

FAIRFAX COUNTY  
WASTEWATER MANAGEMENT



*Quality of Water = Quality of Life*

COMPREHENSIVE  
ANNUAL FINANCIAL  
REPORT

FOR THE FISCAL YEARS ENDED  
JUNE 30, 2012 AND 2011



INTEGRATED SEWER SYSTEM  
An Enterprise Fund of the County of Fairfax, Virginia



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# INTEGRATED SEWER SYSTEM

AN ENTERPRISE FUND OF THE  
**COUNTY OF FAIRFAX, VIRGINIA**

FAIRFAX COUNTY  
WASTEWATER MANAGEMENT



*Quality of Water = Quality of Life*

## COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Fiscal Years Ended June 30, 2012 and 2011

DEPARTMENT OF PUBLIC WORKS AND ENVIRONMENTAL SERVICES  
12000 Government Center Parkway, Suite 358  
Fairfax, Virginia 22035  
(703) 324-5030, TTY 711  
[www.fairfaxcounty.gov](http://www.fairfaxcounty.gov)

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# FAIRFAX COUNTY WASTEWATER MANAGEMENT



*Quality of Water = Quality of Life*

**INTEGRATED SEWER SYSTEM COUNTY OF FAIRFAX, VIRGINIA**  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**  
 For the Fiscal Years Ended June 30, 2012 and 2011

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# FAIRFAX COUNTY WASTEWATER MANAGEMENT



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INTRODUCTORY SECTION



# Certificate of Achievement for Excellence in Financial Reporting

Presented to  
Integrated Sewer System,  
an Enterprise Fund of the County  
of Fairfax, Virginia

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 2011

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



*Linda C. Davison*

President

*Jeffrey R. Emer*

Executive Director



# County of Fairfax, Virginia

To protect and enrich the quality of life for the people, neighborhoods and diverse communities of Fairfax County

November 19, 2012

The Board of Supervisors  
County of Fairfax  
Commonwealth of Virginia

Honorable Chairman and Members of the Board:

We are pleased to submit the Comprehensive Annual Financial Report (CAFR) for the County of Fairfax, Virginia (the County) Integrated Sewer System (the System) for the years ended June 30, 2012 and 2011. The financial statements included in this report conform to U.S. generally accepted accounting principles (GAAP) as promulgated by the Governmental Accounting Standards Board (GASB). Responsibility for both the accuracy of the presented data and completeness and fairness of the presentation, including all disclosures, rests with management. To the best of our knowledge and belief, the enclosed data are accurate in all material respects and are reported in a manner that presents fairly the financial position and results of operations of the System. All necessary disclosures have been included to enable the reader to gain the maximum understanding of the System's financial affairs.

The General Bond Resolution dated July 29, 1985, governing the issuance of sewer revenue bonds, as modified through July 2009, requires an annual audit of the financial records and transactions of the System by independent certified public accountants, as selected by the Board of Supervisors. The System's financial statements for the years ended June 30, 2012 and 2011, were audited by KPMG LLP, a firm of licensed certified public accountants. The independent auditors concluded, based upon the audit, that there was a reasonable basis for rendering their opinion that the financial statements are fairly presented in conformity with GAAP. The independent auditors' report is presented in the financial section of this CAFR.

This CAFR consists of management's representations concerning the finances of the System. To provide a reasonable basis for making these representations, the System's accounting system is dependent upon a strong foundation of internal accounting controls to ensure that financial information generated is both accurate and reliable. GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of the Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The System's MD&A can be found immediately following the independent auditors' report.

## PROFILE OF THE SYSTEM

The Fairfax County, Virginia Integrated Sewer System is operated as the Wastewater Management Program (WWM), one of five major activities of the Department of Public Works and Environmental Services, and governed by the County of Fairfax, Board of Supervisors. The System handles approximately 103 million gallons of wastewater per day (MGD) generated from approximately 930,000 County residents and approximately

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**Department of Public Works and Environmental Services**  
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60,000 residents from nearby counties, cities, and towns. More than 85% of the 394,000 County households and virtually all businesses in the County are connected to the public sewer system.

The System consists of nearly 3,400 miles of sewer lines and force mains ranging in size from 8 inches to 72 inches, 65 pump stations ranging in capacity from 0.1 to 37 MGD, and 54 metering stations. The total System workforce is 321 employees. The sewer service area covers approximately 234 square miles in the Potomac River Watershed, a tributary shed of the Chesapeake Bay Basin.

Nearby counties, cities, and towns served by the System receive service through sales of service agreements. The System currently has agreements with the Counties of Loudoun and Arlington, Fort Belvoir, the Cities of Fairfax and Falls Church, and the Towns of Herndon and Vienna. As prescribed by each service agreement, each entity shares in the cost of operating the System. Each entity's share is determined on the basis of actual wastewater flows or reserved treatment capacity.

To treat the wastewater flows generated, the System operates and maintains one advanced wastewater treatment plant, the 67 MGD Noman M. Cole, Jr. Pollution Control Plant, and has 90 MGD of purchased capacity entitlement at five non-County facilities, all of which are advanced wastewater treatment facilities. Purchased capacity entitlements are managed through treatment by contract agreements with the District of Columbia Water and Sewer Authority (the Blue Plains Advanced Water Treatment Facility), Loudoun County and Alexandria Renew Enterprises (ARE), Upper Occoquan Sewage Authority (UOSA), and Arlington County. In addition, the System has purchased 0.1 MGD of capacity from the Prince William County Service Authority. As prescribed by each agreement, the System pays its share of the operating, capital, and/or debt costs of each entity's system based on actual wastewater flows and allocated capacity.

## **FACTORS AFFECTING FINANCIAL CONDITION**

### **Local Economy**

Economic indicators show that the County's economy continues to improve slowly but show a stronger pattern of recovery compared to the national economy. The housing market and consumers' spending in the Northern Virginia area continue to improve with average home prices increasing moderately and sales tax receipts increasing at a faster pace compared to fiscal year 2011. The Northern Virginia area has regained more jobs than lost during the recession. Fairfax County's unemployment rate remains low at 4.0% in August 2012, a decrease from 4.4% in August 2011. Residential sewer connections in the System, which are a measure of System growth, grew by 0.4% in fiscal year 2012. Plumbing permits issued, which are a measure of System development, increased by 0.2% as a percent of existing residential connections.

### **Debt Management**

To finance major capital projects, the System borrows money by issuing sewer revenue bonds, obtaining financing from the Virginia Water Facilities Revolving Fund, acting by and through the Virginia Resources Authority (VRA), or sharing in debt issued by other service authorities. Authorization to issue any debt or share in any debt service rests with the County's Board of Supervisors. On October 5, 2004, the System issued \$94.0 million in Series 2004 Sewer Revenue Refunding Bonds with an average interest rate of 4.6% to advance refund \$91.4 million of the outstanding Series 1996 Bonds with an average interest rate of 5.8%. This refunding resulted in a present value economic gain of approximately \$7.7 million. On June 17, 2009, the System issued \$152.3 million in Series 2009 Sewer Revenue Bonds with an average interest rate of 4.7% to pay for the upgrade of its wastewater treatment facilities. As of June 30, 2012, the System had \$226.7 million in Sewer revenue bonds, \$52.5 million in VRA financing, and \$273.1 million in UOSA debt outstanding. The System continues to maintain its status as a top rated bond issuer: AAA from Fitch Investor Service and Standard and Poor's Corporation and

Aa1 from Moody's Investors Service, Inc.

Note (7) to the Financial Statements provides information pertaining to future debt service payments. Table 3 in the Statistical Section provides historical information regarding debt coverage and debt service requirements of the System.

## RELEVANT FINANCIAL POLICIES

Sewer rates are reviewed and revised annually as part of the County's annual strategic planning and budgeting process in order to minimize the annual cost impact on customers due to increases in funding needs for Wastewater Program funding. Sewer service charges and availability fee rates increased 14.1% and 0.0% respectively in fiscal year 2012.

## MAJOR INITIATIVES AND ACCOMPLISHMENTS

**Nutrient Removal at Area Treatment Plants** – Upgraded biological nitrogen removal facilities were initiated in fiscal years 2003 and 2004 and became fully operational in fiscal year 2005. All System treatment plants met or exceeded water quality permit requirements for ammonia nitrogen discharges and began voluntarily discharging treated wastewater with total nitrogen levels near or below 8.0 milligrams per liter (mg/l). In fiscal year 2012, total nitrogen discharges from the County's Noman M. Cole, Jr. Pollution Control Plant averaged less than 4.1 mg/l.

In August 2004, the Virginia Department of Environmental Quality proposed reduced nutrient waste load allocations for Virginia wastewater treatment facilities as amendments to the Water Quality Management Regulation (9VAC25-720). These load allocations were then incorporated into the Virginia's Phase I Watershed Implementation Plan for meeting the EPA Chesapeake Bay Total Maximum Daily Loads (TMDL). To meet the load allocations, enhanced nutrient removal was required of all wastewater treatment plants serving Fairfax County to meet more stringent Chesapeake Bay water quality standards by January 1, 2011. Significant capital funding has been needed to bring treatment facilities into compliance.

In addition to investing in new facilities to meet the new nutrient requirements, the System is also reinvesting in existing infrastructure to ensure continued operation, safety and compliance of existing facilities and processes. A sustained reinvestment in the existing System is necessary for continued long term service and compliance. The System's preliminary capital improvement program cost estimate to comply with proposed nitrogen discharge standards and system reinvestment is in the range of \$165 to \$180 million.

## AWARDS

**GFOA Certificate of Achievement for Excellence in Financial Reporting** – For the ninth consecutive year, the Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the System for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2011. In order to be awarded a Certificate of Achievement, a government entity must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable financial reporting requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet Certificate of Achievement Program's requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards of state and local government financial reports.

**NACWA Platinum Peak Performance Award** - The System's Noman M. Cole Jr. Pollution Control Plant received the Platinum Peak Performance Award from National Association of Clean Water Agencies (NACWA), recognizing the facility's accomplishments in protecting water quality in the County. The award recognizes plants that meet 100% of federal standards for preventing pollution for more than five consecutive years. The System's Noman M. Cole Jr. Pollution Control Plant has been in compliance for 14 consecutive years. The plant has protected the water quality of the County's streams and watersheds, as well as the Chesapeake Bay.

**NACWA Excellence in Management Award** - The System received the NACWA Excellence in Management Award in recognition of their commitment to excellence in utility management through the implementation of sustainable, successful programs that exemplify the attributes of an effectively managed utility.

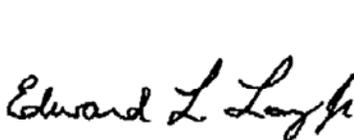
**Extraordinary Environmental Enterprise** - The Wastewater Management program has received the designation of Extraordinary Environment Enterprise (E4) from the Virginia Department of Environmental Quality (DEQ) Virginia Environmental Excellence Program (VEEP) for its Environmental Management System (EMS). Currently approximately 440 public and private organizations participate in the VEEP EMS certification program at the E2, E3, and E4 levels. Of these 440 organizations, approximately 26 facilities within the State have reached the E4 level of certification. This designation recognizes facilities that have fully implemented an EMS emphasizing pollution prevention, environmental outreach, and sustainability. This program encourages facilities to exceed compliance with federal and local regulations and engage in environmental stewardship and sustainability practices.

## ACKNOWLEDGMENTS

We express our sincere appreciation to all staff who contributed to this CAFR, especially the members of the System's Wastewater Planning and Monitoring Division of the Department of Public Works and Environmental Services and the Financial Reporting Division of the Department of Finance, who prepared and compiled this report. We commend them for their professionalism, hard work, and continued efforts to improve this report.

This CAFR reflects our continued commitment to the citizens of Fairfax County, the Board of Supervisors, and all interested readers of this report to provide information in conformance with the highest standards of financial reporting.

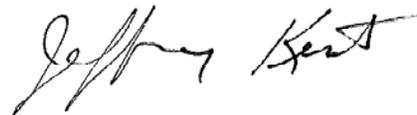
Respectfully,



Edward L. Long, Jr.  
County Executive



Susan W. Datta  
Chief Financial Officer



Jeffrey B. Kent  
Financial Manager  
Integrated Sewer System

**INTEGRATED SEWER SYSTEM**  
**COUNTY OF FAIRFAX, VIRGINIA**  
Urban County Executive Form of Government  
As of June 30, 2012

**BOARD OF SUPERVISORS**

Sharon S. Bulova, Chairman	At-large
Penelope A. Gross, Vice Chairman	Mason District
John C. Cook	Braddock District
Gerald W. Hyland	Mount Vernon District
John W. Foust	Dranesville District
Linda Q. Smyth	Providence District
Catherine M. Hudgins	Hunter Mill District
Patrick S. Herrity	Springfield District
Jeffrey C. McKay	Lee District
Michael R. Frey	Sully District

**COUNTY EXECUTIVE**

Edward L. Long, Jr.

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**DEPUTY COUNTY EXECUTIVE**

Robert A. Stalzer

**DEPARTMENT OF PUBLIC WORKS AND ENVIRONMENTAL SERVICES**

James W. Patteson, Director

**WASTEWATER COLLECTION DIVISION**

Thomas Russell, Director

**WASTEWATER TREATMENT DIVISION**

Michael McGrath, Director

**WASTEWATER PLANNING AND MONITORING DIVISION**

Shahram Mohsenin, Director

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**CHIEF FINANCIAL OFFICER**

Susan W. Datta

**DEPARTMENT OF FINANCE**

Victor L. Garcia, Director

**OFFICE OF THE COUNTY ATTORNEY**

David P. Bobzien, County Attorney

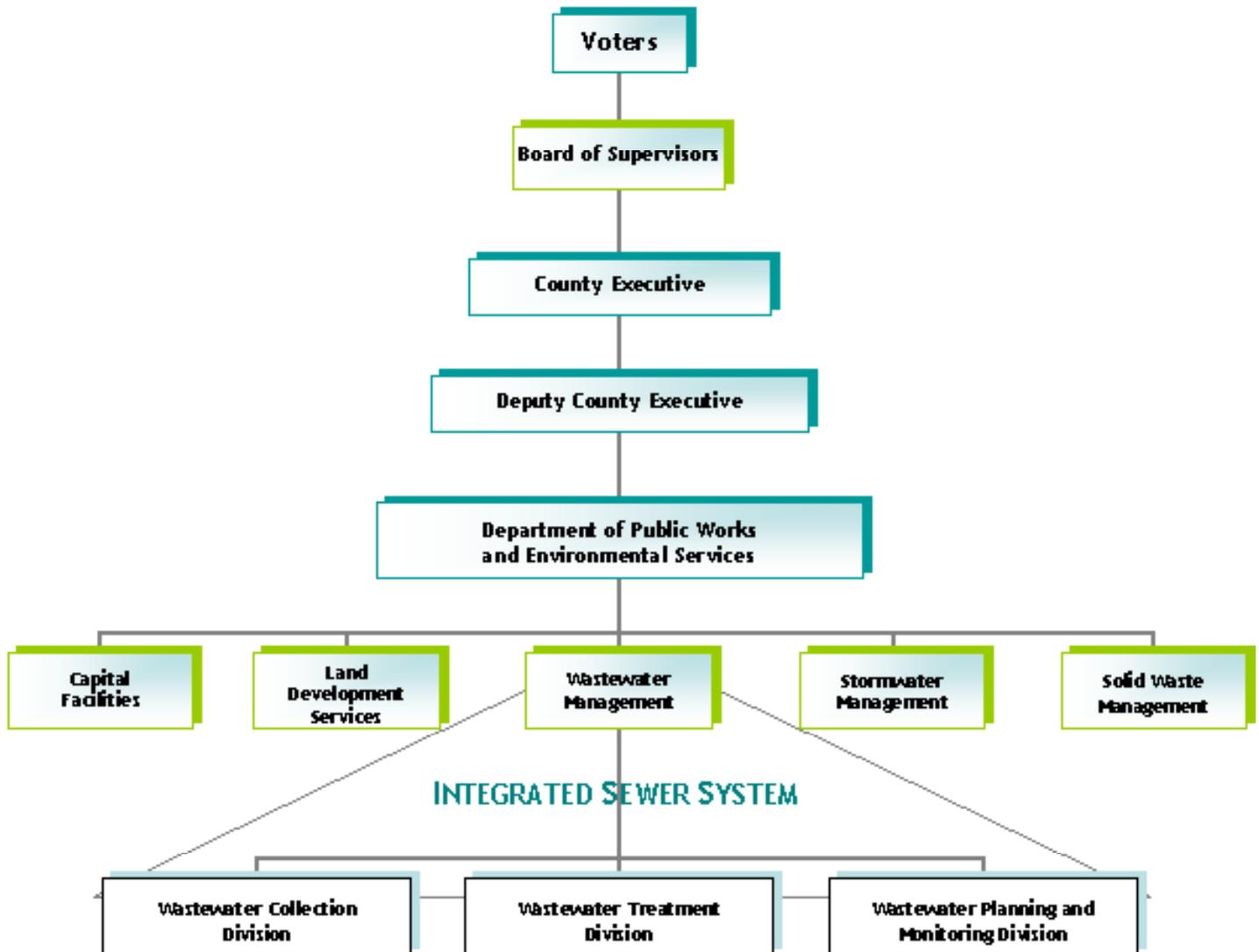
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# FAIRFAX COUNTY WASTEWATER MANAGEMENT



*Quality of Water = Quality of Life*

# ORGANIZATION OF THE INTEGRATED SEWER SYSTEM COUNTY OF FAIRFAX, VIRGINIA



This report was prepared by:

**COUNTY OF FAIRFAX, VIRGINIA**  
**WASTEWATER MANAGEMENT PROGRAM AND DEPARTMENT OF FINANCE**

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(703) 324-5030, TTY 711  
[www.fairfaxcounty.gov](http://www.fairfaxcounty.gov)

**WASTEWATER MANAGEMENT PROGRAM**

Jeffrey B. Kent, Financial Manager  
Robin Henderson, Fiscal Administrator  
Dianne L. Love  
Yvonne T. Sullivan  
Charese Willis

**DEPARTMENT OF FINANCE**

Victor L. Garcia, CPA, Director  
Richard Modie Jr., Chief, Financial Reporting Division  
Janet Burns, Financial Reporting Manager  
Sue Donelson  
Anand Goutam, CPA  
Nanette A. Velasco

# FAIRFAX COUNTY WASTEWATER MANAGEMENT



*Quality of Water = Quality of Life*



FINANCIAL SECTION



**FAIRFAX COUNTY  
WASTEWATER MANAGEMENT**



*Quality of Water = Quality of Life*



**KPMG LLP**  
Suite 12000  
1801 K Street, NW  
Washington, DC 20006

## **Independent Auditors' Report**

The Board of Supervisors  
County of Fairfax, Virginia:

We have audited the accompanying Statements of Net Assets of the County of Fairfax, Virginia, Integrated Sewer System (the System), an enterprise fund of the County of Fairfax, Virginia, as of June 30, 2012 and 2011, and the related Statements of Revenues, Expenses, and Changes in Net Assets and Cash Flows for the years then ended (hereinafter referred to as "basic financial statements"). These basic financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these basic financial statements based on our audits.

