

City of Alexandria, Virginia

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4-9-02

MEMORANDUM

DATE: APRIL 3, 2002

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: PHILIP G. SUNDERLAND, CITY MANAGER *PS*

SUBJECT: ALEXANDRIA SANITATION AUTHORITY'S FINANCIAL REPORT

ISSUE: Receipt of the Alexandria Sanitation Authority's September 30, 2001, Financial Report.

RECOMMENDATION: That City Council receive the Alexandria Sanitation Authority's Financial Report.

DISCUSSION: The City of Alexandria, Virginia, Sanitation Authority (the Authority) is a public body organized under the provisions of the Virginia Water and Sewer Authorities Act (Chapter 28, Title 15.1, Code of Virginia, 1950 as amended). The Authority was created by the City Council in 1952 and chartered by the State Corporation Commission in 1953 for the purpose of "acquiring, constructing, improving, extending, operating, and maintaining a sewage disposal system." The Authority's Wastewater Treatment plant is designed to process 54 million gallons per day and provides wastewater treatment for Alexandria and a portion of Fairfax County. The Authority receives no financial support from the City and has no taxing power. The revenues of the Authority are derived from user charges imposed within the City, payments from Fairfax County, and interest on investments.

City staff reviewed the September 30, 2001, Financial Report and made the following observations:

- The Authority received a "clean" audit opinion from its independent auditors, McGladrey & Pullen, LLP, indicating that the financial statements were prepared in accordance with Generally Accepted Accounting Principles. During the fiscal year 2001, the Authority changed its financial accounting and reporting to comply with the provisions of Statement No. 34 of Governmental Accounting Standards Board (GASB) (Financial Report, page 9). This includes a "management discussion and analysis section" (Financial Report pages 1-8), which provides the Authority management's assessment of the operations. This also represents early implementation of GASB Statement No. 34.
- Total assets at year-end were \$336 million and liabilities were \$70 million, resulting in total net assets of \$266 million (Financial Report page 4). Net assets increased by \$61 million during the year. A substantial portion of the increase

(\$56 million) resulted from capital contributions (Financial Report page 5) and was used for plant and equipment capital investment.

- The Authority finished the year with net operating revenues exceeding operating expenses by \$4.7 million, approximately the same amount as in FY 2000 (Financial Report page 11).
- Revenues from sewage disposal charges to City of Alexandria customers totaled \$17.4 million, compared to \$15.8 million last year (Financial Report page 12).
- During fiscal year 2001, the Authority received \$65.3 million from the Virginia Water Facilities Revolving Fund (VWFRF). This loan was at 4.5% for 20 years. This brings the total amount borrowed from VWFRF to \$99.3 million (Financial Report page 1). The Authority has drawn \$34.6 million as of September 30, 2001, and expects to draw approximately \$2 million every month until it reaches the full \$65.3 million.
- The Authority received grant funds of \$6.4 million from the State of Virginia's Water Quality Improvement Fund. These funds pay for a share of the Biological Nutrient Reduction costs included in the facility upgrade, as well as reduce the capital costs that must be recovered in the Authority's customer rates.

The Authority is committed under various contracts pertaining to an upgrade to the advanced wastewater treatment plant totaling approximately \$320 million at September 30, 2001. Sixty percent of the cost of upgrading the projects is allocated to Fairfax County and forty percent to Alexandria. Of the \$88.5 million paid by the Authority in FY 2001, the Alexandria portion was funded by the Authority's \$65.3 million borrowed from VWFRF (Financial Report page 1). The Fairfax County capital portion of the ASA project is financed 30% by development related sewer connection fees, as well as other sewer related changes and income such as sewer revenue bonds (whose debt service is fully water-sewer fee recovered). Some of the projects are being partially funded with state assistance awards. Of the total project costs of \$320 million, construction contracts for approximately \$204 million have been entered into and are ongoing as of September 30, 2001. The remainder of the upgrade is scheduled to be completed in late 2005.

ATTACHMENT:

Attachment I: City of Alexandria, Virginia, Sanitation Authority Report as of September 30, 2001

STAFF:

Mark Jinks, Assistant City Manager

D. A. Neckel, Director of Finance

Laura Triggs, Deputy Director of Finance/Comptroller

**CITY OF ALEXANDRIA, VIRGINIA,
SANITATION AUTHORITY**

FINANCIAL REPORT

SEPTEMBER 30, 2001

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AUDIT ASSURANCE

The unqualified (i.e. clean) opinion of our independent external auditors, McGladrey & Pullen, LLP, is included in this report. You will note from their report that the Authority has decided on early implementation of Statement 34 of the Governmental Accounting Standards Board.

This section presents management's discussion and analysis of the Authority's financial condition and activities for the year ended September 30, 2001. This information should be read in conjunction with the financial statements.

FINANCIAL HIGHLIGHTS

Management believes the Authority's financial position is strong. The Authority maintained a strong debt service coverage and was in compliance with all debt covenants required by borrowing Agreements. The following are key financial highlights:

- The Authority implemented the fourth step of its five-year rate plan which was adopted in April 1998.
- The Authority treated 12.97 billion gallons of wastewater which represents a 5% decrease over fiscal year 2000.
- Fairfax County contributed 6.9 billion gallons of wastewater which is a 6% decrease over fiscal year 2000.
- Debt service coverage was 2.3 which exceeded the 1.1 required by the Financing Agreement with the Virginia Resources Authority for loans from the Virginia Water Facilities Revolving Fund (VWFRF).
- One loan with the VWFRF for the Alexandria portion of the current upgrade was closed in fiscal year 2001. The loan was for \$65,300,000 at 4.5% for a term of 20 years. This loan brings the total borrowed from the VWFRF to \$99,300,000.
- The Authority received grant funds of \$6.4 million from the State of Virginia's Water Quality Improvement Fund. These funds pay for a share of the Biological Nutrient Reduction costs included in the facility upgrade.
- Facility upgrade costs, paid by the Authority, totaled \$88.5 million. The portion of the upgrade related to Alexandria customers (40%) was funded by the Authority's borrowing from the VWFRF. The portion related to Fairfax County (60%) was funded by the County as costs were incurred.
- Total assets at year-end were \$336.5 million and exceeded liabilities in the amount of \$266.1 million (i.e. net assets). Of the total net assets, \$14.3 million was unrestricted and was available to support short-term operations. Total assets, total net assets and unrestricted net assets increased from fiscal year end 2000 to 2001 in the amounts of \$95.4 million, \$60.7 million and \$6.5 million, respectively.

