

FAIRFAX COUNTY
WASTEWATER MANAGEMENT



Quality of Water = Quality of Life

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEARS ENDED
JUNE 30, 2016



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

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 Year Ended June 30, 2016

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

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INTEGRATED SEWER SYSTEM • COUNTY OF FAIRFAX, VIRGINIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
For the Fiscal Year Ended June 30, 2016

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FAIRFAX COUNTY WASTEWATER MANAGEMENT



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INTRODUCTORY SECTION



Government Finance Officers Association

**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, 2015

A handwritten signature in black ink, appearing to read "Jeffrey R. Enen".

Executive Director/CEO



County of Fairfax, Virginia

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

November 18, 2016

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 fiscal year ended June 30, 2016. 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. The System's financial statements for the year ended June 30, 2016, were audited by the accounting firm of Cherry Bekaert LLP. 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 report of independent auditor 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; however, because the cost of a control should not exceed the benefits to be derived, the objective is to provide reasonable, rather than absolute assurance that the financial statements are free of any material misstatements. 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 report of independent auditor.

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 96 million gallons

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of wastewater per day (MGD) generated mostly from approximately 935,000 County residents. More than 85 percent of the 412,000 County housing units and virtually all businesses in the County are connected to the public sewer system.

The System consists of over 3,400 miles of sewer lines and force mains ranging in size from 8 inches to 72 inches, 59 pump stations ranging in capacity from 0.1 to 37 MGD, and 54 metering stations. The total System workforce is 315 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, 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

Business, Professional, and Occupational License (BPOL) and Sales Taxes, two revenue sources that are a good indicator of economic activity in the County, saw a very modest growth during FY 2016. BPOL receipts increased 0.7 percent over the FY 2015 level. Sales Tax receipts grew a modest 1.4 percent after increasing a strong 6.6 percent in FY 2015. Transient Occupancy Tax receipts were up 3.1 percent over the FY 2015 level. The unemployment rate in the County as of August 2016 is 3.2 percent, down from 3.5 percent last August. Residential sewer connections in the system, which are a measure of system growth, grew 0.2 percent in fiscal year 2016.

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 May 12, 2016, the System issued \$164.5 million of Series 2016a Sewer Revenue Refunding Bonds with an average rate of 3.92 percent to refund \$123.1 million of outstanding Series 2009 Bonds and \$46.7 million of outstanding Series 2012 Bonds. As of June 30, 2016, the System had \$276.0 million in Sewer revenue bonds, \$32.1 million in VRA financing, and \$254.5 million in UOSA debt outstanding. The System continues to maintain its status as a top rated bond issuer: AAA from Fitch Investor Service (Fitch) and Standard and Poor's Corporation (S&P) and Aaa from Moody's Investors Service, Inc (Moody's).

Note (8) 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. The System's volumetric sewer service charges and service base charge increased a combined 3.5 percent in fiscal year 2016.

MAJOR INITIATIVES AND ACCOMPLISHMENTS

Nutrient Removal at Area Treatment Plants – 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. At the Noman M. Cole, Jr. Pollution Control Plant, a new Moving Bed Bioreactor was constructed and brought on line in 2012 to comply with the new waste load allocation. As a result of the new facility, the Noman M. Cole, Jr. Pollution Control Plant was under its new waste load allocation by 40 percent. In fiscal year 2016, total nitrogen discharges from the County's Noman M. Cole, Jr. Pollution Control Plant averaged less than 2.0 mg/l.

Solid Stabilization and Disposal – The Noman M. Cole, Jr. Pollution Control Plant initiated a Biosolids Program in fiscal year 2014 to meet the new EPA Clean Air Act regulations. Phase I includes replacement of the Venturi Scrubbers on the incinerators to provide compliance with the new Clean Air Act Maximum Available Control Technology (MACT) requirements that went into effect in March 2016. This project started construction in fiscal year 2014 and is expected to be completed in fiscal year 2017. Phase II, the Interim Biosolids project, includes rehabilitation of the thickened sludge storage and mixing equipment, odor control facilities, and lime conditioning facilities. The construction phase of this project is expected to start in fiscal year 2017. Phase III of the program focuses on the rehabilitation of the existing incineration system, supporting biosolids processing infrastructure and, potentially, energy recovery from a thermal combustion processes. The preliminary design work for this phase was completed in fiscal year 2015 and construction is expected to commence in fiscal year 2018.

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.

AWARDS

GFOA Certificate of Achievement for Excellence in Financial Reporting – For the thirteenth 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, 2015. 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 GAAP 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 percent 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 18 consecutive years. The plant has protected the water quality of the County's streams and watersheds, as well as the Chesapeake Bay.

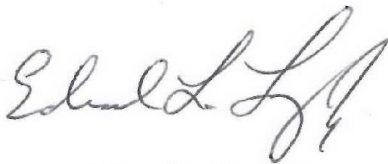
Extraordinary Environmental Enterprise - The Wastewater Management program has received the designation of Extraordinary Environment Enterprise (E4) from the Virginia Department of Environmental Quality (DEQ) Virginia Environmental Excellence Program (VEEP) for its Environmental Management System (EMS). Currently approximately 450 public and private organizations participate in the VEEP EMS certification program at the E2, E3, and E4 levels. Of these 450 organizations, approximately 33 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.

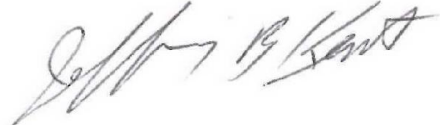
Respectfully,



Edward L. Long, Jr.
County Executive



Joseph M. Mondoro
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, 2016

BOARD OF SUPERVISORS

Sharon S. Bulova, Chairman	At-large
Penelope A. Gross, Vice Chairman	Mason District
Daniel G. Storck	Mount Vernon District
Linda Q. Smyth	Providence District
Catherine M. Hudgins	Hunter Mill District
Kathy L. Smith	Sully District
John C. Cook	Braddock District
Jeffrey C. McKay	Lee District
Patrick S. Herrity	Springfield District
John W. Foust	Dranesville District

COUNTY EXECUTIVE
Edward L. Long, Jr.

DEPUTY COUNTY EXECUTIVE
Robert A. Stalzer

DEPARTMENT OF PUBLIC WORKS AND ENVIRONMENTAL SERVICES
James W. Patteson, Director

WASTEWATER COLLECTION DIVISION
Stacey Smalls, Director

WASTEWATER TREATMENT DIVISION
Michael McGrath, Director

WASTEWATER PLANNING AND MONITORING DIVISION
Shahram Mohsenin, Director

DEPARTMENT OF MANAGEMENT AND BUDGET
Joseph M. Mondoro, Chief Financial Officer

DEPARTMENT OF FINANCE
Christopher J. Pietsch, Director

OFFICE OF THE COUNTY ATTORNEY
David P. Bobzien, County Attorney

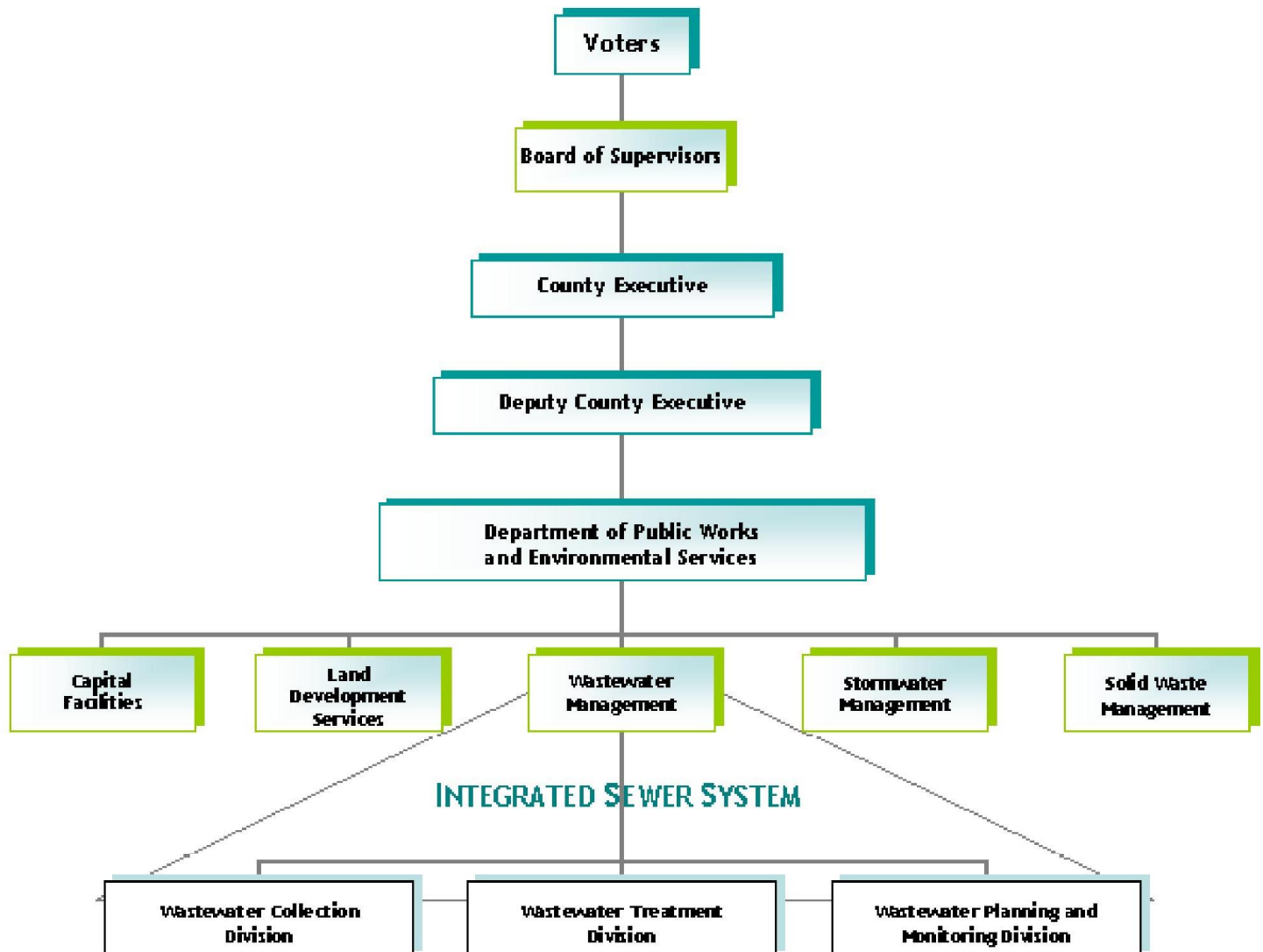


FAIRFAX COUNTY WASTEWATER MANAGEMENT



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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WASTEWATER MANAGEMENT PROGRAM