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 audits to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements, 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.

As discussed in Note 1, the basic financial statements present only the System and do not purport to, and do not, present fairly the financial position of the County of Fairfax, Virginia, as of June 30, 2012 and 2011, the changes in its financial position, or its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the County of Fairfax, Virginia, Integrated Sewer System as of June 30, 2012 and 2011, and the changes in its financial position, and its cash flows thereof for the years then ended in conformity with U.S. generally accepted accounting principles.

U.S. generally accepted accounting principles require that Management Discussion and Analysis on pages 3 through 9 to be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or



historical content. We have applied certain limited procedures, to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the System's basic financial statements. The information included in the introductory and statistical sections are presented for purposes of additional analysis and are not a required part of the basic financial statements and have not been subjected to the auditing procedures applied in the audit of the basic financial statements and accordingly, we do not express an opinion or provide any assurance on them.

*KPMG LLP*

November 19, 2012

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**INTEGRATED SEWER SYSTEM COUNTY OF FAIRFAX, VIRGINIA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (*unaudited*)**  
**June 30, 2012 and 2011**

This section of the County of Fairfax, Virginia Integrated Sewer System's (System) Comprehensive Annual Financial Report presents a discussion and analysis of the System's financial performance for the fiscal years that ended on June 30, 2012 and 2011.

The System is a County of Fairfax, Virginia (County) business-type activity that is funded separately from other County activities. The System is accounted for separately in an enterprise fund, and it is included in the County's Comprehensive Annual Financial Report.

We encourage readers to consider the information presented here in conjunction with the System's financial statements and notes to the financial statements to enhance their understanding of the System's financial performance.

**FINANCIAL HIGHLIGHTS**

The System's total net assets (assets less liabilities) were \$937.8 million at June 30, 2012, compared to \$897.3 million at June 30, 2011.

Operating revenues of \$159.9 million exceeded operating expenses of \$137.8 million, which include depreciation and amortization of \$52.4 million, by \$22.1 million. After factoring in non-operating revenues and expenses – availability fees, investment revenue, interest expense, and capital contributions, the result was a \$40.5 million increase in net assets for fiscal year 2012, which compares to a \$27.4 million increase in net assets for fiscal year 2011.

The System's cash and cash equivalents decreased by \$18.7 million during fiscal year 2012. This decrease compares to a \$11.6 million decrease in the prior fiscal year and is primarily due to \$85.3 million spent on purchases of capital assets. Capital asset acquisitions made during both fiscal years 2012 and 2011 were funded with available resources.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

The financial section of this annual report consists of (1) the independent auditors' report, (2) this management's discussion and analysis, and (3) the financial statements of the System. The financial statements, which include notes to explain information in the financial statements and to provide more detailed data, report information about the System using the economic resources measurement focus and the accrual basis of accounting, which are similar to those used by private sector companies. The following required financial statements provide both short-term and long-term information about the System's overall financial status.

**Statement of Net Assets**

The Statement of Net Assets presents information on all of the System's assets and liabilities, with the difference between the two reported as net assets. This statement provides information about the nature and the amounts of investments in resources (assets) and the obligations to the System's creditors (liabilities). It provides a basis for evaluating the capital structure of the System and assessing the liquidity and financial flexibility of the System.

**Statement of Revenues, Expenses, and Changes in Net Assets**

All of the revenues and expenses for the fiscal year are accounted for in the Statement of Revenues, Expenses, and Changes in Net Assets. This statement measures the results of the System's operations for the fiscal year and can be used to determine whether the System has successfully recovered all of its expenses through its user fees and charges and its other revenues.

**Statement of Cash Flows**

The Statement of Cash Flows reports all cash receipts, cash payments, and changes in cash from operating, investing, and capital and related financing activities. This statement provides information about all the sources and uses of cash and the net change in the balance of cash and cash equivalents for the fiscal year.

**FINANCIAL ANALYSIS OF THE SYSTEM**

**Net Assets**

Net assets may serve as a useful indicator of an entity's financial position. The following table presents a summary of the Statements of Net Assets for the System as of June 30, 2012, 2011, and 2010:

Summary of Net Assets As of June 30 (\$ in millions)							
	2012	\$ Change	% Change	2011	\$ Change	% Change	2010
Assets:							
Current assets	\$ 147.7	38.5	35.3	\$ 109.2	6.1	5.9	\$ 103.1
Noncurrent assets:							
Restricted and other assets	64.2	(49.4)	(43.5)	113.6	(13.0)	(10.3)	126.6
Capital assets (net)	1,303.5	40.2	3.2	1,263.3	54.0	4.5	1,209.3
Total assets	1,515.4	29.3	2.0	1,486.1	47.1	3.3	1,439.0
Liabilities:							
Current liabilities	36.5	2.5	7.4	34.0	2.3	7.3	31.7
Noncurrent liabilities	541.1	(13.7)	(2.5)	554.8	17.4	3.2	537.4
Total liabilities	577.6	(11.2)	(1.9)	588.8	19.7	3.5	569.1
Net assets:							
Invested in capital assets, net of related debt	769.1	46.4	6.4	722.7	(26.0)	(3.5)	748.7
Restricted	51.0	(42.4)	(45.4)	93.4	49.0	110.4	44.4
Unrestricted	117.7	36.5	45.0	81.2	4.4	5.7	76.8
Total net assets	\$ 937.8	40.5	4.5	\$ 897.3	27.4	3.1	\$ 869.9

Nearly 82%, 81%, and 86% of the System's total net assets for the fiscal years 2012, 2011, and 2010, respectively, are represented by its investment in capital assets (e.g. treatment plants, sewer lines and equipment) net of depreciation and amortization, less the outstanding debt that was issued to acquire these assets. Although the System's investment in its capital assets is reported net of related debt, it should be noted that the resources to pay this debt must be provided from other resources, since the assets themselves are not intended to be used to liquidate these liabilities. The \$40.5 million increase in net assets in fiscal year 2012 was primarily the result of increased revenue from Sales of Service and Availability fees. The \$27.4 million increase in net assets in fiscal year 2011 was primarily the result of increased revenue from Sales of Service and a gain from a sale of purchase capacity.

The restricted portion of net assets represents resources that are subject to external restrictions on how they may be used. Certain assets are restricted for sewer extensions and improvements and for debt service. The \$42.4 million decrease during fiscal year 2012 was primarily due to higher than anticipated cash expenditures on capital projects. The \$49.0 million increase during fiscal year 2011 was primarily due to the cash received from the sale of purchase capacity and lower than anticipated cash expenditures on capital projects. See Note (4) to the Financial Statements for detailed information pertaining to restricted net assets.

The unrestricted component of net assets represents resources that are not subject to any external restrictions as to use, hence, they are available for future operations.

### Changes in Net Assets

The following table summarizes the Statements of Revenues, Expenses, and Changes in Net Assets for the System for the fiscal years ended June 30, 2012, 2011, and 2010:

Summary of Revenues, Expenses, and Changes in Net Assets For the Fiscal Years Ended June 30 (\$ in millions)							
	2012	\$ Change	% Change	2011	\$ Change	% Change	2010
Operating revenues - Sales of service	\$159.9	17.0	11.9	\$142.9	16.2	12.8	\$126.7
Less operating expenses:							
Personnel services	24.7	0.5	2.1	24.2	1.1	4.8	23.1
Materials and supplies	14.0	2.6	22.8	11.4	(0.2)	(1.7)	11.6
Contractual services and other	46.7	(2.5)	(5.1)	49.2	0.8	1.7	48.4
Depreciation and amortization	52.4	5.3	11.3	47.1	0.4	0.9	46.7
Total operating expenses	137.8	5.9	4.5	131.9	2.1	1.6	129.8
Operating Income/(Loss)	22.1	11.1	100.9	11.0	14.1	(454.8)	(3.1)
Nonoperating revenues (expenses):							
Availability fees	28.9	17.7	158.0	11.2	0.5	4.7	10.7
Investment and other revenues	0.7	(0.6)	(46.2)	1.3	(0.2)	(13.3)	1.5
Interest and other expenses	(25.2)	0.1	(0.4)	(25.3)	0.6	(2.3)	(25.9)
Total nonoperating revenues (expenses)	4.4	17.2	(134.4)	(12.8)	0.9	(6.6)	(13.7)
Income/(Loss) before contributions	26.5	28.3	(1,572.2)	(1.8)	15.0	(89.3)	(16.8)
Capital contributions	14.0	1.6	12.9	12.4	3.8	44.2	8.6
Special item - gain on sale of purchase capacity	-	(16.8)	-	16.8	16.8	-	-
Change in net assets	40.5	13.1	47.8	27.4	35.6	(434.1)	(8.2)
Total net assets at beginning of year	897.3	27.4	3.1	869.9	(8.2)	(0.9)	878.1
Total net assets at end of year	\$937.8	40.5	4.5	\$897.3	27.4	3.1	\$869.9

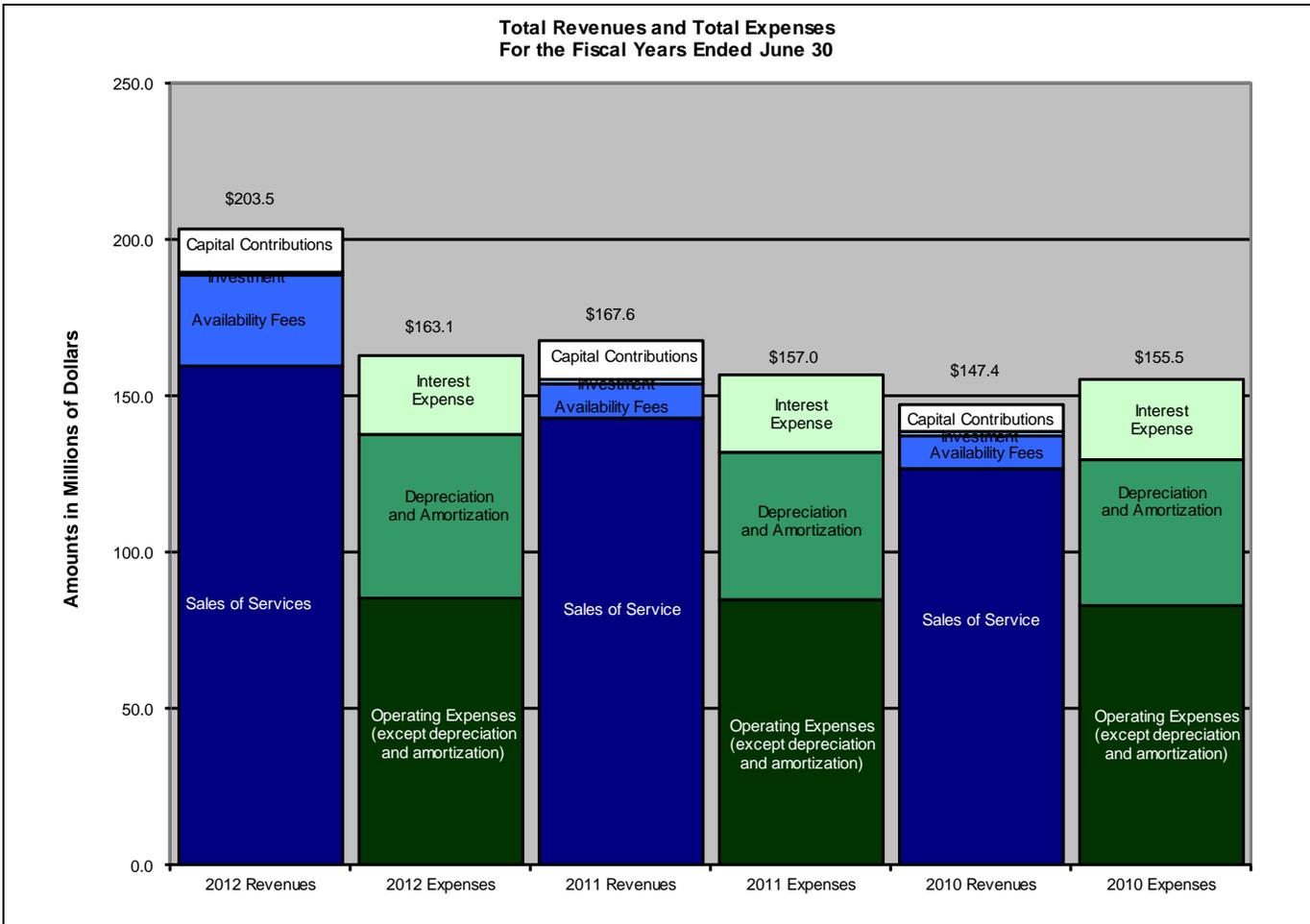
The System's operating revenues consist of service charges to County users and to neighboring jurisdictions, which reflect a 14.1% and 17.1% rate increase implemented during fiscal years 2012 and 2011, respectively. The \$22.1 million operating gain in fiscal year 2012 compared to \$11.0 million operating gain in fiscal year 2011 and the \$14.1 million increase in the operating gain from fiscal year 2010 to fiscal year 2011 were primarily the result of increases in operating revenues tied to the service charge rate increases.

Sewer rates are established by the Board of Supervisors pursuant to Chapter 67.1 of the County Code. Rates and code language are reviewed annually as part of the County's annual strategic planning and budgeting processes and are revised as necessary to ensure that rates generate revenues equitably from new and existing customers, based on the allocation of capital and operating costs, so that growth pays for growth.

System operations and upgrades are funded primarily through sewer service charges to existing customers based on water consumption, in 1,000 gallons, as measured by a water service meter. System expansion and increased treatment capacity is funded primarily through availability fees, one-time charges collected from new sewer customers prior to connection to the System.

The System owns and operates one treatment facility rated at 67.0 MGD, has a 22.6 MGD capacity entitlement in a joint venture facility, and has acquired capacity entitlements totaling 67.5 MGD at five facilities owned by neighboring jurisdictions. The System's share of renovation, upgrade, and expansion costs at non-System-owned facilities is reported as purchased capacity and amortized over thirty years.

A graphic comparison of total revenues, including capital contributions, to total expenses for fiscal years 2012, 2011, and 2010 is shown below:



## CAPITAL ASSETS AND LONG-TERM DEBT

### Capital Assets

The System's gross investment in capital assets as of June 30, 2012, amounted to \$2,048.3 million, or \$1,303.5 million after deducting accumulated depreciation and amortization, as summarized in the table below:

	Capital Assets As of June 30 (\$ in millions)						
	2012	\$ Change	% Change	2011	\$ Change	% Change	2010
Land	\$ 17.4	-	-	\$ 17.4	-	-	\$ 17.4
Easement	0.4	-	-	0.4	0.1	33.3	0.3
Construction in progress	85.6	17.4	25.5	68.2	(14.8)	(17.8)	83.0
Buildings and improvements	1,109.7	36.0	3.4	1,073.7	70.2	7.0	1,003.5
Equipment	11.6	0.3	2.7	11.3	0.1	0.9	11.2
Purchased capacity	823.6	38.6	4.9	785.0	34.5	4.6	750.5
Gross capital assets	2,048.3	92.3	4.7	1,956.0	90.1	4.8	1,865.9
Accumulated depreciation and amortization	(744.8)	(52.1)	7.5	(692.7)	(36.2)	5.5	(656.5)
<b>Total capital assets, net</b>	<b>\$1,303.5</b>	<b>40.2</b>	<b>3.2</b>	<b>\$1,263.3</b>	<b>53.9</b>	<b>4.5</b>	<b>\$1,209.4</b>

The \$92.3 million increase in gross capital assets during fiscal year 2012 reflects the following major capital asset additions, which were funded with available resources:

The ongoing improvement costs of the System's wastewater treatment facilities at its Noman M. Cole Pollution Control Plant amounted to \$27.9 million.

The System's share of the ongoing upgrade costs of the Arlington County, City of Alexandria, Upper Occoquan Service Authority, and the District of Columbia's wastewater treatment facilities, which provide service to certain County residents, was \$2.3 million, \$7.9 million, \$3.9 million and \$24.4 million, respectively.

Improvements to sewer lines and pumping stations in the System, other than donations from developers, totaled \$22.2 million.

Developers contributed sewer lines and manholes valued at \$3.7 million.

Additional information relative to the System's capital assets is contained in Note (5) to the Financial Statements.

### Long-term Debt

The following is a summary of the System's gross outstanding long-term debt as of June 30, 2012, 2011, and 2010:

	Gross Outstanding Debt As of June 30 (\$ in millions)						
	2012	\$ Change	% Change	2011	\$ Change	% Change	2010
Sewer revenue bonds	\$226.7	(5.4)	(2.3)	\$232.1	(5.2)	(2.2)	\$237.3
Subordinated bonds:							
Sewer Revenue bonds	52.5	(4.4)	(7.7)	56.9	(4.3)	(7.0)	61.2
System's share of UOSA's debt	273.0	(3.1)	(1.1)	276.1	27.9	11.2	248.2
<b>Total outstanding debt</b>	<b>\$552.2</b>	<b>(12.9)</b>	<b>(2.3)</b>	<b>\$565.1</b>	<b>18.4</b>	<b>3.4</b>	<b>\$546.7</b>

The \$226.7 million of outstanding sewer revenue refunding bonds and sewer revenue bonds issued in 2004 and 2009 by the System are currently rated AAA by Fitch Investor Service and Standard and Poor's Corporation and Aa1 by Moody's Investors Service, Inc. These high credit ratings have enabled the County to sell bonds on behalf of the System at interest rates lower than those obtained by most sewer authorities, thereby achieving savings throughout the life of the bonds.

On June 17, 2009, the System issued \$152,255,000 of Series 2009 Sewer Revenue Bonds with a true interest cost of 4.4% to provide funds for upgrade costs allocable to the County at certain wastewater treatment facilities that are owned by, or that provide service to, the County, the purchase of additional capacity at certain wastewater treatment facilities, and the cost of certain additions, extensions, and improvements to the County's sewage collection, treatment, and disposal systems.

On October 14, 2004, the System took advantage of lower market interest rates and issued \$94.0 million of Series 2004 Sewer Revenue Refunding Bonds with a true interest rate of 4.3% to advance refund \$91.4 million of the outstanding Series 1996 Sewer Revenue Bonds with a true interest rate of 5.9%. Although the reacquisition prices exceeded the net carrying values of the refunded bonds by \$9.1 million, which is being amortized over the life of the new refunding bonds, the System reduced total debt service payments over future years by approximately \$16.8 million and obtained an economic gain (the difference between the present values of the debt service payments on the old and new debt) of approximately \$7.7 million.

In June 2002 and June 2001, the System issued twenty-year subordinated sewer revenue bonds in the amounts of \$50 million and \$40 million at interest rates of 3.7% and 4.1%, respectively, to the Virginia Water Facilities Revolving Fund, acting by and through the Virginia Resources Authority, to fund its share of the ongoing expansion costs of the Alexandria Renew Enterprises' (ARE) wastewater treatment facilities, which provide service to some of the System's customers. The proceeds of these bonds cover construction costs already incurred and are expected to fund 50% of the System's share of the total expansion costs, with the remaining funding being generated from operations.

