

## City of Alexandria, Virginia

## MEMORANDUM

DATE: MAY 4, 2004

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: PHILIP SUNDERLAND, CITY MANAGER *PS*

SUBJECT: ALEXANDRIA SANITATION AUTHORITY FINANCIAL REPORT

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**ISSUE:** Receipt of the Alexandria Sanitation Authority's September 30, 2003 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 "acquiring, constructing, improving, extending, operating, and maintaining a sewer 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 in the City, payments from Fairfax County and interest on investments.

The City staff reviewed the September 30, 2003 Financial Report and made the following observations:

- The Authority received a "clean" audit opinion from independent auditors, McGladrey & Pullen, LLP, indicating that the statements were prepared in accordance with Generally Accepted Accounting Principles (Financial Report page 1). This is the second year the Authority has complied with the provisions of Statement No. 34 of the Governmental Accounting Standards Board (Financial Report page 2). In compliance with the new accounting standards, this report includes a "management discussion and analysis section" (Financial Report, pages 2-9) which provides the Authority's management assessment of operations.
- At year-end, the Authority's total assets were \$428 million and liabilities were \$108 million, resulting in total net assets of \$320 million (Financial Report page 5). Net assets

increased by \$23 million during the year, compared to \$32 million in the previous year, primarily from capital contribution invested in capital assets (Financial Report page 8). Unrestricted net assets, however, decreased by \$1.2 million to \$14.7 million (Financial Report page 10).

- The Authority finished the year with net operating revenues exceeding operating expenses by \$5.8 million. This is an increase of 4 percent over fiscal year (FY) 2002 (Financial Report page 11).
- Revenues from sewage disposal charges to the City of Alexandria customers totaled \$17.9 million, compared to \$17.8 million last year (Financial Report page 11).
- As of FY 2003, the Authority has borrowed \$99.3 million from the Virginia Water Facilities Revolving Fund (VWFRF). This loan was at a 4.5 percent interest rate for 20 years. The Authority still has \$2.6 million of the loan authorization available for future upgrade needs (Financial Report page 2).
- The Authority received grant funds of \$0.6 million from the State of Virginia's Water Quality Improvement Fund. Through fiscal year 2003, the Authority has received \$17.1 million in grant funds from the State (Financial Report page 2). These funds pay for a share of the biological nutrient reduction costs included in the facility upgrade, as well as reduce the capital cost that must be recovered in the Authority's customer rates.

As of September 2003, the Authority is committed, under various contracts, to an upgrade to the advanced wastewater treatment plant totaling approximately \$320 million. This upgrade is needed to meet the rigorous pollution requirements of the Potomac Embayment Policy (Virginia Administrative Code 25-415-10) and the biological nutrient reduction goals from the 1987 Chesapeake Bay Agreement between Virginia, Maryland, Pennsylvania and the District of Columbia. Fairfax County absorbs sixty percent of the cost of upgrading projects and The City of Alexandria absorbs 40 percent. Of the \$33.9 million paid by the Authority, the Alexandria portion was funded from the Authority's \$99.3 million loan from VWFRF (Financial Report page 2). Some of the project costs are being partially funded with State assistance awards. Of the \$320 million in total project costs, contracts for approximately \$72.8 million have been entered into and remain outstanding as of September 30, 2003 (Financial Report page 24).

The Authority has contingent liabilities to the Department of Justice related to certain discharge limits for a permit and consent decree. The Authority believes that isolated events of force majeure and significant delays by the contractor have caused these exceedances. To date, no enforcement action has been taken by the Department of Justice. The Authority has notified the contractor of liquidated damages under the contract, while the contractor has filed certain claims against the Authority. The Authority and the contractor are engaged in voluntary efforts to resolve these matters (Financial Report page 25).

**ATTACHMENT:** City of Alexandria, Virginia, Sanitation Authority Report as of September 30, 2003

**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, 2003

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# McGladrey & Pullen

Certified Public Accountants

## Independent Auditor's Report

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

We have audited the accompanying financial statements of City of Alexandria, Virginia, Sanitation Authority (the Authority) as of and for the years ended September 30, 2003 and 2002, as listed in the table of contents. 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.