Jeffrey B. Kent, Financial Manager
Anand Goutam, Fiscal Administrator, CPA
Dianne L. Love
Yvonne T. Sullivan
Charese Willis

DEPARTMENT OF FINANCE

Christopher J. Pietsch, Director
Richard Modie Jr., Chief, Financial Reporting Division
Betty A. Barnuevo, CPA, Financial Reporting Manager
Michael Sandler
Rochanie Perera
Xuan Wang

FAIRFAX COUNTY WASTEWATER MANAGEMENT



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FINANCIAL SECTION



**FAIRFAX COUNTY
WASTEWATER MANAGEMENT**



Quality of Water = Quality of Life

Report of Independent Auditor

To the Board of Supervisors
County of Fairfax, Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of the Integrated Sewer System (the "System"), an enterprise fund of the County of Fairfax, Virginia, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the System's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the System as of June 30, 2016, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note (1)(a), the financial statements referred to above 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, 2016, and the changes in its financial position or its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3-10 and the required supplementary information on page 38 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the System's basic financial statements. The introductory and statistical sections, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 18, 2016, on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Cherry Bekant LLP". The signature is written in a cursive, flowing style.

Tysons Corner, Virginia
November 18, 2016

INTEGRATED SEWER SYSTEM • COUNTY OF FAIRFAX, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS (*unaudited*)
June 30, 2016

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 year that ended on June 30, 2016.

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 position was \$1,052.9 million at June 30, 2016, compared to \$1,025.1 million at June 30, 2015.
- Operating revenues of \$190.4 million exceeded operating expenses of \$153.5 million, which include depreciation and amortization of \$61.1 million, by \$36.9 million. After factoring in non-operating revenues and expenses – availability fees, investment revenue, interest expense, and capital contributions, the result was a \$27.8 million increase in net position for fiscal year 2016.
- The System's cash and cash equivalents decreased by \$35.6 million during fiscal year 2016. This decrease compares to a \$29.4 million decrease in the prior fiscal year and is primarily due to the acquisition of capital assets and bond refunding activity in fiscal year 2016. Capital asset acquisitions made during both fiscal years 2016 and 2015 were funded with available resources.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial section of this annual report consists of (1) the report of independent auditor, (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 Position

The Statement of Net Position presents information on all of the System's assets, liabilities, and deferred inflows and outflows of resources, with assets and deferred outflows of resources less liabilities and deferred inflows of resources reported as net position. 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 Position

All of the revenues and expenses for the fiscal year are accounted for in the Statement of Revenues, Expenses, and Changes in Net Position. 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 Position

Net position may serve as a useful indicator of an entity's financial position. The following table presents a summary of the Statements of Net Position for the System as of June 30, 2016 and 2015:

Summary of Net Position As of June 30 (\$ in millions)				
	2016	\$ Change	% Change	2015
Assets:				
Current assets:				
Unrestricted	\$ 74.2	(39.4)	(34.7)	\$ 113.6
Restricted	99.0	(2.4)	(2.4)	101.4
Noncurrent assets:				
Capital assets (net)	1,492.8	35.9	2.5	1,456.9
Other non-current assets	2.3	(0.4)	(14.8)	2.7
Total assets	1,668.3	(6.3)	(0.4)	1,674.6
Deferred Outflows of Resources	31.4	12.6	67.0	18.8
Liabilities:				
Current liabilities	39.9	(2.2)	(5.2)	42.1
Noncurrent liabilities	602.0	(15.6)	(2.5)	617.6
Total liabilities	641.9	(17.8)	(2.7)	659.7
Deferred Inflows of Resources	4.9	(3.6)	(42.4)	8.5
Net position:				
Net investment in capital assets	940.6	48.2	5.4	892.4
Restricted	73.8	7.8	11.8	66.0
Unrestricted	38.5	(28.2)	(42.3)	66.7
Total net position	\$ 1,052.9	27.8	2.7	\$ 1,025.1

Nearly 89.3% and 87.1% of the System's total net position for the fiscal years 2016 and 2015, 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. The \$3.6 million decrease in Deferred Inflows of Resources in fiscal year 2016 is attributable to the prior year implementation of GASB 68, which addresses the financial reporting treatment of pensions. See Note 6 for more information relating to the retirement plan. 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 \$27.8 million increase in net position in fiscal year 2016 was primarily the result of operating revenue exceeding total operating expenses due to increased revenue from Sales of Service.

The restricted portion of net position 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 \$28.2 million decrease of unrestricted net position for fiscal year 2016 was primarily due to an increase in the transfer of cash to the sewer bond fund for capitalized expenditures. See Note (4) to the Financial Statements for detailed information pertaining to restricted net position.

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

Changes in Net Position

The following table summarizes the Statements of Revenues, Expenses, and Changes in Net Position for the System for the fiscal years ended June 30, 2016 and 2015:

Summary of Revenues, Expenses, and Changes in Net Position For the Fiscal Years Ended June 30 (\$ in millions)				
	2016	\$ Change	% Change	2015
Operating revenues - Sales of service	\$ 190.4	2.9	1.5	\$ 187.5
Less operating expenses:				
Personnel services	29.5	3.1	11.7	26.4
Materials and supplies	15.4	1.3	9.2	14.1
Contractual services and other	47.5	(4.3)	(8.3)	51.8
Depreciation and amortization	61.1	3.1	5.3	58.0
Total operating expenses	153.5	3.2	2.1	150.3
Operating Income	36.9	(0.3)	(0.8)	37.2
Nonoperating revenues (expenses):				
Availability fees	14.7	(7.0)	(32.3)	21.7
Investment and other revenues	1.2	0.4	48.2	0.8
Interest and other expenses	(29.6)	(5.0)	20.3	(24.6)
Total nonoperating expenses	(13.7)	(11.6)	553.9	(2.1)
Income before contributions	23.2	(11.9)	(33.9)	35.1
Capital contributions	4.6	1.4	43.8	3.2
Change in net position	27.8	(10.5)	(27.4)	38.3
Total net position at beginning of year (restated)	1,025.1	38.3	3.9	986.8
Total net position at end of year	\$ 1,052.9	27.8	2.7	\$ 1,025.1

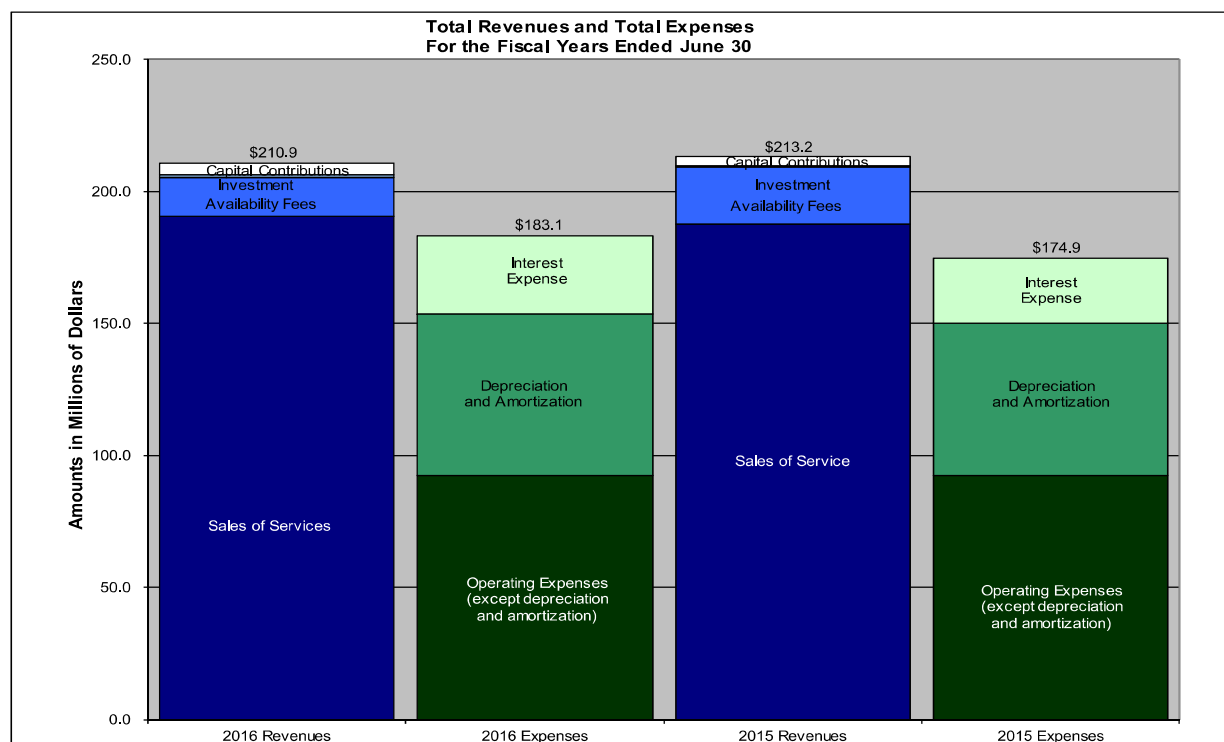
The System's operating revenues consist of volumetric service charges and a service base charge to County users and to neighboring jurisdictions, which reflect a 3.5% rate increase implemented during fiscal year 2016. Operating income in fiscal year 2016 remained consistent with the prior year. Operating expenses increased \$3.2 million in fiscal year 2016. This was due to the increase in personnel services and depreciation and amortization and was partially offset by a decrease in contractual services.