- Sewage disposal charges of \$17.5 million increased over fiscal year 2000 by \$1.7 million or 9.7%. Sewage disposal charges for fiscal year 2001 exceeded budget projections by 7.3%.
- Payments from Fairfax County, of \$9.3 million, represented their share of operating costs based upon their proportional contribution to the plant total flow. The payments increased by \$397,000 or 4.3% over fiscal year 2000. While there was a very slight decrease in the County's contributed flow percentage, this was offset by a small increase in the joint operating costs.
- Operating expenses before depreciation increased by \$1.3 million, but were below budget by 2%. Operating expenses for fiscal year 2001 increased 6.7% compared to fiscal year 2000.
- Unrestricted operating income for the year was \$4.7 million, representing a 10.2% increase over fiscal year 2000. Net assets, before and after capital contribution, increased \$4.9 million and \$60.7 million, respectively.

REQUIRED FINANCIAL STATEMENTS

The financial statements of the Authority report information about the Authority's use of accounting methods which are similar to those used by private sector companies. These statements offer short- and long-term financial information about its activities.

The balance sheet includes all of the Authority's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and obligations to Authority creditors (liabilities). It also provides the basis for computing rate of return, evaluating the capital structure of the Authority and assessing the liquidity and financial flexibility of the Authority.

All of the current year's revenues and expenses are accounted for in the statement of revenues, expenses, and changes in net assets. This statement measures the success of the Authority's operations over the past year and can be used to determine whether the Authority has successfully recovered all its costs through its sewage disposal rates and other fees. The Authority's rates are based on a cost of service rate study that was completed in 1998. This rate study is updated at least annually or more often as circumstances warrant.

The final required financial statement is its Statement of Cash Flows. The primary purpose of this statement is to provide information about the Authority's cash receipts and cash payments during the reporting period. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities, and the change in cash during the reporting period.

The notes to the financial statements provide required disclosures and other information that are essential to a full understanding of material data provided in the statements. The notes present information about the Authority's accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies and subsequent events, if any.

SUMMARY OF ORGANIZATION AND BUSINESS

The Alexandria Sanitation Authority is a public body organized and created under the Virginia Water and Waste Authorities Act of the Code of Virginia of 1950 as amended. The Authority was created by City Council of the City of Alexandria in 1952. The purpose of the Authority is to “acquire, construct, improve, extend, operate and maintain a sewage disposal system.”

The Authority is governed by five citizen members appointed by Alexandria City Council to four-year staggered terms.

In 1953, the Authority and neighboring Fairfax County signed a service agreement in which the Authority would build a sewage treatment plant and the County would have reserved treatment capacity and share in the annual operating costs of the plant in proportion to its actual use as measured by the volume of sewage it contributed.

The Service Agreement was last amended and restated in October 1998. The major provisions relating to the County’s reserved capacity (60%), the payment of capital, asset additions, i.e. upgrade costs, and the calculation of its share of operating costs remained unchanged.

The Authority’s infrastructure assets consist of the treatment plant, approximately 11 miles of interceptor sewers, and two pump stations. The collection system, consisting of mains and laterals, is owned and maintained by the City.

The Authority receives no financial support from the City and has no taxing power. The revenues of the Authority are derived from sewage disposal charges based on metered water consumption of Alexandria users of the system, and payment from Fairfax County for their proportional share of operating expenses.

FINANCIAL ANALYSIS

The following comparative condensed financial statements and other selected information provides key financial data and indicators for management, monitoring and planning.

Condensed Statements of Net Assets (Balance Sheets) (In Millions of Dollars)

	2001	2000	\$ Change	% Change
Current assets	\$ 2.80	\$ 2.70	\$ 0.10	3.60%
Restricted assets	4.10	3.60	0.50	12.20%
Investments	12.10	6.00	6.10	50.40%
Plant and equipment, net	317.40	228.70	88.70	27.90%
Total assets	336.40	241.00	95.40	28.40%
Current liabilities	4.00	3.50	0.50	12.50%
Liabilities payable from restricted assets	0.50	0.20	0.30	60.00%
Long-term debt	65.80	32.00	33.80	51.40%
Total liabilities	70.30	35.70	34.60	49.20%
Invested in capital assets net of related debt	247.70	193.90	53.80	21.70%
Restricted	4.10	3.60	0.50	12.20%
Unrestricted	14.30	7.80	6.50	45.50%
Total net assets	\$ 266.10	\$ 205.30	\$ 60.80	22.85%

FINANCIAL ANALYSIS (Continued)**Condensed Statements of Revenues, Expenses
and Changes in Net Assets
(In Millions of Dollars)**

	2001	2000	\$ Change	% Change
Operating revenue	\$ 26.90	\$ 24.80	\$ 2.10	7.80%
Non-operating revenue	0.70	0.70	-	-
Total revenues	27.60	25.50	2.10	7.60%
Depreciation expense	3.10	2.70	0.40	12.90%
Other operating expense	19.10	17.80	1.30	6.80%
Non-operating expense	0.50	-	0.50	-
Total expenses	22.70	20.50	2.20	9.70%
Income before capital contributions	4.90	5.00	(0.10)	-2.00%
Capital contributions	55.70	49.30	6.40	11.50%
Change in net assets	60.60	54.30	6.30	10.40%
Beginning net assets	205.40	151.10	54.30	26.40%
Ending net assets	\$ 266.00	\$ 205.40	\$ 60.60	22.80%

OTHER SELECTED INFORMATION

Selected Data:	2001	2000	Difference	% Change
Employees at year-end	142	149	(7)	-4.9%
Alexandria accounts	24,713	24,192	521	2.2%
Wastewater treated (millions of gallons)	12,970	13,660	(690)	-5.3%
Portion contributed by				
Fairfax County (millions of gallons)	6,906	7,332	(426)	-6.2%
Percentage contributed by				
Fairfax County	53.2%	53.7%	(0.50)	-
Rates:				
Charge per 1,000 gallons of water consumption	\$3.41	\$3.21	\$0.20	6.2%
Account service charge per bill rendered	3.74	3.63	0.11	2.9%
Average customer bill:				
Per year	\$238.46	\$224.50	\$13.96	6.2%
Per quarter	59.62	56.13	3.49	6.2%
Per month	19.87	18.71	1.16	6.2%

GENERAL TRENDS AND SIGNIFICANT EVENTS

The Authority's service area in the City of Alexandria can be referred to as mature. The City is over two hundred and fifty years old and for the most part is built out. While there are several tracts of undeveloped land, the flows from these parcels, when developed, will not increase the Authority's sewage disposal charge revenue significantly.