We conducted our audits 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 audits provide 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, 2003 and 2002, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis on pages 2 through 9 and the Schedule of Funding Progress on page 26 are 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 required supplementary information. However, we did not audit the information and express no opinion on it.

*McGladrey & Pullen, LLP*

Alexandria, Virginia  
December 30, 2003

**City Of Alexandria, Virginia, Sanitation Authority**

**Management's Discussion And Analysis**

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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. The Authority implemented the provisions of Statement 33 and 34 of the Governmental Accounting Standards Board in the prior fiscal year.

This section presents management's discussion and analysis of the Authority's financial condition and activities for the year ended September 30, 2003. 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 treated 14.95 billion gallons of wastewater which represents a 26.9% increase over fiscal year 2002.

Fairfax County contributed 7.92 billion gallons of wastewater which is a 30.2% increase over fiscal year 2002.

Debt service coverage, on the accrual basis, was 1.82 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).

The Authority has borrowed a total of \$99.3 million from the VWFRF. These loans are used to pay the Alexandria portion of the current upgrade. At the end of the fiscal year, the Authority had \$2.6 million of loan proceeds available to pay future upgrade costs.

The Authority received grant funds of \$638 thousand 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. Through fiscal year 2003, the Authority has received \$17.1 million in grant funds from the State.

Facility upgrade costs, paid by the Authority, totaled \$33.9 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 \$428 million and exceeded liabilities in the amount of \$320.4 million (i.e. net assets). Of the total net assets, \$14.7 million was unrestricted and was available to support short-term operations.

Total assets and total net assets increased from fiscal year end 2002 to 2003 in the amounts of \$35 million and \$22.6 million, respectively. During the same period unrestricted net assets decreased net assets decreased by \$1.2 million.

## City Of Alexandria, Virginia, Sanitation Authority

### Management's Discussion And Analysis (Continued)

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- Sewage disposal charges of \$17.9 million increased over fiscal year 2002 by \$92,543 or 0.5%. Sewage disposal charges for fiscal year 2003 exceeded budget projections by 0.6%.
- Payments from Fairfax County of \$11.2 million represented their share of operating costs based upon their proportional contribution to the plant total flow. The payments increased by \$2.3 million or 25.8% over fiscal year 2002. This increase in the County's payment is a result of increased flow contribution and an increase in operating expenses.

Operating expenses before depreciation increased, but were below budget by 0.3%. Total operating expenses for fiscal year 2003 increased 18% compared to fiscal year 2002.

Unrestricted operating income for the year was \$5.7 million, representing a 4.3% increase over fiscal year 2002. Net assets, before and after capital contribution, increased \$22.6 million and \$31.6 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 revenue, 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.

## City Of Alexandria, Virginia, Sanitation Authority

### Management's Discussion And Analysis (Continued)

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#### 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.

City Of Alexandria, Virginia, Sanitation Authority

Management's Discussion And Analysis (Continued)

**Financial Analysis**

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

**Condensed Statements Of Net Assets (Balance Sheets)**  
(In Millions Of Dollars)

	2003	2002	\$ Change	% Change
Current assets	\$ 3.60	\$ 2.90	\$ 0.70	24.14 %
Restricted assets	7.00	5.90	1.10	18.64 %
Investments	11.80	14.70	(2.90)	(19.73) %
Plant and equipment, net	405.60	369.50	36.10	9.77 %
<b>Total assets</b>	<b>428.00</b>	<b>393.00</b>	<b>35.00</b>	<b>8.91 %</b>
Current liabilities	18.80	15.00	3.80	25.33 %
Liabilities payable from restricted assets	0.60	0.60	-	0.00 %
Long-term debt	88.20	79.70	8.50	10.66 %
<b>Total liabilities</b>	<b>107.60</b>	<b>95.30</b>	<b>12.30</b>	<b>12.91 %</b>
Invested in capital assets net of related debt	298.70	275.90	22.80	8.26 %
Restricted	7.00	5.90	1.10	18.64 %
Unrestricted	14.70	15.90	(1.20)	(7.55) %
<b>Total net assets</b>	<b>\$ 320.40</b>	<b>\$ 297.70</b>	<b>\$ 22.70</b>	<b>7.63 %</b>

City Of Alexandria, Virginia, Sanitation Authority

Management's Discussion And Analysis (Continued)