The Upper Occoquan Sewage Authority (UOSA), a joint venture which operates a regional sewage facility, issued regional sewer system revenue bonds in 1993 and 1996 to finance the expansion of its treatment facility's capacity from 27 MGD to 54 MGD. In December 2003, November 2004, July 2005, and February 2007, UOSA issued new bonds to advance refund certain of its outstanding bonds, resulting in accounting gains totaling approximately \$4 million for the System, which are being amortized over the life of the new bonds. In December 2007, UOSA issued \$119,715,000 of Regional Sewer System Revenue Bonds, of which the System's share is \$53,925,458 to finance the cost of expanding its wastewater treatment and conveyance facilities. In December 2010, UOSA issued \$85,180,000 of Regional Sewer System Revenue Bonds, of which the System's share is \$34,113,615, to finance the cost of certain capital improvements. In fiscal year 2012, UOSA entered into VRA loans 2011A and 2011B to fund costs related to the Energy Service project and phase 1 of the Nutrient Compliance Improvement project (P1NR), respectively. The total outstanding loan balance as of June 30, 2012 is \$8,096,994 of which the System's share is \$3,598,942. As of June 30, 2012, the System's share of UOSA's outstanding debt is \$273.0 million.

The System is required by the covenants of the 2009 General Bond Resolution to generate net revenues (defined as all revenues except grants and contributed assets, less operating expenses, except depreciation and amortization) at least equal to the debt service on its sewer revenue bonds each year. The ratios of net revenues to debt service for the senior sewer revenue bonds are 6.37 and 4.32 for fiscal years 2012 and 2011, respectively. The fiscal year 2012 ratio is more favorable than fiscal year 2011 ratio due to a 48% increase in net revenues. Taking all long-term debt into account, the ratios are 2.48 and 1.71 for fiscal years 2012 and 2011, respectively. The fiscal year 2012 ratio is more favorable than fiscal year 2011 ratio due to a 48% increase in net revenue which exceeded the 2% increase in total debt service requirement. Additional information related to the debt coverage ratios is contained in Table 3 of the Statistical Section.

Additional information relative to the System's long-term debt can be found in Note (7) to the Financial Statements.

### **ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES**

The following factors, decisions and conditions are expected to have a significant effect on the financial position and the results of operations for fiscal year 2013 and beyond:

The sewer service charge rate to System users has been increased from \$6.01 to \$6.55 per 1,000 gallons of water consumption and the base charge increased from \$5.00 to \$5.50 for fiscal year 2013. Subsequent rate increases to \$7.07, \$7.49, and \$7.79 for fiscal years 2014, 2015, and 2016, respectively, have also been approved.

Sewer availability fees have not been increased for fiscal year 2013. Also no fee increases for fiscal years 2014, 2015 and 2016 have been approved. Unit sales of sewer availability taps averaged 227 per month during the first quarter of fiscal year 2013, compared to 556 per month during the comparable period of fiscal year 2012.

Interest rates on short-term investments through the first quarter of fiscal year 2013 have been approximately 0.62%, an increase from fiscal year 2012 rates.

The System's adopted budget for operating expenses, excluding depreciation and amortization, for fiscal year 2013 is \$93.9 million.

The System's adopted budget for capital asset acquisitions for fiscal year 2013 is \$179.0 million, to be funded with available resources and bond proceeds. This budget includes \$31.0 million for the rehabilitation and renovation of the System's sewer lines, \$20.1 million for rehabilitation and renovation of the System's pumping stations, \$79.0 million for upgrades to the county-owned treatment plant, and the System's share of the upgrade costs of the Alexandria Renew Enterprises', Arlington's and the District of Columbia's wastewater treatment facilities in the amounts of \$19.4 million, \$8.1 million, and \$3.5 million, respectively. The system is also maintaining construction contingencies in the amount of \$17.9 million.

### **CONTACTING THE SYSTEM'S FINANCIAL MANAGEMENT**

This financial report is designed to provide the System's customers and investors and creditors with a general overview of the System's finances and to demonstrate the System's accountability for the money it receives. If you have questions about this report or need additional financial information, please contact the County of Fairfax, Virginia, Department of Finance, 12000 Government Center Parkway, Fairfax, Virginia, 22035.

## FAIRFAX COUNTY WASTEWATER MANAGEMENT



*Quality of Water = Quality of Life*

**FAIRFAX COUNTY  
WASTEWATER MANAGEMENT**



*Quality of Water = Quality of Life*

**INTEGRATED SEWER SYSTEM COUNTY OF FAIRFAX, VIRGINIA**  
**STATEMENTS OF NET ASSETS**  
**June 30, 2012 and 2011**

	<b>2012</b>	<b>2011</b>
<b>Assets</b>		
Current assets:		
Cash and investments on deposit with the County of Fairfax, Virginia	\$ 90,468,581	59,845,918
Accrued interest receivable	5,613	12,238
Due from intergovernmental units (note 2):		
Service charges	27,165,407	20,479,155
Unbilled service charges	18,458,512	17,342,880
Inventories and other	580,969	615,549
Total unrestricted	136,679,082	98,295,740
Restricted assets (note 4):		
Cash and investments on deposit with the County of Fairfax, Virginia	46,649,882	95,961,405
Cash with fiscal agent (note 3)	11,042,564	10,916,846
Investments (note 3)	16,547,900	16,547,900
Total restricted	74,240,346	123,426,151
Total current assets	210,919,428	221,721,891
Long-term assets:		
Capital assets (note 5):		
Non-depreciable:		
Land	17,370,540	17,370,540
Easement	371,381	365,709
Construction in progress	85,651,793	68,190,535
Depreciable/amortizable:		
Buildings, improvements, and sewer lines	1,109,742,974	1,073,726,165
Equipment	11,617,382	11,340,432
Purchased capacity	823,610,880	785,035,761
Gross capital assets	2,048,364,950	1,956,029,142
Accumulated depreciation and amortization	(744,843,164)	(692,677,450)
Total capital assets, net	1,303,521,786	1,263,351,692
Deferred bond issuance costs (net of amortization)	1,037,765	1,083,243
Total long-term assets	1,304,559,551	1,264,434,935
<b>Total assets</b>	<b>\$ 1,515,478,979</b>	<b>1,486,156,826</b>

See accompanying notes to the financial statements.

continued

	<u>2012</u>	<u>2011</u>
<b>Liabilities</b>		
Current liabilities:		
Accrued salaries and wages	\$ 679,086	594,533
Accounts payable and accrued liabilities	3,195,681	1,621,272
Contracts payable	7,980,447	7,636,969
Due to County of Fairfax, Virginia	255,182	231,194
Accrued interest payable	5,832,955	6,024,569
Compensated absences	1,216,936	1,252,296
Bonds payable (note 6 & 7)	<u>17,375,698</u>	<u>16,673,909</u>
Total current liabilities	<u>36,535,985</u>	<u>34,034,742</u>
Long-term liabilities:		
Compensated absences	940,605	837,972
Bonds payable (note 6 & 7)	<u>540,195,964</u>	<u>553,972,720</u>
Total long-term liabilities	<u>541,136,569</u>	<u>554,810,692</u>
<b>Total liabilities</b>	<u>577,672,554</u>	<u>588,845,434</u>
<b>Net Assets</b>		
Invested in capital assets, net of related debt	769,135,097	722,703,848
Restricted for (note 4):		
Sewer extensions and improvements	40,012,810	82,510,520
Debt service	11,042,564	10,916,846
Unrestricted	<u>117,615,954</u>	<u>81,180,178</u>
<b>Total net assets</b>	<u>\$ 937,806,425</u>	<u>897,311,392</u>

See accompanying notes to the financial statements.

**INTEGRATED SEWER SYSTEM COUNTY OF FAIRFAX, VIRGINIA**  
**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS**  
**For the Fiscal Years Ended June 30, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
<b>Operating revenues:</b>		
Sales of service	\$ 159,957,639	142,929,404
<b>Operating expenses:</b>		
Personnel services	24,735,872	24,162,541
Materials and supplies	13,974,834	11,429,228
Contractual services	46,236,052	48,655,804
Depreciation and amortization	52,429,103	47,130,698
Professional fees and other	508,080	509,330
<b>Total operating expenses</b>	<b>137,883,941</b>	<b>131,887,601</b>
Operating income	22,073,698	11,041,803
<b>Nonoperating revenues (expenses):</b>		
Availability charges	28,959,575	11,189,312
Investment earnings	521,755	1,084,587
Interest expense	(25,227,137)	(25,300,800)
Amortization of bond issuance costs	(45,476)	(45,476)
Amortization of deferred gains on UOSA bond refinancings	229,931	229,931
Gain on disposal of capital assets	8,481	14,748
<b>Total nonoperating revenues (expenses)</b>	<b>4,447,129</b>	<b>(12,827,698)</b>
Income/(Loss) before contributions	26,520,827	(1,785,895)
<b>Capital contributions:</b>		
Grants from the Commonwealth of Virginia	10,270,459	3,700,000
Federal Stimulus Grants	-	4,525,425
From developers	3,703,747	4,160,045
<b>Total capital contributions</b>	<b>13,974,206</b>	<b>12,385,470</b>
<b>Special item - Gain from sale of purchase capacity</b>	<b>-</b>	<b>16,787,885</b>
Change in net assets	40,495,033	27,387,460
<b>Total net assets at beginning of year</b>	<b>897,311,392</b>	<b>869,923,932</b>
<b>Total net assets at end of year</b>	<b>\$ 937,806,425</b>	<b>897,311,392</b>

See accompanying notes to the financial statements.

**INTEGRATED SEWER SYSTEM COUNTY OF FAIRFAX, VIRGINIA**  
**STATEMENTS OF CASH FLOWS**  
**For the Fiscal Years Ended June 30, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
<b>Cash flows from operating activities:</b>		
Receipts from customers and users	\$ 152,155,755	138,207,991
Payments to employees	(24,560,058)	(24,937,603)
Payments to suppliers and contractors	(58,766,499)	(58,106,439)
Net cash provided by operating activities	<u>68,829,198</u>	<u>55,163,949</u>
<b>Cash flows from capital and related financing activities:</b>		
Capital grants received	10,270,459	8,225,425
Availability charges received	28,959,575	11,189,312
Principal payments on revenue bonds	(16,445,122)	(15,796,593)
Interest payments on revenue bonds	(25,417,608)	(25,436,678)
Purchases of capital assets, other than purchased capacity	(50,709,075)	(51,880,108)
Acquisition of purchased capacity	(34,601,590)	(33,981,718)
Proceeds from the sale of capital assets	22,637	14,748
Proceeds from the sale of purchase capacity	-	39,807,586
Net cash used by capital and financing activities	<u>(87,920,724)</u>	<u>(67,858,026)</u>
<b>Cash flows from investing activities:</b>		
Sales of restricted investments	16,371,746	16,349,129
Purchases of restricted investments	(16,497,464)	(16,442,579)
Interest received	528,384	1,156,135
Net cash provided by investing activities	<u>402,666</u>	<u>1,062,685</u>
<b>Net (decrease) in cash and cash equivalents</b>	<u>(18,688,860)</u>	<u>(11,631,392)</u>
Cash and cash equivalents at beginning of year	155,807,323	167,438,715
Cash and cash equivalents at end of year	<u>\$ 137,118,463</u>	<u>155,807,323</u>
<b>Reconciliation of operating income to net cash provided by operating activities:</b>		
Operating income	\$ 22,073,698	11,041,803
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation and amortization	52,429,103	47,130,698
Changes in assets and liabilities:		
(Increase) decrease in intergovernmental receivables	(7,801,884)	(4,721,413)
(Increase) decrease in inventories and other assets	34,580	(67,224)
Increase (decrease) in accounts payable and accrued liabilities, net of interest	1,750,223	(1,519,694)
Increase (decrease) in contracts payable	343,478	3,299,779
Total adjustments	<u>46,755,500</u>	<u>44,122,146</u>
Net cash provided by operating activities	<u>\$ 68,829,198</u>	<u>55,163,949</u>
<b>Noncash investing, capital, and financing activities:</b>		
Capital contributions - sewer lines, manholes, etc.	\$ 3,703,747	4,160,045
Net increase in long-term debt resulting from the issuance of loans/revenue bonds by UOSA	3,598,942	34,113,615
Increase in fair value of investments not classified as cash and cash equivalents	16,154	22,074

See accompanying notes to the financial statements.

## FAIRFAX COUNTY WASTEWATER MANAGEMENT



*Quality of Water = Quality of Life*

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**INTEGRATED SEWER SYSTEM COUNTY OF FAIRFAX, VIRGINIA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2012 and 2011**

**(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***(a) Basis of Presentation***

The County of Fairfax, Virginia Integrated Sewer System (System) is an enterprise fund of the County of Fairfax, Virginia (County), and provides sewer services to approximately 1.0 million residents through a County-wide sewer system of almost 3,400 miles of sewer lines. The sewer service area, approximately 234 square miles, is defined and controlled through the County of Fairfax Board of Supervisors (Board). The System is governed by the Board and managed and operated separately as the Wastewater Management Program, one of five major activities of the County's Department of Public Works and Environmental Services.

As a County business-type activity, System financial information is separately accounted for in an enterprise fund and is included in the County's Comprehensive Annual Financial Report (CAFR).

The accompanying financial statements present only the System and are not intended to present fairly the financial position of the County and results of its operations and the cash flows of its proprietary funds as a whole in conformity with U.S. generally accepted accounting principles.

***(b) Basis of Accounting***

The System is required to recover the costs of providing services, including capital costs, through user charges. Accordingly, the System uses enterprise fund accounting, an economic resources measurement focus, and the accrual basis of accounting. Consequently, revenues are recognized when earned and expenses are recorded as incurred. The System defines operating revenues and expenses as those directly related to providing sewer services. Operating revenues consist of charges to System users. Operating expenses include personnel, materials and supplies, services purchased from other local jurisdictions, and depreciation and amortization of capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses; these include sewer availability fees, investment earnings and interest on outstanding debt. In preparing the financial statements, the System has not elected to apply the option provided in paragraph 7 of Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting*. Therefore, the System has applied only Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, except for those that conflict with or contradict GASB pronouncements.

***(c) Use of Estimates***

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.



***(d) Tax Status***

The System, as part of a local government, is not subject to federal, state, or local income taxes, and, accordingly, no provision for income taxes is made.

***(e) Sewer Service Charges***

The major sources of revenue for the System are sales to existing customers for continuing sewer service. Customers are charged for sewer service based on metered water usage. Sewer service charges are designed to recover the costs of operation and maintenance of the System, as well as debt service and capital project costs attributable to supporting or improving wastewater treatment services to the System's customers. Sewer service charges are recorded as operating revenue.

***(f) Unbilled Service Charges***

An estimated amount has been recorded for services rendered but not yet billed as of the close of the fiscal year. This estimated receivable is calculated by prorating water consumption and billings for certain prior months.

***(g) Availability Charges***

New customers connecting to the System are required to pay an availability fee before obtaining a building permit in the County. Availability fees are used to recover the construction and financing costs associated with expanding System capacity. Availability fees are reported as nonoperating revenue.

***(h) Cash and Investments on Deposit with the County of Fairfax, Virginia***

The System maintains the majority of its available cash in a cash and investment pool administered by the County. Such amounts are considered to be cash equivalents for purposes of the Statements of Cash Flows. To optimize investment returns, the System's funds are invested together with all other County pooled funds, all of which are fully insured or collateralized. The County allocates, on a monthly basis, any investment earnings based on the System's average balance in pooled cash and investments, less an administrative charge.

***(i) Flow Assumption for Restricted Assets***

Restricted assets are liquid assets which have third-party limitations on their use. When both restricted and unrestricted assets are available for use, it is the System's policy to use restricted resources first, then unrestricted assets when needed. See Note 4 for additional information regarding restricted assets.

***(j) Investments***

Investments consist primarily of U.S. government securities that mature in less than one year from the date of purchase and discount government-sponsored enterprise (GSE) securities, which are stated at amortized cost.

***(k) Inventories***

Inventories are carried at the lower of cost or market using an average unit cost method. The System's inventories consist of operating supplies and certain system replacement parts.

**(l) Capital Assets**

Capital assets that individually cost \$5,000 or more are capitalized and recorded at cost. Contributed capital assets are recorded at their estimated fair value on the date of donation. Capital assets are depreciated/amortized over their estimated useful lives using the straight-line method. The estimated useful lives are as follows:

Infrastructure	10-50 years
Sewer lines	50 years
Buildings	20-50 years
Purchased capacity	99 years
Improvements	15-25 years
Equipment	5-20 years
Software	5-20 years

For constructed assets, all costs necessary to bring such assets to the condition and location necessary for the intended use, including interest on related debt, are initially treated as construction in progress and subsequently as buildings, improvements, or purchased capacity once the assets are substantially complete. Depreciation and amortization on constructed assets begin when the assets are substantially ready for their intended use.

**(m) Retirement Plan**

Employees of the System participate in the Fairfax County Employees' Retirement System (Retirement Plan), a cost-sharing multiple-employer defined benefit pension plan, which covers substantially all County employees who are not members of the Virginia Retirement System or other County-funded retirement plans.

Benefit provisions are established and may be amended by County ordinances. All benefits vest at five years of creditable service. To be eligible for normal retirement, an individual must meet the following criteria: (a) attain the age of 65 with five years of creditable service, or (b) attain the age of 50 with age plus years of creditable service being greater than or equal to 80. The normal retirement benefit is calculated using average final compensation (i.e., the highest 78 consecutive two-week pay periods or the highest 36 consecutive monthly pay periods) and years (or partial years) of creditable service at date of termination. In addition, if normal retirement occurs before Social Security benefits are scheduled to begin, an additional monthly benefit is paid to retirees. Annual cost-of-living adjustments are provided to retirees and beneficiaries equal to the lesser of 4.0% or the percentage increase in the Consumer Price Index for the Washington Consumer Metropolitan Service Area. The Retirement Plan provides that unused sick leave credit may be used in the calculation of average final compensation by projecting the final salary during the unused sick leave period. The benefit for early retirement is actuarially reduced and payable at early termination.

The contribution requirements of the Retirement Plan members are established and may be amended by County ordinances. Members may elect to join Plan A or Plan B. Plan A requires member contributions of 4.0% of compensation up to the Social Security wage base and 5.33% of compensation in excess of the wage base. Plan B requires member contributions of 5.33% of compensation.

For fiscal years 2012, 2011, and 2010, the System contributed at the contractually fixed rates of 17.20%, 14.70% and 9.71%, respectively, of annual covered payroll. These rates were established by the Board to cover the actuarially-determined normal cost plus administrative expenses of the Retirement Plan. In the event the Retirement plan's funded ratio (the ratio of the actuarial value of assets to the actuarial accrued liability) exceeds 120% or falls below 90%, the contribution rate will be adjusted to bring the funded ratio back within these parameters.