The number of the Authority's Alexandria accounts increased by 521 which represents a 2.2% increase over fiscal year 2000. The current number of accounts, 24,700, represents a 15.2% increase for the ten-year period beginning with fiscal year 1992.

It is anticipated that the small growth trend in accounts will begin to decrease as the amount of undeveloped land also decreases.

FINANCIAL CONDITION

The Authority's financial condition remained strong at year-end with adequate liquid assets and a reasonable level of unrestricted net assets. The current financial condition, staff capabilities, operating plans and upgrade plans to meet future water quality requirements are well balanced and under control.

Total assets grew \$95.4 million or 28.4%, with \$88.7 million represented by additions to plant and equipment. Net assets increased by \$60.8 million, with a substantial portion of the change resulting from capital contributions.

Accounts receivable at year end were 6.2% greater than fiscal year 2000. However, the receivables increase was lower than the 7.8% increase in operating revenues for the year. The average age of an Authority account receivable in fiscal year 2001 was 19.5 days. The Authority's bad debts were \$34 thousand on \$17.4 million of sewage disposal charge billing.

RESULTS OF OPERATIONS

Operating revenues: The Authority's revenues from operations fall into two main categories: 1) Sewage disposal charges to customers in Alexandria which are based upon metered water consumption which is billed monthly and quarterly for commercial and residential accounts, respectively. 2) From Fairfax County for its share of operating expenses based upon its proportionate share of flow to the plant.

Capital contributions: By a service agreement with Fairfax County, the County agrees to pay for 60% of the cost of capital improvements to the plant, such as the current upgrade. Prior to GASB 34 implementation, this money was recorded as direct contributions to the Authority's equity as contributed capital. GASB 34 defines these payments as non-operating revenues and requires reporting the amounts through the statement of revenues, expenses and changes in net assets.

Expenses: Total operating expenses, excluding depreciation, increased by \$1.3 million or 6.7% over fiscal year 2000. Of the 1.3 million increase, \$890 thousand was attributed to increases in costs of utilities, chemicals and sludge disposal. The Authority's personnel services, which includes wages, retirement, and insurance, was 36.9% of the total operating expenses of \$22.1 million for fiscal year 2001 and 40.1% of the total operating expenses for 2000.

DEBT

At year-end the Authority had \$67.1 million in long-and short-term debt. Actual new borrowing amounted to \$35.9 million and fiscal year 2001 principal payments on outstanding debt of \$1.2 million resulted in a net increase in debt of \$33.9 million or 101.9% over fiscal year 2000. More detailed information about the Authority's long-term debt is presented in the notes to the financial statements on pages 19, 20, 21 and 22.

Based on current estimates of cash flow needs for the Alexandria portion of the upgrade, the current loan from the Virginia Water Facilities Revolving Fund will be sufficient to cover these payments through fiscal year 2002.

One area that demonstrates the Authority's financial strength, ability to pay current debt service (principal and interest), and future borrowing capability is seen in its Revenue Covenant which is currently a strong 2.3. This covenant requires the Authority to "establish, fix, charge and collect rates, fees and other charges for the use of and for services furnished by the System so that in each fiscal year net revenues are not less than 1.1 times the debt service (principal and interest) for the fiscal year. The following table calculates the Revenue Covenant for fiscal year 2001 and 2000:

	2001	2000	% Change
Unrestricted operating revenue (millions)	\$ 26.90	\$ 24.80	8.5%
Unrestricted investment income (millions)	0.50	0.50	0.0%
Total revenue (millions)	27.40	25.30	8.5%
Total operating expenses (Less depreciation and replacements) (millions)	19.30	17.80	8.4%
Net revenue (millions)	\$ 8.10	\$ 7.50	8.0%
Annual debt service (millions)	\$ 3.50	\$ 2.30	52.2%
Revenue covenant (minimum 1.1 allowed)	2.30	3.30	-30.3%

FINAL COMMENTS

Fiscal year 2001 continued a trend of strong financial performance by the Authority. This strength is needed in order for the Authority to maintain flexibility in future borrowing decisions, ensuring that there is an appropriate reserve for operating expenses, and that we began to provide for the effects of time and usage on the significant investment in equipment that is being made during this upgrade.

CONTACTING THE AUTHORITY'S FINANCIAL MANAGER

This financial report is designed to provide our citizens, customers, and creditors with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Alexandria Sanitation Authority's Director of Fiscal Services, P.O. Box 1987, Alexandria, Virginia 22313.

INDEPENDENT AUDITOR'S REPORT

To the Members
City of Alexandria, Virginia, Sanitation Authority
Alexandria, Virginia

We have audited the accompanying balance sheet of City of Alexandria, Virginia, Sanitation Authority (the Authority) as of September 30, 2001, and the related statements of revenue, expenses and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Authority for the year ended September 30, 2000, were audited by Keller Bruner & Company, LLP, independent auditors, whose members merged with McGladrey & Pullen, LLP on December 1, 2000. Keller Bruner & Company, LLP's report, dated November 22, 2000, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of September 30, 2001, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the financial statements, during the year ended September 30, 2001, the Authority changed its financial accounting and reporting to comply with the provisions of Statements No. 33 and 34 of the Government Accounting Standards Board.

