

## City of Alexandria, Virginia

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3-11-03

## MEMORANDUM

DATE: MARCH 3, 2003

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

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

SUBJECT: ALEXANDRIA SANITATION AUTHORITY FINANCIAL REPORT

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**ISSUE:** Receipt of the Alexandria Sanitation Authority's September 30, 2002 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 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 in the City, payments from Fairfax County, and interest on investments.

The City staff reviewed the September 30, 2002 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 (Financial Report, page 9). This is the second year that the Authority has complied with the provisions of Statement No. 34 of the Governmental Accounting Standards Board (Financial Report, page 1). In compliance with the new accounting standards, this report includes a "management discussion and analysis section" (Financial Report, pages 1-8), which provides the Authority's management assessment of the operations.
- At year-end, the Authority's total assets were \$393 million and liabilities were \$95 million, resulting in total net assets of \$298 million (Financial Report, page 4). Net assets increased by \$32 million during the year compared to \$61 million

in the previous year because Fairfax County made a smaller capital contribution (Financial Report, page 5). This capital contribution was used for plant and equipment capital investment.

- The Authority finished the year with net operating revenues exceeding operating expenses by \$5.5 million. This is an increase of 16.7% over FY 2001 (Financial Report, page 11).
- Revenues from sewage disposal charges to City of Alexandria customers totaled \$17.8 million, compared to \$17.5 million last year (Financial Report, page 11).
- As of fiscal year 2002, the Authority has borrowed \$99.3 million from the Virginia Water Facilities Revolving Fund (VWFRF). This loan was at a 4.5 % interest rate for 20 years. The Authority still has \$14.5 million of the loan authorization available for future upgrade needs (Financial Report, page 1).
- The Authority received grant funds of \$2.1 million from the State of Virginia's Water Quality Improvement Fund. Through fiscal year 2002, the Authority has received \$16.4 million in grant funds from the state. 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 30, 2002, 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. Sixty percent of the cost of the upgrade projects is absorbed by Fairfax County users of the plant and 40 percent by City of Alexandria users. Of the \$42.3 million in upgrade costs paid by the Authority in FY 2002, the Alexandria users' portion was funded by the Authority's loan from VWFRF (Financial Report, page 1). Some of the upgrade projects 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, 2002 (Financial Report, page 25).

On December 3, 2002, I forwarded a memo to your attention regarding the Authority's planned rate increases. The approved rates will increase between 4% and 5% per year, for the period 2003 to 2007 (approximately 1% to 2% more than projected inflation). These rate increases are far less than the increases that were implemented in the 1997 to 2001 time period. During that period, rates increased 85% from \$1.84 to \$3.41 per thousand gallons. The rate increases are driven primarily by increased operating and debt service costs related to the Authority's ongoing capital improvement program.

**ATTACHMENT:**

City of Alexandria, Virginia, Sanitation Authority Report as of September 30, 2002