Financial Analysis (Continued)

Condensed Statements Of Revenues, Expenses  
And Changes In Net Assets  
(In Millions of Dollars)

	2003	2002	\$ Change	% Change
Operating revenue	\$ 31.90	\$ 27.70	\$ 4.20	15.16 %
Non-operating revenue	0.20	0.40	(0.20)	(50.00) %
<b>Total revenues</b>	<b>32.10</b>	<b>28.10</b>	<b>4.00</b>	<b>14.23 %</b>
Depreciation expense	4.90	3.30	1.60	48.48 %
Other operating expense	21.10	18.80	2.30	12.23 %
Non-operating expense	2.80	0.60	2.20	366.67 %
<b>Total expenses</b>	<b>28.80</b>	<b>22.70</b>	<b>6.10</b>	<b>26.87 %</b>
Income before capital contributions	3.30	5.40	(2.10)	(38.89) %
Capital contributions	19.40	26.30	(6.90)	(26.24) %
Change in net assets	22.70	31.70	(9.00)	(28.39) %
Beginning net assets	297.70	266.00	31.70	11.92 %
<b>Ending net assets</b>	<b>\$ 320.40</b>	<b>\$ 297.70</b>	<b>\$ 22.70</b>	<b>7.63 %</b>

City Of Alexandria, Virginia, Sanitation Authority

Management's Discussion And Analysis (Continued)

Other Selected Information

	2003	2002	Difference	% Change
Selected Data:				
Employees at year-end	130	137	(7)	(5.1) %
Alexandria accounts	25,431	25,039	392	1.6 %
Wastewater treated (millions of gallons)	14,948	11,782	3,166	26.9 %
Portion contributed by				
Fairfax County (millions of gallons)	7,920	6,083	1,837	30.2 %
Percentage contributed by				
Fairfax County	52.98%	51.6%	1.38%	2.7 %
Rates:				
Charge per 1,000 gallons of water consumption	\$ 3.54	\$ 3.41	0.13	3.8 %
Account service charge per bill rendered	3.93	3.85	0.08	2.1 %
Average customer bill:				
Per year	247.27	238.46	8.81	3.7 %
Per quarter	61.82	59.62	2.20	3.7 %
Per month	20.61	19.87	0.74	3.7 %

## City Of Alexandria, Virginia, Sanitation Authority

### Management's Discussion And Analysis (Continued)

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#### 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 392 which represents a 1.6% increase over fiscal year 2002. The current number of accounts, 25,431, represents a 17% increase for the ten-year period beginning with fiscal year 1994.

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 \$35 million or 8.91%, with \$36 million represented by additions to plant and equipment. Net assets increased by \$22.6 million, with a substantial portion of the change resulting from capital contributions.

Accounts receivable for sewage disposal charges at year-end were 4.6% more than fiscal year 2002. The average age of an Authority account receivable in fiscal year 2003 was 15.9 days. The Authority's bad debts were \$19 thousand on \$17.8 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 33 implementation, this money was recorded as direct contributions to the Authority's equity as contributed capital. GASB 33 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 \$2.3 million or 12.1% over fiscal year 2002. The Authority's personnel services, which include wages, retirement, and insurance, were 34.1% of the total operating expenses of \$26.1 million for fiscal year 2003 and 37.2% of the total operating expenses for 2002.

## City Of Alexandria, Virginia, Sanitation Authority

### Management's Discussion And Analysis (Continued)

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#### Debt

At year-end the Authority had \$91.5 million in long-and short-term debt. Additional loan draws on existing borrowing amounted to \$11.9 million and fiscal year 2003 principal payments on outstanding debt of \$2.3 million resulted in a net increase in debt of \$9.6 million or 11.7% over fiscal year 2002. More detailed information about the Authority's long-term debt is presented in the notes to financial statements on pages 18, 19, and 20.

Based on current estimates of cash flow needs for the Alexandria portion of the upgrade, the current loan and an anticipated loan in 2004 from the Virginia Water Facilities Revolving Fund will be sufficient to cover these payments through fiscal year.