Management's Discussion and Analysis on pages 1 through 8 and the Schedule of Funding Progress on page 26 is not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

McGladrey & Pullen, LLP

Alexandria, Virginia
November 29, 2001

CITY OF ALEXANDRIA, VIRGINIA, SANITATION AUTHORITY

BALANCE SHEETS
September 30, 2001 and 2000

ASSETS	2001	2000
Current Assets		
Cash	\$ 1,715	\$ 23,785
Accounts receivable	2,818,271	2,643,900
Other receivables	58,989	60,132
Total current assets	2,878,975	2,727,817
Restricted assets		
Cash	479,386	310,739
Investments	3,603,274	3,325,736
Total restricted assets	4,082,660	3,636,475
 Investments	 12,143,952	 5,967,297
 Property and Equipment, net	 317,357,970	 228,744,991
	\$ 336,463,557	\$ 241,076,580
 LIABILITIES AND NET ASSETS		
Current Liabilities		
Current maturities of long-term debt and interest	\$ 1,656,275	\$ 1,030,409
Accounts payable and accrued expenses	2,355,166	2,350,360
Due to Fairfax County	21,859	82,792
Total current liabilities	4,033,300	3,463,561
 Current Liabilities Payable From Restricted Assets:		
Revenue bonds, principal and interest	498,467	206,991
 Long-Term Debt, less current maturities	 65,820,129	 32,003,520
 Net Assets		
Invested in capital assets, net of related debt	247,691,807	193,905,608
Retricted	4,082,660	3,636,475
Unrestricted	14,337,194	7,860,425
	266,111,661	205,402,508
	\$ 336,463,557	\$ 241,076,580

See Notes to Financial Statements.

CITY OF ALEXANDRIA, VIRGINIA, SANITATION AUTHORITY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

Years Ended September 30, 2001 and 2000

	2001	2000
Operating Revenue		
Sewage disposal charges:		
Regular	\$ 17,394,772	\$ 15,778,800
Special	129,048	42,478
Fairfax County:		
Regular	9,326,141	8,929,208
Capital improvements	-	6,006
Miscellaneous	7,428	7,551
Total operating revenue	26,857,389	24,764,043
Operating Expenses		
Personnel services	8,176,290	8,232,719
Utilities	1,985,446	1,724,696
Chemicals	2,813,083	2,413,107
Equipment maintenance	522,512	450,429
Structures and grounds	51,909	33,988
Sewage disposal services,		
Arlington County	687,328	623,448
Sludge disposal	1,963,528	1,734,960
Depreciation	3,059,951	2,727,130
Replacements, sewage disposal system	230,417	-
General, administration, customer service, and other	2,632,745	2,570,085
Total operating expenses	22,123,209	20,510,562
Operating income	4,734,180	4,253,481
Non-operating revenue (expenses)		
Investment income	731,020	727,678
Interest expense, net of capitalized interest	(504,733)	-
Non-operating revenue, net	226,287	727,678
Change in net assets before capital contributions	4,960,467	4,981,159
Capital contributions	55,748,686	49,276,743
Change in net assets	60,709,153	54,257,902
Net assets - Beginning	205,402,508	151,144,606
Net assets - Ending	\$ 266,111,661	\$ 205,402,508

See Notes to Financial Statements.

CITY OF ALEXANDRIA, VIRGINIA, SANITATION AUTHORITY

STATEMENTS OF CASH FLOWS

Years Ended September 30, 2001 and 2000

	2001	2000
Cash Flows from Operating Activities		
Cash received from customers	\$ 17,323,132	\$ 15,804,942
Cash received from Fairfax County	9,265,208	8,803,196
Cash paid to suppliers	(9,968,135)	(8,280,013)
Cash paid to employees	(9,149,401)	(9,282,578)
Net cash provided by operating activities	7,470,804	7,045,547
Cash Flows from Investing Activities		
Proceeds from sales and maturities of investments	15,922,218	34,671,767
Purchase of investments	(22,376,412)	(34,441,936)
Investment income	732,163	667,546
Net cash provided by (used in) investing activities	(5,722,031)	897,377
Cash Flows from Capital and Related Financing Activities		
Purchase/construction of property and equipment	(90,708,101)	(80,704,656)
Proceeds from issuance of long-term debt	35,099,351	24,553,090
Principal payments on debt	(1,237,399)	(1,600,898)
Interest paid on borrowings, net of interest capitalized	(504,733)	-
Proceeds from capital contributions	55,748,686	49,276,743
Net cash (used in) capital and related financing activities	(1,602,196)	(8,475,721)
Net increase (decrease) in cash	146,577	(532,797)
Cash, Beginning	334,524	867,321
Cash, Ending	\$ 481,101	\$ 334,524
Reconciliation to balance sheets:		
Unrestricted cash	\$ 1,715	\$ 23,785
Restricted cash	479,386	310,739
	\$ 481,101	\$ 334,524
Reconciliation of Operating Income to Net Cash		
Provided by Operating Activities		
Operating income	\$ 4,734,180	\$ 4,253,481
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	3,059,951	2,727,130
Changes in assets and liabilities:		
Decrease (increase) in accounts receivable	(174,371)	(3,744)
Increase (decrease) in accounts payable	(88,023)	194,692
Increase (decrease) in due to Fairfax County	(60,933)	(126,012)
Net cash provided by operating activities	\$ 7,470,804	\$ 7,045,547

CITY OF ALEXANDRIA, VIRGINIA, SANITATION AUTHORITY

NOTES TO FINANCIAL STATEMENTS

Note 1. Description of Entity and Significant Accounting Policies

Description of entity: The City of Alexandria, Virginia, Sanitation Authority (the Authority) is a special governmental unit created by the City Council of Alexandria, Virginia (City Council) in 1952 for the purpose of constructing, operating and maintaining a wastewater treatment system for the City of Alexandria, Virginia. The Authority is governed and administered by five members who serve staggered terms and are appointed by the City Council.

Although the members of the Authority are appointed by the City Council, the Authority is not part of the City's reporting entity. Significant factors for the exclusion are that the City exercises no oversight responsibility and has no accountability for the Authority's fiscal matters. The Authority's financial statements are not included in the City of Alexandria, Virginia, Comprehensive Annual Financial Report.