**STAFF:**

Mark Jinks, Assistant City Manager

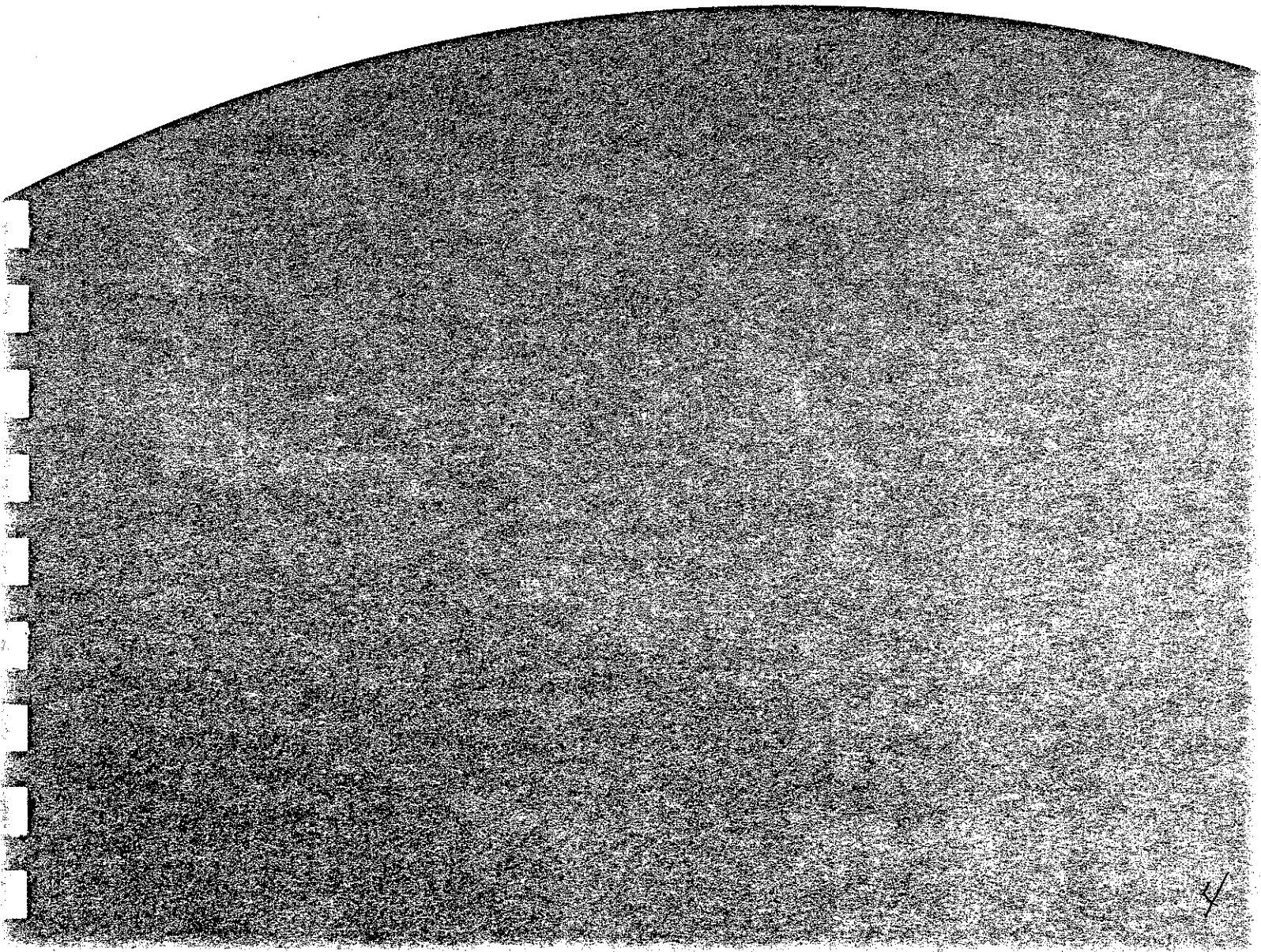
D. A. Neckel, Director of Finance

Laura Triggs, Deputy Director of Finance/Comptroller

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

**FINANCIAL REPORT**

**SEPTEMBER 30, 2002**



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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, 2002. 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 11.78 billion gallons of wastewater which represents a 9% decrease over fiscal year 2001.
- Fairfax County contributed 6.1 billion gallons of wastewater which is a 12% decrease over fiscal year 2001.
- Debt service coverage, on the accrual basis, was 2.0 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 \$14.5 million of loan proceeds available to pay future upgrade costs.
- The Authority received grant funds of \$2.1 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. Through fiscal year 2002, the Authority has received \$16.4 million in grant funds from the State.
- Facility upgrade costs, paid by the Authority, totaled \$42.3 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 \$393 million and exceeded liabilities in the amount of \$297.7 million (i.e. net assets). Of the total net assets, \$15.9 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 2001 to 2002 in the amounts of \$56.5 million, \$31.6 million and \$1.6 million, respectively.