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 ninety nine years.

A graphic comparison of total revenues, including capital contributions, to total expenses for fiscal years 2016 and 2015 is shown below:



CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets

The System's gross investment in capital assets as of June 30, 2016, amounted to \$2,463.3 million, or \$1,492.8 million after deducting accumulated depreciation and amortization, as summarized in the table below:

Capital Assets As of June 30 (\$ in millions)				
	2016	\$ Change	% Change	2015
Land	\$ 17.4	-	-	\$ 17.4
Easement	0.5	-	-	0.5
Construction in progress	57.7	(45.3)	(44.0)	103.0
Buildings and improvements	1,339.9	91.6	7.3	1,248.3
Equipment	14.6	0.5	3.5	14.1
Purchased capacity	1,033.2	49.1	5.0	984.1
Gross capital assets	2,463.3	95.9	4.1	2,367.4
Accumulated depreciation and amortization	(970.5)	(60.0)	6.6	(910.5)
Total capital assets, net	\$1,492.8	35.9	2.5	\$ 1,456.9

The \$95.9 million increase in gross capital assets during fiscal year 2016 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 \$22.3 million.
- The System's share of the ongoing upgrade costs of the Alexandria Sanitation Authority, Upper Occoquan Sewage Authority, and the District of Columbia's wastewater treatment facilities, which provide service to certain County residents, was \$24.6 million and \$14.0 million, and 19.1 million, respectively.
- Improvements to sewer lines and pumping stations in the System, other than donations from developers, totaled \$21.9 million.
- Developers contributed sewer lines and manholes valued at \$2.6 million.
- Capital Assets in the current year includes an adjustment to Purchase Capacity, reducing it by \$8.6 million dollars in order to adjust an overstatement. This overstatement was due to an erroneous recording of capital billings to the Town of Herndon in fiscal years 2012 through 2015.

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, 2016 and 2015:

Gross Outstanding Debt As of June 30 (\$ in millions)				
	2016	\$ Change	% Change	2015
Sewer revenue bonds	\$ 276.0	(13.0)	(4.5)	\$ 289.0
Subordinated bonds:				
Sewer Revenue bonds	32.1	(5.3)	(14.2)	37.4
System's share of UOSA's debt	254.5	(11.2)	(4.2)	265.7
Total outstanding debt	\$ 562.6	(29.5)	(5.0)	\$ 592.1

The \$276.0 million of outstanding sewer revenue refunding bonds and sewer revenue bonds issued in 2016, 2014, 2012, and 2009 by the System are currently rated AAA by Fitch and S&P and Aa1 by Moody's. 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.

In May 2016, due to lower market interest rates, the System issued \$164.5 million of Series 2016a Sewer Refunding Bonds with an average rate of 3.92% to refund \$123.0 million of outstanding Series 2009 Bonds with an average rate of 5.00% and \$46.7 million of outstanding Series 2012 Bonds with an average rate of 4.50%.

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. In September 2012, the System executed a rate reduction agreement with VRA reducing the interest rates on these bonds to 2.3%. In May 2016, the System executed a rate reduction agreement with VRA reducing the interest rates on these bonds to 0.95%. As of June 30, 2016, the outstanding balance of the subordinate Sewer Revenue Bonds is \$32.1 million.

The Upper Occoquan Sewage Authority (UOSA), a joint venture which operates a regional sewage facility, issued regional sewer system revenue refunding bonds in November 2013, May 2013, February 2007, and November 2004 to refund certain of its outstanding bonds. In December 2010 and 2007, UOSA issued \$85.2 million and \$119.7 million of Regional Sewer System Revenue Bonds, of which the System's share is \$34.1 million and \$53.9 million, respectively, 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. In fiscal year 2015, UOSA refinanced a portion of Bond Series 2007. \$93,175,291 was refunded into Series 2014. In fiscal year 2016, UOSA refinanced Bond Series 2007b. \$19,015,689 was refunded into Series 2016b. As of June 30, 2016, the System's share of UOSA's outstanding debt is \$254.5 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 4.75 and 4.68 for fiscal years 2016 and 2015, respectively. The fiscal year 2016 ratio is more favorable than fiscal year 2015. Taking all long-term debt into account, the ratios are 2.42 and 2.52 for fiscal years 2016 and 2015, respectively, the fiscal year 2016 ratio is more favorable than fiscal year 2015 ratio.

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 (8) 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 2017 and beyond:

- The sewer service charge rate to System users will increase from \$6.65 to \$6.68 per 1,000 gallons of water consumption and the sewer service base charge will increase from \$20.15 to \$24.68 for residential customers for fiscal year 2017. Subsequent rate increases for the sewer service charge to \$6.75, \$6.85, and \$7.05 along with increases to the sewer service base charge to \$27.62, \$30.38, and \$33.42 for fiscal years 2018, 2019, and 2020, respectively, have also been approved. The base charge for commercial customers is based on the meter size.
- Sewer availability fees have not been increased for fiscal year 2017. Also, no fee increases for fiscal years 2018, 2019, and 2020 have been approved. Unit sales of sewer availability taps averaged 469.0 per month during the first quarter of fiscal year 2017, compared to 165.6 per month during the comparable period of fiscal year 2016.
- Interest rates on the County's investments through the first quarter of fiscal year 2017 have been approximately 0.95%, an increase from fiscal year 2016 rates.
- The System's adopted budget for operating expenses, excluding depreciation and amortization, for fiscal year 2017 is \$101.4 million.
- The System's adopted budget for capital asset acquisitions for fiscal year 2017 is \$74.7 million, to be funded with available resources and bond proceeds. This budget includes \$36.5 million for the rehabilitation and renovation of the System's sewer lines, \$11.4 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 \$13.9 million, \$0.6 million, and \$12.3 million, respectively.

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
STATEMENT OF NET POSITION
June 30, 2016

	2016
Assets	
Current assets:	
Cash and investments on deposit with the County of Fairfax, Virginia	\$ 24,628,700
Due from intergovernmental units (note 2):	
Service charges	23,140,890
Unbilled service charges	25,612,670
Accounts Receivable	460,289
Inventories	374,722
Total unrestricted	<u>74,217,271</u>
Restricted assets (note 4):	
Cash and investments on deposit with the County of Fairfax, Virginia	69,311,167
Cash with fiscal agent (note 3)	10,517,228
Investments (note 3)	19,138,059
Total restricted	<u>98,966,454</u>
Total current assets	<u>173,183,725</u>
Long-term assets:	
Capital assets (note 5):	
Non-depreciable:	
Land	17,407,323
Easement	501,687
Construction in progress	57,741,805
Depreciable/amortizable:	
Buildings, improvements, and sewer lines	1,339,867,384
Equipment	14,607,274
Purchased capacity	1,033,209,931
Gross capital assets	2,463,335,404
Accumulated depreciation and amortization	<u>(970,557,340)</u>
Total capital assets, net	<u>1,492,778,064</u>
Other Non-current assets:	
Accounts Receivable	<u>2,381,338</u>
Total assets	<u>1,668,343,127</u>
Deferred Outflows of Resources	
Deferred outflow related to pensions (note 6)	4,677,895
Deferred loss on refunding of debt	26,725,588
Total Deferred Outflows of Resources	<u>31,403,483</u>
Total assets and deferred outflows of resources	<u>\$ 1,699,746,610</u>

continued

	2016
Liabilities	
Current liabilities:	
Accrued salaries and wages	\$ 1,443,919
Accounts payable and accrued liabilities	2,585,779
Contracts payable	6,216,978
Accrued interest payable	2,516,841
Compensated absences (note 8)	1,419,190
Bonds payable (note 8 and 9)	25,751,577
Total current liabilities	<u>39,934,284</u>
Long-term liabilities:	
Net pension liability (note 6)	26,649,164
Compensated absences (note 8)	812,378
Bonds payable (note 8 and 9)	574,514,324
Total long-term liabilities	<u>601,975,866</u>
Total liabilities	<u>641,910,150</u>
Deferred Inflows of Resources	
Deferred inflow related to pensions (note 6)	1,214,632
Deferred gain on refunding of debt	3,709,126
	<u>4,923,758</u>
Total liabilities and deferred outflows of resources	<u>646,833,908</u>
Net position	
Net investment in capital assets	940,641,576
Restricted for (note 4):	
Sewer extensions and improvements	63,336,275
Debt service	10,517,228
Unrestricted	38,417,623
Total Net position	<u>\$ 1,052,912,702</u>

See accompanying notes to the financial statements.

concluded

INTEGRATED SEWER SYSTEM ▪ COUNTY OF FAIRFAX, VIRGINIA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
For the Fiscal Year Ended June 30, 2016

	<u>2016</u>
Operating revenues:	
Sales of service	\$ 190,433,799
Operating expenses:	
Personnel services	29,532,231
Materials and supplies	15,409,135
Contractual services	46,873,730
Depreciation and amortization	61,090,693
Professional fees and other	<u>637,717</u>
Total operating expenses	<u>153,543,506</u>
Operating income	36,890,293
Nonoperating revenues (expenses):	
Availability charges	14,681,449
Investment earnings	1,171,307
Interest expense	(20,601,532)
Bond issuance costs	(605,018)
Loss on disposal of capital assets	<u>(8,326,757)</u>
Total nonoperating revenues (expenses)	<u>(13,680,551)</u>
Income before contributions	23,209,742
Capital contributions:	
Grants from the Commonwealth of Virginia	1,958,258
From developers	<u>2,640,181</u>
Total capital contributions	<u>4,598,439</u>
Change in net position	27,808,181
Total net position at beginning of year	<u>1,025,104,521</u>
Total net position at end of year	<u>\$ 1,052,912,702</u>

See accompanying notes to the financial statements.