The System's contributions to the Retirement Plan for the years ended June 30, 2012, 2011, and 2010, were approximately \$2,545,000, \$2,253,000, and \$1,478,000, respectively, which represent the System's allocated share of the County's funding requirements.

Information relating to the Retirement Plan as a whole is available in the County's June 30, 2012 CAFR. In addition, the Retirement Plan issues a publicly available annual financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the Fairfax County Employees' Retirement System, 10680 Main Street, Suite 280, Fairfax, VA 22030, or by calling (703) 279-8200.

**(n) *Compensated Absences***

Employees earn vacation pay based on a prescribed formula, which allows employees with less than 10 years of service to accumulate a maximum of 240 hours and employees with 10 years or more of service to accumulate a maximum of 320 hours of vacation benefits as of the end of each calendar year. In addition, employees may accrue compensatory leave for hours worked in excess of their scheduled hours. Compensatory leave in excess of 240 hours at the end of the calendar year is forfeited. The current pay rate and certain employer-related fringe benefits are used to calculate the year end accruals. At June 30, 2012 and 2011, the System accrued \$2,157,541 and \$2,090,268, respectively, for such compensated absences.

**(o) *Intergovernmental Agreements***

The County has entered into several intergovernmental agreements for the purpose of sharing sewage flow and treatment facility costs. The payments to other governmental units made to reimburse operating costs are reported as expenses in the year incurred. The interest payments for debt service are reported as nonoperating expenses. The payments made for construction costs for facility capacity expansions are reported as purchased capacity (see notes 5 and 8). Through these capital payments, the System has exclusive entitlements to treatment capacities at other governmental sewage treatment facilities.

**(2) DUE FROM OTHER GOVERNMENTAL ENTITIES**

Amounts due from other governmental entities consist of customer service charges, which are billed and collected by Fairfax Water and other local water authorities, and sales of sewer services to other jurisdictions which utilize the System's sewage treatment and collection facilities.

The Board appoints the members of the board of Fairfax Water; however, the County's accountability does not extend beyond making the appointments. During fiscal years 2012 and 2011, Fairfax Water collected approximately \$127.7 million and 113.3 million on behalf of the System, and as of June 30, 2012 and 2011, the System has receivables of approximately \$27.4 million and \$27.0 million, respectively, due from Fairfax Water.

**(3) INVESTMENTS**

The System's available cash is invested in the County's cash and investment pool. The County maintains an investment policy, the overall objectives of which are the preservation of capital and the protection of investment principal; maintenance of sufficient liquidity to meet operating requirements; conformance with federal, state, and other legal requirements; diversification to avoid incurring unreasonable risks regarding specific security types or individual financial institutions; and attainment of a market rate of return. Oversight of investment activity is the responsibility of the Investment Committee, which is comprised of the chief financial officer and certain key management and investment staff.

The Code of Virginia (Code) authorizes the County and the System to purchase the following types of investments:

- Commercial paper
- U.S. Treasury and agency securities
- U.S. Treasury strips
- Negotiable certificates of deposits and bank notes
- Money market funds
- Bankers acceptances
- Repurchase agreements
- Medium term corporate notes
- Local government investment pool
- Asset-backed securities
- Hedged debt obligations of sovereign governments
- Securities lending programs
- Obligations of the Asian Development Bank
- Obligations of the African Development Bank
- Obligations of the International Bank for Reconstruction and Development
- Obligations of the Commonwealth of Virginia and its instrumentalities
- Obligations of counties, cities, towns, and other public bodies located within the Commonwealth of Virginia
- Obligations of state and local government units located within other states
- Savings accounts or time deposits in any bank or savings institution within the Commonwealth that complies with the Code

However, the County's investment policy precludes the investment of pooled funds in derivative securities, reverse repurchase agreements, or security lending programs.

**(a) Interest Rate Risk**

The System's investment in the pool is covered by the County's policy to minimize the risk that the market value of securities in its portfolio will fall due to changes in market interest rates. To achieve this minimization of risk, the County structures the pooled investment portfolio so that sufficient securities

mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity. Pooled investments that are purchased to meet liquidity needs shall have a target weighted average maturity of 90 days. All other pooled funds are invested primarily in shorter-term securities, with a maximum maturity of one year.

**(b) Credit Risk**

It is also the County’s policy to minimize the risk of loss due to the failure of an issuer or other counterparty to an investment to fulfill its obligations. The County pre-qualifies financial institutions, broker-dealers, intermediaries, and advisers with which the County does business. Based on the County’s investment policy, the pooled investments are limited to relatively safe types of securities and are diversified so that potential losses on individual securities will be minimized. Also, new investments shall not be made in securities that are listed on Moody’s Investors Service, Inc. (Moody’s) Watchlist or Standard & Poor’s, Inc. (S&P) Credit Watch with a short term negative rating. The policy specifies the following acceptable credit ratings for specific types of investments in the pooled portfolio:

- U.S. government-sponsored enterprise (GSE) instruments shall be rated by both Moody’s and S&P with a minimum rating of Prime 1 and A-1, respectively.
- Prime quality commercial paper shall be rated by at least two of the following: Moody’s, with a minimum rating of Prime 1; S&P, with a minimum rating of A-1; Fitch Investor’s Services, Inc. (Fitch), with a minimum rating of F-1; or by Duff and Phelps, Inc., with a minimum rating of D-1.
- Mutual funds must have a rating of AAA or better by S&P, Moody’s, or another nationally recognized rating agency.
- Bank deposit notes must have a rating of at least A-1 by S&P and P-1 by Moody’s.
- Banker’s acceptances must have a rating by at least two of the following: Moody’s P-1, S&P A-1, Fitch F-1 and Duff and Phelps D-1.
- Corporate notes must have a rating of at least Aa by Moody’s and a rating of at least AA by S&P.

The portfolio weighted average maturity for the County’s entire cash and investment pool were 85.7 and 95.9 days, respectively, as of June 30, 2012 and 2011. As of June 30, 2012 and 2011, the County’s portfolio consisted of investments with credit quality ratings as shown below:

	<u>AAA</u>	<u>AA</u>	<u>A</u>	<u>Unrated</u>	<u>Total</u>
2012	0.0	24.8	43.5	31.7	100.0
2011	1.4	15.8	46.1	36.7	100.0

**(c) Concentration of Credit Risk**

The County’s investment policy sets the following limits for the types of securities held in its pooled investment portfolio:

Repurchase agreements and mutual funds	30%	maximum
Bank notes, banker's acceptances and negotiable certificates of deposit	40%	maximum
Commercial paper	35%	maximum
Corporate notes	25%	maximum
US Treasury and agency securities	100%	maximum
Non-negotiable certificates of deposits	40%	maximum

In addition, not more than 5% of the total pooled funds available for investment at the time of purchase may be invested in any one issuing or guaranteeing corporation for commercial paper, banker's acceptances, corporate notes, and bank notes.

**(d) Custodial Credit Risk**

For deposits, custodial credit risk is the risk that in the event of a failure of a depository financial institution, the reporting entity may not recover its deposits. In accordance with the Virginia Security for Public Deposits Act (Act), all of the County's deposits are covered by federal depository insurance or collateralized in accordance with the Act, which provides for the pooling of collateral pledged by financial institutions with the Treasurer of Virginia to secure public deposits as a class. No specific collateral can be identified as security for one public depositor, and public depositors are prohibited from holding collateral in their name as security for deposits. If any member financial institution fails, the entire collateral pool becomes available to satisfy the claims of governmental entities. If the value of the pool's collateral is inadequate to cover a loss, additional amounts are assessed on a pro rata basis to the members of the pool. 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 participating financial institutions. A multiple financial institution collateral pool that provides for additional assessments is similar to depository insurance, therefore, funds deposited in accordance with the requirements of the Act are considered to be fully insured.

For investments, custodial credit risk is the risk that, in the event of the failure of a counterparty, the County will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Per policy, all of the pooled investments purchased by the County are insured or registered or are securities held by the County or its agent in the County's name.

Additional information and information by investment type related to the interest rate risk and the credit risk pertaining to the entire cash and investment pool can be found in the County's Comprehensive Annual Financial Report for the fiscal year ended June 30, 2012.

Certain investments are separately held by the System apart from the County's cash and investment pool and are made in accordance with bond indentures. All of these investments, which are summarized below at carrying value as of June 30, 2012, and 2011, are insured, registered or held by the System or its agent in the System's name:

	<u>2012</u>	<u>2011</u>
U.S. Treasury securities	\$ 16,489,231	21,392,544
Money Market Mutual Fund	11,101,233	101,676
Discount GSE securities	-	5,970,526
Total	<u>\$ 27,590,464</u>	<u>27,464,746</u>

**(4) RESTRICTED ASSETS AND RESTRICTED NET ASSETS**

As of June 30, 2012 and 2011, the System had restricted cash and investments of \$74,240,346 and \$123,426,151 respectively, for internal purposes in order to manage its funds in accordance with the 1985 General Bond Resolution (the Resolution), as modified through July 2009. The Resolution requires that the System must set aside or restrict funds for certain purposes, including sewer construction, extensions and improvements, establishing a long-term debt service reserve, and funding current debt service requirements.

The System's restricted assets and restricted net assets as of June 30, 2012 and 2011, are as follows:

	<u>2012</u>	<u>2011</u>
Assets are restricted for:		
Extensions and improvements	\$ 40,012,810	89,324,333
Long-term debt service requirements:		
Sewer revenue bonds:		
Series 2004 & 2009	16,547,900	16,547,900
Subordinated sewer revenue bonds:		
2001 VRA	2,999,284	2,999,284
2002 VRA	3,637,788	3,637,788
Total long-term debt service requirements	\$ 23,184,972	23,184,972
Current debt service requirements	11,042,564	10,916,846
Total restricted assets	\$ 74,240,346	123,426,151
Unspent bond proceeds	-	6,813,813
Less related debt	(23,184,972)	(29,998,785)
Total restricted net assets	\$ 51,055,374	93,427,366

**(5) CAPITAL ASSETS**

Changes in capital assets for the years ended June 30, 2012 and 2011, are as follows:

	<u>Balances</u> <u>June 30, 2011</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balances</u> <u>June 30, 2012</u>
Capital assets:				
Non-depreciable:				
Land	\$ 17,370,540	-	-	17,370,540
Easement	365,709	5,672	-	371,381
Construction in progress	68,190,535	49,713,670	(32,252,412)	85,651,793
Depreciable/amortizable:				
Buildings	58,235,773	30,163,059	-	88,398,832
Improvements and sewer lines	1,015,490,392	5,853,750	-	1,021,344,142
Equipment	11,340,432	554,494	(277,544)	11,617,382
Purchased capacity	785,035,761	38,575,119	-	823,610,880
Total capital assets	\$ 1,956,029,142	124,865,764	(32,529,956)	2,048,364,950
Accumulated depreciation/amortization for:				
Buildings	(34,924,296)	(2,096,125)	-	(37,020,421)
Improvements and sewer lines	(446,230,629)	(23,425,693)	-	(469,656,322)
Equipment	(9,008,535)	12,903	263,389	(8,732,243)
Purchased capacity	(202,513,990)	(26,920,188)	-	(229,434,178)
Total accumulated depreciation/ amortization	\$ (692,677,450)	(52,429,103)	263,389	(744,843,164)
Total capital assets, net	\$ 1,263,351,692	72,436,661	(32,266,567)	1,303,521,786

	<b>Balances</b> <b>June 30, 2010</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balances</b> <b>June 30, 2011</b>
Capital assets:				
Non-depreciable:				
Land	\$ 17,370,540	-	-	17,370,540
Easement	318,144	47,565	-	365,709
Construction in progress	82,966,213	51,606,283	(66,381,961)	68,190,535
Depreciable/amortizable:				
Buildings	58,235,773	-	-	58,235,773
Improvements and sewer lines	945,279,738	70,210,654	-	1,015,490,392
Equipment	11,257,743	226,260	(143,571)	11,340,432
Purchased capacity	750,474,294	68,426,687	(33,865,220)	785,035,761
Total capital assets	<u>\$ 1,865,902,445</u>	<u>190,517,449</u>	<u>(100,390,752)</u>	<u>1,956,029,142</u>
Accumulated depreciation/amortization for:				
Buildings	(33,725,690)	(1,198,606)	-	(34,924,296)
Improvements and sewer lines	(424,640,833)	(21,589,796)		(446,230,629)
Equipment	(8,477,577)	(674,530)	143,572	(9,008,535)
Purchased capacity	(189,691,742)	(23,667,766)	10,845,518	(202,513,990)
Total accumulated depreciation/ amortization	<u>\$ (656,535,842)</u>	<u>(47,130,698)</u>	<u>10,989,090</u>	<u>(692,677,450)</u>
Total capital assets, net	<u>\$ 1,209,366,603</u>	<u>143,386,751</u>	<u>(89,401,662)</u>	<u>1,263,351,692</u>

Changes in purchased capacity, net of accumulated amortization, for the years ended June 30, 2012 and 2011, in relation to each jurisdiction, are detailed as follows:

	<b>Balances</b> <b>June 30, 2011</b>	<b>Additions</b>	<b>Amortization</b>	<b>Balances</b> <b>June 30, 2012</b>
Purchased capacity, net:				
Blue Plains	\$ 106,393,360	24,399,400	(5,039,094)	125,753,666
UOSA	226,502,571	3,973,530	(10,620,201)	219,855,900
Alexandria Renew Enterprises	187,544,773	7,951,553	(9,020,206)	186,476,120
Arlington County	41,228,849	2,250,636	(1,535,480)	41,944,005
Prince William County Service Authority	608,000	-	(30,400)	577,600
Loudoun Water	20,244,218	-	(674,807)	19,569,411
Total purchased capacity, net	<u>\$ 582,521,771</u>	<u>38,575,119</u>	<u>(26,920,188)</u>	<u>594,176,702</u>

	<b>Balances</b> <b>June 30, 2010</b>	<b>Additions</b>	<b>Amortization</b>	<b>Balances</b> <b>June 30, 2011</b>
Purchased capacity, net:				
Blue Plains	\$ 101,949,793	9,356,083	(4,912,516)	106,393,360
UOSA	225,927,743	248,395	326,433	226,502,571
Alexandria Sanitation Authority	194,223,812	467,620	(7,146,659)	187,544,773
Arlington County	38,041,204	3,547,074	(359,429)	41,228,849
Prince William County Service Authority	640,000	-	(32,000)	608,000
Loudoun Water	-	20,942,294	(698,076)	20,244,218
Total purchased capacity, net	<u>\$ 560,782,552</u>	<u>34,561,466</u>	<u>(12,822,247)</u>	<u>582,521,771</u>

**(6) MISCELLANEOUS LONG-TERM ASSETS**

At June 30, 2012 and 2011, the System had miscellaneous long-term assets of \$1,037,765 consisting of bond issuance costs, net of accumulated amortization, related to the Series 2009 and 2004 Bonds, respectively; these costs are being amortized over 30 and 20 years, respectively.

**(7) LONG-TERM LIABILITIES**

The following is a summary of the changes in the System’s long-term liabilities for the fiscal years ended June 30, 2012 and 2011:

	<u>Balances</u> <u>June 30, 2011</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balances</u> <u>June 30, 2012</u>	<u>Current</u> <u>Portions</u>
Compensated absences	\$ 2,090,268	1,246,264	(1,178,991)	2,157,541	1,216,936
Sewer Revenue Bonds - 2009 Series	149,875,000	-	(2,445,000)	147,430,000	2,540,000
Sewer Refunding Revenue Bonds - 2004 Series	82,215,000	-	(2,935,000)	79,280,000	3,045,000
Premium on Sewer Refunding Revenue Bonds (net)	9,673,262	-	(395,340)	9,277,922	395,341
Subordinated Revenue Bonds - 2001	24,403,389	-	(2,019,232)	22,384,157	2,102,869
Subordinated Revenue Bonds - 2002	32,543,507	-	(2,440,070)	30,103,437	2,532,431
Subordinated UOSA Revenue Bonds	276,062,972	3,598,942	(6,605,820)	273,056,094	6,926,610
Deferred amounts on bond refundings (net)	<u>(4,126,501)</u>	<u>-</u>	<u>166,553</u>	<u>(3,959,948)</u>	<u>(166,553)</u>
	<u>\$ 572,736,897</u>	<u>4,845,206</u>	<u>(17,852,900)</u>	<u>559,729,203</u>	<u>18,592,634</u>

	<u>Balances</u> <u>June 30, 2010</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balances</u> <u>June 30, 2011</u>	<u>Current</u> <u>Portions</u>
Compensated absences	\$ 2,157,663	1,225,278	(1,292,673)	2,090,268	1,252,296
Sewer Revenue Bonds - 2009 Series	152,255,000	-	(2,380,000)	149,875,000	2,445,000
Sewer Revenue Bonds - 2004 Series	85,050,000	-	(2,835,000)	82,215,000	2,935,000
Premium on Sewer Refunding Revenue Bonds (net)	10,068,603	-	(395,341)	9,673,262	395,341
Subordinated Revenue Bonds - 2001	26,342,311	-	(1,938,922)	24,403,389	2,019,232
Subordinated Revenue Bonds - 2002	34,894,585	-	(2,351,078)	32,543,507	2,440,070
Subordinated UOSA Revenue Bonds	248,240,949	34,113,615	(6,291,592)	276,062,972	6,605,819
Deferred amounts on bond refundings (net)	<u>(4,293,054)</u>	<u>-</u>	<u>166,553</u>	<u>(4,126,501)</u>	<u>(166,553)</u>
	<u>\$ 554,716,057</u>	<u>35,338,893</u>	<u>(17,318,053)</u>	<u>572,736,897</u>	<u>17,926,205</u>

**(a) Sewer Revenue Bonds**

The System issues bonds under the 1985 General Bond Resolution (Resolution) adopted by the County Board of Supervisors. The Resolution includes a rate covenant under which the System has agreed that it will charge reasonable rates for the use of services rendered by the System. Furthermore, the System will adjust the rates, from time to time, to generate net revenues sufficient to provide an amount equal to 100% of its annual principal and interest requirements and the System’s annual commitments to fund its proportionate share of other jurisdictions’ debt service requirements. In the opinion of the System’s management, the System is in compliance with all Resolution covenants.

Payment of the principal and interest on all Sewer revenue bonds is secured by a pledge of gross revenues derived from the System after provisions for payment of the operating expenses of the System. The bonds do not constitute general obligations of the County, and authorization to issue any additional debt rests with the Board. In addition, the System is required to adhere to and is in compliance with the rebate and reporting requirements of the federal regulations pertaining to arbitrage.