- Sewage disposal charges of \$17.8 million increased over fiscal year 2001 by \$271,000 or 1.5%. Sewage disposal charges for fiscal year 2002 exceeded budget projections by 1.8%.
- Payments from Fairfax County of \$8.9 million represented their share of operating costs based upon their proportional contribution to the plant total flow. The payments decreased by \$370,000 or 3.97% over fiscal year 2001. While there was a 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 marginally, but were below budget by 8.6%. Total operating expenses for fiscal year 2002 increased .1% compared to fiscal year 2001.
- Unrestricted operating income for the year was \$5.5 million, representing a 16.7% increase over fiscal year 2001. Net assets, before and after capital contribution, increased \$5.3 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 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 provide key financial data and indicators for management, monitoring and planning.

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

	2002	2001	\$ Change	% Change
Current assets	\$ 2.90	\$ 2.80	\$ 0.10	3.57%
Restricted assets	5.90	4.10	1.80	43.90%
Investments	14.70	12.10	2.60	21.49%
Plant and equipment, net	369.50	317.40	52.10	16.41%
<b>Total assets</b>	<b>393.00</b>	<b>336.40</b>	<b>56.60</b>	<b>16.83%</b>
Current liabilities	15.00	4.00	11.00	275.00%
Liabilities payable from restricted assets	0.60	0.50	0.10	20.00%
Long-term debt	79.70	65.80	13.90	21.12%
<b>Total liabilities</b>	<b>95.30</b>	<b>70.30</b>	<b>25.00</b>	<b>35.56%</b>
Invested in capital assets net of related debt	275.90	247.70	28.20	11.38%
Restricted	5.90	4.10	1.80	43.90%
Unrestricted	15.90	14.30	1.60	11.19%
<b>Total net assets</b>	<b>\$ 297.70</b>	<b>\$ 266.10</b>	<b>\$ 31.60</b>	<b>11.88%</b>

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

	2002	2001	\$ Change	% Change
Operating revenue	\$ 27.70	\$ 26.90	\$ 0.80	2.97%
Non-operating revenue	0.40	0.70	(0.30)	-42.86%
<b>Total revenues</b>	<b>28.10</b>	<b>27.60</b>	<b>0.50</b>	<b>1.81%</b>
Depreciation expense	3.30	3.10	0.20	6.45%
Other operating expense	18.80	19.10	(0.30)	-1.57%
Non-operating expense	0.60	0.50	0.10	20.00%
<b>Total expenses</b>	<b>22.70</b>	<b>22.70</b>	<b>(0.00)</b>	<b>0.00%</b>
Income before capital contributions	5.40	4.90	0.50	10.20%
Capital contributions	26.30	55.70	(29.40)	-52.78%
Change in net assets	31.70	60.60	(28.90)	-47.69%
Beginning net assets	266.00	205.40	60.60	29.50%
<b>Ending net assets</b>	<b>\$ 297.70</b>	<b>\$ 266.00</b>	<b>\$ 31.70</b>	<b>11.92%</b>

**OTHER SELECTED INFORMATION**

	2002	2001	Difference	% Change
<b>Selected Data:</b>				
Employees at year-end	137	142	(5)	-3.5%
Alexandria accounts	25,039	24,713	326	1.3%
Wastewater treated (millions of gallons)	11,782	12,970	(1,188)	-9.2%
<b>Portion contributed by</b>				
Fairfax County (millions of gallons)	6,083	6,906	(823)	-11.9%
<b>Percentage contributed by</b>				
Fairfax County	51.6%	53.2%	-1.60%	-3.0%
<b>Rates:</b>				
<b>Charge per 1,000 gallons of</b>				
water consumption	\$3.41	\$3.41	-	0.0%
<b>Account service charge per bill</b>				
rendered	3.85	3.74	0.11	2.9%
<b>Average customer bill:</b>				
Per year	238.46	238.02	0.44	0.2%
Per quarter	59.62	59.51	0.11	0.2%
Per month	19.87	19.84	0.03	0.2%

## 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 326 which represents a 1.3% increase over fiscal year 2001. The current number of accounts, 25,039, represents a 15.2% increase for the ten-year period beginning with fiscal year 1993.