INTEGRATED SEWER SYSTEM • COUNTY OF FAIRFAX, VIRGINIA
STATEMENT OF CASH FLOWS
For the Fiscal Year Ended June 30, 2016

	2016
Cash flows from operating activities:	
Receipts from customers and users	\$ 190,500,258
Payments to employees	(30,227,057)
Payments to suppliers and contractors	(61,806,310)
Net cash provided by operating activities	98,466,891
Cash flows from capital and related financing activities:	
Capital grants received	1,958,258
Increase in contracts payable	(652,656)
Availability charges received	14,681,449
Principal payments on revenue bonds	(23,070,090)
Interest payments on revenue bonds	(24,046,214)
Revenue/Refunding bonds issued, including premium	189,232,620
Escrow for refunded bonds	(195,592,351)
Payment of bond issuance costs	(605,018)
Purchases of capital assets, other than purchased capacity	(45,510,941)
Acquisition of purchased capacity	(57,741,053)
Proceeds from the sale of capital assets	54,778
Net cash used by capital and financing activities	(141,291,218)
Cash flows from investing activities:	
Sales of restricted investments	30,173,688
Purchases of restricted investments	(24,151,061)
Interest received	1,171,305
Net cash used by investing activities	7,193,932
Net decrease in cash and cash equivalents	(35,630,395)
Cash and cash equivalents at beginning of year	129,570,262
Cash and cash equivalents at end of year	\$ 93,939,867
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 36,890,293
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation and amortization	61,090,693
Changes in assets and liabilities:	
Decrease in intergovernmental receivables	66,459
Increase in inventories and other assets	369,962
Increase in accounts payable and accrued liabilities	49,484
Total adjustments	61,576,598
Net cash provided by operating activities	\$ 98,466,891
Noncash investing, capital, and financing activities:	
Capital contributions - from developers	\$ 2,640,181
Net decrease in long-term debt resulting from the issuance of loans/revenue bonds by UOSA	(1,095,241)
Loss on disposal from reduction to purchase capacity	8,381,991
Increase in fair value of investments not classified as cash and cash equivalents	6,268

FAIRFAX COUNTY WASTEWATER MANAGEMENT



Quality of Water = Quality of Life

INTEGRATED SEWER SYSTEM ▪ COUNTY OF FAIRFAX, VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016

(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 over 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).

These financial statements are only of the operations of the System and are not intended to present the financial position, changes in financial position, or, where applicable, cash flows of the County.

(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, bond issue costs, gain (loss) on disposal of capital assets, investment earnings and interest on outstanding debt.

(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 in addition to a base charge, which is determined by meter size. 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.

In fiscal year 2015, a payment plan for an availability charge was established with a customer. This payment arrangement necessitated presenting the accounts receivables due beyond one year, as a long-term receivable.

(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 Statement 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 unless otherwise noted.

(k) Inventories

Inventories are carried at cost 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 with a useful life of more than one year are capitalized and recorded at cost. Contributed capital assets are recorded at their estimated acquisition 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). The net pension liability and associated deferred outflows of resources and deferred inflows of resources are reported with a one year lag when compared with the fiduciary net position as reported by the retirement system. Employer contributions to the plan during the current fiscal year are reflected as a deferred outflow of resources which will impact the net pension liability of the subsequent year. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Detailed information about the retirement plan is found in Note 6.

(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, 2016, the System accrued \$2,231,568 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 9). 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 year 2016, Fairfax Water collected approximately \$180.4 million on behalf of the System. As of June 30, 2016, the System has receivables of approximately \$40.7 million due from Fairfax Water and \$8.1 million due from other governmental entities.

(3) DEPOSITS AND 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.

(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 counter party 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 low risk 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 Watchlist or S&P's 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 was 189.0, as of June 30, 2016. The County's portfolio, as of June 30, 2016, consisted of investments with credit quality ratings shown below:

AA	A-1	AAA-m	Aaf/S1	Unrated	Total
10.6	60.9	2.2	4.2	22.1	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:

U.S. Treasury Securities & Agencies	100%	maximum
Banker's Acceptances	40%	maximum
Negotiable CD's & Bank Deposit Notes	40%	maximum
Non-Negotiable Certificates of Deposit	40%	maximum
Insured Certificates of Deposits	40%	maximum
Commerical Paper	35%	maximum
Repurchase Agreements	30%	maximum
Mutual Funds	30%	maximum
Collateralized Deposit Account	30%	maximum
Insured Deposit Account	30%	maximum
Corporate Notes	25%	maximum
Virginia Investment Pool	10%	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 counter party, 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 collateralized, or registered, or are securities held by 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, 2016.

(e) Fair Value Measurement

The reporting entity's pooled investments are reported at fair value, except for money market funds and investments that have a remaining maturity at the time of purchase of one year or less. These are carried at amortized cost, which approximates fair value. The fair value of all investments is determined annually and is based on current market prices. The reporting entry categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principals. The hierarchy is based on the source and type of information used to determine the fair value of the asset. Level 1 information is quoted prices in accessible active markets, Level 2 would be utilized information that is observable, either directly or indirectly from a source other than an active market, and Level 3 includes unobservable information to arrive at the valuation. The System has the following investments as of June 30, 2016, reported below at fair value using quoted prices in an active market for identical assets (level 1 inputs):

	2016
U.S. Treasury and Agency Securities at Fair Value	\$ 18,807,241
Total	<u>\$ 18,807,241</u>

(4) RESTRICTED ASSETS AND RESTRICTED NET POSITION

As of June 30, 2016, the System had restricted cash and investments of \$98,966,454 for certain 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 position as of June 30, 2016, are as follows:

	2016
Assets are restricted for:	
Extensions and improvements	<u>\$ 63,336,275</u>
Long-term debt service requirements:	
Sewer revenue bonds:	
Series 2009, 2012, 2014 & 2016a	19,138,059
Subordinated sewer revenue bonds:	
2001 VRA	2,698,281
2002 VRA	<u>3,276,611</u>
Total long-term debt service requirements	<u>25,112,951</u>
Current debt service requirements	<u>10,517,228</u>
Total restricted assets	98,966,454
Less related debt	
Long-Term debt service requirement	(25,112,950)
Total restricted net position	<u>\$ 73,853,504</u>

(5) CAPITAL ASSETS

Changes in capital assets for the year ended June 30, 2016 is as follows:

	Balances June 30, 2015	Increases	Decreases	Balances June 30, 2016
Capital assets:				
Non-depreciable:				
Land	\$ 17,407,323	\$ -	\$ -	\$ 17,407,323
Easement	455,229	46,458	-	501,687
Construction in progress	102,977,703	21,356,606	(66,592,504)	57,741,805
Depreciable/amortizable:				
Buildings	88,413,980	-		88,413,980
Improvements and sewer lines	1,159,924,154	91,693,443	(164,193)	1,251,453,404
Equipment	14,114,685	1,283,973	(791,384)	14,607,274
Purchased capacity	984,100,135	57,707,389	(8,597,593)	1,033,209,931
Total capital assets	<u>\$ 2,367,393,209</u>	<u>\$ 172,087,869</u>	<u>\$ (76,145,674)</u>	<u>\$ 2,463,335,404</u>
Accumulated depreciation/amortization for:				
Buildings	(43,489,593)	(2,123,803)	-	(45,613,396)
Improvements and sewer lines	(542,792,713)	(28,047,213)	14,419	(570,825,507)
Equipment	(9,112,658)	(1,241,252)	776,965	(9,576,945)
Purchased capacity	(315,078,669)	(29,678,425)	215,602	(344,541,492)
Total accumulated depreciation/ amortization	<u>\$ (910,473,633)</u>	<u>(61,090,693)</u>	<u>1,006,986</u>	<u>(970,557,340)</u>
Total capital assets, net	<u>\$ 1,456,919,576</u>	<u>\$ 110,997,176</u>	<u>\$ (75,138,688)</u>	<u>\$ 1,492,778,064</u>

Changes in purchased capacity, net of accumulated amortization, for the year ended June 30, 2016, in relation to each jurisdiction, are detailed as follows:

	Balances June 30, 2015	Additions	Amortization (net of disposals)	Balances June 30, 2016
Purchased capacity, net:				
Blue Plains	\$ 192,942,485	\$ 19,099,342	\$ (14,994,276)	\$ 197,047,551
UOSA	192,443,115	13,998,108	(11,232,050)	195,209,173
Alexandria Renew Enterprises	224,369,485	24,599,831	(9,487,044)	239,482,272
Arlington County	41,234,991	10,108	(1,641,839)	39,603,260
Prince William County Service Authority	486,400	-	(30,400)	456,000
Loudoun Water	17,544,990	-	(674,807)	16,870,183
Total purchased capacity, net	<u>\$ 669,021,466</u>	<u>\$ 57,707,389</u>	<u>\$ (38,060,416)</u>	<u>\$ 688,668,439</u>

(6) RETIREMENT PLAN

(a) Plan Description

Employees of the System are provided with pensions through the Fairfax County Employees' Retirement System (ERS), a single-employer defined benefit pension plan which covers full-time and certain part-time employees of Fairfax County and component units of the County, who are not covered by other plans of the County or the Virginia Retirement System.