On July 24, 1996, the System issued \$104,000,000 of Sewer Revenue Bonds (the Series 1996 Bonds) to fund plant expansion at the Noman M. Cole, Jr. Pollution Control Plant and other system improvements. On October 14, 2004, the System issued \$94,005,000 of Series 2004 Sewer Revenue Refunding Bonds with an average interest rate of 4.61% to advance refund \$91,430,000 of the outstanding Series 1996 Bonds with an average interest rate of 5.82%. Net proceeds of \$96,287,570 together with \$3,257,766 of the System's resources being held in reserve for debt service on the Series 1996 Bonds were used to purchase U.S. government securities which were deposited into an irrevocable escrow account to provide the resources for future debt service payments on and to redeem the Series 1996 Bonds on July 15, 2006. As a result, the advance refunded Series 1996 Bonds are considered defeased, and the liability for these bonds has been removed from the System's Statements of Net Assets. Although the reacquisition prices exceeded the net carrying values of the refunded bonds by \$9,119,135, which is being amortized over the life of the refunding bonds, the System reduced total debt service payments over future years by approximately \$16.8 million and obtained an economic gain (the difference between the present values of the debt service payments on the old and new debt) of approximately \$7.7 million.

On June 17, 2009, the System issued \$152,255,000 of Sewer Revenue Bonds (the Series 2009 Bonds) with an average interest rate of 4.72% to fund upgrade costs allocable to the System at certain treatment facilities that are owned by, or that provide service to, the County, the purchase of additional capacity at certain wastewater treatment facilities for the benefit of the County and the costs of certain additions, extensions, and improvements to the County's sewage collection, treatment, and disposal systems.

The outstanding bonds as of June 30, 2012, consist of \$79,280,000 and \$147,430,000 of Series 2004 Refunding Bonds and Series 2009 Revenue Bonds, respectively, that bear interest at varying rates and mature in varying amounts, as follows:

Series 2009				Series 2004			
Fiscal Year	Interest Rate	Principal	Interest	Fiscal Year	Interest Rate	Principal	Interest
2013	5.000	\$ 2,540,000	7,112,150	2013	3.250	\$ 3,045,000	3,655,000
2014	5.000	2,670,000	6,981,900	2014	5.000	3,155,000	3,526,644
2015	5.000	2,805,000	6,845,025	2015	5.000	3,335,000	3,364,394
2016	5.000	2,950,000	6,701,150	2016	5.000	3,515,000	3,193,144
2017	5.000	3,105,000	6,549,775	2017	5.000	3,715,000	3,012,394
2018	5.000	3,260,000	6,390,650	2018	5.000	3,920,000	2,821,519
2019	5.000	3,430,000	6,223,400	2019	5.000	4,130,000	2,620,269
2020	5.000	3,605,000	6,047,525	2020	4.000	4,355,000	2,429,919
2021	5.000	3,790,000	5,862,650	2021	4.375	4,550,000	2,243,288
2022	5.000	3,985,000	5,668,275	2022	4.500	4,770,000	2,036,431
2023	5.000	4,190,000	5,463,900	2023	4.500	5,005,000	1,816,494
2024	5.000	4,405,000	5,249,025	2024	4.625	5,255,000	1,582,359
2025	4.000	4,605,000	5,046,800	2025	4.625	5,520,000	1,333,187
2026	4.000	4,795,000	4,858,800	2026	4.750	5,795,000	1,067,906
2027	4.000	4,990,000	4,663,100	2027	4.500	6,095,000	793,138
2028	4.000	5,195,000	4,459,400	2028	5.000	6,395,000	496,125
2029	5.000	5,435,000	4,219,625	2029	5.000	6,725,000	168,125
2030	5.000	5,710,000	3,941,000	Total		<u>\$ 79,280,000</u>	<u>36,160,336</u>
2031	5.000	6,005,000	3,648,125				
2032	5.000	6,310,000	3,340,250				
2033	5.000	6,635,000	3,016,625				
2034	5.000	6,975,000	2,676,375				
2035	5.000	7,335,000	2,318,625				
2036	5.000	7,710,000	1,942,500				
2037	5.000	8,105,000	1,547,125				
2038	5.000	8,520,000	1,131,500				
2039	5.000	8,955,000	694,625				
2040	5.000	9,415,000	235,375				
Total		<u>\$ 147,430,000</u>	<u>122,835,275</u>				

**(b) Subordinated Sewer Revenue Bonds**

In June 2001 and June 2002, the System issued 20-year subordinated sewer revenue bonds in the amounts of \$40,000,000 and \$50,000,000, respectively, to the Virginia Water Facilities Revolving Fund, acting by and through the Virginia Resources Authority (VRA). The proceeds have been used to finance a portion of the System’s share of the expansion and upgrade costs of the Alexandria Renew Enterprises’ wastewater treatment facilities, which provide service to certain County residents. These bonds bear interest rates of 4.10% per annum and 3.75% per annum, respectively, and require semi-annual debt service payments of \$1,499,642 and \$1,818,894, respectively. These bonds are subordinated to all outstanding prior bond issues of the System and payments for operation and maintenance expenses.

As of June 30, 2012, the principal and interest payment schedule for the 2001 and 2002 subordinated revenue bonds is as follows:

Fiscal Year	2001 Subordinated Revenue Bonds			2002 Subordinated Revenue Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2013	\$ 2,102,869	896,415	2,999,284	2,532,431	1,105,357	3,637,788
2014	2,189,971	809,313	2,999,284	2,628,287	1,009,501	3,637,788
2015	2,280,680	718,604	2,999,284	2,727,772	910,016	3,637,788
2016	2,375,146	624,138	2,999,284	2,831,022	806,766	3,637,788
2017	2,473,525	525,759	2,999,284	2,938,181	699,607	3,637,788
2018	2,575,980	423,304	2,999,284	3,049,396	588,392	3,637,788
2019	2,682,677	316,607	2,999,284	3,164,820	472,968	3,637,788
2020	2,793,794	205,490	2,999,284	3,284,613	353,175	3,637,788
2021	2,909,515	89,769	2,999,284	3,408,941	228,847	3,637,788
2022	-	-	-	3,537,974	99,814	3,637,788
Total	\$ 22,384,157	4,609,399	26,993,556	30,103,437	6,274,443	36,377,880

**(c) Upper Occoquan Sewage Authority (UOSA) Debt**

In January 1993, UOSA, a joint venture, issued \$63,310,000 of Regional Sewer System Revenue Refunding Bonds to refund certain outstanding bonds that had been issued to refund earlier bonds. In January 1995, UOSA issued \$288,600,000 of Regional Sewer System Revenue Bonds to finance the cost of expanding the capacity of its wastewater treatment facilities from 32 million gallons per day (MGD) to 54 MGD and \$42,260,000 of Regional Sewer System Revenue Refunding Bonds to refund certain outstanding bonds that had been issued to finance a prior expansion. On December 15, 2003, UOSA issued \$58,150,000 of Regional Sewer System Revenue Refunding Bonds, of which the System's share is \$36,848,116, to advance refund the outstanding Series 1993 bonds, resulting in a \$1,514,494 accounting gain, which is being amortized over the life of the Series 2003 Bonds. On November 9, 2004, UOSA issued \$49,395,000 of Regional Sewer System Revenue Refunding Bonds, of which the System's share is \$31,866,527, to advance refund a portion of the outstanding Series 1995 Bonds, resulting in a \$619,329 accounting gain, which is being amortized over the life of the Series 2004 Bonds. On July 1, 2005, UOSA issued \$82,465,000 of Regional Sewer System Revenue Refunding Bonds, of which the System's share is \$53,201,198, to advance refund another portion of the outstanding Series 1995 Bonds, resulting in a \$1,909,604 accounting gain, which is being amortized over the life of the Series 2005 Bonds. In February 2007, UOSA issued \$90,315,000 of Regional Sewer System Revenue Refunding Bonds, of which the System's share is \$58,265,521, to advance refund another portion of the outstanding Series 1995 Bonds, resulting in a \$83,868 accounting loss, which is being amortized over the life of the Series 2007 Bonds. In December 2007, UOSA issued \$119,715,000 of Regional Sewer System Revenue Bonds, of which the System's share is \$53,925,458, to finance the cost of expanding its wastewater treatment and conveyance facilities. In December 2010, UOSA issued \$85,180,000 of Regional Sewer System Revenue Bonds, of which the System's share is \$34,113,615, to finance the cost of certain capital improvements.

In July 2011, UOSA entered into VRA loan 2011A for \$6,100,000 to fund costs related to the Energy Service (ESCO) project. The outstanding loan balance as of June 30, 2012 is \$502,280. In December 2011, UOSA entered into VRA loan 2011B for \$13,934,552 to fund Phase 1 of the Nutrient Compliance Improvement Project (P1NR). The outstanding loan balance as of June 30, 2012 is \$8,096,994. The System's total share at June 30, 2012, is \$3,598,942.

The System’s share of UOSA’s total outstanding debt at June 30, 2012, is \$273,056,094 and it is subordinate to the Sewer Revenue Bonds issued by the System.

As of June 30, 2012, the System is obligated to fund its share of outstanding UOSA Regional Sewer System Revenue, Refunding Bonds, and VRA Loans as follows:

Fiscal Year	Principal	Interest	Total
2013	\$ 6,926,610	12,739,679	19,666,289
2014	7,907,381	12,413,794	20,321,175
2015	8,440,011	11,963,096	20,403,107
2016	8,981,720	11,544,926	20,526,646
2017	9,435,140	11,091,517	20,526,657
2018	9,889,865	10,635,896	20,525,761
2019	10,367,086	10,156,410	20,523,496
2020	10,872,149	9,652,121	20,524,270
2021	11,058,627	9,121,071	20,179,698
2022	11,824,244	8,590,320	20,414,564
2023	12,393,131	8,020,774	20,413,905
2024	12,993,153	7,422,535	20,415,688
2025	13,675,922	6,794,034	20,469,956
2026	14,778,135	6,131,597	20,909,732
2027	15,429,639	5,481,582	20,911,221
2028	16,107,058	4,802,068	20,909,126
2029	16,820,853	4,091,845	20,912,698
2030	4,857,889	3,349,271	8,207,160
2031	5,076,151	3,135,948	8,212,099
2032	5,296,787	2,911,704	8,208,491
2033	5,525,699	2,677,527	8,203,226
2034	5,652,365	2,433,043	8,085,408
2035	5,797,577	2,181,579	7,979,156
2036	6,045,835	1,930,994	7,976,829
2037	6,307,358	1,669,620	7,976,978
2038	6,581,893	1,394,511	7,976,404
2039	6,869,443	1,107,385	7,976,828
2040	7,195,281	781,182	7,976,463
2041	6,360,714	344,300	6,705,014
2042	1,760,147	-	1,760,147
2043	1,828,231	-	1,828,231
Total	<u>\$ 273,056,094</u>	<u>174,570,329</u>	<u>447,626,423</u>

**(8) COMMITMENTS AND CONTINGENCIES**

***(a) Cost Sharing Agreement with Alexandria Renew Enterprises (ARE)***

The System is obligated under an agreement with the ARE to share in the construction and operating costs and debt service requirements for ARE’s sewage treatment facility. Currently, the System has a capacity entitlement of 32.4 MGD, which is 60% of the facility’s total capacity of 54 MGD. Although the System

is allowed one nonvoting representative at the meetings of ARE, the System has no significant influence in the management of the treatment facilities. In addition, the System has no direct ongoing equity interest in the assets or liabilities of ARE. Accordingly, the System does not account for this commitment as a joint venture.

The ARE facility completed major improvements to meet new water quality standards in 2005. A new construction program to build enhanced nutrient removal facilities has been initiated. The System paid ARE \$7,951,553 and \$467,620 for purchase capacity in fiscal years 2012 and 2011, respectively, to fund its share of the construction and land acquisition costs; the system estimates its share of the remaining construction costs to be \$132,694,000, of which \$14,642,000 is expected to be incurred in fiscal year 2013 and the balance over fiscal years 2014 to 2021. In addition, the System made payments of \$12,836,900 and \$13,221,642 to ARE during fiscal years 2012 and 2011, respectively, for its share of the ARE's operating costs.

***(b) Cost-Sharing Agreement with the District of Columbia (District)***

The System is obligated under the 1985 Blue Plains Intermunicipal Agreement between the County; the District; Montgomery County, Maryland; Prince George's County, Maryland; and the Washington Suburban Sanitary Commission to share the construction and operating costs of the Blue Plains Wastewater Treatment Plant, which is operated by the District of Columbia Water and Sewer Authority (DC Water). Currently, the System has a capacity entitlement of 31 MGD, which is approximately 8.4% of the Plant's total capacity of 370 MGD. DC Water has a Board of Directors comprised of six members from the District, two each from Montgomery and Prince George's Counties, and one from the County. The System has no significant control over plant operations and construction and no ownership interest in the assets of DC Water. Accordingly, the System does not account for this commitment as a joint venture.

The Blue Plains Plant is currently undergoing a major renovation of its sludge disposal systems along with nitrogen removal upgrades. The System paid DC Water \$24,399,400 and \$9,356,083 for purchase capacity in fiscal years 2012 and 2011, respectively, to fund its share of construction costs; the System estimates its share of the remaining construction costs to be \$125,846,000, of which \$26,621,000 is expected to be incurred in fiscal year 2013 and the balance over fiscal years 2014 to 2021. In addition, the System made payments of \$13,257,118 and \$13,492,628 to DC Water during fiscal years 2012 and 2011, respectively, for its share of the Plant's operating costs.

***(c) Joint Venture – Upper Occoquan Sewage Authority (UOSA)***

UOSA is a joint venture created under the provisions of the Virginia Water and Waste Authorities Act on March 3, 1971, by a concurrent resolution of the governing bodies of the County, Prince William County, and the Cities of Manassas and Manassas Park to finance, construct, and operate a regional sewage treatment facility. Currently, the System has a capacity entitlement of 22.6 MGD, which is 42% of the facility's total capacity of 54 MGD. The governing body of UOSA is an eight member board of directors consisting of two members from each participating jurisdiction appointed to four year terms. The UOSA Board of Directors adopts an annual operating budget based on projected sewage flows.

The County has no explicit and measurable interest in UOSA but does have an ongoing financial responsibility for its share of UOSA's construction costs, operating costs, and annual debt service. The System paid UOSA \$248,395 and \$374,588 for purchase capacity in fiscal years 2012 and 2011, respectively, to fund its share of construction costs. In addition, the System made payments to UOSA of \$12,045,467 and \$13,187,574 in fiscal years 2012 and 2011, respectively, to pay its share of UOSA's operating costs.

Summarized UOSA financial information as of and for the years ended June 30, 2011, and 2010, (the most recent available audited financial information) is shown on the right. The complete financial statements for UOSA can be obtained by writing to UOSA at 14631 Compton Road, Centreville, Virginia 20121.

	<u>2011</u>	<u>2010</u>
Total assets	\$ 637,303,357	560,540,258
Total liabilities	<u>(537,851,308)</u>	<u>(456,253,474)</u>
Total net assets	<u>\$ 99,452,049</u>	<u>104,286,784</u>
Operating revenues	\$ 26,552,992	26,184,993
Operating expenses	(46,966,704)	(45,484,400)
Nonoperating revenues, net	5,842,390	9,977,724
Capital contributions	<u>9,736,587</u>	<u>9,267,684</u>
Decrease in net assets	<u>\$ (4,834,735)</u>	<u>(53,999)</u>

***(d) Cost Sharing Agreement with Arlington County, Virginia (Arlington)***

The System is obligated under the 1989 Sewage Conveyance Treatment and Disposal Agreement with Arlington to share the construction and operating costs of the sewage treatment facility owned and operated by Arlington. Currently, the System has a capacity entitlement of 3 MGD, which is 7.5% of the facility’s total capacity of 40 MGD. The System has no direct ongoing equity interest in the facility’s assets and liabilities. Furthermore, the System has no significant influence in the management of Arlington’s treatment facility. Accordingly, the System does not account for this commitment as a joint venture.

The Arlington facility is currently undergoing a major upgrade to meet new water quality standards. The System paid Arlington \$2,250,636 and \$3,547,075 for purchase capacity in fiscal years 2012 and 2011, respectively, to fund its share of the construction costs; the System estimates its share of the remaining construction costs to be \$5,780,000, of which \$2,903,000 is expected to be incurred in fiscal year 2013 and the balance over fiscal years 2014 to 2021. In addition, the System made payments of \$2,224,503 and \$1,700,523 to Arlington during fiscal years 2012 and 2011, respectively, for its share of Arlington’s operating costs.

***(e) Cost Sharing Agreement with Loudoun County, Virginia, Sanitation Authority (Loudoun Water)***

The System is obligated under the Broad Run Water Reclamation Facility Capacity Agreement with Loudoun Water to share the construction and operating costs and debt service requirements of the sewage treatment facility owned and operated by Loudoun Water. Currently, the System has a capacity entitlement of 1.0 MGD, which is 9.0% of the facility’s total capacity of 11 MGD. The System has no direct ongoing interest in the facility’s assets and liabilities. Furthermore, the System has no significant influence in the management of Loudoun Water’s treatment facility. Accordingly, the System does not account for this commitment as a joint venture.

The System will incur operating costs once it starts to deliver flows to Loudoun Water’s facilities which has not happen to date and is not expected to start in fiscal year 2013. The Broad Run Plant is a new facility; therefore, no construction or debt service requirements are expected in the near future.

***(f) Other Commitments***

At June 30, 2012 and 2011, the System had contractual commitments of approximately \$62,713,000 and \$66,100,000 respectively, for construction of various sewer projects, excluding the UOSA, DC Water, ARE, Arlington County, and Loudoun Water contractual commitments noted above.

**(g) Other Contingencies**

The System is contingently liable with respect to lawsuits and other claims which arise in the ordinary course of its operations. It is the opinion of the management of the System and the County, as well as the County Attorney, that any losses which may ultimately be incurred as a result of those suits and claims will not be material to the System's financial statements.

**(9) RISK MANAGEMENT**

The System is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets, errors and omissions, injuries to employees and citizens, and natural disasters. For all of these risks, the System participates in the County's insurance program, which includes self-insurance and the purchase of certain commercial insurance policies. The System is charged by the County for costs associated with workers' compensation, vehicle and general liability risks, and the costs associated with other risks are borne by the County. There were no claims settlements in excess of insurance coverage in any of the past three fiscal years. Information regarding the County's insurance program is available in the County's CAFR for the fiscal year ended June 30, 2012.

**(10) OTHER POST-EMPLOYMENT BENEFITS**

The System participates in the County's program to subsidize the health benefit coverage of certain retirees and surviving spouses. In order to participate, retirees must have reached the age of 55 or be on disability retirement and must have health benefit coverage in a plan provided by the County. Retirees must have five years of service in order to participate in this program. The amount of monthly subsidy provided by the County is based on years of service and ranges from \$15 per month to \$175 per month. Retirees receiving the subsidy prior to fiscal year 2004 are grandfathered at \$100 per month unless their years of service entitle them to receive a higher monthly subsidy. Beginning in fiscal year 2008; the subsidy is funded under the guidance of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which requires the County to recognize the cost of the retiree health subsidy and other post-employment benefits during the period of employees' active employment.

In addition, the System participates in a County program to subsidize the continuation of term life insurance, at reduced coverage amounts, for retirees who choose to participate in this cost-sharing program.

The cost associated with the System's retirees for the years ended June 30, 2012 and 2011 were approximately \$935,000 and \$859,000, respectively.