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 \$56.6 million or 16.8%, with \$52.1 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 1.3% less than fiscal year 2001. The average age of an Authority account receivable in fiscal year 2002 was 15.7 days. The Authority's bad debts were \$32 thousand on \$17.6 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, decreased by \$213 thousand or 1.1% over fiscal year 2001. The Authority's personnel services, which includes wages, retirement, and insurance, were 37.2% of the total operating expenses of \$22.1 million for fiscal year 2002 and 36.9% of the total operating expenses for 2001.

## DEBT

At year-end the Authority had \$81.9 million in long-and short-term debt. Additional loan draws on existing borrowing amounted to \$16.1 million and fiscal year 2002 principal payments on outstanding debt of \$1.3 million resulted in a net increase in debt of \$14.8 million or 22.1% over fiscal year 2001. More detailed information about the Authority's long-term debt is presented in the notes to financial statements on pages 19, 20, and 21.

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 2003.

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 2.0. 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, on the accrual basis, for fiscal year 2002 and 2001:

	2002	2001	% Change
Unrestricted operating revenue (millions)	\$ 27.70	\$ 26.90	8.5%
Unrestricted investment income (millions)	0.40	0.50	0.0%
<b>Total revenue (millions)</b>	<b>28.10</b>	<b>27.40</b>	<b>8.5%</b>
Total operating expenses (Less depreciation and replacements) (millions)	19.40	19.30	8.4%
Net revenue (millions)	\$ 8.70	\$ 8.10	8.0%
Annual debt service (millions)	\$ 4.30	\$ 3.50	52.2%
Revenue covenant (minimum 1.1 allowed)	2.00	2.30	-30.3%

## FINAL COMMENTS

Fiscal year 2002 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.

# 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 balance sheets of City of Alexandria, Virginia, Sanitation Authority (the Authority) as of and for the years ended September 30, 2002 and 2001, 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 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 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, 2002 and 2001, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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 15, 2002

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

**BALANCE SHEETS**

September 30, 2002 and 2001

<b>ASSETS</b>	<b>2002</b>	<b>2001</b>
<b>Current Assets</b>		
Cash	\$ 31,454	\$ 1,715
Accounts receivable	2,810,465	2,818,271
Other receivables	29,779	58,989
<b>Total current assets</b>	<b>2,871,698</b>	<b>2,878,975</b>
<b>Restricted Assets</b>		
Cash	1,719,671	479,386
Investments	4,157,910	3,603,274
<b>Total restricted assets</b>	<b>5,877,581</b>	<b>4,082,660</b>
Investments	14,716,625	12,143,952
Property and Equipment, net	369,531,433	317,357,970
	<b>\$ 392,997,337</b>	<b>\$ 336,463,557</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Current Liabilities</b>		
Current maturities of long-term debt and interest	\$ 2,892,013	\$ 1,656,275
Accounts payable and accrued expenses	11,169,303	2,355,166
Due to Fairfax County	959,732	21,859
<b>Total current liabilities</b>	<b>15,021,048</b>	<b>4,033,300</b>
Current Liabilities Payable From Restricted Assets:		
Revenue bonds, principal and interest	589,295	498,467
Long-Term Debt, less current maturities	79,683,995	65,820,129
<b>Net Assets</b>		
Invested in capital assets, net of related debt	275,864,599	247,691,807
Retricted	5,877,581	4,082,660
Unrestricted	15,960,819	14,337,194
	<b>297,702,999</b>	<b>266,111,661</b>
	<b>\$ 392,997,337</b>	<b>\$ 336,463,557</b>

See Notes to Financial Statements.