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 1.82. 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 that 1.1 times the debt service (principal and interest) for the fiscal year. The following table calculates the Revenue Covenant, on the accrual basis, for fiscal year 2003 and 2002:

	2003	2002	% Change
Unrestricted operating revenue (millions)	\$ 31.88	\$ 27.70	15.09 %
Unrestricted investment income (millions)	0.24	0.40	(40.00) %
<b>Total revenue (millions)</b>	<b>32.12</b>	<b>28.10</b>	<b>14.31 %</b>
Total operating expenses (Less depreciation and replacements) (millions)	21.03	19.40	8.40 %
Net revenue (millions)	\$ 11.09	\$ 8.70	27.47 %
Annual debt service (millions)	\$ 6.09	\$ 4.30	41.63 %
Revenue covenant (minimum 1.1 allowed)	\$ 1.82	\$ 2.00	(9.00) %

#### Final Comments

Fiscal year 2003 continued a trend of strong financial performance by the Authority. This strong performance 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.

City Of Alexandria, Virginia, Sanitation Authority

Balance Sheets  
September 30, 2003 And 2002

<b>Assets</b>	<b>2003</b>	<b>2002</b>
<b>Current Assets</b>		
Cash	\$ 150,244	\$ 31,454
Accounts receivable	2,971,774	2,810,465
Due from Fairfax County	504,797	-
Other receivables	-	29,779
<b>Total current assets</b>	<b>3,626,815</b>	<b>2,871,698</b>
<b>Restricted Assets</b>		
Cash	1,723,130	1,719,671
Investments	5,248,557	4,157,910
<b>Total restricted assets</b>	<b>6,971,687</b>	<b>5,877,581</b>
Investments	<b>11,805,269</b>	<b>14,716,625</b>
Capital Assets, net of accumulated depreciation	<b>405,599,664</b>	<b>369,531,433</b>
	<b>\$ 428,003,435</b>	<b>\$ 392,997,337</b>
<b>Liabilities And Net Assets</b>		
<b>Current Liabilities</b>		
Current maturities of long-term debt and interest	\$ 3,031,172	\$ 2,892,013
Accounts payable and accrued expenses	15,806,137	11,169,303
Due to Fairfax County	-	959,732
<b>Total current liabilities</b>	<b>18,837,309</b>	<b>15,021,048</b>
Current Liabilities Payable From Restricted Assets:		
Revenue bonds, principal and interest	<b>604,930</b>	<b>589,295</b>
Long-Term Debt, less current maturities	<b>88,226,452</b>	<b>79,683,995</b>
<b>Net Assets</b>		
Invested in capital assets, net of related debt	298,717,606	275,864,599
Restricted	6,971,687	5,877,581
Unrestricted	14,645,451	15,960,819
	<b>320,334,744</b>	<b>297,702,999</b>
	<b>\$ 428,003,435</b>	<b>\$ 392,997,337</b>

See Notes To Financial Statements.

City Of Alexandria, Virginia, Sanitation Authority

Statements Of Revenue, Expenses And Changes In Net Assets  
Years Ended September 30, 2003 And 2002

	2003	2002
Operating Revenue		
Sewage disposal charges:		
Regular	\$ 17,782,062	\$ 17,625,812
Special	105,574	169,281
Fairfax County:		
Regular	11,206,061	8,955,664
Contribution to improvement, renewal and replacement fund	1,039,800	876,996
Miscellaneous	1,750,959	3,870
<b>Total operating revenue</b>	<b>31,884,456</b>	<b>27,631,623</b>
Operating Expenses		
Personnel services	8,902,648	8,228,127
Utilities	2,946,236	2,020,433
Chemicals	2,682,634	2,335,952
Equipment maintenance	875,190	824,619
Structures and grounds	32,840	79,266
Sewage disposal services,		
Arlington County	633,902	629,847
Sludge disposal	1,834,597	2,023,601
Depreciation	4,985,400	3,255,600
Replacements, sewage disposal system	100,203	58,236
General, administration, customer service, and other	3,125,294	2,649,708
<b>Total operating expenses</b>	<b>26,118,944</b>	<b>22,105,389</b>
<b>Operating income</b>	<b>5,765,512</b>	<b>5,526,234</b>
Non-Operating Revenue (Expenses)		
Investment income	239,955	414,366
Interest expense, net of capitalized interest	(2,765,143)	(593,998)
<b>Non-operating revenue, net</b>	<b>(2,525,188)</b>	<b>(179,632)</b>
<b>Change in net assets before capital contributions</b>	<b>3,240,324</b>	<b>5,346,602</b>
Capital Contributions	19,391,421	26,244,736
<b>Change in net assets</b>	<b>22,631,745</b>	<b>31,591,338</b>
Net Assets – Beginning	297,702,999	266,111,661
Net Assets – Ending	<b>\$ 320,334,744</b>	<b>\$ 297,702,999</b>

See Notes To Financial Statements.

