015:

	Balance July 1, 2014	Additions	Deletions	Balance June 30, 2015
Capital assets, not being depreciated:				
Land	\$ 651,060	\$ -	\$ -	\$ 651,060
Construction in progress	<u>2,372,162</u>	<u>1,720,281</u>	<u>2,468,185</u>	<u>1,624,258</u>
Total capital assets not being depreciated	<u>\$ 3,023,222</u>	<u>\$ 1,720,281</u>	<u>\$ 2,468,185</u>	<u>\$ 2,275,318</u>
Capital assets being depreciated:				
Structures and improvements	\$ 51,266,833	\$ 649,984	\$ -	\$ 51,916,817
Infrastructure	40,442,348	3,817,902	-	44,260,250
Vehicles	897,450	75,641	-	973,091
Machinery and equipment	<u>13,783,900</u>	<u>400,035</u>	<u>542,918</u>	<u>13,641,017</u>
Total capital assets being depreciated	<u>\$ 106,390,531</u>	<u>\$ 4,943,562</u>	<u>\$ 542,918</u>	<u>\$ 110,791,175</u>
Accumulated depreciation:				
Structures and improvements	\$ 17,166,230	\$ 1,740,666	\$ -	\$ 18,906,896
Infrastructure	12,122,099	829,989	-	12,952,088
Vehicles	761,232	27,704	-	788,936
Machinery and equipment	<u>12,402,824</u>	<u>416,015</u>	<u>541,071</u>	<u>12,277,768</u>
Total accumulated depreciation	<u>\$ 42,452,385</u>	<u>\$ 3,014,374</u>	<u>\$ 541,071</u>	<u>\$ 44,925,688</u>
Total capital assets being depreciated, net	<u>\$ 63,938,146</u>	<u>\$ 1,929,188</u>	<u>\$ 1,847</u>	<u>\$ 65,865,487</u>
Business-type activities capital assets, net	<u>\$ 66,961,368</u>	<u>\$ 3,649,469</u>	<u>\$ 2,470,032</u>	<u>\$ 68,140,805</u>

Depreciation expense for the year ended June 30, 2015 totaled \$3,014,374.

Computation of net investment in capital assets:

	Balance June 30, 2016	Balance June 30, 2015
Net capital assets	\$ 73,928,285	\$ 68,140,805
Revenue bonds	(8,872,465)	(8,067,682)
Deferred amount on refunding	<u>(32,293)</u>	<u>(42,501)</u>
Net investment in capital assets	<u>\$ 65,023,527</u>	<u>\$ 60,030,622</u>

FAUQUIER COUNTY WATER AND SANITATION AUTHORITY

Notes to Financial Statements
As of June 30, 2016 and 2015 (Continued)

NOTE 6—CAPITAL ASSETS: (CONTINUED)

The following is a summary of capital project activity for the fiscal year ending June 30, 2016 and 2015:

	Balance July 1, 2015	Additions	Deletions	Balance June 30, 2016
Bealeton Water Treatment Plant	\$ 1,242,758	\$ 2,297,615	\$ 3,540,373	\$ -
Schoolhouse road project	51,480	517,430	-	568,910
Miscellaneous projects	381,500	351,324	154,115	578,709
Total construction in progress	\$ 1,675,738	\$ 3,166,369	\$ 3,694,488	\$ 1,147,619

	Balance July 1, 2014	Additions	Deletions	Balance June 30, 2015
Bealeton Water Treatment Plant	\$ 365,567	\$ 877,191	-	\$ 1,242,758
New Baltimore zone wells	937,308	143,782	1,081,090	-
Marshall 17/66	698,667	77,711	776,378	-
Miscellaneous projects	370,620	621,597	610,717	381,500
Total construction in progress	\$ 2,372,162	\$ 1,720,281	\$ 2,468,185	\$ 1,624,258

NOTE 7—LONG-TERM OBLIGATIONS:

The following is a summary of changes in long-term obligation transactions for the year ended June 30, 2016 and 2015:

Description	Beginning Balance July 1, 2015	Issuances/ Additions	Retirements/ Deletions	Ending Balance June 30, 2016	Due Within One Year
Revenue Bonds	\$ 8,067,682	\$ 1,676,416	\$ 871,633	\$ 8,872,465	\$ 892,390
Net pension liability	(128,072)	674,538	524,454	22,012	-
Compensated absences	219,153	38,485	10,416	247,222	24,722
Total	\$ 8,158,763	\$ 2,389,439	\$ 1,406,503	\$ 9,141,699	\$ 917,112

FAUQUIER COUNTY WATER AND SANITATION AUTHORITY

Notes to Financial Statements
As of June 30, 2016 and 2015 (Continued)

NOTE 7—LONG-TERM OBLIGATIONS: (CONTINUED)

<u>Description</u>	<u>Beginning Balance July 1, 2014</u>	<u>Issuances/ Additions</u>	<u>Retirements/ Deletions</u>	<u>Ending Balance June 30, 2015</u>	<u>Due Within One Year</u>
Revenue Bonds	\$ 8,722,371	\$ 192,835	\$ 847,524	\$ 8,067,682	\$ 871,632
Compensated absences	213,273	42,854	36,974	219,153	21,915
Total	<u>\$ 8,935,644</u>	<u>\$ 235,689</u>	<u>\$ 884,498</u>	<u>\$ 8,286,835</u>	<u>\$ 893,547</u>

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

<u>Year Ending June 30,</u>	<u>Revenue Bonds</u>	
	<u>Principal</u>	<u>Interest</u>
2017	\$ 892,390	\$ 157,518
2018	913,663	136,245
2019	911,352	114,444
2020	803,761	94,045
2021	821,817	75,989
2022	840,292	57,514
2023	506,670	39,544
2024	162,183	32,440
2025	166,625	27,999
2026	171,188	23,436
2027	175,876	18,748
2028	180,692	13,932
2029	185,640	8,983
2030	<u>190,725</u>	<u>3,900</u>
Total	<u>\$ 6,922,874</u>	<u>\$ 804,737</u>

*Does not include \$1,949,592 of \$4,000,000 revenue bonds received as of June 30, 2016 as repayment terms are not finalized.

FAUQUIER COUNTY WATER AND SANITATION AUTHORITY

Notes to Financial Statements
As of June 30, 2016 and 2015 (Continued)

NOTE 7—LONG-TERM OBLIGATIONS: (CONTINUED)

Details of long-term obligations as of June 30, 2016 and 2015 are as follows:

	<u>2016</u>	<u>2015</u>
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% .	\$ 3,945,678	\$ 4,508,136
\$4,000,000 revenue bonds, issued November 16, 2012, amount advanced through June 30, 2013, interest payable at 2.02%. At June 30, 2016 \$1,949,592 has been received.	1,949,592 *	273,176
\$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% .	313,364	355,775
Revenue bonds, issued September 20, 2010 payable in 20 semi-annual installments of \$76,051 through September 1, 2020, interest at 3.12%.	410,421	546,525
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%.	<u>2,253,410</u>	<u>2,384,070</u>
Total Revenue bonds	\$ <u>8,872,465</u>	\$ <u>8,067,682</u>
Other Obligations:		
Net Pension Liability	22,012	-
Compensated absences	<u>247,222</u>	<u>219,153</u>
Total long-term obligations	\$ <u><u>9,141,699</u></u>	\$ <u><u>8,286,835</u></u>

* Details of this loan are not included in the amortization of long-term obligations as loan terms are not finalized at this time.