No component units are included in the Authority's financial statements.

A summary of the Authority's significant accounting policies follows:

Basis of presentation and accounting: The Authority's financial statements are presented on the accrual basis in accordance with accounting principles generally accepted in the United States of America. The Authority applies all Governmental Accounting Standards Board (GASB) pronouncements as well as Financial Accounting Standards Board (FASB) statements and interpretations, and the Accounting Principles Board (APB) of the Committee on Accounting Procedure issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. The Authority has not adopted the provisions of FASB No. 71, *Accounting for the Effects of Certain Types of Regulations*.

These financial statements include the early implementation of GASB No. 34, *Basic Financial Statements, Management's Discussion and Analysis, for State and Local Governments* and related standards. This new standard provides for significant changes in terminology; recognition of contributions in the statement of revenues, expenses and changes in net assets; inclusion of a management discussion and analysis as supplementary information; and other changes.

All activities of the Authority are accounted for within a single proprietary (enterprise) fund. Proprietary funds are used to account for operations that are (a) financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The accounting and financial reporting treatment applied to the Authority is determined by its measurement focus. The transactions of the Authority are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations are included on the balance sheets. Net assets (i.e., total assets net of total liabilities) are segregated into invested in capital assets, net of related debt; restricted; and unrestricted components.

CITY OF ALEXANDRIA, VIRGINIA, SANITATION AUTHORITY

NOTES TO FINANCIAL STATEMENTS

Note 1. Description of Entity and Significant Accounting Policies (Continued)

Revenues and expenses: Operating revenues and expenses consists of those revenues and expenses that result from the ongoing principal operations of the Authority. Operating revenues consist primarily of charges for services. Non-operating revenues and expenses consist of those revenues and expenses that are related to financing and investing types of activities and result from nonexchange transactions or ancillary activities.

In accordance with an agreement with Fairfax County, the Authority recognizes as revenue the County's proportionate share of current operating expenses.

Investments: Investments are stated at fair value plus accrued interest in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*.

Property and equipment: Property and equipment purchased or constructed is stated at cost. Interest related to costs, and major improvements, renewals and replacements is capitalized as a cost of the project. Depreciation is computed on the straight-line basis over the estimated useful lives of the related assets.

Accrued vacation: It is the Authority's policy to permit employees to accumulate a limited amount of earned but unused vacation benefits, which will be paid to employees upon separation from service. The amount of accrued vacation earned but unused is \$601,895 and \$512,107 at September 30, 2001 and 2000, respectively. This liability is included in the financial statements as an accrued expense.

Unpaid sick leave: Personnel policies provide the Authority employees with varying amounts of sick leave. No reimbursement is made upon termination of employees for accumulated sick leave. However, 25% of the accumulated sick leave of qualified retiring employees with equal to or greater than 20 years of service is added to any retirement benefit received. The potential liability to Authority employees at September 30, 2001 and 2000, is approximately \$207,000 and \$200,000, respectively. The Authority believes that only a small portion of the employees will actually qualify at retirement to receive the benefit. This liability is not included in the financial statements.

Contributed capital: On October 1, 2000, the Authority was required to adopt Governmental Accounting Standards Board's (GASB) Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*. This statement requires governments to recognize capital contributions to proprietary funds as revenues, instead of contributed capital. Previously, grants, entitlements, shared revenue and the fair market value of donated property received by the Authority which were restricted for the acquisition or construction of capital assets were recorded as contributed capital. Grants and entitlements totaling \$55,748,686 were received by the Authority for the year ended September 30, 2001, and \$49,276,743 for the year ended September 30, 2000.

CITY OF ALEXANDRIA, VIRGINIA, SANITATION AUTHORITY

NOTES TO FINANCIAL STATEMENTS

Note 1. Description of Entity and Significant Accounting Policies (Continued)

Net assets: Net assets comprise the various net earnings from operating and non-operating revenues, expenses and contributions of capital. Net assets are classified in the following three components: invested in capital assets, net of related debt; restricted; and unrestricted net assets. Invested in capital assets, net of related debt, consists of all capital assets, net of accumulated depreciation and reduced by outstanding debt that is attributable to the acquisition, construction and improvement of those assets; debt related to unspent proceeds or other restricted cash and investments is excluded from the determination. Restricted net assets consists of net assets for which constraints are placed thereon by external parties, such as lenders, grantors, contributors, laws, regulations and enabling legislation, including self-imposed legal mandates. Unrestricted net assets consists of all other net assets not included in the above categories.

Allocation of expenses: For purposes of the statement of revenues, expenses and changes in net assets, payroll taxes and fringe benefits were allocated to operations and administration based on direct salaries.

Restricted net assets: Certain funds have been or will be created in accordance with the flow of funds provisions of a Master Indenture of Trust executed in connection with bonds issued by the Authority to finance the installation of upgrade facilities for wastewater treatment and related costs. The following is a summary of those funds:

Operating Fund: The Operating Fund pays operating expenses for administration and operation and maintenance of the Sewage Disposal System as they become due. By the fifth business day before the end of each month, the Authority transfers an amount to bring the balance on deposit to one-sixth of the current annual amount budgeted for operating expenses.

Parity Debt Service Fund: The Parity Debt Service Fund is created for debt that is in parity to revenue bonds pursuant to the Master Indenture of Trust. This fund is used to pay interest and principal payments for the Virginia Revolving Loan Fund when they become due. By the fifth business day before the end of the month, the Authority transfers an amount to bring the balance on deposit equal to the interest and principal accrued until the payment is due.

Improvement, Renewal and Replacement Fund: The purpose of this fund is to pay for the cost of additions, costs of renewals and replacements and improvements to the treatment plant portion of the Sewage Disposal System that is used jointly by the Authority and Fairfax County.

Construction Fund: The Construction Fund was established to pay for the constructing of any improvement to the portion of the plant used jointly by the Authority and Fairfax County.

Cash and investments are restricted to meet the requirements of the Master Indenture of Trust.