City Of Alexandria, Virginia, Sanitation Authority

Statements Of Cash Flows

Years Ended September 30, 2003 And 2002

	2003	2002
<b>Cash Flows from Operating Activities</b>		
Cash received from customers	\$ 19,507,065	\$ 18,622,384
Cash received from Fairfax County	10,781,332	9,893,537
Cash paid to suppliers	(12,230,896)	(9,703,961)
Cash paid to employees	(8,783,063)	(9,110,330)
<b>Net cash provided by operating activities</b>	<b>9,274,438</b>	<b>9,701,630</b>
<b>Cash Flows from Capital and Related Financing Activities</b>		
Purchase/construction of property and equipment	(37,430,330)	(46,275,267)
Proceeds from issuance of long-term debt	11,856,948	16,129,617
Principal payments on debt	(2,265,750)	(1,282,741)
Interest paid on borrowings, net of interest capitalized	(2,765,143)	(593,998)
Proceeds from capital contributions	19,391,421	26,244,736
<b>Net cash (used in) capital and related financing activities</b>	<b>(11,212,854)</b>	<b>(5,777,653)</b>
<b>Cash Flows from Investing Activities</b>		
Proceeds from sales and maturities of investments	112,447,092	100,751,637
Purchase of investments	(110,626,382)	(103,816,970)
Investment income	239,955	411,380
<b>Net cash provided by (used in) investing activities</b>	<b>2,060,665</b>	<b>(2,653,953)</b>
<b>Net increase in cash</b>	<b>122,249</b>	<b>1,270,024</b>
Cash, Beginning	1,751,125	481,101
Cash, Ending	<b>\$ 1,873,374</b>	<b>\$ 1,751,125</b>
<b>Reconciliation to Balance Sheets</b>		
Unrestricted cash	\$ 150,244	\$ 31,454
Restricted cash	1,723,130	1,719,671
	<b>\$ 1,873,374</b>	<b>\$ 1,751,125</b>
<b>Reconciliation of Operating Income to Net Cash</b>		
Provided by Operating Activities		
Operating income	\$ 5,765,512	\$ 5,526,234
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	4,985,400	3,255,600
Changes in assets and liabilities:		
Decrease (increase) in accounts receivable	(131,530)	37,014
Increase (decrease) in accounts payable and accrued expenses	119,585	(55,091)
Increase (decrease) in due to Fairfax County	(1,464,529)	937,873
<b>Net cash provided by operating activities</b>	<b>\$ 9,274,438</b>	<b>\$ 9,701,630</b>
<b>Schedule of Non-Cash Investing and Financing Activities</b>		
Construction in progress incurred by issuance of accounts payable	\$ 15,019,505	\$ 10,501,531

See Notes To Financial Statements.

## City Of Alexandria, Virginia, Sanitation Authority

### Notes To Financial Statements

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#### 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*.

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.

Revenues and expenses: Operating revenues and expenses consist 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*.

City Of Alexandria, Virginia, Sanitation Authority

Notes To Financial Statements

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**Note 1. Description Of Entity And Significant Accounting Policies (Continued)**

Capital assets: Capital assets 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 \$657,773 and \$577,589 at September 30, 2003 and 2002, 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, 2003 and 2002, is approximately \$230,000 and \$206,000, 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 \$19,391,421 were received by the Authority for the year ended September 30, 2003, and \$26,244,736 for the year ended September 30, 2002.

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 consist 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.

City Of Alexandria, Virginia, Sanitation Authority

Notes To Financial Statements

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**Note 1. Description Of Entity And Significant Accounting Policies (Continued)**

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.

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.