FAUQUIER COUNTY WATER AND SANITATION AUTHORITY

Notes to Financial Statements
As of June 30, 2016 and 2015 (Continued)

NOTE 8—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 \$247,222 for fiscal year ended June 30, 2016 and \$219,153 for fiscal year ended June 30, 2015.

NOTE 9—LITIGATION:

At June 30, 2016 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 10—CONSTRUCTION COMMITMENT:

The Authority has the following commitments outstanding at June 30, 2016.

<u>Projects</u>	<u>Contract Amount</u>	<u>Expenses to Date</u>	<u>Balance</u>
Bealeton WTP	\$ 2,176,191	\$ 2,135,822	\$ 40,369
New Baltimore Ridge Water Storage Tank	99,623	28,336	71,287
Total	<u>\$ 2,275,814</u>	<u>\$ 2,164,158</u>	<u>\$ 111,656</u>

NOTE 11—PENSION PLAN:

All full-time, salaried permanent employees of the Authority are automatically covered by VRS Retirement Plan upon employment. This is an agent multiple-employer plan administered by the Virginia Retirement System (the System) along with plans for other employer groups in the Commonwealth of Virginia. Members earn one month of service credit for each month they are employed and for which they and their employer pay contributions to VRS. Members are eligible to purchase prior service, based on specific criteria as defined in the Code of Virginia, as amended. Eligible prior service that may be purchased includes prior public service, active military service, certain periods of leave, and previously refunded service.

FAUQUIER COUNTY WATER AND SANITATION AUTHORITY

Notes to Financial Statements
As of June 30, 2016 and 2015 (Continued)

NOTE 11—PENSION PLAN: (CONTINUED)

The System administers three different benefit structures for covered employees – Plan 1, Plan 2, and Hybrid. Each of these benefit structures has a different eligibility criteria. The specific information for each plan and the eligibility for covered groups within each plan are set out in the table below:

Plan Description

RETIREMENT PLAN PROVISIONS		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>About Plan 1 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 Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.</p>	<p>About Plan 2 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 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.</p>	<p>About the Hybrid Retirement Plan 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 Plan 1 and Plan 2 members who were eligible and opted into the plan during a special election window. (see “Eligible Members”)</p> <ul style="list-style-type: none"> • 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.

FAUQUIER COUNTY WATER AND SANITATION AUTHORITY

Notes to Financial Statements
As of June 30, 2016 and 2015 (Continued)

NOTE 11—PENSION PLAN: (CONTINUED)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
		<ul style="list-style-type: none"> • 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.
<p>Eligible Members Employees are in Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.</p> <p>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.</p> <p>The Hybrid Retirement Plan's effective date for eligible Plan 1 members who opted in was July 1, 2014.</p> <p>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</p>	<p>Eligible Members Employees are in 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.</p> <p>Hybrid Opt-In Election Eligible 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.</p> <p>The Hybrid Retirement Plan's effective date for eligible Plan 2 members who opted in was July 1, 2014.</p> <p>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</p>	<p>Eligible Members Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes:</p> <ul style="list-style-type: none"> • Political subdivision employees* • Members in Plan 1 or 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. <p>*Non-Eligible Members Some employees are not eligible to participate in the Hybrid Retirement Plan. They include:</p> <ul style="list-style-type: none"> • Political subdivision employees who are covered by enhanced benefits for hazardous duty employees.

FAUQUIER COUNTY WATER AND SANITATION AUTHORITY

Notes to Financial Statements
As of June 30, 2016 and 2015 (Continued)

NOTE 11—PENSION PLAN: (CONTINUED)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>Hybrid Opt-In Election (Cont.) Members who were eligible for an optional retirement plan (ORP) and had prior service under Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 1 or ORP.</p>	<p>Hybrid Opt-In Election (Cont.) Members who were eligible for an optional retirement plan (ORP) and have prior service under Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 2 or ORP.</p>	<p>*Non-Eligible Members (Cont.) 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 Plan 1 or Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select Plan 1 or Plan 2 (as applicable) or ORP.</p>
<p>Retirement Contributions Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some political subdivisions elected to phase in the required 5% member contribution but 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.</p>	<p>Retirement Contributions Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some political subdivisions elected to phase in the required 5% member contribution but all employees will be paying the full 5% by July 1, 2016.</p>	<p>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.</p>

FAUQUIER COUNTY WATER AND SANITATION AUTHORITY

Notes to Financial Statements
As of June 30, 2016 and 2015 (Continued)

NOTE 11—PENSION PLAN: (CONTINUED)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>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.</p>	<p>Creditable Service Same as Plan 1.</p>	<p>Creditable Service <u>Defined Benefit Component:</u> 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.</p> <p><u>Defined Contributions Component:</u> Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.</p>

FAUQUIER COUNTY WATER AND SANITATION AUTHORITY

Notes to Financial Statements
As of June 30, 2016 and 2015 (Continued)

NOTE 11—PENSION PLAN: (CONTINUED)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>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.</p> <p>Members are always 100% vested in the contributions that they make.</p>	<p>Vesting Same as Plan 1.</p>	<p>Vesting <u>Defined Benefit Component:</u> 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. Plan 1 or 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.</p> <p><u>Defined Contributions Component:</u> 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.</p> <p>Members are always 100% vested in the contributions that they make.</p>

FAUQUIER COUNTY WATER AND SANITATION AUTHORITY

Notes to Financial Statements
As of June 30, 2016 and 2015 (Continued)

NOTE 11—PENSION PLAN: (CONTINUED)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
Vesting (Cont.)	Vesting (Cont.)	<p>Vesting (Cont.) <u>Defined Contributions Component: (Cont.)</u> 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.</p> <ul style="list-style-type: none"> • 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. <p>Distribution is not required by law until age 70½.</p>
<p>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.</p>	<p>Calculating the Benefit See definition under Plan 1.</p>	<p>Calculating the Benefit <u>Defined Benefit Component:</u> See definition under Plan 1</p>

FAUQUIER COUNTY WATER AND SANITATION AUTHORITY

Notes to Financial Statements
As of June 30, 2016 and 2015 (Continued)