CITY OF ALEXANDRIA, VIRGINIA, SANITATION AUTHORITY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

Years Ended September 30, 2002 and 2001

	2002	2001
Operating Revenue		
Sewage disposal charges:		
Regular	\$ 17,625,812	\$ 17,394,772
Special	169,281	129,048
Fairfax County:		
Regular	8,955,664	9,326,141
Contribution to improvement, renewal and replacement fund	876,996	-
Miscellaneous	3,870	7,428
<b>Total operating revenue</b>	<b>27,631,623</b>	<b>26,857,389</b>
Operating Expenses		
Personnel services	8,228,127	8,176,290
Utilities	2,020,433	1,985,446
Chemicals	2,335,952	2,813,083
Equipment maintenance	824,619	522,512
Structures and grounds	79,266	51,909
Sewage disposal services,		
Arlington County	629,847	687,328
Sludge disposal	2,023,601	1,963,528
Depreciation	3,255,600	3,059,951
Replacements, sewage disposal system	58,236	230,417
General, administration, customer service, and other	2,649,708	2,632,745
<b>Total operating expenses</b>	<b>22,105,389</b>	<b>22,123,209</b>
<b>Operating income</b>	<b>5,526,234</b>	<b>4,734,180</b>
Non-operating revenue (expenses)		
Investment income	414,366	731,020
Interest expense, net of capitalized interest	(593,998)	(504,733)
<b>Non-operating revenue, net</b>	<b>(179,632)</b>	<b>226,287</b>
<b>Change in net assets before capital contributions</b>	<b>5,346,602</b>	<b>4,960,467</b>
Capital contributions	26,244,736	55,748,686
<b>Change in net assets</b>	<b>31,591,338</b>	<b>60,709,153</b>
Net assets – Beginning	266,111,661	205,402,508
Net assets – Ending	<b>\$ 297,702,999</b>	<b>\$ 266,111,661</b>

See Notes to Financial Statements.



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

**STATEMENTS OF CASH FLOWS**

Years Ended September 30, 2002 and 2001

	2002	2001
<b>Cash Flows from Operating Activities</b>		
Cash received from customers	\$ 18,622,384	\$ 17,323,132
Cash received from Fairfax County	9,893,537	9,265,208
Cash paid to suppliers	(9,703,961)	(9,968,135)
Cash paid to employees	(9,110,330)	(9,149,401)
<b>Net cash provided by operating activities</b>	<b>9,701,630</b>	<b>7,470,804</b>
<b>Cash Flows from Investing Activities</b>		
Proceeds from sales and maturities of investments	100,751,637	15,922,218
Purchase of investments	(103,816,970)	(22,376,412)
Investment income	411,380	732,163
<b>Net cash (used in) investing activities</b>	<b>(2,653,953)</b>	<b>(5,722,031)</b>
<b>Cash Flows from Capital and Related Financing Activities</b>		
Purchase/construction of property and equipment	(46,275,267)	(90,708,101)
Proceeds from issuance of long-term debt	16,129,617	35,099,351
Principal payments on debt	(1,282,741)	(1,237,399)
Interest paid on borrowings, net of interest capitalized	(593,998)	(504,733)
Proceeds from capital contributions	26,244,736	55,748,686
<b>Net cash (used in) capital and related financing activities</b>	<b>(5,777,653)</b>	<b>(1,602,196)</b>
<b>Net increase in cash</b>	<b>1,270,024</b>	<b>146,577</b>
Cash, Beginning	481,101	334,524
Cash, Ending	<b>\$ 1,751,125</b>	<b>\$ 481,101</b>
<b>Reconciliation to balance sheets:</b>		
Unrestricted cash	\$ 31,454	\$ 1,715
Restricted cash	1,719,671	479,386
	<b>\$ 1,751,125</b>	<b>\$ 481,101</b>
<b>Reconciliation of Operating Income to Net Cash</b>		
Provided by Operating Activities		
Operating income	\$ 5,526,234	\$ 4,734,180
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	3,255,600	3,059,951
Changes in assets and liabilities:		
Decrease (increase) in accounts receivable	37,014	(174,371)
Increase (decrease) in accounts payable	(55,091)	(88,023)
Increase (decrease) in due to Fairfax County	937,873	(60,933)
<b>Net cash provided by operating activities</b>	<b>\$ 9,701,630</b>	<b>\$ 7,470,804</b>

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.

# CITY OF ALEXANDRIA, VIRGINIA, SANITATION AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

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

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*.