CITY OF ALEXANDRIA, VIRGINIA, SANITATION AUTHORITY

NOTES TO FINANCIAL STATEMENTS

Note 1. Description of Entity and Significant Accounting Policies (Continued)

Restatement of prior year: As a result of the Authority's adoption of GASB Nos. 33 and 34, the 2000 financial statements have been restated to conform to those changes. The adoption of Statements No. 33 and 34 had no effect on the basic financial statements except for the classification of net assets in accordance with Statement No. 34 and the reflection of capital contributions as a change in net assets.

Estimates: The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note 2. Cash on Deposit

Amounts on deposit in financial institutions, which are described as cash in the Authority's financial statements, are covered by federal depository insurance or collateralized in accordance with the Virginia Security for Public Deposits Act (the Act). Under the Act, banks holding public deposits in excess of the amounts insured by the Federal Deposit Insurance Corporation must pledge collateral in the amount of 50% of excess deposits to a collateral pool in the name of the State Treasury Board. The State Treasury Board is responsible for monitoring compliance with the collateralization and reporting requirements of the Act and for notifying local governments of compliance by banks. The State Treasury Board also assumes responsibility for the remaining 50% of the excess deposits not collateralized by the bank.

In addition, trustee cash is secured by Section 6.1-21 of the Code of Virginia relating to funds held by the trust department of a financial institution.

Note 3. Accounts Receivable

Accounts receivable was composed of the following as of September 30, 2001 and 2000:

	2001	2000
Billed services	\$ 1,362,471	\$ 1,188,100
Unbilled services	1,455,800	1,455,800
	<u>\$ 2,818,271</u>	<u>\$ 2,643,900</u>

CITY OF ALEXANDRIA, VIRGINIA, SANITATION AUTHORITY

NOTES TO FINANCIAL STATEMENTS

Note 4. Investments

State statutes authorize the Authority to invest in obligations of the United States or agencies thereof, obligations of the Commonwealth of Virginia and other states or political subdivisions thereof, obligations of the International Bank for Reconstruction and Development (World Bank) and Asian Development Bank, Commercial Paper rated A-1 by Standard and Poor's Corporation or P-1 by Moody's Commercial Paper Record, banker's acceptances, repurchase agreements and the State Treasurer's Local Government Investment Pool.

Investments are made and insured pursuant to the Virginia Security for Public Deposits Act, Section 6.1-21 of the Virginia Code and the Federal Deposit Insurance Corporation, if appropriate.

In the following table, the deposits are categorized as (1) investments that are insured or registered for which the securities are held by the Authority or its safekeeping agent in the Authority's name, (2) collateralized with securities held by the pledging financial institution's trust department or agent in the Authority's name or (3) uninsured and unregistered investments for which the securities are held by the broker or dealer or by its trust department or safekeeping agent but not in the Authority's name.

Investments consist of the following at September 30, 2001 and 2000:

	2001	2000
Category (1)		
Obligations as authorized per state statutes	\$ 9,206,605	\$ 3,250,769
Category (3)		
Repurchase agreements, backed by obligations of U.S. government and agencies	4,846,679	3,922,293
Virginia Local Government Investment Pool		
This pooled investment fund is recognized as an investment type under GASB 3 that does not require disclosure of the indication of the level of risk assumed by the Authority.		
These funds are available on demand.	2,693,942	2,119,971
	<u>\$ 15,747,226</u>	<u>\$ 9,293,033</u>

CITY OF ALEXANDRIA, VIRGINIA, SANITATION AUTHORITY

NOTES TO FINANCIAL STATEMENTS

Note 5. Property and Equipment

Property and equipment consists of the following as of and for the years ended September 30, 2001 and 2000:

	Costs				
	Balance, September 30, 2000	Additions	Deductions	Transfers	Balance, September 30, 2001
	Land	\$ 435,478	\$ -	\$ -	\$ 27,862
Plant	188,369,915	887,634	-	11,184,108	200,441,657
Office equipment	742,524	101,974	-	198,868	1,043,366
Vehicles	788,806	146,651	(11,297)	-	924,160
Construction in progress	89,174,236	90,536,670	-	(11,410,838)	168,300,068
	<u>\$ 279,510,959</u>	<u>\$ 91,672,929</u>	<u>\$ (11,297)</u>	<u>\$ -</u>	<u>\$ 371,172,591</u>

	Estimated Useful Life	Accumulated Depreciation				
		Balance, September 30, 2000	Additions	Deductions	Transfers	
		Plant	\$ 49,697,732	\$ 2,916,000	\$ -	\$ -
Office equipment	10 years	378,256	78,038	-	-	456,294
Vehicles	5 years	689,980	65,912	(11,297)	-	744,595
		<u>\$ 50,765,968</u>	<u>\$ 3,059,950</u>	<u>\$ (11,297)</u>	<u>\$ -</u>	<u>\$ 53,814,621</u>

CITY OF ALEXANDRIA, VIRGINIA, SANITATION AUTHORITY

NOTES TO FINANCIAL STATEMENTS

Note 5. Property and Equipment (Continued)

	Costs					Balance, September 30, 2000
	Balance September 30, 1999	Additions	Deductions	Transfers		
Land	\$ 407,616	\$ -	\$ -	\$ 27,862		\$ 435,478
Plant	162,047,618	1,158,297	-	25,164,000		188,369,915
Office equipment	420,112	-	-	322,412		742,524
Vehicles	794,117	37,950	(43,261)	-		788,806
Construction in progress	36,646,091	78,042,419	-	(25,514,274)		89,174,236
	<u>\$ 200,315,554</u>	<u>\$ 79,238,666</u>	<u>\$ (43,261)</u>	<u>\$ -</u>		<u>\$ 279,510,959</u>

	Estimated Useful Life	Accumulated Depreciation				Balance, September 30, 2000
		Balance September 30, 1999	Additions	Deductions	Transfers	
Plant	67 years	\$ 47,069,601	\$ 2,628,131	\$ -	\$ -	\$ 49,697,732
Office equipment	10 years	323,684	54,572	-	-	378,256
Vehicles	5 years	688,813	44,428	(43,261)	-	689,980
		<u>\$ 48,082,098</u>	<u>\$ 2,727,131</u>	<u>\$ (43,261)</u>	<u>\$ -</u>	<u>\$ 50,765,968</u>

Note 6. Long-Term Debt

On March 15, 1999, the Authority executed a new Master Indenture of Trust for the purpose of issuing sewer revenue bonds from time to time. These bonds will provide funds to pay the cost, or any part of the cost, of the Sewage Disposal System additions or improvements or to refund indebtedness and obligations previously incurred for such purposes. The Authority has issued and sold sewer revenue bonds to the Virginia Water Facilities Revolving Fund, acting by and through the Virginia Resources Authority (VRA). The Master Indenture of Trust constitutes a contract among the Authority, the Trustee and VRA governing bond issuance.