NOTE 11—PENSION PLAN: (CONTINUED)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>Calculating the Benefit (Cont.) 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.</p>	<p>Calculating the Benefit (Cont.)</p>	<p>Calculating the Benefit (Cont.) <u>Defined Contribution Component:</u> 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.</p>
<p>Average Final Compensation A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.</p>	<p>Average Final Compensation A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.</p>	<p>Average Final Compensation Same as Plan 2. It is used in the retirement formula for the defined benefit component of the plan.</p>
<p>Service Retirement Multiplier VRS: 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 1.70%.</p> <p>Sheriffs and regional jail superintendents: The retirement multiplier for sheriffs and regional jail superintendents is 1.85%.</p> <p>Political subdivision hazardous duty employees: The retirement multiplier of eligible political subdivision hazardous duty employees other than sheriffs and regional jail superintendents is 1.70% or 1.85% as elected by the employer.</p>	<p>Service Retirement Multiplier VRS: Same as Plan 1 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.</p> <p>Sheriffs and regional jail superintendents: Same as Plan 1.</p> <p>Political subdivision hazardous duty employees: Same as Plan 1.</p>	<p>Service Retirement Multiplier <u>Defined Benefit Component:</u> VRS: The retirement multiplier for the defined benefit component is 1.00%.</p> <p>For members who opted into the Hybrid Retirement Plan from Plan 1 or Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans.</p> <p>Sheriffs and regional jail superintendents: Not applicable.</p> <p>Political subdivision hazardous duty employees: Not applicable.</p> <p><u>Defined Contribution Component:</u> Not applicable.</p>

FAUQUIER COUNTY WATER AND SANITATION AUTHORITY

Notes to Financial Statements
As of June 30, 2016 and 2015 (Continued)

NOTE 11–PENSION PLAN: (CONTINUED)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>Normal Retirement Age VRS: Age 65.</p> <p>Political subdivisions hazardous duty employees: Age 60.</p>	<p>Normal Retirement Age VRS: Normal Social Security retirement age.</p> <p>Political subdivisions hazardous duty employees: Same as Plan 1.</p>	<p>Normal Retirement Age <u>Defined Benefit Component:</u> VRS: Same as Plan 2.</p> <p>Political subdivisions hazardous duty employees: Not applicable.</p> <p><u>Defined Contribution Component:</u> Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>
<p>Earliest Unreduced Retirement Eligibility VRS: Age 65 with at least five years (60 months) of creditable service or at age 50 with at least 30 years of creditable service.</p> <p>Political subdivisions hazardous duty employees: Age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service.</p>	<p>Earliest Unreduced Retirement Eligibility VRS: Normal Social Security retirement age with at least five years (60 months) of creditable service or when their age and service equal 90.</p> <p>Political subdivisions hazardous duty employees: Same as Plan 1.</p>	<p>Earliest Unreduced Retirement Eligibility <u>Defined Benefit Component:</u> VRS: Normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90.</p> <p>Political subdivisions hazardous duty employees: Not applicable.</p> <p><u>Defined Contribution Component:</u> Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>
<p>Earliest Reduced Retirement Eligibility VRS: Age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service.</p>	<p>Earliest Reduced Retirement Eligibility VRS: Age 60 with at least five years (60 months) of creditable service.</p>	<p>Earliest Reduced Retirement Eligibility <u>Defined Benefit Component:</u> VRS: Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service.</p>

FAUQUIER COUNTY WATER AND SANITATION AUTHORITY

Notes to Financial Statements
As of June 30, 2016 and 2015 (Continued)

NOTE 11—PENSION PLAN: (CONTINUED)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>Earliest Reduced Retirement Eligibility (Cont.)</p> <p>Political subdivisions hazardous duty employees: 50 with at least five years of creditable service.</p>	<p>Earliest Reduced Retirement Eligibility (Cont.)</p> <p>Political subdivisions hazardous duty employees: Same as Plan 1.</p>	<p>Earliest Reduced Retirement Eligibility (Cont.)</p> <p>Political subdivisions hazardous duty employees: Not applicable.</p> <p><u>Defined Contribution Component:</u> Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>
<p>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%.</p> <p><u>Eligibility:</u> 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.</p> <p>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.</p>	<p>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%.</p> <p><u>Eligibility:</u> Same as Plan 1</p>	<p>Cost-of-Living Adjustment (COLA) in Retirement <u>Defined Benefit Component:</u> Same as Plan 2.</p> <p><u>Defined Contribution Component:</u> Not applicable.</p> <p><u>Eligibility:</u> Same as Plan 1 and Plan 2.</p>

FAUQUIER COUNTY WATER AND SANITATION AUTHORITY

Notes to Financial Statements
As of June 30, 2016 and 2015 (Continued)

NOTE 11—PENSION PLAN: (CONTINUED)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>Cost-of-Living Adjustment (COLA) in Retirement (Cont.)</p> <p><u>Exceptions to COLA Effective Dates:</u> The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances:</p> <ul style="list-style-type: none"> • 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. 	<p>Cost-of-Living Adjustment (COLA) in Retirement (Cont.)</p> <p><u>Exceptions to COLA Effective Dates:</u> Same as Plan 1.</p>	<p>Cost-of-Living Adjustment (COLA) in Retirement (Cont.)</p> <p><u>Exceptions to COLA Effective Dates:</u> Same as Plan 1 and Plan 2.</p>

FAUQUIER COUNTY WATER AND SANITATION AUTHORITY

Notes to Financial Statements
As of June 30, 2016 and 2015 (Continued)

NOTE 11—PENSION PLAN: (CONTINUED)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>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.</p> <p>VSDP members are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.</p>	<p>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.</p> <p>VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.</p>	<p>Disability Coverage Employees of political subdivisions (including Plan 1 and 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.</p> <p>Hybrid members (including Plan 1 and Plan 2 opt-ins) covered under VLDP are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.</p>
<p>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.</p>	<p>Purchase of Prior Service Same as Plan 1.</p>	<p>Purchase of Prior Service <u>Defined Benefit Component:</u> Same as Plan 1, with the following exceptions:</p> <ul style="list-style-type: none"> • Hybrid Retirement Plan members are ineligible for ported service. • The cost for purchasing refunded service is the higher of 4% of creditable compensation or average final compensation. • Plan members have one year from their date of hire or return from leave to purchase all but refunded prior service at approximate normal cost. After that one-year period, the rate for most categories of service will change to actuarial cost. <p><u>Defined Contribution Component:</u> Not applicable.</p>

FAUQUIER COUNTY WATER AND SANITATION AUTHORITY

Notes to Financial Statements
As of June 30, 2016 and 2015 (Continued)

NOTE 11—PENSION PLAN: (CONTINUED)

Plan Description (Continued)

The system issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for the plans administered by VRS. A copy of the most recent report may be obtained from the VRS website at <http://www.varetire.org/Pdf/Publications/2015-annual-report-pdf>, or by writing the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA 23218-2500.