Additional information regarding these programs is available in the County's CAFR for the year ended June 30, 2012.

**(11) SUBSEQUENT EVENT**

On August 8, 2012, the System issued \$90,710,000 of Sewer Revenue Bonds (the Series 2012 Bonds), with an average interest rate of 4.54%. The bonds were issued to fund capital improvement costs allocable to the System at certain wastewater treatment facilities that are owned by, or that provide service to, the County, the purchase of additional capacity at certain wastewater treatment facilities for the benefit of the County, and the costs of certain additions, extensions, and improvements to the County's sewage collection, treatment, and disposal systems.

## FAIRFAX COUNTY WASTEWATER MANAGEMENT



*Quality of Water = Quality of Life*

# FAIRFAX COUNTY WASTEWATER MANAGEMENT



*Quality of Water = Quality of Life*



**FAIRFAX COUNTY  
WASTEWATER MANAGEMENT**



*Quality of Water = Quality of Life*

**INTEGRATED SEWER SYSTEM COUNTY OF FAIRFAX, VIRGINIA**  
**STATISTICAL SECTION (unaudited)**

## 1.0 FINANCIAL TRENDS

Financial trends information is intended to assist users in understanding and assessing how the System's financial position has changed over time. There are four tables presented in this section.

**TABLE 1.1 - NET ASSETS BY COMPONENT (a) - LAST TEN FISCAL YEARS**

	Fiscal Year				
	2012	2011	2010	2009	2008
Invested in capital assets, net of related debt	\$ 769,135,097	722,703,848	748,697,093	757,858,955	757,799,128
Restricted	51,055,374	93,427,366	44,371,666	35,945,622	28,251,270
Unrestricted	117,615,954	81,180,178	76,855,173	84,277,881	109,530,192
<b>Total net assets</b>	<b>\$ 937,806,425</b>	<b>897,311,392</b>	<b>869,923,932</b>	<b>878,082,458</b>	<b>895,580,590</b>

	Fiscal Year				
	2007	2006	2005	2004	2003
Invested in capital assets, net of related debt	\$ 789,479,735	786,263,108	787,889,313	755,683,261	651,624,011
Restricted	46,489,817	57,514,949	56,463,753	85,025,111	144,412,547
Unrestricted	61,756,541	61,442,481	63,234,893	63,547,596	105,456,857
<b>Total net assets</b>	<b>\$ 897,726,093</b>	<b>905,220,538</b>	<b>907,587,959</b>	<b>904,255,968</b>	<b>901,493,415</b>

Source: Fairfax County Wastewater Management Program

Notes:

- (a) Certain amounts for fiscal years 2003  
- 2005 and 2009 have been reclassified and/or adjusted for comparability and/or to retroactively reflect accounting changes made during this period.

Unaudited - see accompanying accountants' report.

**TABLE 1.2 - CHANGES IN NET ASSETS (a) - LAST TEN FISCAL YEARS**

	Fiscal Year				
	2012	2011	2010	2009	2008
<b>Operating revenues:</b>					
Sales of service	\$ 159,957,639	142,929,404	126,681,734	108,723,096	100,297,089
<b>Operating expenses:</b>					
Personnel services	24,735,872	24,162,541	23,131,023	22,907,919	21,569,257
Materials and supplies	13,974,834	11,429,228	11,636,425	13,774,422	11,975,303
Contractual services	46,236,052	48,655,804	47,468,305	47,861,675	45,869,419
Depreciation and amortization	52,429,103	47,130,698	46,680,568	45,575,080	45,701,515
Professional fees and other	508,080	509,330	876,238	762,872	456,078
Total operating expenses	<u>\$ 137,883,941</u>	<u>131,887,601</u>	<u>129,792,559</u>	<u>130,881,968</u>	<u>125,571,572</u>
Operating income (loss)	<u>22,073,698</u>	<u>11,041,803</u>	<u>(3,110,825)</u>	<u>(22,158,872)</u>	<u>(25,274,483)</u>
<b>Nonoperating revenues (expenses):</b>					
Availability charges	28,959,575	11,189,312	10,668,539	11,461,530	13,909,729
Investment earnings	521,755	1,084,587	1,303,897	2,301,005	5,127,079
Interest expense	(25,227,137)	(25,300,800)	(25,929,969)	(18,309,964)	(17,224,651)
Amortization of bond issuance costs	(45,476)	(45,476)	(45,476)	(18,729)	(16,294)
Amortization of deferred amounts on refundings	229,931	229,931	229,931	229,931	229,931
Gain (loss) on disposal of capital assets	8,481	14,748	47,503	46,048	60,674
Total nonoperating revenues (expenses)	<u>\$ 4,447,129</u>	<u>(12,827,698)</u>	<u>(13,725,575)</u>	<u>(4,290,179)</u>	<u>2,086,468</u>
Loss before contributions and special item	26,520,827	(1,785,895)	(16,836,400)	(26,449,051)	(23,188,015)
<b>Capital contributions:</b>					
Grants from the Commonwealth	10,270,459	3,700,000	4,100,498	-	253,030
Federal Stimulus	-	4,525,425	1,974,575	-	-
From Fairfax County	-	-	78,301	-	-
From developers	3,703,747	4,160,045	2,524,500	8,950,919	9,834,910
<b>Special items:</b>					
Gain on sale of purchased capacity	-	16,787,885	-	-	10,954,572
Loss on redemption of bonds	-	-	-	-	-
<b>Change in net assets</b>	<u>\$ 40,495,033</u>	<u>27,387,460</u>	<u>(8,158,526)</u>	<u>(17,498,132)</u>	<u>(2,145,503)</u>

Source: Fairfax County Wastewater Management Program

Notes:

(a) Certain amounts for fiscal years 2002 - 2005 have been reclassified and/or adjusted for comparability and/or to retroactively reflect accounting changes made during this period.

Unaudited - see accompanying accountants' report.

	Fiscal Year				
	2007	2006	2005	2004	2003
<b>Operating revenues:</b>					
Sales of service	\$ 95,943,712	87,213,834	86,710,115	83,670,548	81,506,869
<b>Operating expenses:</b>					
Personnel services	20,542,951	19,823,094	19,752,758	19,595,106	18,666,356
Materials and supplies	11,464,005	11,976,080	10,772,931	10,912,367	11,649,401
Contractual services	41,209,777	40,227,839	35,915,779	38,834,410	39,607,942
Depreciation and amortization	45,846,313	45,412,396	40,242,429	32,720,208	32,043,471
Professional fees and other	446,152	677,658	784,403	782,413	654,934
Total operating expenses	\$ 119,509,198	118,117,067	107,468,300	102,844,504	102,622,104
Operating income (loss)	(23,565,486)	(30,903,233)	(20,758,185)	(19,173,956)	(21,115,235)
<b>Nonoperating revenues (expenses):</b>					
Availability charges	19,513,484	36,144,561	31,303,560	33,751,549	26,642,689
Investment earnings	5,825,962	4,449,036	3,505,410	2,594,001	4,319,270
Interest expense	(17,650,673)	(18,138,416)	(18,020,181)	(21,563,175)	(24,251,996)
Amortization of bond issuance costs	(16,294)	(16,294)	(44,038)	(50,396)	(79,097)
Amortization of deferred amounts on refundings	229,931	235,922	140,442	84,139	-
Gain (loss) on disposal of capital assets	31,481	(27,923)	(43,147)	46,719	46,265
Total nonoperating revenues (expenses)	\$ 7,933,891	22,646,886	16,842,046	14,862,837	6,677,131
Loss before contributions and special item	(15,631,595)	(8,256,347)	(3,916,139)	(4,311,119)	(14,438,104)
<b>Capital contributions:</b>					
Grants from the Commonwealth	351,247	-	1,306,639	614,346	481,255
Federal Stimulus	-	-	-	-	-
From County	-	-	-	-	-
From developers	7,785,903	5,888,926	5,941,491	8,272,786	6,763,597
<b>Special items:</b>					
Cost of Purchased Capacity disposed	-	-	-	-	-
Loss on redemption of bonds	-	-	-	(1,813,460)	-
Change in net assets	\$ (7,494,445)	(2,367,421)	3,331,991	2,762,553	(7,193,252)

Unaudited - see accompanying accountants' report.

**TABLE 1.3 - OPERATING REVENUES DETAIL - LAST TEN FISCAL YEARS**

	Fiscal Year				
	2012	2011	2010	2009	2008
<b>Sewer service:</b>					
County connections	\$ 148,891,691	134,050,981	117,550,994	100,493,512	92,095,867
City of Fairfax	3,162,214	1,766,899	2,327,558	1,886,339	1,902,188
Town of Herndon	3,193,471	2,796,632	2,508,622	2,221,125	2,147,874
Arlington County	566,991	632,042	662,576	657,186	564,330
Fort Belvoir	1,842,643	1,440,178	1,617,140	1,285,825	1,245,801
City of Falls Church	1,030,951	1,055,703	887,498	1,242,233	1,166,939
Town of Vienna	451,532	452,817	589,075	453,261	405,636
Other (a)	348,552	390,641	296,331	293,946	290,664
<b>Other services</b>	<b>469,594</b>	<b>343,511</b>	<b>241,940</b>	<b>189,669</b>	<b>477,790</b>
<b>Total operating revenues</b>	<b>\$ 159,957,639</b>	<b>142,929,404</b>	<b>126,681,734</b>	<b>108,723,096</b>	<b>100,297,089</b>

	Fiscal Year				
	2007	2006	2005	2004	2003
<b>Sewer service:</b>					
County connections	\$ 87,893,949	79,966,998	79,082,085	75,992,659	73,788,899
City of Fairfax	2,095,041	1,902,214	1,918,704	2,120,990	1,772,535
Town of Herndon	2,302,247	2,007,822	2,090,091	1,866,892	2,301,472
Arlington County	440,374	550,118	553,268	580,519	565,897
Fort Belvoir	1,242,398	916,342	1,036,112	1,052,325	1,237,019
City of Falls Church	1,070,659	1,085,477	1,159,953	1,038,764	1,013,452
Town of Vienna	477,315	458,961	525,038	596,438	408,003
Other (a)	242,803	109,232	117,648	100,727	117,048
<b>Other services</b>	<b>178,926</b>	<b>216,670</b>	<b>227,216</b>	<b>321,234</b>	<b>302,544</b>
<b>Total operating revenues</b>	<b>\$ 95,943,712</b>	<b>87,213,834</b>	<b>86,710,115</b>	<b>83,670,548</b>	<b>81,506,869</b>

Source: Fairfax County Wastewater Management Program

Notes:

(a) Other sewer service revenues include revenues from Fairfax Water and the County's solid waste resource recovery facility.

Unaudited - see accompanying accountants' report.

**TABLE 1.4 - OPERATING EXPENSES DETAIL - LAST TEN FISCAL YEARS**

	Fiscal Year				
	2012	2011	2010	2009	2008
<b>Wastewater treatment expenses (a):</b>					
Noman M. Cole, Jr.	\$ 20,088,669	19,682,549	19,246,868	21,300,335	18,933,101
Alexandria Renew Enterprises	12,836,900	13,221,642	13,840,642	14,170,985	14,125,041
DCWASA Blue Plains	13,257,118	13,492,628	12,279,110	12,516,382	11,868,018
Upper Occoquan Sewage Authority	12,045,467	13,187,574	12,944,970	13,171,944	12,634,484
Arlington County	2,224,503	1,700,523	1,607,662	1,595,998	1,502,058
Other (b)	497,634	608,470	560,153	672,775	393,200
Total wastewater treatment expenses	60,950,291	61,893,386	60,479,405	63,428,419	59,455,902
<b>Other operating expenses:</b>					
Pumping, collection, and inspection	13,445,481	12,573,304	12,909,408	13,034,159	12,316,625
System repairs and renovations	500,654	348,716	537,236	611,624	926,450
Planning, engineering, and monitoring support	5,305,778	3,845,246	3,520,455	3,110,606	2,819,735
Billing and bill collection	5,252,634	6,096,251	5,665,487	5,122,080	4,351,345
Depreciation and amortization	52,429,103	47,130,698	46,680,568	45,575,080	45,701,515
Total operating expenses	\$ 137,883,941	131,887,601	129,792,559	130,881,968	125,571,572

	Fiscal Year				
	2007	2006	2005	2004	2003
<b>Wastewater treatment expenses (a):</b>					
Noman M. Cole, Jr.	\$ 18,155,049	19,221,705	17,361,416	17,314,256	17,947,392
Alexandria Renew Enterprises	13,336,025	13,595,553	12,359,112	13,062,472	10,219,480
DCWASA Blue Plains	9,279,874	9,051,453	8,753,826	7,812,268	9,859,558
Upper Occoquan Sewage Authority	12,233,492	11,015,818	9,414,103	8,364,644	7,593,754
Arlington County	1,634,568	1,391,823	959,477	982,496	935,706
Other (b)	164,410	169,006	168,949	165,738	178,748
Total wastewater treatment expenses	54,803,418	54,445,358	49,016,883	47,701,874	46,734,638
<b>Other operating expenses:</b>					
Pumping, collection, and inspection	11,423,464	11,325,450	11,025,968	11,025,968	10,102,884
System repairs and renovations	566,103	621,792	1,133,907	3,196,949	4,892,535
Planning, engineering, and monitoring support	2,875,051	2,218,746	3,072,209	3,143,613	4,429,817
Billing and bill collection	3,994,849	4,093,325	2,976,904	5,055,892	4,418,759
Depreciation and amortization	45,846,313	45,412,396	40,242,429	32,720,208	32,043,471
Total operating expenses	\$ 119,509,198	118,117,067	107,468,300	102,844,504	102,622,104

Source: Fairfax County Wastewater Management Program

Notes:

(a) Wastewater treatment expenses are direct operating expenses, excluding depreciation and amortization.

(b) Other plants include Harbor View and Prince William County Service Authority.

Unaudited - see accompanying accountants' report.

## 2.0 REVENUE CAPACITY

Revenue capacity information is intended to assist users in understanding and assessing the factors affecting the System’s ability to generate its own-source revenues. There are six tables presented in this section.

**TABLE 2.1 - SEWER RATE STRUCTURE (a) - LAST TEN FISCAL YEARS**

Fiscal Year	Availability Charge (b) (Per Unit)			Retail Sewer Service Charge (c) (Per 1,000 gallons)	Retail Sewer Service Base Charge (d) (Per Bill)
	Single Family Residence	Townhouse/ Apartment	Commercial Fixture		
2012	\$ 7,750	6,200	401	6.01	5.00
2011	7,750	6,200	401	5.27	5.00
2010	7,310	5,848	378	4.50	5.00
2009	6,896	5,517	357	4.10	
2008	6,506	5,205	337	3.74	
2007	6,138	4,910	318	3.50	
2006	5,874	4,699	304	3.28	
2005	5,621	4,497	291	3.20	
2004	5,431	4,345	281	3.03	
2003	5,247	4,198	271	2.95	

**Connection Charge (e)** - The rate is \$152.50 per foot effective July 1, 2011. Prior to this date, the rate was \$6.00 per foot.

**Lateral Spur Charge (f)** - The rate has been \$600 per spur connection since March 1981.

Source: Fairfax County Wastewater Management Program

Notes:

- (a) Sewer rates are established by the Board of Supervisors pursuant to Chapter 67.1 of the County Code. Rates and code language are reviewed annually by the County staff as part of the County’s annual long-range planning and short-term budgeting process and revised as necessary. These rates are in effect for County customers only. Customers outside the County are billed subject to sale of service agreements.
- (b) Availability Charge - This is a one-time charge collected from all new customers prior to connection to the System to cover in part the new customer’s proportionate cost of System facilities beyond the collector system. Residential units pay on a per unit basis. Commercial units pay an equivalent residential (single family residence) unit fee for the first 19 plumbing fixture units, then on a per fixture unit basis for any fixture units in excess of the residential equivalent amount.
- (c) Retail Sewer Service Charge - Single family residences and townhouses are billed sewer service charges quarterly based on water consumption from the previous winter quarter. Apartment and nonresidential complexes are billed based on consumption used during the billing period. These charges are collected by three water billing agents: Fairfax Water; the City of Falls Church; and the Town of Vienna.
- (d) Beginning in FY 2010, a base charge of \$5.00 per bill is assessed, in addition to the sewer service charge, to partially recover fixed expenses for billing, wastewater collection, engineering, planning, and administrative expenses.
- (e) Connection Charge - Frequently called the front footage charge, this is a one-time charge collected from new customers prior to connection to the System as a partial repayment of County installed collector sewers.
- (f) Lateral Spur Charge - This is a one-time charge that applies only to those new customers who are connecting to County installed sanitary sewers where the lateral spurs have been installed at County expense.

Unaudited - see accompanying accountants' report.

**TABLE 2.2 - CUSTOMER BASE BY TREATMENT PLANT - LAST TEN FISCAL YEARS**

<b>Treatment Plant</b>	<b>Fiscal Year</b>				
	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>
Noman M. Cole, Jr.	147,998	147,478	146,810	144,407	143,900
DCWASA Blue Plains	87,551	87,406	86,575	85,937	85,197
Alexandria Renew Enterprises	67,805	67,229	67,069	66,278	65,448
Upper Occoquan Sewage Authority	49,188	49,109	48,889	48,796	48,647
Arlington County	10,644	10,639	10,623	10,445	9,947
Other (a)	357	348	345	342	339
<b>Customer base</b>	<b>363,543</b>	<b>362,209</b>	<b>360,311</b>	<b>356,205</b>	<b>353,478</b>

<b>Treatment Plant</b>	<b>Fiscal Year</b>				
	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>
Noman M. Cole, Jr.	143,040	140,569	139,771	137,402	135,975
DCWASA Blue Plains	83,874	81,446	81,305	80,229	79,926
Alexandria Renew Enterprises	65,088	63,938	63,825	63,660	63,462
Upper Occoquan Sewage Authority	48,058	46,732	46,287	45,345	44,315
Arlington County	9,917	9,893	9,891	9,887	9,887
Other (a)	334	326	311	285	283
<b>Customer base</b>	<b>350,311</b>	<b>342,904</b>	<b>341,390</b>	<b>336,808</b>	<b>333,848</b>

Source: Fairfax County Wastewater Management Program

Notes:

- (a) Other service areas include Harbor View and Prince William County Service Authority. In addition, there are holding tank facilities in the Town of Clifton and Gunston Wiley.

Unaudited - see accompanying accountants' report.

**TABLE 2.3 - CUSTOMER BASE BY SERVICE CLASS - LAST TEN FISCAL YEARS**

<b>Service Class</b>	<b>Fiscal Year</b>				
	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>
<b>Residential units:</b>					
Single family	162,671	162,264	161,777	161,271	160,681
Multi-family	96,177	95,649	95,476	94,872	94,123
Townhouse	77,019	76,885	76,811	76,698	76,532
Total residential units	335,867	334,798	334,064	332,841	331,336
<b>Nonresidential units (a)</b>	27,676	27,411	26,247	23,364	22,142
Total customer base	363,543	362,209	360,311	356,205	353,478

<b>Service Class</b>	<b>Fiscal Year</b>				
	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>
<b>Residential units:</b>					
Single family	159,907	158,515	157,853	156,224	154,842
Multi-family	93,140	90,197	90,018	88,779	88,607
Townhouse	76,329	75,880	75,333	74,083	72,821
Total residential units	329,376	324,592	323,204	319,086	316,270
<b>Nonresidential units (a)</b>	20,935	18,312	18,186	17,722	17,578
Total customer base	350,311	342,904	341,390	336,808	333,848

Source: Fairfax County Wastewater Management Program

Notes:

(a) Nonresidential units include long-term care, dorms, and extended-stay rooms.