(b) Benefits Provided

Benefit provisions are established and may be amended by County ordinances. All benefits vest at five years of creditable service. Members who were hired before January 1, 2013 may elect to join Plan A or Plan B, and members who were hired on or after January 1, 2013 may elect to join Plan C or Plan D. 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, (b) for Plans A and B, attain the age of 50 with age plus years of creditable service being greater than or equal to 80, or (c) for Plans C and D, attain the age of 55 with age plus years of service being greater than or equal to 85. 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. The 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. Those who commenced employment on or after January 1, 2013, may not use more than 2,080 hours of accrued sick leave toward service credit for retirement or DROP entry. The benefit for early retirement is actuarially reduced and payable at early termination.

Effective July 1, 2005, a Deferred Retirement Option Program (DROP) was established for eligible members of the ERS. Members who are eligible for normal service retirement are eligible to participate in this program. DROP provides the ability for an employee to retire for purposes of the pension plan, while continuing to work and receive a salary for a period of three years. During the DROP period, the pension plan accumulates the accrued monthly benefit into an account balance identified as belonging to the member. The account balance is credited with interest in the amount of 5.0% per annum, compounded monthly. The monthly benefit is calculated using service and final compensation as of the date of entry in DROP, with increases equal to the annual cost-of-living adjustment provided for retirees.

(c) Funding Policy

All contribution requirements for ERS are established and may be amended by County ordinances, including member contribution rates. Plan A and Plan C require member contributions of 4.00 percent of compensation up to the Social Security wage base and 5.33 percent of compensation in excess of the wage base. Plan B and Plan D require member contributions of 5.33 percent of compensation.

The County is required to contribute at an actuarially determined rate; the rate for the year ended June 30, 2016, was 20.18 percent of annual covered payroll. In the event the ERS's funded ratio (the ratio of the actuarial value of assets to the actuarial accrued liability) exceeds 120.00 percent or falls below 90.00 percent, the contribution rate will be adjusted to bring the funded ratio back within these parameters. The employer contribution made in the current fiscal year is \$3,323,979.

(d) Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2016, the System reported a liability of \$26,649,164 for its proportionate share of the net pension liability. The net pension liability was determined based on an actuarial valuation as of June 30, 2014, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2015. At June 30, 2015, the System's proportion was 2.07 percent, a decrease of 0.03 percent from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the System recognized pension expense of \$2,389,548. At June 30, 2016, the System's reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 142,812
Net difference between projected and actual earnings on pension plan investments	1,353,916	-
Change in proportion applicable to System	-	1,071,820
System contributions subsequent to the measurement date	3,323,979	-
Total	<u>\$ 4,677,895</u>	<u>\$ 1,214,632</u>

\$3,323,979 reported as deferred outflows of resources related to pensions resulting from the System contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

2017	\$ (278,172)
2018	(278,172)
2019	(278,172)
2020	973,800
Total	<u>\$ 139,284</u>

(e) Actuarial Assumptions

The reported total pension liability (TPL) was determined as part of the July 1, 2014 actuarial valuation using the entry age actuarial cost method and rolled forward to the measurement date of June 30, 2015. Significant actuarial assumptions used in the valuation include the following, found on the next page:

Actuarial Assumptions

Inflation	3.0%
Salary increases, including inflation	3.0% + merit
Investment rate of return, net of plan investment expenses	7.5%
Projected period of unfunded benefit payments	None
Municipal bond rate	N/A
Mortality	Sex Distinct RP-2000
Combined Mortality projected to 2015 using Scale AA	

The actuarial assumptions used in the July 1, 2014 valuation were based on the results of an actuarial experience study for the period July 1, 2005 to June 30, 2010.

The long term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Best estimates of arithmetic real rates of return for each major asset class included in the ERS's target asset allocation as of June 30, 2015, are summarized below:

Long Term Expected Rate of Return/ Target Allocation

Asset Class	Long Term Expected Real Rate of Return	Target Allocation*
U.S. Equities	4.5%	20.0%
International Equities	5.1%	10.0%
Core Fixed Income	2.0%	73.0%
High Yield	3.2%	7.5%
Absolute Return	6.0%	20.0%
Real Estate	5.3%	7.5%
Commodity	4.5%	5.0%

*Target totals may exceed 100% due to futures and other derivatives

(f) Discount Rate

The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that County contributions will be made according to the County's stated policy. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the

long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. A schedule of funding progress can be found in the required supplementary information section of the report.

(g) Sensitivity of the System's proportionate share of the net pension liability to changes in the discount rate

The following presents the System's proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the System's share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate:

Sensitivity of Net Pension Liability to Changes in Discount Rate

	1% Decrease 6.5%	Current Discount Rate 7.5%	1% Increase 8.5%
Total Pension Liability	\$ 117,452,934	\$ 103,168,147	\$ 91,502,898
Plan Fiduciary Net Position	76,518,983	76,518,983	76,518,983
Net Pension Liability	<u>\$ 40,933,951</u>	<u>\$ 26,649,164</u>	<u>\$ 14,983,915</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	65.1%	74.2%	83.6%

(h) Pension Plan Fiduciary Net Position

The retirement system is considered a part of the County's reporting entity and the system's financial statements are included in the County's basic financial statements as a trust fund.

Information concerning ERS as a whole, including pension plan's fiduciary net position, is available in the County CAFR for the fiscal year ended June 30, 2016. Additionally, the ERS issues a publicly available annual financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the Employees' Retirement System, 10680 Main Street, Suite 280, Fairfax, Virginia 22030, or by calling (703) 279-8200.

(7) 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 year ended June 30, 2016 was approximately \$769,000. Additional information regarding these programs is available in the County's CAFR for the year ended June 30, 2016.

(8) LONG-TERM LIABILITIES

The following is a summary of the changes in the System's long-term liabilities for the fiscal year ended June 30, 2016:

	Balances June 30, 2015	Increases	Decreases	Balances June 30, 2016	Current Portions
Compensated absences	\$ 2,262,029	\$ 1,435,881	\$ (1,466,342)	\$ 2,231,568	\$ 1,419,190
Sewer Refunding Revenue Bonds - 2014 Series	61,755,000	-	(3,175,000)	58,580,000	3,275,000
Sewer Revenue Bonds - 2012 Series	87,795,000	-	(48,250,000)	39,545,000	1,600,000
Sewer Revenue Bonds - 2009 Series	139,415,000	-	(126,015,000)	13,400,000	3,105,000
Sewer Refunding Revenue Bonds - 2016a Series	-	164,450,000	-	164,450,000	-
Premium on Sewer Refunding Revenue Bonds (net)	27,063,723	24,782,620	(14,166,434)	37,679,909	1,798,082
Subordinated Revenue Bonds - 2001	15,534,615	-	(2,440,268)	13,094,347	2,528,321
Subordinated Revenue Bonds - 2002	21,906,079	-	(2,914,428)	18,991,651	3,028,595
Subordinated UOSA Revenue Bonds	265,680,629	-	(11,155,635)	254,524,994	10,416,579
	<u>\$ 621,412,075</u>	<u>\$ 190,668,501</u>	<u>\$ (209,583,107)</u>	<u>\$ 602,497,469</u>	<u>\$ 27,170,767</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. Pursuant to the Resolution, the System is required to maintain a reserve equal to the lesser of (i) the maximum principal and interest requirements of the outstanding bonds for any bond year and (ii) 125% of the average annual principal and interest for any bond year. 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 October 14, 2004, the System issued \$94,005,000 of Sewer Revenue Refunding Bonds (the Series 2004 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%. The Net proceeds were used to redeem the Series 1996 Bonds on July 15, 2006.

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. 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% 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.

On April 16, 2014, the System took advantage of lower market interest rates and issued \$61,755,000 of Sewer Revenue Refunding Bonds (the Series 2014 Bonds) with an average interest rate of 4.14% to refund \$69,745,000 of the outstanding Series 2004 Bonds with an average interest rate of 4.61%. The net proceeds were used to redeem the Series 2004 Bonds on July 15, 2014. This refinancing resulted in a net deferred loss of \$4,045,945 which will be amortized over 15 years. This refunding resulted in an aggregate decrease in the overall debt service of \$15,461,166.

On May 12, 2016, due to lower market interest rates, the System issued \$164,450,000 of Sewer Revenue Refunding Bonds (Series 2016a) with an average rate of 3.92% to refund \$123,065,000 of outstanding Series 2009 Bonds with an average interest rate of 5.00% and to refund \$46,720,000 of outstanding Series 2012 Bond with an average interest rate of 4.50%. This resulted in a net deferred loss of \$12,406,377 with a remaining outstanding amount of \$13,400,000 of unrefunded S2009 Bonds and \$39,545,000 of unrefunded S2012 bonds. This loss will be amortized over 24 years. The System will use the proceeds of the 2016a bonds to provide the redemption of the refunded bonds. This refunding resulted in an aggregate decrease in the overall debt service of \$35,116,418.