Employees Covered by Benefit Terms

As of the June 30, 2014 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

	<u>Number</u>
Inactive members or their beneficiaries currently receiving benefits	9
Inactive members:	
Vested inactive members	2
Non-vested inactive members	14
Inactive members active elsewhere in VRS	10
Total inactive members	<u>26</u>
Active members	42
Total covered employees	<u><u>77</u></u>

Contributions

The contribution requirement for active employees is governed by §51.1-145 of the Code of Virginia, as amended, but may be impacted as a result of funding options provided to political subdivisions by the Virginia General Assembly. Employees are required to contribute 5.00% of their compensation toward their retirement. Prior to July 1, 2012, all or part of the 5.00% member contribution may have been 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 5.00% member contribution. This could be phased in over a period of up to 5 years and the employer is required to provide a salary increase equal to the amount of the increase in the employee-paid member contribution.

The Authority's contractually required contribution rate for the year ended June 30, 2016 was 5.35% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2013.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the Authority were \$145,955 and \$131,280 for the years ended June 30, 2016 and June 30, 2015, respectively.

FAUQUIER COUNTY WATER AND SANITATION AUTHORITY

Notes to Financial Statements
As of June 30, 2016 and 2015 (Continued)

NOTE 11—PENSION PLAN: (CONTINUED)

Net Pension Liability (Asset)

The Authority's net pension liability (asset) was measured as of June 30, 2015. The total pension liability used to calculate the net pension liability (asset) was determined by an actuarial valuation performed as of June 30, 2014, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2015.

Actuarial Assumptions – General Employees

The total pension liability for General Employees in the Authority's Retirement Plan was based on an actuarial valuation as of June 30, 2014, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2015.

Inflation	2.5%
Salary increases, including inflation	3.5% – 5.35%
Investment rate of return	7.0%, net of pension plan investment expense, including inflation*

* Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 7.0%. However, since the difference was minimal, and a more conservative 7.0% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 7.0% to simplify preparation of pension liabilities.

Mortality rates: 14% of deaths are assumed to be service related

Largest 10 – Non-LEOS:

Pre-Retirement:

RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set forward 4 years and females set back 2 years

Post-Retirement:

RP-2000 Combined Mortality Table Projected with Scale AA to 2020 with males set forward 1 year

Post-Disablement:

RP-2000 Disability Life Mortality Table Projected to 2020 with males set back 3 years and no provision for future mortality improvement

FAUQUIER COUNTY WATER AND SANITATION AUTHORITY

Notes to Financial Statements
As of June 30, 2016 and 2015 (Continued)

NOTE 11—PENSION PLAN: (CONTINUED)

Actuarial Assumptions – General Employees: (Continued)

All Others (Non 10 Largest) – Non-LEOS:

Pre-Retirement:

RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set forward 4 years and females set back 2 years

Post-Retirement:

RP-2000 Combined Mortality Table Projected with Scale AA to 2020 with males set forward 1 year

Post-Disablement:

RP-2000 Disability Life Mortality Table Projected to 2020 with males set back 3 years and no provision for future mortality improvement

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period from July 1, 2008 through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follows:

Largest 10 – Non-LEOS:

- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

All Others (Non 10 Largest) – Non-LEOS:

- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

FAUQUIER COUNTY WATER AND SANITATION AUTHORITY

Notes to Financial Statements
As of June 30, 2016 and 2015 (Continued)

NOTE 11—PENSION PLAN: (CONTINUED)

Long-Term Expected Rate of Return

The long-term expected rate of return on pension System investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension System investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimate of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class (Strategy)</u>	<u>Target Allocation</u>	<u>Arithmetic Long-Term Expected Rate of Return</u>	<u>Weighted Average Long-Term Expected Rate of Return</u>
U.S. Equity	19.50%	6.46%	1.26%
Developed Non U.S. Equity	16.50%	6.28%	1.04%
Emerging Market Equity	6.00%	10.00%	0.60%
Fixed Income	15.00%	0.09%	0.01%
Emerging Debt	3.00%	3.51%	0.11%
Rate Sensitive Credit	4.50%	3.51%	0.16%
Non Rate Sensitive Credit	4.50%	5.00%	0.23%
Convertibles	3.00%	4.81%	0.14%
Public Real Estate	2.25%	6.12%	0.14%
Private Real Estate	12.75%	7.10%	0.91%
Private Equity	12.00%	10.41%	1.25%
Cash	1.00%	-1.50%	-0.02%
Total	<u>100.00%</u>		<u>5.83%</u>
		Inflation	<u>2.50%</u>
		*Expected arithmetic nominal return	<u>8.33%</u>

* Using stochastic projection results provides an expected range of real rates of return over various time horizons. Looking at one year results produces an expected real return of 8.33% but also has a high standard deviation, which means there is high volatility. Over larger time horizons the volatility declines significantly and provides a median return of 7.44%, including expected inflation of 2.50%.

FAUQUIER COUNTY WATER AND SANITATION AUTHORITY

Notes to Financial Statements
As of June 30, 2016 and 2015 (Continued)

NOTE 11—PENSION PLAN: (CONTINUED)

Discount Rate

The discount rate used to measure the total pension asset was 7.00%. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2018, the rate contributed by the employer for the Authority's Retirement Plan will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2018 on, participating employers are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in Net Pension Liability (Asset)

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) - (b)
Balances at June 30, 2014	\$ 5,532,659	\$ 5,660,731	\$ (128,072)
Changes for the year:			
Service cost	\$ 210,819	\$ -	\$ 210,819
Interest	381,354	-	381,354
Differences between expected and actual experience	78,832	-	78,832
Contributions - employer	-	131,280	(131,280)
Contributions - employee	-	128,938	(128,938)
Net investment income	-	264,236	(264,236)
Benefit payments, including refunds of employee contributions	(169,477)	(169,477)	-
Administrative expenses	-	(3,477)	3,477
Other changes	-	(56)	56
Net changes	\$ 501,528	\$ 351,444	\$ 150,084
Balances at June 30, 2015	\$ 6,034,187	\$ 6,012,175	\$ 22,012

FAUQUIER COUNTY WATER AND SANITATION AUTHORITY

Notes to Financial Statements
As of June 30, 2016 and 2015 (Continued)

NOTE 11—PENSION PLAN: (CONTINUED)

Sensitivity of the Net Pension Liability (Asset) to Changes in the Discount Rate

The following presents the net pension asset of the Authority using the discount rate of 7.00%, as well as what the Authority’s net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate:

	(6.00%)	Rate (7.00%)	(8.00%)
Authority			
Net Pension Liability (Asset)	988,417	22,012	(761,159)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended June 30, 2016, the Authority recognized pension expense of \$24,055. At June 30, 2016, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 63,584	\$ -
Net difference between projected and actual earnings on pension plan investments	-	148,960
Employer contributions subsequent to the measurement date	145,955	-
Total	\$ 209,539	\$ 148,960

FAUQUIER COUNTY WATER AND SANITATION AUTHORITY

Notes to Financial Statements
As of June 30, 2016 and 2015 (Continued)

NOTE 11–PENSION PLAN: (CONTINUED)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

\$145,955 reported as deferred outflows of resources related to pensions resulting from the Authority's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the fiscal year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in future reporting periods as follows:

Year ended June 30

2017	\$	(43,410)
2018		(43,410)
2019		(43,411)
2020		42,263
Thereafter		2,592

NOTE 12–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.