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 \$577,689 and \$601,895 at September 30, 2002 and 2001, 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, 2002 and 2001, is approximately \$206,000 and \$207,000, 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 \$26,244,736 were received by the Authority for the year ended September 30, 2002, and \$55,748,686 for the year ended September 30, 2001.

# CITY OF ALEXANDRIA, VIRGINIA, SANITATION AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

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### 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 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.

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**

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

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, 2002 and 2001:

	2002	2001
Billed services	\$ 1,354,665	\$ 1,362,471
Unbilled services	1,455,800	1,455,800
	<u>\$ 2,810,465</u>	<u>\$ 2,818,271</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, 2002 and 2001:

	2002	2001
Category (1)		
Obligations as authorized per state statutes	\$ 12,399,872	\$ 9,206,605
Category (3)		
Repurchase agreements, backed by obligations of U.S. government and agencies	4,743,593	4,846,679
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.	1,731,070	1,693,942
	<u>\$ 18,874,535</u>	<u>\$ 15,747,226</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, 2002 and 2001:

	Costs				
	Balance, September 30, 2001	Additions	Deductions	Transfers	Balance, September 30, 2002
	Land	\$ 463,340	\$ 31,887	\$ -	\$ -
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
Construction in progress	168,300,068	53,516,948	-	(10,796,026)	211,020,990
	<u>\$ 371,172,591</u>	<u>\$ 55,429,063</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 426,601,654</u>

	Estimated Useful Life	Accumulated Depreciation				
		Balance, September 30, 2001	Additions	Deductions	Transfers	
		Plant	67 years	\$ 52,613,732	\$ 3,100,000	\$ -
Office equipment	10 years	456,294	86,600	-	-	542,894
Vehicles	5 years	744,595	69,000	-	-	813,595
		<u>\$ 53,814,621</u>	<u>\$ 3,255,600</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 57,070,221</u>

	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	67 years	\$ 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 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, 2002 and 2001:

	2002	2001
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.	\$ 8,025,141	\$ 8,363,046
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.	23,142,547	24,087,384
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.	50,782,058	34,652,441
	<u>\$ 81,949,746</u>	<u>\$ 67,102,871</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, 2002, are as follows:

Years ending September 30,	Principal	Interest	Total
2003	\$ 2,265,751	\$ 4,724,155	\$ 6,989,906
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	15,074,769	36,305,859
2013 - 2017	26,078,532	10,117,319	36,195,851
2018 - 2022	18,261,711	4,679,697	22,941,408
	<u>\$ 81,949,746</u>	<u>\$ 49,520,974</u>	<u>\$ 131,470,720</u>

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

	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

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:

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>

September 30, 2001	Current Liabilities			2001 Totals
	Current Liabilities	Payable from Restricted Assets	Long-term Portion	
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>

Interest expense under the above obligations at September 30, 2002 and 2001, consists of the following:

	2002	2001
Total interest charges	\$ 2,984,994	\$ 2,273,574
Less capitalized interest	(2,390,996)	(1,768,841)
Net interest expense	<u>\$ 593,998</u>	<u>\$ 504,733</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, 2002 and 2001, were as follows:

	2002	2001
<b>Invested in Capital Assets, Net of Related Debt:</b>		
Net property and equipment in service	\$ 369,531,433	\$ 317,357,970
Less: Revenue bonds payable	(81,949,746)	(67,102,871)
Accounts payable and accrued interest for capital items	(11,717,088)	(2,563,292)
	<u>275,864,599</u>	<u>247,691,807</u>
<b>Restricted:</b>		
Operating	2,103,025	1,968,636
Parity debt service	1,056,557	657,756
Improvement, renewal and replacement	2,315,622	1,046,883
Construction	402,377	409,385
	<u>5,877,581</u>	<u>4,082,660</u>
<b>Unrestricted</b>	<u>15,960,819</u>	<u>14,337,194</u>
	<u>\$ 297,702,999</u>	<u>\$ 266,111,661</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:

	2002	2001
Balance, beginning	\$ 247,691,807	\$ 193,905,608
Change in capital assets	55,173,463	88,612,979
Change in related debt	(27,000,671)	(34,826,780)
Balance, ending	<u>\$ 275,864,599</u>	<u>\$ 247,691,807</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.