The outstanding bonds as of June 30, 2016, consist of \$13,400,000, \$39,545,000, \$58,580,000 and \$164,450,000 of Series 2009 Revenue Refunding Bonds, Series 2012 Revenue Refunding Bonds, Series 2014 Revenue Bonds, and Series 2016a Revenue Refunding Bonds respectively, that bear interest at varying rates and mature in varying amounts. The detail is as follows on the next page:

Fiscal Year	Series 2009			Series 2012			Series 2014			Series 2016a		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2017	3,105,000	592,375	3,697,375	1,600,000	1,794,125	3,394,125	3,275,000	2,432,375	5,707,375	-	4,520,597	4,520,597
2018	3,260,000	433,250	3,693,250	1,680,000	1,712,125	3,392,125	3,425,000	2,297,625	5,722,625	-	6,697,181	6,697,181
2019	3,430,000	266,000	3,696,000	1,770,000	1,625,875	3,395,875	3,610,000	2,121,750	5,731,750	-	6,697,181	6,697,181
2020	3,605,000	90,125	3,695,125	1,860,000	1,535,125	3,395,125	3,830,000	1,935,750	5,765,750	-	6,697,181	6,697,181
2021	-	-	-	1,955,000	1,439,750	3,394,750	4,035,000	1,739,125	5,774,125	3,815,000	6,639,956	10,454,956
2022	-	-	-	2,055,000	1,339,500	3,394,500	4,255,000	1,531,875	5,786,875	3,950,000	6,503,731	10,453,731
2023	-	-	-	-	1,288,125	1,288,125	4,485,000	1,313,375	5,798,375	6,290,000	6,267,481	12,557,481
2024	-	-	-	-	1,288,125	1,288,125	4,735,000	1,082,875	5,817,875	6,615,000	5,944,856	12,559,856
2025	-	-	-	-	1,288,125	1,288,125	4,995,000	839,625	5,834,625	6,950,000	5,605,731	12,555,731
2026	-	-	-	-	1,288,125	1,288,125	5,205,000	636,675	5,841,675	7,310,000	5,249,231	12,559,231
2027	-	-	-	-	1,288,125	1,288,125	5,390,000	477,750	5,867,750	7,685,000	4,874,356	12,559,356
2028	-	-	-	-	1,288,125	1,288,125	5,570,000	299,425	5,869,425	8,035,000	4,521,856	12,556,856
2029	-	-	-	-	1,288,125	1,288,125	5,770,000	100,975	5,870,975	8,325,000	4,236,606	12,561,606
2030	-	-	-	-	1,288,125	1,288,125	-	-	-	8,660,000	3,895,231	12,555,231
2031	-	-	-	-	1,288,125	1,288,125	-	-	-	9,105,000	3,451,106	12,556,106
2032	-	-	-	-	1,288,125	1,288,125	-	-	-	9,570,000	2,984,231	12,554,231
2033	-	-	-	-	1,288,125	1,288,125	-	-	-	10,015,000	2,544,681	12,559,681
2034	-	-	-	-	1,288,125	1,288,125	-	-	-	10,380,000	2,175,706	12,555,706
2035	-	-	-	-	1,288,125	1,288,125	-	-	-	10,735,000	1,825,878	12,560,878
2036	-	-	-	-	1,288,125	1,288,125	-	-	-	11,100,000	1,457,412	12,557,412
2037	-	-	-	4,150,000	1,194,750	5,344,750	-	-	-	7,360,000	1,141,300	8,501,300
2038	-	-	-	4,340,000	1,003,725	5,343,725	-	-	-	7,645,000	859,600	8,504,600
2039	-	-	-	4,540,000	803,925	5,343,925	-	-	-	7,955,000	547,600	8,502,600
2040	-	-	-	-	701,775	701,775	-	-	-	12,950,000	194,250	13,144,250
2041	-	-	-	4,965,000	590,063	5,555,063	-	-	-	-	-	-
2042	-	-	-	5,195,000	361,463	5,556,463	-	-	-	-	-	-
2043	-	-	-	5,435,000	122,288	5,557,288	-	-	-	-	-	-
Total	13,400,000	1,381,750	14,781,750	39,545,000	32,258,239	71,803,239	58,580,000	16,809,200	75,389,200	164,450,000	95,532,940	259,982,940

(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. In September 2012, the System executed a rate reduction agreement with VRA reducing the interest rates on these bonds from 4.10% and 3.75% per annum, respectively, to 2.35% per annum and the required semi-annual debt service payments from \$1,499,642 and \$1,818,894, respectively to \$1,395,539 and \$1,706,099, respectively. The rate reduction agreement resulted in interest savings of \$1,769,745 and \$2,143,099, respectively.

In May 2016, the System executed a rate reduction agreement with VRA reducing the interest rate of the VRA 2001 and VRA 2002 bonds from 2.35% per annum to 0.95%. This reduced the semi-annual debt service payments from \$1,395,539 and \$1,706,099 respectively to \$1,349,141 and \$1,638,306, respectively. This rate reduction resulted in an aggregate decrease in the VRA 2001 and VRA2002 debt service of \$463,990 and \$813,525, 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, 2016, the principal and interest payment schedule for the 2001 and 2002 subordinated revenue bonds is as follows on the next page:

Fiscal Year	2001 Subordinated Revenue Bonds			2002 Subordinated Revenue Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2017	2,528,322	169,959	2,698,281	3,028,595	248,016	3,276,611
2018	2,604,074	94,207	2,698,281	3,132,384	144,227	3,276,611
2019	2,628,871	69,410	2,698,281	3,162,212	114,399	3,276,611
2020	2,653,904	44,376	2,698,280	3,192,324	84,286	3,276,610
2021	2,679,176	19,105	2,698,281	3,222,724	53,888	3,276,612
2022	-	-	-	3,253,412	23,199	3,276,611
Total	13,094,347	397,057	13,491,404	18,991,651	668,015	19,659,666

(c) Upper Occoquan Sewage Authority (UOSA) Debt

In January 1995, UOSA, a joint venture, 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 fiscal year 2012, UOSA entered into VRA loans 2011A and 2011B to fund costs related to the Energy Service (ESCO) project and Phase 1 of the Nutrient Compliance Improvement Project (P1NR), respectively. In fiscal year 2013, UOSA issued \$101,615,000 of Regional Sewer System Revenue Refunding Bonds of which the System's share is \$65,555,566, to refund the outstanding Series 2005 Bonds reducing total debt service payments over future years by approximate \$4.9 million.

In fiscal year 2014, UOSA issued \$37,735,000 of Regional Sewer System Revenue Refunding Bonds of which the System's share is \$23,911,671, to refund the outstanding Series 2003 Bonds. Although the refunding resulted in an accounting loss of \$2,520,436 which is being amortized over the life of the Series 2013B Bonds, the System reduced total interest payments over future years by approximately \$2.1 million.

In fiscal year 2015, UOSA refinanced a portion of Bond Series 2007. Of the \$112,190,980 balance, \$93,175,291 was refunded into Series 2014. This resulted in a gain of \$2,029,199 which will be amortized over 24 years. This refunding resulted in an aggregate decrease in the overall debt service of \$6,359,186.

In fiscal year 2016, UOSA refinanced Bond Series 2007b. The entire remaining principal of \$19,015,689 was refunded into Series 2016b. This resulted in a gain of \$533,782 which will be amortized over 22 years. This refunding resulted in an aggregate decrease in the overall debt service of \$4,676,694. The System's share of UOSA's total outstanding debt is \$254,524,994 and it is subordinate to the Sewer Revenue Bonds issued by the System.

As of June 30, 2016, the System is obligated to fund its proportionate share of outstanding UOSA Regional Sewer System Revenue and Refunding Bonds, as follows:

UOSA			
Fiscal Year	Principal	Interest	Total
2017	10,416,579	9,420,926	19,837,505
2018	10,800,089	9,009,753	19,809,842
2019	11,199,942	8,607,041	19,806,983
2020	11,624,600	8,183,681	19,808,281
2021	11,724,527	7,737,607	19,462,134
2022	14,953,937	7,494,650	22,448,587
2023	12,855,396	7,160,071	20,015,467
2024	13,177,083	6,838,778	20,015,861
2025	13,533,281	6,484,784	20,018,065
2026	21,205,587	6,108,084	27,313,671
2027	15,427,838	5,210,197	20,638,035
2028	16,169,466	4,465,055	20,634,521
2029	16,954,087	3,682,941	20,637,028
2030	5,082,504	2,861,726	7,944,230
2031	5,280,397	2,669,155	7,949,552
2032	5,476,339	2,467,848	7,944,187
2033	5,609,406	2,258,985	7,868,391
2034	5,568,983	2,045,421	7,614,404
2035	5,705,235	1,830,961	7,536,196
2036	5,926,466	1,606,300	7,532,766
2037	6,160,962	1,372,920	7,533,882
2038	6,406,219	1,127,936	7,534,155
2039	6,682,507	922,161	7,604,668
2040	6,947,535	656,430	7,603,965
2041	6,047,653	380,159	6,427,812
2042	1,760,147	139,947	1,900,094
2043	1,828,229	71,301	1,899,530
Total	254,524,994	110,814,820	365,339,814

(9) 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.

A new construction program to build enhanced nutrient removal facilities has been initiated. The System paid ARE \$24,599,831 for purchased capacity in fiscal year 2016 to fund its share of the construction and land acquisition costs. The System estimates its share of the remaining construction costs to be \$143,298,000, of which \$19,891,000 is expected to be incurred in fiscal year 2017 and the balance over fiscal years 2018 to 2026. In addition, the System made total payments of \$11,590,585 to ARE during fiscal year 2016 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 2012 Blue Plains Intermunicipal Agreement (2012 IMA), which replaced the 1985 IMA, between the County; the District; the District of Columbia Water and Sewer Authority (DC Water); 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 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 nitrogen removal facilities along with the construction of new wet weather flow facilities. The System paid DC Water \$19,099,342 for purchased capacity in fiscal year 2016 and to fund its share of construction costs; the System estimates its share of the remaining construction costs to be \$79,221,000, of which \$16,535,000 is expected to be incurred in fiscal year 2017 and the balance over fiscal years 2018 to 2026. In addition, the System made total payments of \$12,800,588 to DC Water during fiscal year 2016, 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. There are no ongoing construction costs for UOSA and the System paid UOSA \$14,559,567 for purchased capacity in fiscal year 2016 to fund its share of construction cost. In addition, the System made total payments to UOSA of \$13,472,493 in fiscal year 2016 to pay its share of UOSA's operating costs.