Required Supplementary Information

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FAUQUIER COUNTY WATER AND SANITATION AUTHORITY

Schedule of Components of and Changes in Net Pension Liability (Asset) and Related Ratios

Years Ended June 30, 2016 and 2015

	<u>2015</u>	<u>2014</u>
Total pension liability		
Service cost	\$ 210,819	\$ 233,185
Interest	381,354	351,577
Difference between expected and actual experience	78,832	-
Benefit payments, including refunds of employee contributions	(169,477)	(149,264)
Net change in total pension liability	\$ 501,528	\$ 435,498
Total pension liability - beginning	5,532,659	5,097,161
Total pension liability - ending (a)	\$ 6,034,187	\$ 5,532,659
Plan fiduciary net position		
Contributions - employer	\$ 131,280	\$ 166,227
Contributions - employee	128,938	121,744
Net investment income	264,236	766,252
Benefit payments, including refunds of employee contributions	(169,477)	(149,264)
Administrative expense	(3,477)	(3,968)
Other	(56)	41
Net change in plan fiduciary net position	\$ 351,444	\$ 901,032
Plan fiduciary net position - beginning	5,660,731	4,759,699
Plan fiduciary net position - ending (b)	\$ 6,012,175	\$ 5,660,731
Political subdivision's net pension (liability) asset - ending (a) - (b)	\$ 22,012	\$ (128,072)
Plan fiduciary net position as a percentage of the total pension liability	99.64%	102.31%
Covered payroll	\$ 2,496,933	\$ 2,442,459
Political subdivision's net pension (asset) liability as a percentage of covered-employee payroll	0.88%	-5.24%

Schedule is intended to show information for 10 years. Information prior to the 2014 valuation is not available. However, additional years will be included as they become available.

FAUQUIER COUNTY WATER AND SANITATION AUTHORITY

Schedule of Employer Contributions
 Years Ended June 30, 2016 and 2015

Date	Contractually Required Contribution (1)	Contributions in Relation to Contractually Required Contribution (2)	Contribution Deficiency (Excess) (3)	Employer's Covered Payroll (4)	Contributions as a % of Covered Payroll (5)
2016	\$ 145,955	\$ 145,955	\$ -	\$ 2,341,287	5.35%
2015	131,280	131,280	-	2,442,539	5.35%
2014	166,589	166,589	-	2,408,565	6.98%
2013	173,516	173,516	-	2,204,818	6.98%
2012	102,513	102,513	-	2,230,104	4.58%
2011	100,846	100,846	-	2,215,313	4.58%
2010	91,386	91,386	-	2,214,769	4.19%
2009	91,424	91,424	-	2,129,407	5.19%
2008	96,124	96,124	-	1,921,001	4.55%
2007	83,520	83,520	-	1,983,199	4.55%

Current year contributions are from Authority records and prior year contributions are from the VRS actuarial valuation performed each year.

FAUQUIER COUNTY WATER AND SANITATION AUTHORITY

Notes to Required Supplementary Information
For the Year Ended June 30, 2016

In 2015, Covered Employee Payroll (as defined by GASB 68) included the total payroll for employees covered under the pension plan whether that payroll is subject to pension coverage or not. This definition was modified in GASB Statement No. 82 and now is the payroll on which contributions to a pension plan are based. The ratios presented use the same measure.

Changes of benefit terms – There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation. The 2014 valuation includes Hybrid Retirement Plan members for the first time. The hybrid plan applies to most new employees hired on or after January 1, 2014 and not covered by enhanced hazardous duty benefits. Because this was a new benefit and the number of participants was relatively small, the impact on the liabilities as of the measurement date of June 30, 2015 are not material.

Changes of assumptions – The following changes in actuarial assumptions were made effective June 30, 2013 based on the most recent experience study of the System for the four-year period ending June 30, 2012:

Largest 10 – Non-LEOS:

- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

Largest 10 – LEOS:

- Update mortality table
- Decrease in male rates of disability

All Others (Non 10 Largest) – Non-LEOS:

- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

All Others (Non 10 Largest) – LEOS:

- Update mortality table
- Adjustments to rates of service retirement for females
- Increase in rates of withdrawal
- Decrease in male and female rates of disability

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Statistical Section

Contents

Tables

Financial Trends

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

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Revenue, Rates and Usage Information

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

3-6

Expenses

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

7

Debt Capacity

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

8-9

Demographic and Economic Information

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

10-11

Operating Information

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

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Other Information

These tables contain miscellaneous data

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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				
	2016	2015	2014	2013	2012
Net position:					
Net Investment in capital assets	\$ 65,023,527	\$ 60,030,622	\$ 58,184,968	\$ 54,323,804	\$ 53,333,168
Restricted	-	-	111,972	-	31,915
Unrestricted	<u>7,996,376</u>	<u>8,011,147</u>	<u>7,413,933</u>	<u>5,110,621</u>	<u>4,339,839</u>
Total net position	<u>\$ 73,019,903</u>	<u>\$ 68,041,769</u>	<u>\$ 65,710,873</u>	<u>\$ 59,434,425</u>	<u>\$ 57,704,922</u>

	Fiscal Years				
	2011	2010	2009	2008	2007
Net position:					
Net Investment in capital assets	\$ 53,412,822	\$ 52,245,846	\$ 45,261,874	\$ 43,108,473	\$ 40,806,516
Restricted	445,567	982,474	1,720,280	541,456	518,356
Unrestricted	<u>2,525,847</u>	<u>1,328,083</u>	<u>769,515</u>	<u>3,752,435</u>	<u>4,037,591</u>
Total net position	<u>\$ 56,384,236</u>	<u>\$ 54,556,403</u>	<u>\$ 47,751,669</u>	<u>\$ 47,402,364</u>	<u>\$ 45,362,463</u>