CITY OF ALEXANDRIA, VIRGINIA, SANITATION AUTHORITY

NOTES TO FINANCIAL STATEMENTS

Note 6. Long-Term Debt (Continued)

Sewer revenue bonds consist of the following at September 30, 2001 and 2000:

	2001	2000
Sewer revenue bond, Series 1998A, \$9,000,000; secured equally and ratably with other bond issues by pledge of revenues of the Authority; semi-annual installments of \$334,540, including principal and interest at 4% due through March 1, 2019	\$ 8,363,046	\$ 8,687,830
Sewer revenue bond, Series 2000A, \$25,000,000; secured equally and ratably with other bond issues by pledge of revenues of the Authority; semi-annual installments of \$889,850, including principal and interest at 3.5% due through March 1, 2020.	24,087,384	24,553,090
Sewer revenue bond, Series 2000B, \$65,300,000; secured equally and ratably with other bond issues by pledge of revenues of the Authority; interest only payments due March 1, 2002 and March 1, 2003; semi-annual installments of approximately \$2,405,230, including principal and interest at 4.5% due from September 1, 2003 through September 1, 2022.	34,652,441	-
	<u>\$ 67,102,871</u>	<u>\$ 33,240,920</u>

Debt service requirements on long-term debt at September 30, 2001, are as follows:

Years ending September 30,	Principal	Interest	Total
2002	\$ 1,282,741	\$ 2,879,872	\$ 4,162,613
2003	1,891,537	3,576,715	5,468,252
2004	2,540,630	2,605,774	5,146,404
2005	2,644,550	2,501,853	5,146,403
2006	2,752,783	2,393,621	5,146,404
2007 - 2011	15,551,469	10,180,520	25,731,989
2012 - 2016	19,018,035	6,713,985	25,732,020
2017 - 2021	18,812,699	2,577,070	21,389,769
2022	2,608,427	89,197	2,697,624
	<u>\$ 67,102,871</u>	<u>\$ 33,518,607</u>	<u>\$ 100,621,478</u>

CITY OF ALEXANDRIA, VIRGINIA, SANITATION AUTHORITY

NOTES TO FINANCIAL STATEMENTS

Note 6. Long-Term Debt (Continued)

	Balance September 30, 2000	Additions	Reductions	Balance September 30, 2001	Due within one year
Sewer revenue bonds	\$ 33,240,919	\$ 35,099,351	\$ (1,237,399)	\$ 67,102,871	\$ 1,282,742

	Balance September 30, 1999	Additions	Reductions	Balance September 30, 2000	Due within one year
Sewer revenue bonds	\$ 10,288,727	\$ 24,553,090	\$ (1,600,898)	\$ 33,240,919	\$ 1,237,400

The components of the balance sheets accounts entitled "revenue bonds, principal and interest" are as follows:

September 30, 2001	Current Liabilities			
	Current Liabilities	Payable from Restricted Assets	Long-term Portion	2001 Totals
Sewer revenue bonds	\$ 1,175,850	\$ 106,892	\$ 65,820,129	\$ 67,102,871
Accrued interest	480,425	391,575	-	872,000
	<u>\$ 1,656,275</u>	<u>\$ 498,467</u>	<u>\$ 65,820,129</u>	<u>\$ 67,974,871</u>

September 30, 2000	Current Liabilities			
	Current Liabilities	Payable from Restricted Assets	Long-term Portion	2000 Totals
Sewer revenue bonds	\$ 1,030,409	\$ 206,991	\$ 32,003,520	\$ 33,240,920
Accrued interest	-	-	-	-
	<u>\$ 1,030,409</u>	<u>\$ 206,991</u>	<u>\$ 32,003,520</u>	<u>\$ 33,240,920</u>

CITY OF ALEXANDRIA, VIRGINIA, SANITATION AUTHORITY

NOTES TO FINANCIAL STATEMENTS

Note 6. Long-Term Debt (Continued)

Interest expense under the above obligations at September 30, 2001 and 2000, consists of the following:

	2001	2000
Total interest charges	\$ 2,273,574	\$ 665,693
Less capitalized interest	(1,768,841)	(665,693)
Net interest expense	\$ 504,733	\$ -

Note 7. Net Assets

Net assets represent the difference between assets and liabilities. The restricted net assets amounts at September 30, 2000 and 2001, were as follows:

	2001	2000
Invested in Capital Assets, Net of Related Debt:		
Net property and equipment in service	\$ 317,357,970	\$ 228,744,991
Less: Revenue bonds payable	(67,102,871)	(33,240,920)
Accounts payable and accrued interest for capital items	(2,563,292)	(1,598,463)
	<u>247,691,807</u>	<u>193,905,608</u>
Restricted:		
Operating	1,968,636	1,709,044
Parity debt service	657,756	206,991
Improvement, renewal and replacement	1,046,883	1,451,145
Construction	409,385	269,295
	<u>4,082,660</u>	<u>3,636,475</u>
Unrestricted	14,337,194	7,860,425
	<u>\$ 266,111,661</u>	<u>\$ 205,402,508</u>

CITY OF ALEXANDRIA, VIRGINIA, SANITATION AUTHORITY

NOTES TO FINANCIAL STATEMENTS

Note 8. Changes in Amounts Invested in Capital Assets, Net of Related Debt

The change in amounts invested in capital assets, net of related debt can be summarized as follows:

	2001	2000
Balance, beginning	\$ 193,905,608	\$ 138,880,274
Change in capital assets	88,612,979	76,511,535
Change in related debt	(34,826,780)	(21,486,201)
Balance, ending	<u>\$ 247,691,807</u>	<u>\$ 193,905,608</u>

Note 9. Pension Plan

The Authority has adopted Government Accounting Standard Statement No. 27, *Accounting for Pensions by State and Federal Government Employers*. There was no pension liability both before and at the effective date.