Unaudited - see accompanying accountants' report.

**TABLE 2.4 - NUMBER OF SEWER CONNECTIONS SOLD (a) - LAST TEN FISCAL YEARS**

Service Class	Fiscal Year				
	2012	2011	2010	2009	2008
<b>Residential units:</b>					
Single family	299	260	290	305	321
Multi-family	3,176	630	704	501	1,026
Townhouse	146	108	96	131	146
Total residential units	3,621	998	1,090	937	1,493
<b>Nonresidential units (b)</b>	559	12	8	20	847
<b>Total sewer connections sold</b>	<b>4,180</b>	<b>1,010</b>	<b>1,098</b>	<b>957</b>	<b>2,340</b>
<b>Additional commercial fixture units sold</b>	<b>12,147</b>	<b>11,628</b>	<b>10,132</b>	<b>11,518</b>	<b>13,076</b>

Service Class	Fiscal Year				
	2007	2006	2005	2004	2003
<b>Residential units:</b>					
Single family	401	804	1,313	1,575	1,565
Multi-family	1,705	1,708	2,843	3,112	1,306
Townhouse	207	257	1,286	1,322	1,462
Total residential units	2,313	2,769	5,442	6,009	4,333
<b>Nonresidential units (b)</b>	810	54	137	553	428
<b>Total sewer connections sold</b>	<b>3,123</b>	<b>2,823</b>	<b>5,579</b>	<b>6,562</b>	<b>4,761</b>
<b>Additional commercial fixture units sold</b>	<b>20,307</b>	<b>18,710</b>	<b>17,174</b>	<b>17,851</b>	<b>22,049</b>

Source: Fairfax County Wastewater Management Program

Notes:

- (a) The number of sewer connections sold include only County customers. Availability fees are generated by sewer connections sold. See Table 2.1 for the rate structure.
- (b) Nonresidential units include long-term care, dorms and extended-stay rooms.

Unaudited - see accompanying accountants' report.

**TABLE 2.5 - NUMBER OF NEW SEWER CONNECTIONS - LAST TEN FISCAL YEARS**

<b>Service Class</b>	<b>Fiscal Year</b>				
	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>
<b>Residential units:</b>					
Single family	407	487	506	590	774
Multi-family	528	173	604	749	983
Townhouse	134	74	113	166	203
Total residential units	1,069	734	1,223	1,505	1,960
<b>Nonresidential units (a)</b>	265	1,164	2,883	1,222	1,207
<b>Total new sewer connections</b>	<b>1,334</b>	<b>1,898</b>	<b>4,106</b>	<b>2,727</b>	<b>3,167</b>

<b>Service Class</b>	<b>Fiscal Year</b>				
	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>
<b>Residential units:</b>					
Single family	1,398	656	1,629	1,382	1,599
Multi-family	2,935	187	1,239	172	1,191
Townhouse	451	545	1,250	1,262	1,044
Total residential units	4,784	1,388	4,118	2,816	3,834
<b>Nonresidential units (a)</b>	2,623	126	464	144	526
<b>Total new sewer connections</b>	<b>7,407</b>	<b>1,514</b>	<b>4,582</b>	<b>2,960</b>	<b>4,360</b>

Source: Fairfax County Wastewater Management Program

Notes:

(a) Nonresidential units include long-term care, dorms and extended-stay rooms.

Unaudited - see accompanying accountants' report.

**TABLE 2.6 - TEN LARGEST CUSTOMERS - CURRENT YEAR AND NINE YEARS AGO**

Name	Fiscal Year 2012			Fiscal Year 2003		
	Annual Revenues	Rank	Percentage of Total Operating Revenues	Annual Revenues	Rank	Percentage of Total Operating Revenues
Fairfax Hospital	\$ 490,045	1	0.31 %	\$ 318,818	1	0.39 %
Greenspring Village	398,697	2	0.25	-	-	-
Reston Hospital Center	252,663	3	0.16	-	-	-
Montebello Condo Unit	208,147	4	0.13	-	-	-
Shenandoah's Pride	198,135	5	0.12	111,672	3	0.14
Homart Development Corp.	197,539	6	0.12	130,377	2	0.16
Hyatt Regency Reston	157,939	7	0.10	74,896	7	0.09
BECO Management	140,955	8	0.09	-	-	-
Ritz-Carlton Hotel Co.	137,914	9	0.09	96,471	4	0.12
ZML-Reston Town Center LLC	128,932	10	0.08	-	-	-
Mobil Oil Corp.				77,086	5	0.09
Rolling Fullerton				76,188	6	0.09
Marriott Westfields				65,338	8	0.08
INOVA Health Systems				63,649	9	0.08
Fairview Park Marriott Hotel				60,518	10	0.07
<b>Totals</b>	<b>\$ 2,310,966</b>		<b>1.45 %</b>	<b>\$ 1,075,013</b>		<b>1.31 %</b>

Source: Fairfax County Wastewater Management Program

Unaudited - see accompanying accountants' report.

### 3.0 DEBT CAPACITY

Debt capacity information is intended to assist users in understanding and assessing the System’s debt burden and its ability to issue additional debt. There are three tables in this section.

**TABLE 3.1 - RATIOS OF OUTSTANDING DEBT - LAST TEN FISCAL YEARS**

	Fiscal Year				
	2012	2011	2010	2009	2008
<b>Senior debt:</b>					
2009 Sewer Revenue Bonds	\$ 147,430,000	149,875,000	152,255,000	152,255,000	-
2004 Sewer Revenue Refunding Bonds	79,280,000	82,215,000	85,050,000	87,790,000	90,435,000
Total senior debt	\$ 226,710,000	232,090,000	237,305,000	240,045,000	90,435,000
<b>Subordinate debt:</b>					
Upper Occoquan Sewage Authority Bonds	273,056,094	276,062,972	248,240,949	253,660,620	258,823,549
Virginia Resource Authority Bonds	52,487,594	56,946,896	61,236,896	65,364,033	69,334,502
Total subordinate debt	\$ 325,543,688	333,009,868	309,477,845	319,024,653	328,158,051
<b>Total outstanding debt</b>	<b>\$ 552,253,688</b>	<b>565,099,868</b>	<b>546,782,845</b>	<b>559,069,653</b>	<b>418,593,051</b>
<b>Outstanding Debt Ratios:</b>					
Per capita (a)	\$ 493	522	509	532	402
Percent of personal income (a)	0.78%	0.73%	0.71%	0.75%	0.59%
Per connection (b)	\$ 1,519	1,560	1,518	1,570	1,184
To operating revenues (c)	\$ 3.45	3.95	4.32	5.14	4.17

	Fiscal Year				
	2007	2006	2005	2004	2003
<b>Senior debt:</b>					
2004 Sewer Revenue Refunding Bonds	\$ 92,995,000	93,495,000	94,005,000	-	-
1996 Sewer Revenue Bonds	-	1,925,000	3,735,000	96,870,000	98,475,000
1993 Sewer Revenue Refunding Bonds	-	-	-	-	58,660,000
Total senior debt	\$ 92,995,000	95,420,000	97,740,000	96,870,000	157,135,000
<b>Subordinate debt:</b>					
Upper Occoquan Sewage Authority Bonds	209,858,982	214,533,963	220,498,281	224,950,247	230,099,817
Virginia Resource Authority Bonds	73,154,261	76,829,041	80,364,355	83,765,506	87,037,596
Total subordinate debt	\$ 283,013,243	291,363,004	300,862,636	308,715,753	317,137,413
<b>Total outstanding debt</b>	<b>\$ 376,008,243</b>	<b>386,783,004</b>	<b>398,602,636</b>	<b>405,585,753</b>	<b>474,272,413</b>
<b>Outstanding Debt Ratios:</b>					
Per capita (a)	\$ 362	374	390	401	472
Percent of personal income (a)	0.56%	0.61%	0.68%	0.74%	0.90%
Per connection (b)	\$ 1,073	1,128	1,168	1,204	1,421
To operating revenues (c)	\$ 3.92	4.43	4.60	4.85	5.82

Source: Fairfax County Wastewater Management Program

Notes:

- (a) See Table 4.1 for population and personal income data. Ratios are based on the population and personal income data as of the prior calendar year.
- (b) See Tables 2.2 and 2.3 for customer base data.
- (c) See Table 1.3 for operating revenue data.

Unaudited - see accompanying accountants' report.

**TABLE 3.2 - PLEDGED REVENUE COVERAGE - LAST TEN FISCAL YEARS**

Fiscal Year	Gross Revenues (a)	Operating Expenses (b)	Net Revenue Available for Debt Service	Debt Service Requirements (e)			Debt Coverage (f)		
				Senior Debt (c)	Subordinate Debt (d)	Total	Senior	Total w/AF w/o AF	
2012	\$ 189,447,450	85,454,838	103,992,612	16,334,719	25,528,010	41,862,729	6.37	2.48	1.79
2011	155,218,051	84,756,903	70,461,148	16,322,531	24,910,740	41,233,271	4.32	1.71	1.44
2010	138,701,673	83,111,991	55,589,682	10,881,182	24,297,131	35,178,313	5.11	1.58	1.28
2009	122,531,678	85,306,888	37,224,790	6,644,456	23,022,158	29,666,614	5.60	1.25	0.87
2008	119,394,571	79,870,054	39,524,517	6,637,531	21,745,381	28,382,912	5.95	1.39	0.90
2007	121,314,639	73,662,889	47,651,750	6,602,572	21,744,580	28,347,152	7.22	1.68	0.99
2006	127,779,508	72,704,671	55,074,837	6,617,769	21,320,672	27,938,441	8.32	1.97	0.68
2005	121,475,938	67,225,870	54,250,068	5,654,798	21,635,055	27,289,853	9.59	1.99	0.84
2004	120,062,817	70,124,296	49,938,521	12,165,404	21,731,156	33,896,560	4.10	1.47	0.48
2003	112,515,093	70,578,633	41,936,460	13,518,282	20,188,387	33,706,669	3.10	1.24	0.45

Source: Fairfax County Wastewater Management Program

Notes:

- (a) Gross revenues include all revenues, except amortization of deferred gains on bond refundings.
- (b) Operating expenses do not include depreciation and amortization.
- (c) Senior debt includes sewer revenue bonds issued by the System and the System's share of debt of the Alexandria Sanitation Authority.
- (d) Subordinate debt is paid after senior debt and operating expenses and includes debt service on the System's share of debt of UOSA Revenue Bonds and VRA Revenue Bonds.
- (e) The same resources are used for all debt service requirements. See Table 3.3 for details of principal and interest amounts.
- (f) The minimum senior debt service coverage should be no less than 1.25 times. The Sewer Fund will change the minimum senior debt coverage to 2.0 times in FY 2011. The Sewer Fund intends to meet a total debt coverage of 1.25 times, without availability fee (AF) revenue, by FY 2013.

Unaudited - see accompanying accountants' report.

**TABLE 3.3 - DEBT SERVICE REQUIREMENTS - LAST TEN FISCAL YEARS**

**Table 3.3 - Debt Service Requirements, Last Ten Fiscal Years**

	Fiscal Year				
	2012	2011	2010	2009	2008
<b>Senior debt:</b>					
2009 Sewer Revenue Bonds	\$ 9,651,213	9,652,475	4,222,501	-	-
2004 Sewer Revenue Refunding Bonds	6,683,506	6,670,056	6,658,681	6,644,456	6,637,531
1996 Sewer Revenue Bonds	-	-	-	-	-
Total senior debt	<u>\$ 16,334,719</u>	<u>16,322,531</u>	<u>10,881,182</u>	<u>6,644,456</u>	<u>6,637,531</u>
<b>Subordinate debt:</b>					
Upper Occoquan Sewage Authority Bonds	18,890,938	18,303,668	17,660,059	16,385,086	15,108,309
Virginia Resource Authority Bonds	<u>6,637,073</u>	<u>6,637,073</u>	<u>6,637,073</u>	<u>6,637,072</u>	<u>6,637,072</u>
Total subordinate debt	<u>\$ 25,528,011</u>	<u>24,940,741</u>	<u>24,297,132</u>	<u>23,022,158</u>	<u>21,745,381</u>
Total debt service requirements	<u>\$ 41,862,730</u>	<u>41,263,272</u>	<u>35,178,314</u>	<u>29,666,614</u>	<u>28,382,912</u>

	Fiscal Year				
	2007	2006	2005	2004	2003
<b>Senior debt:</b>					
2004 Sewer Revenue Refunding Bonds	\$ 4,623,431	4,648,581	1,048,075	-	-
1996 Sewer Revenue Bonds	1,979,141	1,969,188	4,606,723	7,243,493	7,236,103
1993 Sewer Revenue Refunding Bonds	-	-	-	4,921,911	6,282,179
Total senior debt	<u>\$ 6,602,572</u>	<u>6,617,769</u>	<u>5,654,798</u>	<u>12,165,404</u>	<u>13,518,282</u>
<b>Subordinate debt:</b>					
Upper Occoquan Sewage Authority Bonds	15,107,508	14,683,600	14,997,983	15,094,083	15,226,053
Virginia Resource Authority Bonds	<u>6,637,072</u>	<u>6,637,072</u>	<u>6,637,072</u>	<u>6,637,073</u>	<u>4,962,334</u>
Total subordinate debt	<u>\$ 21,744,580</u>	<u>21,320,672</u>	<u>21,635,055</u>	<u>21,731,156</u>	<u>20,188,387</u>
Total debt service requirements	<u>\$ 28,347,152</u>	<u>27,938,441</u>	<u>27,289,853</u>	<u>33,896,560</u>	<u>33,706,669</u>

Source: Fairfax County Wastewater Management Program

Unaudited - see accompanying accountants' report.

## 4.0 DEMOGRAPHIC AND ECONOMIC INFORMATION

Demographic and economic information is intended to assist users in understanding the socioeconomic environment within which a government entity operates and to provide information that facilitates comparisons of financial statement information over time and among governments. There are two tables presented in this section.

**TABLE 4.1 - DEMOGRAPHIC AND ECONOMIC STATISTICS - LAST TEN CALENDAR YEARS**

Calendar Year	County Population		Personal Income (c) (000s)	Per Capita Personal Income (c)	Unemployment Rate (d)
	Total (a)	On County Sewer (b)			
2011	1,121,054	930,350	\$ 71,145,429	\$ 64,637	4.2 %
2010	1,081,726	912,000	72,577,324	67,094	4.9
2009	1,074,227	878,170	74,380,758	71,982	4.8
2008	1,050,315	874,200	74,385,409	70,822	3.4
2007	1,041,507	873,500	70,500,650	67,691	2.2
2006	1,037,311	865,232	67,111,947	64,698	2.2
2005	1,033,646	852,030	63,917,568	61,837	2.5
2004	1,022,298	841,200	58,830,183	57,547	2.7
2003	1,012,090	831,200	54,771,275	54,117	3.1
2002	1,004,435	821,100	52,744,891	52,512	3.4

Notes:

- (a) Total population data includes the Cities of Fairfax and Falls Church and is obtained from U.S. Census Bureau's American Fact Finder.
- (b) Population data for those on County Sewer is obtained from the Fairfax County Wastewater Management Program.
- (c) Personal income data is obtained from the Bureau of Economic Analysis, U.S. Department of Commerce and includes the Cities of Fairfax and Falls Church. Data for Fairfax County only is not available, however, it is believed that the inclusion of these Cities does not significantly affect the County's data. Fairfax County data for 2010 has been updated to reflect actual reported figures, while 2011 has been estimated using percent change in per capita personal income from 2009 to 2010. It is believed that this increase approximates the increase for the County.
- (d) Unemployment rates are obtained from the Virginia Employment Commission, Annual Unemployment Statistics for the calendar year, not seasonally adjusted. The previously reported estimated figures for the most recent prior year have been updated to reflect the final reported figures from the Commission.

Unaudited - see accompanying accountants' report.

**TABLE 4.2 - PRINCIPAL EMPLOYERS - CURRENT YEAR AND NINE YEARS AGO**

Employer	Fiscal Year 2012 (1)			Fiscal Year 2003		
	Number of Employees (2)	Rank	Pct. of Total County Employment	Number of Employees (2)	Rank	Pct. of Total County Employment
Fairfax County Public Schools	23,534	1	4.05 %	20,712	1	3.95 %
Federal Government	23,361	2	4.02	10,136	3	1.93
Fairfax County Government	12,070	3	2.08	11,506	2	2.19
Booz Allen Hamilton	7,000-10,000	4	1.46	5,000-6,000	7	0.86
Inova Health System	7,000-10,000	5	1.46	9,000-10,000	4	1.81
Science Applications International Corporation	4,000-6,999	6	0.95	5,000-6,000	6	1.05
George Mason University	4,000-6,999	7	0.95	-	-	-
Federal Home Loan Mortgage	4,000-6,999	8	0.95	3,000-4,000	10	0.67
Northrop Grumman	4,000-6,999	9	0.95	6,000-7,000	5	1.24
The Mitre Corporation	1,000-3,999	10	0.43	-	-	-
Computer Science Corporation	1,000-3,999	10	0.43	4,000-5,000	9	0.86
Lockheed Martin Corporation	1,000-3,999	10	0.43	-	-	0.48
Raytheon Company	-	-	-	4,000-5,000	8	0.86
Totals			<u>18.16 %</u>			<u>15.90 %</u>

Source: Fairfax County Economic Development Authority (using Virginia Employment Commission data); Fairfax County Public Schools; Fairfax County Department of Management and Budget

Notes:

- (1) Employment information for fiscal year 2012, excluding data for Fairfax County Government and Fairfax County Public Schools, is from the 1st quarter of calendar year 2012 VEC, which represents the most recent data available. Employment information for fiscal year 2003 is from the County fiscal year 2003 CAFR.
- (2) Employment estimates for separate facilities of the same firm have been combined to create company totals. Employment ranges for the private sector are given to ensure confidentiality.
- (3) Percentages are based on the midpoint of the employment range.

Average total County employment for fiscal year 2012 is estimated at 581,547.

Average total County employment for fiscal year 2003 is estimated at 524,697 according to VEC.

Unaudited - see accompanying accountants' report.

## 5.0 OPERATING INFORMATION

Operating information is intended to provide contextual information about a government entity's operations and resources to assist readers in using financial statement information to understand and assess a government entity's economic condition. There are nine tables presented in this section.