Source: Fauquier County Water and Sanitation Authority

FAUQUIER COUNTY WATER AND SANITATION AUTHORITY

Changes in Net Position Last Ten Years

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Operating revenues:			
Water service	\$ 3,438,450	\$ 3,519,398	\$ 3,290,504
Sewer service	3,874,505	3,524,999	3,390,211
Septic service	337,780	295,896	222,908
Late charges	129,880	151,975	161,898
Other operating revenues	334,378	383,291	328,601
Total operating revenues	<u>\$ 8,114,993</u>	<u>\$ 7,875,559</u>	<u>\$ 7,394,122</u>
Operating expenses:			
Salaries	\$ 2,848,966	\$ 2,622,093	\$ 2,515,181
Fringe benefits	1,138,118	882,093	829,358
General and administrative	556,190	477,316	537,264
Operations and maintenance	2,128,639	2,082,445	2,192,251
Depreciation expense	3,113,765	2,982,641	3,276,736
Total operating expenses	<u>\$ 9,785,678</u>	<u>\$ 9,046,588</u>	<u>\$ 9,350,790</u>
Net operating income (loss)	<u>\$ (1,670,685)</u>	<u>\$ (1,171,029)</u>	<u>\$ (1,956,668)</u>
Nonoperating revenue (expenses):			
Availability fees	\$ 2,095,670	\$ 1,952,908	\$ 3,687,466
Interest earned	31,869	40,078	32,504
Litigation settlement expenses	-	-	-
Interest expense	<u>(168,652)</u>	<u>(188,494)</u>	<u>(219,958)</u>
Net nonoperating revenue (expenses)	<u>\$ 1,958,887</u>	<u>\$ 1,804,492</u>	<u>\$ 3,500,012</u>
Net income (loss) before capital contributions	\$ 288,202	\$ 633,463	\$ 1,543,344
Capital Contributions	<u>4,689,932</u>	<u>1,868,668</u>	<u>4,733,104</u>
Change in net position	\$ 4,978,134	\$ 2,502,131	\$ 6,276,448
Net position, at beginning of year, as restated	<u>68,041,769</u>	<u>65,539,638</u>	<u>59,434,425</u>
Net position, at end of year	<u>\$ 73,019,903</u>	<u>\$ 68,041,769</u>	<u>\$ 65,710,873</u>

Source: Fauquier County Water and Sanitation Authority.

Table 2

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
\$	3,278,523	\$ 3,110,188	\$ 3,150,219	\$ 2,807,897	\$ 3,031,716	\$ 2,695,893	\$ 2,287,085
	3,202,582	3,178,717	3,132,887	2,807,471	2,054,634	2,070,737	2,266,749
	490,042	468,705	176,063	87,990	75,858	74,006	193,518
	147,231	171,640	147,980	129,235	117,598	115,791	111,070
	294,476	267,671	148,189	347,874	395,890	248,329	367,610
\$	<u>7,412,854</u>	<u>7,196,921</u>	<u>6,755,338</u>	<u>6,180,467</u>	<u>5,675,696</u>	<u>5,204,756</u>	<u>5,226,032</u>
\$	2,338,834	\$ 2,308,237	\$ 2,172,426	\$ 2,163,497	\$ 2,204,681	\$ 2,200,437	\$ 1,969,118
	926,274	847,748	786,446	748,240	818,458	742,049	676,891
	388,643	428,523	400,482	406,526	376,598	541,741	1,093,335
	1,768,958	1,419,252	1,388,562	1,366,460	1,564,933	1,446,519	1,272,715
	3,002,676	2,599,488	2,521,187	2,485,492	2,486,274	2,068,985	1,731,653
\$	<u>8,425,385</u>	<u>7,603,248</u>	<u>7,269,103</u>	<u>7,170,215</u>	<u>7,450,944</u>	<u>6,999,731</u>	<u>6,743,712</u>
\$	<u>(1,012,531)</u>	<u>(406,327)</u>	<u>(513,765)</u>	<u>(989,748)</u>	<u>(1,775,248)</u>	<u>(1,794,975)</u>	<u>(1,517,680)</u>
\$	1,168,821	\$ 603,542	\$ 520,656	\$ 316,255	\$ 331,482	\$ 1,137,703	\$ 2,337,713
	26,253	32,346	34,240	26,370	60,748	197,179	639,736
	-	-	-	-	-	-	(1,950,000)
	(495,053)	(331,064)	(370,451)	(339,834)	(336,501)	(239,161)	(262,603)
\$	<u>700,021</u>	<u>304,824</u>	<u>184,445</u>	<u>2,791</u>	<u>55,729</u>	<u>1,095,721</u>	<u>764,846</u>
\$	(312,510)	(101,503)	(329,320)	(986,957)	(1,719,519)	(699,254)	(752,834)
	2,042,013	1,422,189	1,730,322	7,791,691	2,068,824	2,739,155	3,400,665
\$	1,729,503	\$ 1,320,686	\$ 1,401,002	\$ 6,804,734	\$ 349,305	\$ 2,039,901	\$ 2,647,831
	57,704,922	56,384,236	54,983,234	47,751,669	47,402,364	45,362,463	42,714,632
\$	<u>59,434,425</u>	<u>57,704,922</u>	<u>56,384,236</u>	<u>54,556,403</u>	<u>47,751,669</u>	<u>47,402,364</u>	<u>45,362,463</u>

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
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
2015	3,519,398	3,524,999	1,952,908	871,240	9,868,545
2016	3,438,450	3,874,505	2,095,670	833,907	10,242,532

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
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
2015	3.70	19.80	7.27	20.03
2016	3.94	21.09	7.74	21.33

(1) This is the first step of several steps in the Water Usage Fee schedule.

(2) There is only one rate for the Sewer Usage Fee.

Source: Fauquier County Water and Sanitation Authority

Schedule of New Connections
Last Ten Fiscal Years

Fiscal Year	WATER			SEWER			
	New Connections	Cumulative Connections	% of Growth	New Connections	Cumulative Connections	% of Growth	
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%
2015	96	**	5,626	1.71%	48	4,024	1.19%
2016	150		5,906	2.54%	116	4,219	2.75%

Source: Fauquier County Water and Sanitation Authority connection records

* Completed the purchase of Marshall Waterworks with 546 connections

**Excluding Vint Hill subdivision customer 355

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

Calendar Year	Water Processed	Wastewater Treated
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
2014	507,000,000	517,000,000
2015	529,000,000	513,000,000

Source: Fauquier County Water and Sanitation Authority

Schedule of Operating Expenses
Last Ten Fiscal Years

Fiscal Years	Salaries	Fringe Benefits	General & Administrative	Operations & Maintenance	Depreciation Expense	Total
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
2015	2,622,093	882,093	477,316	2,082,445	2,982,641	9,046,588
2016	2,848,966	1,138,118	556,190	2,128,639	3,113,765	9,785,678

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				
	2016	2015	2014	2013	2012
Note Payable - Brookside	\$ -	\$ -	\$ -	\$ 516,150	\$ 516,150
Notes Payable Opal system	-	-	-	-	-
VRA Water Revenue Bond	-	-	-	-	455,811
VRA Water Revenue Bond	-	-	-	-	1,575,992
VRA Water Revenue Bond	-	-	-	-	1,246,396
Revenue Bond 7-9-2009	2,253,410	2,384,070	2,507,394	2,622,917	2,735,447
Revenue Bond 2011	-	-	-	-	3,113,956
Revenue Bond 9-20-10	410,421	546,525	678,480	806,412	1,127,971
Revenue Bond 11-16-2012	1,949,592	273,176	80,341	80,341	-
Revenue Refunding Bond 2012	3,945,678	4,508,136	5,059,374	5,599,617	-
Revenue Refunding Bond 2012	313,364	355,775	396,782	436,432	-
Virginia Water Facility Bond	-	-	-	-	180,000
Virginia Water Facility Bond	-	-	-	-	-
Total outstanding debt	\$ 8,872,465	\$ 8,067,682	\$ 8,722,371	\$ 10,061,869	\$ 10,951,723
Debt per capita (1)	\$ 281	\$ 280	\$ 289	\$ 345	\$ 382