City Of Alexandria, Virginia, Sanitation Authority

Notes To Financial Statements

**Note 3. Receivables And Payables**

Receivable and payables were composed of the following as of September 30, 2003 and 2002:

	2003	2002
Trade receivables		
Billed services	\$ 1,515,974	\$ 1,354,665
Unbilled services	1,455,800	1,455,800
	<u>\$ 2,971,774</u>	<u>\$ 2,810,465</u>
Accounts payable:		
Vendors	<u>\$ 15,019,506</u>	<u>\$ 10,502,257</u>
Accrued expenses:		
Payroll and payroll taxes	\$ 128,858	\$ 89,357
Vacation	657,773	577,589
	<u>\$ 786,631</u>	<u>\$ 666,946</u>

**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) uninsured and unregistered, with securities held by the counterparty's trust department or agent in the Authority's name or (3) uninsured and unregistered investments for which the securities are held by the counterparty or dealer or by its trust department or safekeeping agent but not in the Authority's name.

City Of Alexandria, Virginia, Sanitation Authority

Notes To Financial Statements

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**Note 4. Investments (Continued)**

Investments consist of the following at September 30, 2003 and 2002:

	2003	2002
Category (1)		
Obligations as authorized per state statutes	\$ 10,100,784	\$ 12,399,872
Category (3)		
Repurchase agreements, backed by obligations of U.S. government and agencies	3,024,302	4,743,593
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.	3,928,740	1,731,070
	<u>\$ 17,053,826</u>	<u>\$ 18,874,535</u>

City Of Alexandria, Virginia, Sanitation Authority

Notes To Financial Statements

Note 5. Capital Assets

Capital assets consists of the following as of and for the years ended September 30, 2003 and 2002:

	Costs				Balance, September 30, 2003
	Balance, September 30, 2002	Additions	Deductions	Transfers	
Capital assets, not being depreciated:					
Land	\$ 495,227	\$ 14,627	\$ -	\$ -	\$ 509,854
Construction in progress	211,020,990	38,153,544	-	(213,990,714)	35,183,820
Total capital assets, not being depreciated	211,516,217	38,168,171	-	(213,990,714)	35,693,674
Capital assets, being depreciated					
Plant	212,924,668	2,740,706	-	213,990,714	429,656,088
Office equipment	1,131,544	65,470	-	-	1,197,014
Vehicles	1,029,225	79,284	-	-	1,108,509
Total capital assets, being depreciated	215,085,437	2,885,460	-	213,990,714	431,961,611
Less accumulated depreciation for:					
Plant 67 years	(55,713,732)	(4,817,500)	-	-	(60,531,232)
Office equipment 10 years	(542,894)	(90,500)	-	-	(633,394)
Vehicles 5 years	(813,595)	(77,400)	-	-	(890,995)
	(57,070,221)	(4,985,400)	-	-	(62,055,621)
Total capital assets being depreciated, net	158,015,216	(2,099,940)	-	213,990,714	369,905,990
	\$ 369,531,433	\$ 36,068,231	\$ -	\$ -	\$ 405,599,664

	Balance				Balance, September 30, 2002
	September 30, 2001	Additions	Deductions	Transfers	
Capital assets, not being depreciated:					
Land	\$ 463,340	\$ 31,887	\$ -	\$ -	\$ 495,227
Construction in progress	168,300,068	53,516,948	-	(10,796,026)	211,020,990
Total capital assets, not being depreciated	168,763,408	53,548,835	-	(10,796,026)	211,516,217
Capital assets, being depreciated					
Plant	200,441,657	1,686,985	-	10,796,026	212,924,668
Office equipment	1,043,366	88,178	-	-	1,131,544
Vehicles	924,160	105,065	-	-	1,029,225
Total capital assets, being depreciated	202,409,183	1,880,228	-	10,796,026	215,085,437
Less accumulated depreciation for:					
Plant 67 years	(52,613,732)	(3,100,000)	-	-	(55,713,732)
Office equipment 10 years	(456,294)	(86,600)	-	-	(542,894)
Vehicles 5 years	(744,595)	(69,000)	-	-	(813,595)
	(53,814,621)	(3,255,600)	-	-	(57,070,221)
Total capital assets being depreciated, net	148,594,562	(1,375,372)	-	10,796,026	158,015,216
	\$ 317,357,970	\$ 52,173,463	\$ -	\$ -	\$ 369,531,433