**TABLE 5.1 - WASTEWATER MANAGEMENT EMPLOYEES BY DIVISION (a) - LAST TEN FISCAL YEARS**

Division	Fiscal Year				
	2012	2011	2010	2009	2008
Planning & Administration	25	25	25	25	26
Laboratory	21	21	21	21	19
Collection	140	140	140	140	141
Treatment	135	135	135	135	135
<b>Total</b>	<b>321</b>	<b>321</b>	<b>321</b>	<b>321</b>	<b>321</b>

Division	Fiscal Year				
	2007	2006	2005	2004	2003
Planning & Administration	23	23	24	27	28
Laboratory	19	20	20	20	20
Collection	142	144	144	149	150
Treatment	144	144	145	149	151
<b>Total</b>	<b>328</b>	<b>331</b>	<b>333</b>	<b>345</b>	<b>349</b>

Source: Fairfax County Wastewater Management Program

Notes:

(a) Number of employees represent full time equivalents as of June 30.

Unaudited - see accompanying accountants' report.

**TABLE 5.2 - TREATMENT PLANT CAPACITIES (MGD) - LAST TEN FISCAL YEARS**

**Table 5.2 - Treatment Plant Capacities (MGD), Last Ten Fiscal Years**

<b>Treatment Plant</b>	<b>Fiscal Year</b>				
	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>
Noman M. Cole, Jr.	67.00	67.00	67.00	67.00	67.00
DCWASA Blue Plains	31.00	31.00	31.00	31.00	31.00
Alexandria Renew Enterprises	32.40	32.40	32.40	32.40	32.40
Upper Occoquan Sewage Authority	22.60	22.60	24.60	24.60	24.60
Arlington County	3.00	3.00	3.00	3.00	3.00
Loudoun Water	1.00	1.00	-	-	-
Other (a)	0.18	0.18	0.18	0.18	0.18
<b>Treatment plant capacity</b>	<b>157.18</b>	<b>157.18</b>	<b>158.18</b>	<b>158.18</b>	<b>158.18</b>

<b>Treatment Plant</b>	<b>Fiscal Year</b>				
	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>
Noman M. Cole, Jr.	67.00	67.00	67.00	54.00	54.00
DCWASA Blue Plains	31.00	31.00	31.00	31.00	31.00
Alexandria Renew Enterprises	32.40	32.40	32.40	32.40	32.40
Upper Occoquan Sewage Authority	27.60	27.60	27.60	27.60	27.60
Arlington County	3.00	3.00	3.00	3.00	3.00
Loudoun Water	-	-	-	-	-
Other (a)	0.18	0.18	0.18	0.18	0.18
<b>Treatment plant capacity</b>	<b>161.18</b>	<b>161.18</b>	<b>161.18</b>	<b>148.18</b>	<b>148.18</b>

Source: Fairfax County Wastewater Management Program

Notes:

(a) Other plants include Harbor View and Prince William County Service Authority.

Unaudited - see accompanying accountants' report.

**TABLE 5.3 - AVERAGE WASTEWATER FLOWS (MGD) BY TREATMENT PLANT - LAST TEN FISCAL YEARS**

<b>Treatment Plant</b>	<b>Fiscal Year</b>				
	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>
Noman M. Cole, Jr.	39.91	38.59	42.04	41.120	40.53
DCWASA Blue Plains	29.31	28.65	29.65	28.050	26.67
Alexandria Renew Enterprises	18.93	18.57	20.81	16.900	17.04
Upper Occoquan Sewage Authority	12.60	12.54	13.14	12.440	12.61
Arlington County	2.00	2.02	2.02	1.980	1.95
Loudoun Water	0.00	0.00	-	-	-
Other (a)	0.04	0.03	0.07	0.070	0.04
<b>Total system flow</b>	<b>102.79</b>	<b>100.40</b>	<b>107.73</b>	<b>100.56</b>	<b>98.84</b>

<b>Treatment Plant</b>	<b>Fiscal Year</b>				
	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>
Noman M. Cole, Jr.	42.80	41.55	42.67	43.58	42.09
DCWASA Blue Plains	29.37	27.26	26.67	28.00	28.78
Alexandria Renew Enterprises	20.03	19.07	20.45	22.10	20.56
Upper Occoquan Sewage Authority	12.94	12.49	12.18	12.33	12.40
Arlington County	2.04	2.02	2.18	2.21	2.18
Other (a)	0.03	0.03	0.03	0.04	0.03
<b>Total system flow</b>	<b>107.21</b>	<b>102.42</b>	<b>104.18</b>	<b>108.26</b>	<b>106.04</b>

Source: Fairfax County Wastewater Management Program

Notes:

(a) Other plants include Harbor View and Prince William County Service Authority.

Unaudited - see accompanying accountants' report.

**TABLE 5.4 - AVERAGE WASTEWATER FLOWS (MGD) BY SOURCE - LAST TEN FISCAL YEARS**

<b>Source</b>	<b>Fiscal Year</b>				
	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>
County connections	92.75	90.85	96.79	90.51	88.63
City of Fairfax	3.15	3.00	3.46	3.27	3.49
Town of Herndon	2.46	2.47	2.59	2.40	2.40
Arlington County	1.36	1.32	1.57	1.42	1.40
Fort Belvoir	1.05	0.90	1.16	1.07	1.12
City of Falls Church	0.99	0.93	1.12	1.04	1.02
Town of Vienna	0.82	0.73	0.86	0.67	0.61
Loudoun County	0.09	0.08	0.07	0.07	0.05
Other (a)	0.12	0.12	0.11	0.11	0.12
<b>Total system flow</b>	<b>102.79</b>	<b>100.40</b>	<b>107.73</b>	<b>100.56</b>	<b>98.84</b>

<b>Source</b>	<b>Fiscal Year</b>				
	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>
County connections	96.56	91.52	92.64	95.86	93.61
City of Fairfax	3.50	3.65	3.80	4.10	3.77
Town of Herndon	2.48	2.61	2.77	2.78	3.61
Arlington County	1.61	1.69	1.72	1.96	1.60
Fort Belvoir	1.12	1.02	1.05	1.16	1.42
City of Falls Church	1.02	1.08	1.18	1.28	1.09
Town of Vienna	0.82	0.77	0.92	1.03	0.84
Loudoun County	0.04	-	-	-	-
Other (a)	0.06	0.08	0.10	0.09	0.10
<b>Total system flow</b>	<b>107.21</b>	<b>102.42</b>	<b>104.18</b>	<b>108.26</b>	<b>106.04</b>

Source: Fairfax County Wastewater Management Program

Notes:

(a) Other sources of wastewater include Fairfax Water and the County's solid waste resource recovery facility.

**TABLE 5.5 - MAXIMUM MONTHLY FLOWS (MGD) BY TREATMENT PLANT - LAST TEN FISCAL YEARS**

<b>Treatment Plant</b>	<b>Recent Five Years</b>		<b>Past Ten Years</b>	
	<b>Flow</b>	<b>Month</b>	<b>Flow</b>	<b>Month</b>
Noman M. Cole, Jr.	50.19	May-08	51.73	Jun-03
DCWASA Blue Plains	33.89	Dec-09	33.89	Dec-09
Alexandria Renew Enterprises	26.72	Sep-11	26.72	Sep-11
Upper Occoquan Sewage Authority	15.96	May-08	15.96	May-08
Arlington County	2.21	Dec-09	2.37	Apr-04

Source: Fairfax County Wastewater Management Program

Unaudited - see accompanying accountants' report.

**TABLE 5.6 - AVERAGE UNUSED CAPACITY (MGD) BY TREATMENT PLANT (a) - LAST TEN FISCAL YEARS**

<b>Treatment Plant</b>	<b>Fiscal Year</b>				
	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>
Noman M. Cole, Jr.	27.09	28.41	24.96	25.88	26.47
DCWASA Blue Plains	1.69	2.35	1.35	2.95	4.33
Alexandria Renew Enterprises	13.47	13.83	11.59	15.50	15.37
Upper Occoquan Sewage Authority	10.00	10.06	11.46	12.16	11.99
Arlington County	1.00	0.98	0.98	1.02	1.06
Loudoun Water	1.00	1.00	-	-	-
Other (b)	0.14	0.15	0.11	0.11	0.14
<b>Total unused capacity</b>	<b>54.39</b>	<b>56.78</b>	<b>50.45</b>	<b>57.62</b>	<b>59.36</b>

<b>Treatment Plant</b>	<b>Fiscal Year</b>				
	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>
Noman M. Cole, Jr.	24.20	25.45	24.33	10.42	11.91
DCWASA Blue Plains	1.63	3.75	4.33	3.00	2.22
Alexandria Renew Enterprises	12.37	13.33	11.95	10.30	11.84
Upper Occoquan Sewage Authority	14.66	15.11	15.42	15.27	15.20
Arlington County	0.96	0.98	0.82	0.79	0.82
Other (b)	0.15	0.15	0.15	0.14	0.15
<b>Total unused capacity</b>	<b>53.97</b>	<b>58.77</b>	<b>57.00</b>	<b>39.92</b>	<b>42.14</b>

Source: Fairfax County Wastewater Management Program

Notes:

(a) See Table 5.2 for treatment plant capacity.

(b) Other plants include Harbor View and Prince William County Service Authority.

Unaudited - see accompanying accountants' report.

**TABLE 5.7 - AVERAGE CAPACITY UTILIZATION (a) BY TREATMENT PLANT - LAST TEN FISCAL YEARS**

<b>Treatment Plant</b>	<b>Fiscal Year</b>				
	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>
Noman M. Cole, Jr.	59.57 %	57.60	62.75	61.37	60.50
DCWASA Blue Plains	94.55	92.42	95.65	90.48	86.02
Alexandria Renew Enterprises	58.43	57.31	64.23	52.16	52.58
Upper Occoquan Sewage Authority	55.75	55.49	53.41	50.57	51.26
Arlington County	66.67	67.33	67.33	66.00	64.83
Loudoun Water	0.00	0.00	-	-	-
Other (b)	22.22	16.67	38.89	38.89	20.00
<b>Total system capacity utilization</b>	<b>65.40 %</b>	<b>63.88</b>	<b>68.11</b>	<b>63.57</b>	<b>62.48</b>

<b>Treatment Plant</b>	<b>Fiscal Year</b>				
	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>
Noman M. Cole, Jr.	63.88 %	62.02	63.69	80.70	77.94
DCWASA Blue Plains	94.74	87.92	86.03	90.32	92.84
Alexandria Renew Enterprises	61.82	58.87	63.12	68.21	63.46
Upper Occoquan Sewage Authority	46.88	45.24	44.13	44.67	44.93
Arlington County	68.00	67.47	72.67	73.67	72.67
Other (b)	15.56	15.56	16.67	22.22	16.67
<b>Total system capacity utilization</b>	<b>66.51 %</b>	<b>63.54</b>	<b>64.64</b>	<b>73.06</b>	<b>71.56</b>

Source: Fairfax County Wastewater Management Program

Notes:

(a) See Table 5.2 for treatment plant capacity.

(b) Other plants include Harbor View and Prince William County Service Authority.

Unaudited - see accompanying accountants' report.

**TABLE 5.8 - AVERAGE UNIT COST OF WASTEWATER TREATMENT (\$/MG) BY TREATMENT PLANT - LAST TEN FISCAL YEARS**

<b>Treatment Plant</b>	<b>Fiscal Year</b>				
	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>
Noman M. Cole, Jr.	\$ 1,379	1,367	1,254	1,419	1,268
DCWASA Blue Plains	1,239	1,290	1,135	1,223	1,210
Alexandria Renew Enterprises	1,858	1,950	1,822	2,296	2,246
Upper Occoquan Sewage Authority	2,620	2,880	2,699	2,902	2,725
Arlington County	3,050	2,305	2,178	2,204	2,106

<b>Treatment Plant</b>	<b>Fiscal Year</b>				
	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>
Noman M. Cole, Jr.	\$ 1,162	1,267	1,115	1,089	1,168
DCWASA Blue Plains	962	910	899	764	939
Alexandria Renew Enterprises	1,823	1,953	1,656	1,619	1,362
Upper Occoquan Sewage Authority	2,597	2,417	2,117	1,860	1,678
Arlington County	2,180	1,884	1,206	1,220	1,176

Source: Fairfax County Wastewater Management Program

Unaudited - see accompanying accountants' report.

**TABLE 5.9 - CAPITAL ASSET STATISTICS - LAST TEN FISCAL YEARS**

Fiscal Year	Treatment Plants (a)		Number of Pumping Stations	Number of Metering Stations	Miles of Sewer Pipe
	System-Owned	Purchased Capacity			
2012	1	6	65	54	3,398
2011	1	6	65	54	3,390
2010	1	5	65	54	3,380
2009	1	5	65	54	3,375
2008	1	5	65	54	3,353
2007	1	5	65	54	3,328
2006	1	5	65	54	3,306
2005	1	5	64	53	3,289
2004	1	5	64	53	3,267
2003	1	4	61	53	3,240

Source: Fairfax County Wastewater Management Program

Notes:

- (a) The System owns one treatment plant, the Noman M. Cole, Jr. Plant, and has purchased capacity in treatment plants owned by other local jurisdictions - DC Water Blue Plains, Alexandria Renew Enterprises, Upper Occoquan Sewage Authority, Arlington County, Loudoun Water and Prince William County Service Authority.

Unaudited - see accompanying accountants' report.

## 6.0 MISCELLANEOUS INFORMATION

Miscellaneous information is additional information presented that may be of interest to readers of this report. There are two tables and a wastewater treatment plant service area map presented in this section.

**TABLE 6.1 - WASTEWATER FLOW (GPD) PER CAPITA BY TREATMENT PLANT - LAST TEN FISCAL YEARS**

Treatment Plant	Fiscal Year				
	2012	2011	2010	2009	2008
Noman M. Cole, Jr.	104	106	116	100	99
DCWASA Blue Plains	133	137	142	109	111
Alexandria Renew Enterprises	108	112	126	97	99
Upper Occoquan Sewage Authority	101	106	111	105	107
Arlington County	72	77	77	77	79
<b>Total system flow per capita</b>	<b>110</b>	<b>114</b>	<b>122</b>	<b>101</b>	<b>102</b>
Annual rainfall, inches	46.83	40.67	41.48	42.32	42.39

Treatment Plant	Fiscal Year				
	2007	2006	2005	2004	2003
Noman M. Cole, Jr.	103	101	105	108	105
DCWASA Blue Plains	123	113	110	117	119
Alexandria Renew Enterprises	116	111	121	131	123
Upper Occoquan Sewage Authority	111	107	107	110	114
Arlington County	83	82	89	90	89
<b>Total system flow per capita</b>	<b>110</b>	<b>106</b>	<b>109</b>	<b>114</b>	<b>113</b>
Annual rainfall, inches	37.62	45.93	42.71	50.40	52.82

Source: Fairfax County Wastewater Management Program

Unaudited - see accompanying accountants' report.

**TABLE 6.2 - WASTEWATER FLOW (GPD) PER CONNECTION BY TREATMENT PLANT - LAST TEN FISCAL YEARS**

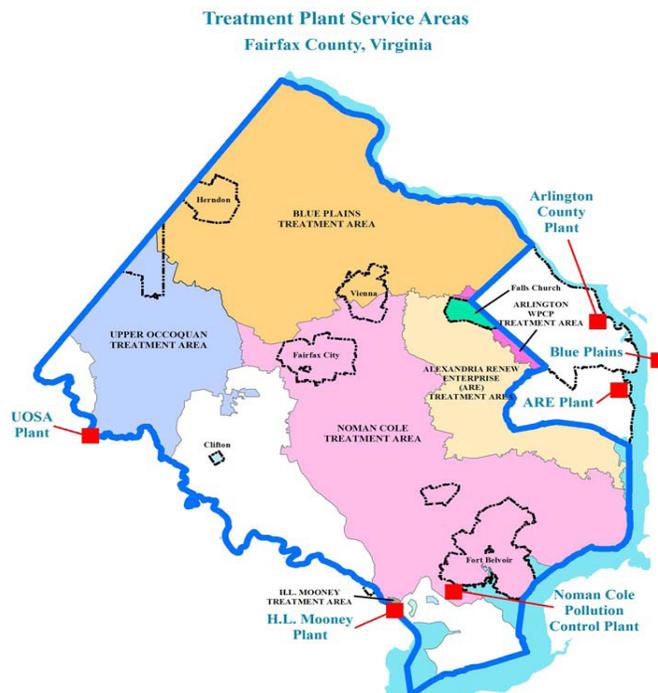
Treatment Plant	Fiscal Year				
	2012	2011	2010	2009	2008
Noman M. Cole, Jr.	269	262	286	250	247
DCWASA Blue Plains	335	328	342	263	270
Alexandria Renew Enterprises	279	276	310	239	247
Upper Occoquan Sewage Authority	256	255	268	261	260
Arlington County	188	190	190	190	196
<b>Total system flow per connection</b>	<b>283</b>	<b>277</b>	<b>299</b>	<b>250</b>	<b>253</b>

Treatment Plant	Fiscal Year				
	2007	2006	2005	2004	2003
Noman M. Cole, Jr.	261	256	264	271	265
DCWASA Blue Plains	301	282	272	290	294
Alexandria Renew Enterprises	292	281	302	327	307
Upper Occoquan Sewage Authority	269	267	263	272	280
Arlington County	206	205	220	223	220
<b>Total system flow per connection</b>	<b>275</b>	<b>267</b>	<b>272</b>	<b>285</b>	<b>281</b>

Source: Fairfax County Wastewater Management Program

Unaudited - see accompanying accountants' report.

**WASTEWATER TREATMENT PLANT SERVICE AREA MAP**



## FAIRFAX COUNTY WASTEWATER MANAGEMENT



*Quality of Water = Quality of Life*

The three droplets in the logo range in color from dark to medium to light tones to signify the purification process that takes place at treatment facilities.

The end result of this process is water that is returned to the County's streams at a high level of quality that supports a healthy ecosystem and end uses such as recreational boating, swimming and fishing.

The fish—the alewife—portrayed within the droplet, along with the aquatic grasses shown, are bellwethers of a hospitable environment.

The slogan, "Quality of Water = Quality of Life," represents the care taken by Wastewater Management to produce an end product that enhances the quality of residents' environmental and recreational lives.

About The Fairfax County  
Wastewater Management Logo

**VISION** We aspire to achieve a pure and natural state of air and water quality by providing superior wastewater utility service in a spirit of teamwork and excellent customer service.

**MISSION** Our mission is to collect, treat, and monitor wastewater in compliance with all regulatory requirements, using state-of-the-art technology in the most effective manner. We work to improve the environment and enhance the quality of life in Fairfax County.



## FAIRFAX COUNTY WASTEWATER MANAGEMENT



*Quality of Water = Quality of Life*

Fairfax County is committed to a policy of nondiscrimination in all county programs, services and activities and will provide reasonable accommodations upon request. Special accommodations/alternative information formats will be provided upon request. Call 703-324-5030, TTY 711.



A Publication of the County of Fairfax, Virginia  
[www.fairfaxcounty.gov/dpwes/wastewater](http://www.fairfaxcounty.gov/dpwes/wastewater)