Summarized UOSA financial information as of and for the year ended June 30, 2015, (the most recent available audited financial information) is shown below:

	2015
Total assets	\$ 600,486,380
Deferred outflows of resources	23,659,227
Total liabilities	(552,565,390)
Deferred inflows of resources	<u>(2,660,211)</u>
Net position	<u>\$ 68,920,006</u>
Operating revenues	\$ 28,504,352
Operating expenses	(55,155,801)
Nonoperating revenues, net	2,353,974
Capital contributions	<u>16,102,978</u>
Decrease in net position	<u>\$ (8,194,497)</u>

The complete financial statements for UOSA can be obtained by writing to UOSA at 14631 Compton Road, Centreville, Virginia 20121.

(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 has recently completed a major upgrade to meet new water quality standards. The System paid Arlington \$10,108 for purchased capacity in fiscal year 2016 to fund its share of the construction costs; the System estimates its share of the remaining construction costs to be \$17,462,000, of which \$724,000 is expected to be incurred in fiscal year 2017 and the balance over fiscal years 2018 to 2026. In addition, the System made total payments of \$2,012,313 to Arlington during fiscal year 2016 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 happened to date and is not expected to start in fiscal year 2017. 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, 2016, the System had contractual commitments of approximately \$32,571,000 for construction of various sewer projects, excluding the ARE, District, UOSA, 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.

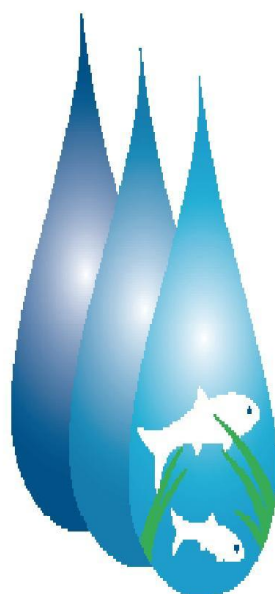
(10) RISK MANAGEMENT

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, 2016.

(11) Implementation of New Accounting Procedures

In the fiscal year 2016, the System implemented the new pronouncements GASB Statement No. 72 *Fair Value Measurement and Application*, GASB Statement No. 76 *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, and Statement No. 79 *Certain External Investment Pools and Pool Participants*. The implementation of these new standards did not have a material impact on the System's financial statements for fiscal year 2016.

FAIRFAX COUNTY WASTEWATER MANAGEMENT



Quality of Water = Quality of Life

INTEGRATED SEWER SYSTEM • COUNTY OF FAIRFAX, VIRGINIA
REQUIRED SUPPLEMENTARY INFORMATION (unaudited)

1.0 SUPPLEMENTAL PENSION INFORMATION

Tables indicating the System's proportionate share of the Net Pension Liability and a schedule of the System's contributions.

TABLE 1.1

Schedule of the Proportionate Share of the Net Pension Liability		
ERS Pension Plan		
Last 10 Fiscal Years*		
	2015	2016
System's proportion of the net pension liability (asset)	2.1040%	2.0718%
System's proportion share of the net pension liability	21,919,467	26,649,164
System's covered-employee payroll	14,130,410	14,239,455
System's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	155.12%	187.15%
Plan fiduciary net position as a percentage of the total pension liability	78.30%	74.20%

(The amounts presented for each fiscal year were determined as of 6/30, year shown is Fiscal Year of presentation.)

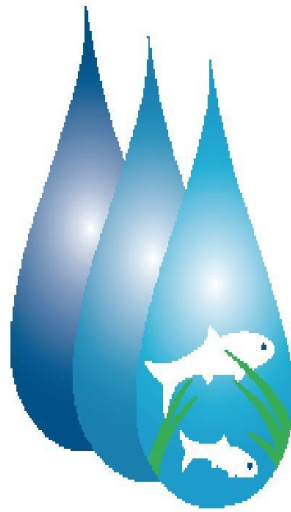
* The schedule is intended to show information for 10 years.
2015 is first year implemented, additional years will be displayed as they become available.

TABLE 1.2

Schedule of Contributions					
ERS Pension Plan					
Last 10 Fiscal Years*					
	Actuarial Determined Contribution	Contributions in Relation to the Actuarial Determined Contribution	Contribution Deficiency (Excess)	System's Covered Employee Payroll	Contributions as a Percentage of Covered Payroll
2016	\$ 3,323,979	3,323,979	-	15,115,867	21.99 %
2015	\$ 2,869,250	2,869,250	-	14,239,455	20.15
2014	2,727,132	2,727,132	-	14,130,410	19.30

* The schedule is intended to show information for 10 years. 2015 is first year implemented, additional

FAIRFAX COUNTY WASTEWATER MANAGEMENT



Quality of Water = Quality of Life

FAIRFAX COUNTY WASTEWATER MANAGEMENT



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STATISTICAL SECTION

**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 POSITION BY COMPONENT (a) - LAST TEN FISCAL YEARS

	Fiscal Year				
	2016	2015	Restated (a) 2014	2013	Restated (a) 2012
Net investment in capital assets	\$ 940,641,576	\$ 892,414,328	\$ 843,276,715	\$ 778,825,722	\$ 769,135,097
Restricted	73,853,503	66,038,662	43,116,468	44,113,954	51,055,374
Unrestricted	38,417,623	66,651,531	100,358,086	147,119,567	116,578,189
Total net position	\$1,052,912,702	\$ 1,025,104,521	\$ 986,751,269	\$ 970,059,243	\$ 936,768,660

	Fiscal Year				
	2011	2010	2009	2008	2007
Net investment in capital assets	\$ 722,703,848	\$ 748,697,093	\$ 757,858,955	\$ 757,799,128	\$ 789,479,735
Restricted	93,427,366	44,371,666	35,945,622	28,251,270	46,489,817
Unrestricted	81,180,178	76,855,173	84,277,881	109,530,192	61,756,541
Total net position	\$ 897,311,392	\$ 869,923,932	\$ 878,082,458	\$ 895,580,590	\$ 897,726,093

Source: Fairfax County Wastewater Management Program

Notes:

- (a) Certain amounts for fiscal years 2012 and 2014 have been reclassified and/or adjusted for comparability and/or retroactively reflect accounting changes made during this period. 2012 was related to GASB 65 and 2014 was related to GASB 68.

Unaudited - see accompanying accountants' report.



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

	Fiscal Year				
	2016	2015	2014	2013	2012
Operating revenues:					
Sales of service	\$ 190,433,799	\$ 187,538,854	\$ 188,168,475	\$ 173,553,631	\$ 159,957,639
Operating expenses:					
Personnel services	29,532,231	26,416,320	27,576,508	25,607,805	24,735,872
Materials and supplies	15,409,135	14,063,157	15,635,981	13,238,456	13,974,834
Contractual services	46,873,730	51,342,024	47,658,923	47,167,159	46,236,052
Depreciation and amortization	61,090,693	58,046,612	55,558,575	54,358,299	52,429,103
Professional fees and other	637,717	490,055	240,007	427,705	508,080
Total operating expenses	153,543,506	150,358,168	146,669,994	140,799,424	137,883,941
Operating income (loss)	36,890,293	37,180,686	41,498,481	32,754,207	22,073,698
Nonoperating revenues (expenses):					
Availability charges	14,681,449	21,689,013	24,007,197	20,477,318	28,959,575
Investment earnings	1,171,307	780,354	484,332	1,409,377	521,755
Interest expense	(20,601,532)	(23,677,340)	(26,960,382)	(28,052,165)	(25,227,137)
Amortization of bond issuance costs	(605,018)	-	(343,229)	(699,561)	(1,083,241)
Amortization of deferred amounts on refundings	-	(945,079)	(994,404)	151,242	229,931
Gain (loss) on disposal of capital assets	(8,326,757)	48,459	122,334	187,421	8,481
Total nonoperating revenues (expenses)	(13,680,551)	(2,104,593)	(3,684,152)	(6,526,368)	3,409,364
Loss before contributions and special item	23,209,742	35,076,093	37,814,329	26,227,839	25,483,062
Capital contributions:					
Grants from the Commonwealth	1,958,258	900,914	591,814	1,107,952	10,270,459
Federal Stimulus	-	-	-	-	-
From Fairfax County	-	-	-	-	-
From developers	2,640,181	2,376,245	3,482,762	5,954,792	3,703,747
Special items:					
Gain on sale of purchased capacity	-	-	-	-	-
Change in net position	\$ 27,808,181	\$ 38,353,252	\$ 41,888,905	\$ 33,290,583	\$ 39,457,268

Source: Fairfax County Wastewater Management Program

Notes:

- (a) Certain amounts for fiscal year 2012 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				
	2011	2010	2009	2008	2007
Operating revenues:					
Sales of service	\$ 142,929,404	\$ 126,681,734	\$ 108,723,096	\$ 100,297,089	\$ 95,943,712
Operating expenses:					
Personnel services	24,162,541	23,131,023	22,907,919	21,569,257	20,542,951
Materials and supplies	11,429,228	11,636,425	13,774,422	11,975,303	11,464,005
Contractual services	48,655,804	47,468,305	47,861,675	45,869,419	41,209,777
Depreciation and amortization	47,130,698	46,680,568	45,575,080	45,701,515	45,846,313
Professional fees and other	509,330	876,238	762,872	456,078	446,152
Total operating expenses	131,887,601	129,792,559	130,881,968	125,571,572	119,509,198
Operating income (loss)	11,041,803	(3,110,825)	(22,158,872)	(25,274,483)	(23,565,486)
Nonoperating revenues (expenses):					
Availability charges	11,189,312	10,668,539	11,461,530	13,909,729	19,513,484
Investment earnings	1,084,587	1,303,897	2,301,005	5,127,079	5,825,962
Interest expense	(25,300,800)	(25,929,969)	(18,309,964)	(17,224,651)	(17,650,673)
Amortization of bond issuance costs	(45,476)	(45,476)	(18,729)	(16,294)	(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	14,748	47,503	46,048	60,674	31,481
Total nonoperating revenues (expenses)	(12,827,698)	(13,725,575)	(4,290,179)	2,086,468	7,933,891
Loss before contributions and special item	(1,785,895)	(16,836,400)	(26,449,051)	(23,188,015)	(15,631,595)
Capital contributions:					
Grants from the Commonwealth	3,700,000	4,100,498	-	253,030	351,247
Federal Stimulus	4,525,425	1,974,575	-	-	-
From County	-	78,301	-	-	-
From developers	4,160,045	2,524,500	8,950,919	9,834,910	7,785,903
Special items:					
Cost of Purchased Capacity disposed	16,787,885	-	-	10,954,572	-
Change in net position	\$ 27,387,460	\$ (8,158,526)	\$ (17,498,132)	\$ (2,145,503)	\$ (7,494,445)

Unaudited - see accompanying accountants' report.