Plan description: The Authority funds, on a noncontributory basis, the defined benefit pension plans administered by the Virginia Retirement System (VRS), an agent and cost sharing multiple-employer defined benefit pension plan that acts as a common investment and administrative agent for political subdivisions in the Commonwealth of Virginia.

All full-time, salaried permanent employees of participating employers must participate in the VRS. Benefits vest after five years of service. Participating employees are eligible for an unreduced retirement benefit at age 65 with five years of service and at age 50 with 30 years of service payable monthly for life in an amount equal to 1.7% of their average final salary (AFS) for each year of credited service. Benefits are actuarially reduced for retirees who retire prior to becoming eligible for full retirement benefits.

In addition, retirees qualify for annual cost-of-living increases beginning in their second year of retirement. AFS is defined as the highest consecutive 36 months of salary. The VRS also provides death and disability benefits. Title 51.1 of the Code of Virginia (1950), as amended, assigns the authority to establish and amend benefit provisions to the General Assembly of Virginia.

VRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information. A copy of that report may be obtained by writing to the Virginia Retirement System, P.O. Box 2500, Richmond, Virginia 23218-2500.

Funding policy: Plan members are required by Title 51.1 of the Code of Virginia (1950), as amended, to contribute 5% of their annual salary to the VRS. The Authority is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the statute and approved by the VRS Board of Trustees. The Authority contribution rate was 2.07% for a combined rate of 7.07% of the annual covered payroll for the actuarial year ended June 30, 2001. Effective July 1, 2001, the combined rate will be 6.50%.

CITY OF ALEXANDRIA, VIRGINIA, SANITATION AUTHORITY

NOTES TO FINANCIAL STATEMENTS

Note 9. Pension Plan (Continued)

Annual pension cost: For the year ended September 30, 2001, the Authority's annual required pension cost was \$468,286. The annual required contribution was determined as a part of the June 30, 2000, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumption included (a) 8% investment rate of return which includes inflation at 3% (b) payroll growth rate of 3% (c) projected salary increases ranging from 4.25% to 6.10% per year, and (d) 3.0% per year cost-of-living adjustments. The actuarial value of the assets was determined using the modified market method. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at September 30, 2000, was 0 years.

Three-Year Trend Information

Years ended September 30,	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
1999	\$ 693,450	100%	-
2000	632,846	100%	-
2001	468,286	100%	-

Note 10. Line of Credit

The Authority has a \$25,000,000 revolving credit agreement which expires on October 25, 2001. The interest rate is a variable rate calculated for each month as 99.5% of the one-month LIBOR rate minus 36 basis points. The Authority has pledged the net revenues to secure the payment of principal and interest. The revolving rate constitutes subordinate debt under the Master Indenture of Trust discussed in Note 6. The line of credit will be renewed for an additional year as of December 1, 2001. The interest rate is a variable rate calculated for each month as 99.5% of the one-month LIBOR rate minus 11 basis points. The remaining terms have not changed.

The Authority's line of credit was established to provide for funds to meet cash flow needs for construction activity as required. Activity on this line of credit for the years ended September 30, 2001 and 2000, consist of the following:

	2001	2000
Balance, beginning	\$ -	\$ -
Increases	6,500,000	100,000
Decreases	(6,500,000)	(100,000)
Balance, ending	\$ -	\$ -

CITY OF ALEXANDRIA, VIRGINIA, SANITATION AUTHORITY

NOTES TO FINANCIAL STATEMENTS

Note 11. Commitments and Contingencies

Waste-to-Energy Facility: In 1984, as an accommodation to the City of Alexandria and Arlington County, the Authority agreed to be a party to an agreement to construct a waste-to-energy facility. The Authority's main role is to help meet imposed funding requirements. During 1985, the facility was sold to a private equity owner. As a condition of the sale, the Alexandria Sanitation Authority and the Arlington Solid Waste Authority will hold title to the facility until the obligation of the purchase agreements are met.

In 1998, two series of revenue bonds were issued on behalf of the waste-to-energy facility. The Series 1998A revenue bonds were issued to refund the original Series 1984 bonds. Series 1998B bonds were issued to finance capital improvements, including retrofitting the facility with certain air pollution control equipment.

In accordance with the agreements, at no time will the revenues or assets of the Authority be obligated or used to satisfy the debts and liabilities of the waste-to-energy facility.

Loan commitments: The Virginia Resources Authority has authorized an additional loan in the amount of \$65,300,000 at 4.5% per annum, for a term of 20 years in the form of a sewer revenue bond. The Authority has drawn \$34,652,441 as of September 30, 2001. The Authority expects to draw approximately \$2,000,000 per month until they reach the full \$65,300,000. The terms of this bond are interest only payments made annually in March 2002 and March 2003, then principal and interest payments begin in September of 2003.

Capital improvements: The Authority is committed under various contracts pertaining to an upgrade to the advanced wastewater treatment plant totaling approximately \$320,000,000 at September 30, 2001. Sixty percent of the cost of the projects is absorbed by Fairfax County. Some of the projects are being partially funded with state assistance awards. Of the total project costs of \$320,000,000, contracts for approximately \$49,512,013 have been entered into and remain outstanding as of September 30, 2001.

Contingencies: The Authority is involved in various legal actions arising in the normal course of business. In the opinion of management, such matters will not have a material effect upon the financial position of the Authority.

CITY OF ALEXANDRIA, VIRGINIA, SANITATION AUTHORITY

**REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS**

Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as Percentage of Payroll
June 30, 1998	\$ 13,945,091	\$ 12,979,532	\$ (965,559)	107.4%	\$ 7,011,705	(13.8%)
June 30, 1999	16,320,955	14,598,169	(1,722,786)	111.8%	6,782,348	(25.4%)
June 30, 2000	19,049,799	14,426,065	(4,623,734)	132.1%	6,646,898	(69.6%)