City Of Alexandria, Virginia, Sanitation Authority

Notes To Financial Statements

**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.

Sewer revenue bonds consist of the following at September 30, 2003 and 2002:

	2003	2002
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 2019.	\$ 7,673,585	\$ 8,025,141
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 2020.	22,164,352	23,142,547
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 2002 and March 2003; semi-annual installments of approximately \$2,405,000, including principal and interest at 4.5% due from September 2003 through September 2022.	61,703,006	50,782,058
	<u>\$ 91,540,943</u>	<u>\$ 81,949,746</u>

City Of Alexandria, Virginia, Sanitation Authority

Notes To Financial Statements

**Note 6. Long-Term Debt (Continued)**

Debt service requirements on long-term debt at September 30, 2003, are as follows:

Years ending September 30,	Principal	Interest	Total
2004	\$ 3,314,490	\$ 3,945,137	\$ 7,259,627
2005	3,453,023	3,806,495	7,259,518
2006	3,597,415	3,662,011	7,259,426
2007	3,747,734	3,511,391	7,259,125
2008 - 2012	21,231,090	15,064,769	36,295,859
2013 - 2017	26,078,532	10,217,319	36,295,851
2018 - 2022	30,118,659	4,282,010	34,400,669
	<u>\$ 91,540,943</u>	<u>\$ 44,489,132</u>	<u>\$ 136,030,075</u>

	Balance September 30, 2002	Additions	Reductions	Balance September 30, 2003	Due within one year
Sewer revenue bonds	<u>\$ 81,949,746</u>	<u>\$ 11,856,948</u>	<u>\$ 2,265,751</u>	<u>\$ 91,540,943</u>	<u>\$ 3,314,490</u>

	Balance September 30, 2001	Additions	Reductions	Balance September 30, 2002	Due within one year
Sewer revenue bonds	<u>\$ 67,102,871</u>	<u>\$ 16,129,616</u>	<u>\$ 1,282,741</u>	<u>\$ 81,949,746</u>	<u>\$ 2,265,751</u>

City Of Alexandria, Virginia, Sanitation Authority

Notes To Financial Statements

Note 6. Long-Term Debt (Continued)

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

Interest expense under the above obligations at September 30, 2003 and 2002, consists of the following:

September 30, 2003	Current Liabilities			2003 Totals
	Current Liabilities	Payable From Restricted Assets	Long-Term Portion	
Sewer revenue bonds	\$ 2,982,901	\$ 331,590	\$ 88,226,452	\$ 91,540,943
Accrued interest	48,271	273,340	-	321,611
	<u>\$ 3,031,172</u>	<u>\$ 604,930</u>	<u>\$ 88,226,452</u>	<u>\$ 91,862,554</u>

September 30, 2002	Current Liabilities			2002 Totals
	Current Liabilities	Payable From Restricted Assets	Long-Term Portion	
Sewer revenue bonds	\$ 2,157,893	\$ 107,858	\$ 79,683,995	\$ 81,949,746
Accrued interest	734,120	481,437	-	1,215,557
	<u>\$ 2,892,013</u>	<u>\$ 589,295</u>	<u>\$ 79,683,995</u>	<u>\$ 83,165,303</u>

	2003	2002
Total interest charges	\$ 3,825,378	\$ 2,984,994
Less capitalized interest	(1,060,235)	(2,390,996)
<b>Net interest expense</b>	<u>\$ 2,765,143</u>	<u>\$ 593,998</u>

City Of Alexandria, Virginia, Sanitation Authority

Notes To Financial Statements

**Note 7. Net Assets**

Net assets represent the difference between assets and liabilities. The restricted net assets amounts at September 30, 2003 and 2002, were as follows:

	2003	2002
Invested in Capital Assets, Net of Related Debt:		
Net property and equipment in service	\$ 405,599,664	\$ 369,531,433
Less: Revenue bonds payable	(91,540,942)	(81,949,746)
Accounts payable and accrued interest for capital items	(15,341,116)	(11,717,088)
	<u>298,717,606</u>	<u>275,864,599</u>
Restricted:		
Operating	2,210,256	2,103,025
Parity debt service	814,046	1,056,557
Improvement, renewal and replacement	3,836,338	2,315,622
Construction	111,047	402,377
	<u>6,971,687</u>	<u>5,877,581</u>
Unrestricted	14,645,451	15,960,819
	<u>\$ 320,334,744</u>	<u>\$ 297,702,999</u>