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

**NOTES TO FINANCIAL STATEMENTS**

**Note 9. Pension Plan (Continued)**

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 1.50% for a combined rate of 6.50% of the annual covered payroll for the actuarial year ended June 30, 2002. Effective July 1, 2002, the combined rate will be 6.00%.

Annual pension cost: The Authority's annual required pension cost was \$423,092 and \$468,286, for the years ended September 30, 2002 and 2001, respectively. The annual required contribution was determined as a part of the June 30, 2001, 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, 2002, was 0 years.

**Three-Year Trend Information**

Years ended September 30,	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2000	\$ 632,846	100%	\$ -
2001	468,286	100%	-
2002	423,092	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, 2002. The line of credit was renewed for an additional year as of 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 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, 2002 and 2001, consists of the following:

	2002	2001
Balance, beginning	\$ -	\$ -
Increases	100,000	6,500,000
Decreases	(100,000)	(6,500,000)
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 \$50,782,058 as of September 30, 2002. 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.

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

**NOTES TO FINANCIAL STATEMENTS**

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**Note 11. Commitments and Contingencies (Continued)**

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, 2002. 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, 2002.

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**

**VIRGINIA RETIREMENT SYSTEM – REQUIRED SUPPLEMENTARY INFORMATION**

**(Unaudited – See Accompanying Independent Auditor’s Report)**

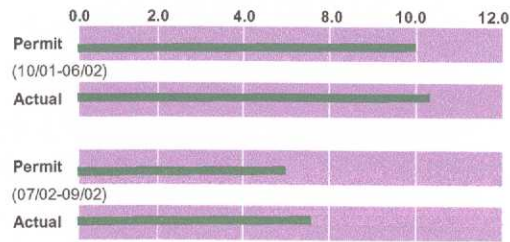
**Schedule of Funding Progress**

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]
1999	\$ 16,320,955	\$ 14,598,169	\$ (1,722,786)	111.8%	\$ 6,782,348	(25.4%)
2000	19,049,799	14,426,065	(4,623,734)	132.1%	6,646,898	(69.6%)
2001	21,080,214	15,722,645	(5,357,569)	134.1%	6,513,185	(82.3%)

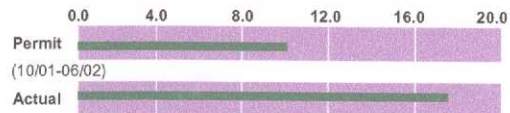
## MEASURING WATER QUALITY

Our permitted effluent limits were lowered this year in anticipation of the completion of our upgraded facilities. Our monthly average performance is graphed below.

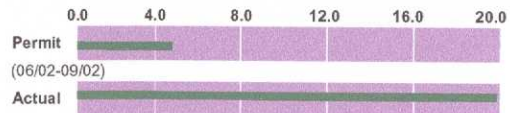
### Total Suspended Solids (mg/l)\*



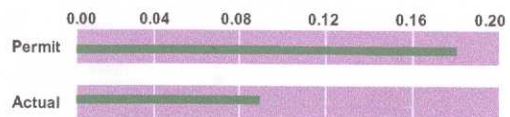
### Biochemical Oxygen Demand (BOD<sub>5</sub>)\* (mg/l)



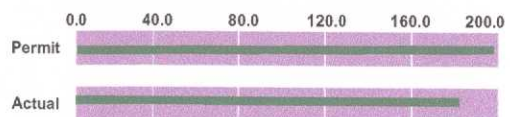
### Carbonaceous Biochemical Oxygen Demand (cBOD<sub>5</sub>)\* (mg/l)



### Total Phosphorus (mg/l)



### Fecal Coliform (200/100 mL, geometric mean)



\*TSS, BOD and cBOD removals did not meet our discharge limits due to the fact that completion of biological nutrient removal facilities was significantly behind schedule.