	Fiscal Year				
	2011	2010	2009	2008	2007
Notes Payable VHEDA	\$ 938,800	\$ 938,800	\$ 938,800	\$ 938,800	\$ 938,800
Note Payable - Brookside	525,450	525,450	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	491,089	519,019	545,486	2,025,000	-
VRA Water Revenue Bond	1,704,310	1,811,460	1,914,426	-	-
VRA Water Revenue Bond	1,326,713	1,404,247	1,478,391	-	-
Revenue Bond 2010	2,903,781	2,903,781	-	-	-
Revenue Bond 2011	3,417,208	-	-	-	-
Revenue Bond 2011	1,242,201	-	-	-	-
Virginia Water Facility Bond	350,000	515,000	675,000	825,000	970,000
Virginia Water Facility Bond	-	4,090,499	4,764,896	5,419,486	6,054,912
Total outstanding debt	\$ 13,351,383	\$ 13,160,087	\$ 11,294,280	\$ 10,185,567	\$ 9,443,193
Debt per capita	\$ 476	\$ 476	\$ 413	\$ 398	\$ 359

Source: Fauquier County Water and Sanitation Authority

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

FAUQUIER COUNTY WATER AND SANITATION AUTHORITY

Table 9

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

Fiscal Year	Gross Revenue	Direct Operating Expenses	Net Revenue Available for Debt Service	Debt Service Requirements			Coverage
				Principal	Interest	Total	
2007	\$ 7,538,356	\$ 3,304,802	\$ 4,233,554	\$ 756,784	\$ 262,603	\$ 1,019,387	4.15
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
2015	9,868,545	6,063,947	3,804,598	847,524	164,159	1,011,683	3.76
2016	10,242,532	6,671,913	3,570,619	871,465	156,916	1,028,381	3.47

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

<u>Year</u>	<u>Estimated Population (1)</u>	<u>Personal Income (expressed in thousands) (2)</u>	<u>Per Capita Personal Income (2)</u>	<u>Unemployment Rate (3)</u>	<u>County Civilian Labor Force (3)</u>	<u>At-Place Employment Annual Average (3)</u>	<u>School Enrollment (4)</u>
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	3,818,298	56,814	4.8%	36,702	20,268	10,750
2014	28,266	4,230,159	61,962	4.5%	37,131	21,081	11,084
2015	28,581	*	*	4.4%	37,223	22,043	11,055
2016	31,554	*	*	3.4%	36,209	*	11,287

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

* Unavailable

Principal Employers
 Current Year and Nine Years Ago

Employer	2016		2007	
	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	6	500 to 999
Wal Mart	5	100 to 249	7	250 to 499
Food Lion	6	100 to 249	4	250 to 499
Town of Warrenton	7	100 to 249		
Airlie Foundation	8	100 to 249	8	100 to 249
Country Chevrolet, Peugeot	9	100 to 249		
Lord Fairfax Community College	10	100 to 249		
General Excavation			9	100 to 249
Kips Erosion Control			10	100 to 249
America House Four			5	250 to 499

Source: Virginia Employment Commission Top 50 Employers

Operating and Capital Indicators
Last Ten Fiscal Years

	<u>FY 2016</u>	<u>FY 2015</u>	<u>FY 2014</u>	<u>FY 2013</u>	<u>FY 2012</u>	<u>FY 2011</u>	<u>FY 2010</u>	<u>FY 2009</u>	<u>FY 2008</u>	<u>FY 2007</u>
Water System:										
Number of water systems	16	16	16	14	14	14	14	14	14	14
Number of service connections	5,906	5,626	6,015	5,772	5,717	5,588	5,467	5,467	5,417	4,544
Miles of water mains	142	141	127	100	100	100	100	100	100	100
Daily average consumption per MGD	1.49	1.38	1.365	1.34	1.323	1.455	1.455	1.455	1.455	1.192
Average daily water distributed per MGD	1.49	1.38	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	5.154	5.154	1.911	1.911	1.586
Sewerage System:										
Number of treatment plants	3	3	3	3	3	3	3	3	3	3
Number of pump stations	14	14	14	13	13	16	16	16	16	14
Number of service connections	4,219	4,024	4,055	3,412	3,854	3,761	3,653	3,653	3,618	3,278
Miles of sanitary sewer mains	91	104	104	82	82	82	82	82	82	82
Daily average treatment per MGD	1.492	1.254	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	3.59	3.59	3.236	3.236	2.886	2.886	2.886	2.886
Number of Full-Time Employees:	46	46	42	44	44	44	45	45	44	37

MGD - Million Gallon per Day

Source: Fauquier County Water and Sanitation Authority

FAUQUIER COUNTY WATER AND SANITATION AUTHORITY

Principal Water and Sewer Customers
Last Ten Fiscal Years

Principal Users of the Water System	Principal Business	FY 2016		FY 2015		FY 2014	
		000/gals	% of System	000/gals	% of System	000/gals	% of System
SUFFIELD MEADOW CONDO	Condos	12,605	2.38%	2,485	0.49%	3,480	0.74%
FAUQUIER COUNTY PUBLIC SCHOOLS	Public Schools	12,252	2.32%	9,946	1.96%	10,696	2.26%
CHUCK DAVIS	ODEC	8,900	1.68%	3,765	0.74%	9,029	1.91%
ASPEN SOUTH	Apartments	3,191	0.60%	3,165	0.62%	3,223	0.68%
CEDAR LEE CONDO ASSOCIATES	Apartments	2,880	0.54%	3,562	0.70%		
FEDERAL AVIATION ADM	Federal FFA buliding	2,470	0.47%	3,646	0.72%	3,911	0.83%
NORTH FORTY ASPEN PLUS	Apartments	1,754	0.33%	1,730	0.34%	1,520	0.32%
WAVERLY STATION	Apartments	1,422	0.27%	1,520	0.30%	1,507	0.32%
ASPEN CLUB APTS/NORTH 40	Apartments	1,080	0.20%	1,879	0.37%	2,347	0.50%
BROOKSIDE HOA	Homeowners Association	1,047	0.20%				
VAN MANAGEMENT INC	Marshall McDonalds			1,030	0.20%	1,234	0.26%
BEALETON VILLAGE CENTER LLC	Shopping Center			794	0.16%		
R. B. DRUMHELLER INC.	Bealeton McDonalds			790	0.16%	852	0.18%
WAKEFIELD SCHOOL	Private School			772	0.15%		
TOLL BROTHERS	Developer						
VINT HILL EDA	Authority						
COUNTY PARKS AND RECREATION	County Swimming pool						
SHEETZ # 221 UTILITIES	Convenience Store, Gas Station						
Total		47,601	6.62%	35,084	6.43%	37,799	7.26%
Total Water System Annual Consumption		529,000		507,000		489,000	