**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:

	2003	2002
Balance, beginning	\$ 275,864,599	\$ 247,691,807
Change in capital assets	32,444,204	55,173,463
Change in-related debt	(9,591,197)	(27,000,671)
Balance, ending	<u>\$ 298,717,606</u>	<u>\$ 275,864,599</u>

**City Of Alexandria, Virginia, Sanitation Authority**

**Notes To Financial Statements**

**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 compensation (AFC) for each year of credited service. Benefits are actuarially reduced for retirees who retire prior to becoming eligible for full retirement benefits.

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

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 1.00% for a combined rate of 6.00% of the annual covered payroll for the actuarial year ended June 30, 2003.

Annual pension cost: The Authority's annual required pension cost was \$410,100 and \$423,092, for the years ended September 30, 2003 and 2002, respectively. The annual required contribution was determined as a part of the June 30, 2002, 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, 2003, was 0 years.

**Three-Year Trend Information**

Years ended September 30,	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2001	\$ 468,286	100%	\$ -
2002	423,092	100%	-
2003	410,100	100%	-

# City Of Alexandria, Virginia, Sanitation Authority

## Notes To Financial Statements

### Note 10. Line Of Credit

The Authority has a \$25,000,000 revolving credit agreement which expires on December 3, 2002. 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 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. There is a variable non-usage fee payable at each renewal or upon termination; no fees have been paid as of September 30, 2003.

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, 2003 and 2002, consists of the following:

	2003	2002
Balance, Beginning	\$ -	\$ -
Increases	-	100,000
Decreases	-	(100,000)
Balance, ending	<u>\$ -</u>	<u>\$ -</u>

### 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 \$61,703,006 as of September 30, 2003. 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 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, 2003. 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 \$72,796,014 have been entered into and remain outstanding as of September 30, 2003.

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**

**Notes To Financial Statements**

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**Note 12. New Governmental Accounting Standards Board (GASB) Standard**

GASB Statement No. 39, "Determining Whether Certain Organizations are Component Units", will be effective for the Authority for the fiscal year ending September 30, 2004. Statement No. 39 amends Statement No. 14 to provide additional guidance to determine whether certain organizations for which the primary government is not financially accountable should be reported as a component unit based on the nature and significance of their relationship with the primary should be reported as a component unit based on the nature and significance if their relationship with the primary government. Management has not yet completed their assessment of the effects of this statement.

**Note 13. Contingent Liabilities**

The Authority has exceeded certain discharge limits imposed by the Authority's Virginia Pollutant Discharge Elimination System permit and consent decree that was entered into with the U.S. Department of Justice. The Authority believes that isolated events of force majeure and significant delays by the contractor have caused these exceedances and has notified the U.S. Department of Justice. To date, the Department has taken no enforcement action in response to these exceedances. It is possible that the Virginia Department of Environmental Quality could seek penalties and/or injunctive relief against the Authority for these exceedances.

Certain completion deadlines in construction contracts with the general contractor were not met. The Authority has notified the contractor of liquidated damages under the contract. The contractor has filed certain claims against the Authority, and has notified the Authority that it believes it has additional claims. At this time, the Authority and the contractor are engaged in voluntary efforts to resolve these matters.

City Of Alexandria, Virginia, Sanitation Authority

Virginia Retirement System – Required Supplementary Information

(Unaudited – See Accompanying Independent Auditor’s Report)

Schedule of Funding Progress

Actuarial Valuation Date June 30	Actuarial Value of Assets a	Actuarial Accrued Liability (AAL) Entry Age b	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll c	UAAL as a Percentage of Covered Payroll [(b-a)/c]
2000	\$ 19,049,799	\$ 14,426,065	(4,623,734)	132.05%	\$ 6,646,898	(69.56%)
2001	21,080,214	15,997,737	(5,082,477)	131.77%	6,513,185	(78.03%)
2002	21,852,253	18,271,746	(3,580,507)	119.60%	6,561,976	(54.56%)