## ALEXANDRIA SANITATION AUTHORITY BOARD OF DIRECTORS FY'02

Edward Semonian  
F. Ellen Pickering  
Elise Fulstone  
David C. Nichols  
Thomas Van Wagner  
Jimmie Jenkins

Chairman  
Vice Chairwoman  
Secretary-Treasurer  
Member  
Member  
Fairfax County  
Representative



From Left to Right: Ms. Pickering, Mr. Nichols, Ms. Fulstone, Mr. Van Wagner, Mr. Semonian, Mr. Jenkins



## Summary of Activities for Fiscal Year 2002

This summary report provides a brief overview of some of the business operations of the Authority for the fiscal year ending September 30, 2002.

If you would like additional information or have any questions please contact us or visit our website.



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Alexandria, VA 22314  
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## TREATMENT SUMMARY

(Statistics on key process performance measures for fiscal years ending September 30, 2002 & September 30, 2001)

<u>Flow Summary</u>	<u>2002</u>	<u>2001</u>
Average Daily Flow (in Million Gallons)	32.4	35.5
Maximum Day Flow (in Million Gallons)	98	70.5
Total Precipitation (in Inches)	24.1	30.8
Total Flow Treated (in Million Gallons)*	11,842	12,970

### Utility Summary

Electricity Consumed (in 100 KWH)	2,185	2,354
Potable Water Used (in 1000 Gallons)	54,667	84,680
Natural Gas Consumed (in 1000 Cubic Feet)	65,289	91,208

### Process Chemicals Summary

Ferric Chloride Used (in 1000 Gallons)	2,093	2,385
Aluminum Sulfate Used (in 1000 Gallons)	1,346	1,324
Lime Used (in Tons)	2,800	3,099

### Recycling

Biosolids Recycled (Wet Tons)	53,418	57,569
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## RATE PAYER FACTS

Alexandria Commercial Accounts	1,600
Alexandria Residential Accounts	25,030
Charge per 1000 Gallons of Water Consumption	\$3.41
Average Yearly Residential Bill	\$238.46

\*Fairfax County is a wholesale customer and paid \$9.9 million in Operating and Maintenance Expenses for FY 2002.

## CONSTRUCTION PROGRESS IN 2002



Air Piping for Biological Nutrient Removal Process



Rehabilitation of Existing Sand Filter



Interceptor Rehabilitation Project on Commonwealth Avenue



On-going Construction of Solids Handling Building



Construction of New Secondary Settling Tank #5



Construction of Methanol Addition Facilities

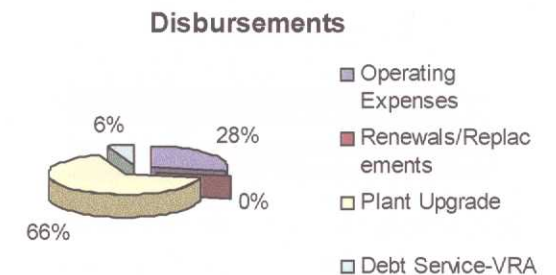
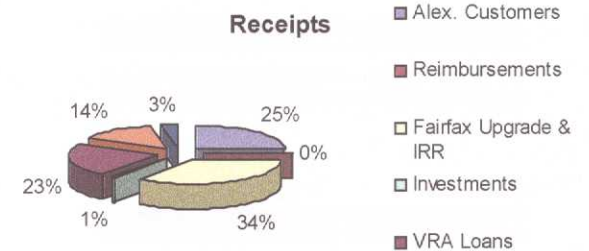
Biological Nutrient Removal facility start-up anticipated in early 2003.

Construction spending for FY 2002 was \$42.3 million.

## FINANCIAL SUMMARY

### Condensed Statement of Revenues and Expenses\*

	<u>2002</u>
Operating Revenue	27,700,000
Non-operating Revenue	400,000
<b>Total Revenues</b>	<b>28,100,000</b>
Depreciation Expense	3,300,000
Operating Expense	18,800,000
Non-operating Expense	600,000
<b>Total Expenses</b>	<b>22,700,000</b>
Revenues in Excess of Expenses	<b>5,400,000</b>



\*A complete, audited financial statement will be made available upon request.