Principal Users of the Sewer System	Principal Business	FY 2016		FY 2015		FY 2014	
		000/gals	% of System	000/gals	% of System	000/gals	% of System
FAUQUIER COUNTY PUBLIC SCHOOLS	Public Schools	12,835	2.50%	9,885	1.91%	10,025	1.99%
CHUCK DAVIS	ODEC	8,900	1.73%	1,970	0.38%	9,029	1.79%
ASPEN SOUTH	Apartments	3,191	0.62%	3,165	0.61%	3,223	0.64%
CEDAR LEE CONDO ASSOCIATES	Condos	2,880	0.56%	3,562	0.69%		
FEDERAL AVIATION ADM	Federal FFA building	2,470	0.48%	3,646	0.71%	3,911	0.78%
SHEETZ # 221 UTILITIES	Convenience Store, Gas Station	2,285	0.45%	2,095	0.41%	2,190	0.43%
NORTH FORTY ASPEN PLUS	Apartments	1,754	0.34%	1,730	0.33%	1,520	0.30%
WAVERLY STATION	Apartments	1,422	0.28%	1,520	0.29%	1,507	0.30%
ASPEN CLUB APTS/NORTH 40	Apartments	1,080	0.21%	1,879	0.36%	2,347	0.47%
BROOKSIDE HOA	Homeowners Association	1,047	0.20%				
OPAL OIL, INC.	Quarles Q Stop			1,474	0.29%	1,461	0.29%
BLUE RIDGE CHRISTIAN HOME	Nursing Home			1,271	0.25%		
VAN MANAGEMENT INC	Marshall McDonalds			1,030	0.20%	1,234	0.24%
BEALETON VILLAGE CENTER LLC	Shopping Center			794	0.15%		
R. B. DRUMHELLER INC.	Bealeton McDonalds			790	0.15%	852	0.18%
WAKEFIELD SCHOOL	Private School			772	0.15%		
Total		37,864	7.38%	35,583	6.88%	37,299	7.23%
Total Sewer System Annual Flow		513,000		517,000		519,000	

Table 13

FY 2013		FY 2012		FY 2011		FY 2010		FY 2009		FY 2008		FY 2007	
000/gals	% of System	000/gals	% of System	000/gals	% of System	000/gals	% of System	000/gals	% of System	000/gals	% of System	000/gals	% of System
3,193	0.68%	773	0.16%					573	0.12%	873	0.15%	186	0.04%
9,684	2.05%	13,035	2.76%	17,338	3.61%	11,394	2.37%	10,569	2.22%	8,090	1.39%	6,434	1.37%
299	0.06%	1,931	0.41%	957	0.20%	361	0.08%			887	0.15%	1,366	0.29%
3,168	0.67%	2,963	0.63%	3,348	0.70%	2,939	0.61%	2,505	0.53%	3,678	0.63%	194	0.04%
1,840	0.39%	526				488	0.10%	1,350	0.28%	999	0.17%		
3,661	0.77%	4,487	0.95%	4,643	0.97%	2,552	0.53%	2,778	0.58%	2,730	0.47%	1,092	0.23%
1,402	0.30%	4,900	1.04%	1,649	0.34%	1,479	0.31%	1,483	0.31%	1,660	0.29%		
1,055	0.22%	717	0.15%			910	0.19%	1,130	0.24%				
2,753	0.58%	2,084	0.44%	3,231	0.67%	2,717	0.57%	3,141	0.66%	3,633	0.63%	3,292	0.70%
		1,280	0.27%	1,462	0.30%	1,224	0.26%	1,025	0.21%	1,233	0.21%		
6,667	1.41%	1,377	0.29%	1,012	0.21%								
448	0.09%	586	0.12%		0.00%	871	0.19%	752	0.19%	1,314	0.38%	162	0.04%
												385	0.08%
												483	0.10%
												748	0.16%
												2,326	0.49%
<u>34,170</u>	<u>6.54%</u>	<u>34,659</u>	<u>7.06%</u>	<u>33,640</u>	<u>7.01%</u>	<u>24,935</u>	<u>5.21%</u>	<u>25,306</u>	<u>5.21%</u>	<u>25,097</u>	<u>4.33%</u>	<u>14,342</u>	<u>3.02%</u>
<u>489,000</u>		<u>473,000</u>		<u>480,000</u>		<u>458,000</u>		<u>477,000</u>		<u>580,000</u>		<u>470,000</u>	
000/gals	% of System	000/gals	% of System	000/gals	% of System	000/gals	% of System	000/gals	% of System	000/gals	% of System	000/gals	% of System
8,397	1.67%	12,837	2.55%	15,024	3.35%	10,090	2.25%	11,041	2.75%	8,716	2.54%	6,569	1.56%
359	0.07%	3,880	0.77%	2,993	0.67%	2,939	0.65%	2,846	0.71%	2,022	0.59%	4,057	0.97%
3,168	0.63%	2,963	0.59%	3,343	0.74%	2,457	0.55%	2,841	0.71%	3,678	1.07%		
1,840	0.37%	526	0.10%	1,515	0.34%	488	0.11%	1,350	0.34%	999	0.29%		
3,660	0.73%	4,487	0.89%	4,643	1.03%	2,552	0.57%	2,778	0.69%	2,730	0.80%	1,092	0.26%
1,978	0.39%	1,875	0.37%	1,929	0.43%	1,811	0.40%	1,708	0.43%	1,937	0.56%	2,326	0.55%
1,402	0.28%	4,900	0.97%	1,649	0.37%	1,479	0.33%	1,483	0.37%	1,660	0.48%		
1,055	0.21%	717	0.14%		0.00%	910	0.20%	1,130	0.28%	159	0.05%	159	0.04%
2,753	0.55%	2,084	0.41%	3,231	0.72%	2,717	0.61%	3,141	0.78%	3,633	1.06%	3,292	0.78%
930	0.18%	1,026	0.20%	1,212	0.27%								
1,084	0.22%	1,280	0.25%	1,482	0.33%	1,224	0.27%	1,025	0.26%	1,233	0.36%		
6,667	1.41%	1,377	0.29%	1,012	0.21%								
448	0.09%	586	0.12%		0.00%	871	0.19%	752	0.19%	1,314	0.38%	162	0.04%
<u>33,741</u>	<u>5.37%</u>	<u>38,538</u>	<u>7.36%</u>	<u>38,033</u>	<u>8.25%</u>	<u>27,538</u>	<u>6.13%</u>	<u>30,095</u>	<u>7.50%</u>	<u>28,081</u>	<u>8.19%</u>	<u>17,657</u>	<u>4.53%</u>
<u>433,000</u>		<u>504,000</u>		<u>449,000</u>		<u>450,000</u>		<u>401,000</u>		<u>343,000</u>		<u>420,000</u>	

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**Independent Auditors' 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, 2016, and the related notes to the financial statements, which collectively comprise the Authority's financial statements and have issued our report thereon dated August 31, 2016.

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

August 31, 2016