TABLE 1.3 - OPERATING REVENUES DETAIL - LAST TEN FISCAL YEARS

	Fiscal Year				
	2016	2015	2014	2013	2012
Sewer service:					
County connections	\$ 180,554,128	\$ 176,558,827	\$ 176,471,310	\$ 163,052,021	\$ 148,891,691
City of Fairfax	2,301,634	1,667,693	2,158,338	1,702,234	3,162,214
Town of Herndon	1,034,990	3,229,858	3,758,078	2,992,525	3,193,471
Arlington County	727,823	705,557	540,121	538,464	566,991
Fort Belvoir	2,542,802	2,189,831	2,431,455	2,429,616	1,842,643
City of Falls Church	1,095,921	1,049,188	1,022,967	921,702	1,030,951
Town of Vienna	454,525	467,888	455,670	650,817	451,532
Other (a)	824,581	755,256	563,866	651,188	348,552
Other services	897,395	914,756	766,670	615,064	469,594
Total operating revenues	\$ 190,433,799	\$ 187,538,854	\$ 188,168,475	\$ 173,553,631	\$ 159,957,639

	Fiscal Year				
	2011	2010	2009	2008	2007
Sewer service:					
County connections	\$ 134,050,981	\$ 117,550,994	\$ 100,493,512	\$ 92,095,867	\$ 87,893,949
City of Fairfax	1,766,899	2,327,558	1,886,339	1,902,188	2,095,041
Town of Herndon	2,796,632	2,508,622	2,221,125	2,147,874	2,302,247
Arlington County	632,042	662,576	657,186	564,330	440,374
Fort Belvoir	1,440,178	1,617,140	1,285,825	1,245,801	1,242,398
City of Falls Church	1,055,703	887,498	1,242,233	1,166,939	1,070,659
Town of Vienna	452,817	589,075	453,261	405,636	477,315
Other (a)	390,641	296,331	293,946	290,664	242,803
Other services	343,511	241,940	189,669	477,790	178,926
Total operating revenues	\$ 142,929,404	\$ 126,681,734	\$ 108,723,096	\$ 100,297,089	\$ 95,943,712

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				
	2016	2015	2014	2013	2012
Wastewater treatment expenses (a):					
Noman M. Cole, Jr.	\$ 20,325,332	\$ 18,425,015	\$ 19,931,898	\$ 19,605,159	\$ 20,088,669
Alexandria Renew Enterprises	11,590,585	13,380,703	13,133,545	12,786,521	12,836,900
DCWASA Blue Plains	12,800,588	15,016,549	11,815,951	13,214,346	13,257,118
Upper Occoquan Sewage Authority	13,472,493	12,687,555	12,276,384	12,635,433	12,045,467
Arlington County	2,012,313	2,711,644	2,225,036	2,174,228	2,224,503
City of Falls Church Sewer	48,617	664,936			
Other (b)	533,502	1,074,445	496,374	530,959	497,634
Total wastewater treatment expenses	60,783,430	63,960,847	59,879,188	60,946,646	60,950,291
Other operating expenses:					
Pumping, collection, and inspection	16,671,232	13,512,902	13,280,579	13,759,928	13,445,481
System repairs and renovations	194,724	260,030	115,557	280,341	500,654
Planning, engineering, and monitoring support	8,387,796	8,771,586	10,240,019	5,655,443	5,305,778
Billing and bill collection	6,415,631	5,806,191	7,596,076	5,798,767	5,252,634
Depreciation and amortization	61,090,693	58,046,612	55,558,575	54,358,299	52,429,103
Total operating expenses	\$ 153,543,506	\$ 150,358,168	\$ 146,669,994	\$ 140,799,424	\$ 137,883,941

	Fiscal Year				
	2011	2010	2009	2008	2007
Wastewater treatment expenses (a):					
Noman M. Cole, Jr.	\$ 19,682,549	\$ 19,246,868	\$ 21,300,335	\$ 18,933,101	\$ 18,155,049
Alexandria Renew Enterprises	13,221,642	13,840,642	14,170,985	14,125,041	13,336,025
DCWASA Blue Plains	13,492,628	12,279,110	12,516,382	11,868,018	9,279,874
Upper Occoquan Sewage Authority	13,187,574	12,944,970	13,171,944	12,634,484	12,233,492
Arlington County	1,700,523	1,607,662	1,595,998	1,502,058	1,634,568
Other (b)	608,470	560,153	672,775	393,200	164,410
Total wastewater treatment expenses	61,893,386	60,479,405	63,428,419	59,455,902	54,803,418
Other operating expenses:					
Pumping, collection, and inspection	12,573,304	12,909,408	13,034,159	12,316,625	11,423,464
System repairs and renovations	348,716	537,236	611,624	926,450	566,103
Planning, engineering, and monitoring support	3,845,246	3,520,455	3,110,606	2,819,735	2,875,051
Billing and bill collection	6,096,251	5,665,487	5,122,080	4,351,345	3,994,849
Depreciation and amortization	47,130,698	46,680,568	45,575,080	45,701,515	45,846,313
Total operating expenses	\$ 131,887,601	\$ 129,792,559	\$ 130,881,968	\$ 125,571,572	\$ 119,509,198

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.

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 Residential Sewer Service Base Charge (d) (Per Bill)
	Single Family Residence	Townhouse/ Apartment	Commercial Fixture		
2016	\$ 7,750	6,200	401	6.62	20.15
2015	7,750	6,200	401	6.62	15.86
2014	7,750	6,200	401	6.55	12.79
2013	7,750	6,200	401	6.55	5.50
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	

Connection Charge (e) - Effective July 1, 2011, the rate was increased to \$152.50 per foot. Prior to this date, the rate was \$6.00 per foot since december 1970.

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

Treatment Plant	Fiscal Year				
	2016	2015	2014	2013	2012
Noman M. Cole, Jr.	149,667	149,344	149,172	148,734	147,998
DCWASA Blue Plains	88,701	88,325	88,139	87,841	87,551
Alexandria Renew Enterprises	68,455	68,293	68,207	68,035	67,805
Upper Occoquan Sewage Authority	49,428	49,351	49,288	49,239	49,188
Arlington County	10,688	10,675	10,664	10,650	10,644
Other (a)	372	369	368	367	357
Customer base	367,311	366,357	365,838	364,866	363,543

Treatment Plant	Fiscal Year				
	2011	2010	2009	2008	2007
Noman M. Cole, Jr.	147,478	146,810	144,407	143,900	143,040
DCWASA Blue Plains	87,406	86,575	85,937	85,197	83,874
Alexandria Renew Enterprises	67,229	67,069	66,278	65,448	65,088
Upper Occoquan Sewage Authority	49,109	48,889	48,796	48,647	48,058
Arlington County	10,639	10,623	10,445	9,947	9,917
Other (a)	348	345	342	339	334
Customer base	362,209	360,311	356,205	353,478	350,311

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

Service Class	Fiscal Year				
	2016	2015	2014	2013	2012
Residential units:					
Single family	165,113	164,418	164,021	163,266	162,671
Multi-family	96,247	96,226	96,212	96,207	96,177
Townhouse	77,722	77,549	77,469	77,301	77,019
Total residential units	339,082	338,193	337,702	336,774	335,867
Nonresidential units (a)	28,229	28,164	28,136	28,092	27,676
Total customer base	367,311	366,357	365,838	364,866	363,543

Service Class	Fiscal Year				
	2011	2010	2009	2008	2007
Residential units:					
Single family	162,264	161,777	161,271	160,681	159,907
Multi-family	95,649	95,476	94,872	94,123	93,140
Townhouse	76,885	76,811	76,698	76,532	76,329
Total residential units	334,798	334,064	332,841	331,336	329,376
Nonresidential units (a)	27,411	26,247	23,364	22,142	20,935
Total customer base	362,209	360,311	356,205	353,478	350,311

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				
	2016	2015	2014	2013	2012
Residential units:					
Single family	161	189	168	242	299
Multi-family	1,386	1,608	2,571	1,580	3,176
Townhouse	136	195	84	218	146
Total residential units	1,683	1,992	2,823	2,040	3,621
Nonresidential units (b)	12	19	571	121	559
Total sewer connections sold	1,695	2,011	3,394	2,161	4,180
Additional commercial fixture units sold	9,163	12,898	12,463	17,856	12,147

Service Class	Fiscal Year				
	2011	2010	2009	2008	2007
Residential units:					
Single family	260	290	305	321	401
Multi-family	630	704	501	1,026	1,705
Townhouse	108	96	131	146	207
Total residential units	998	1,090	937	1,493	2,313
Nonresidential units (b)	12	8	20	847	810
Total sewer connections sold	1,010	1,098	957	2,340	3,123
Additional commercial fixture units sold	11,628	10,132	11,518	13,076	20,307

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

Service Class	Fiscal Year				
	2016	2015	2014	2013	2012
Residential units:					
Single family	695	397	755	595	407
Multi-family	21	14	5	30	528
Townhouse	173	80	168	282	134
Total residential units	889	491	928	907	1,069
Nonresidential units (a)	65	28	44	416	265
Total new sewer connections	954	519	972	1,323	1,334

Service Class	Fiscal Year				
	2011	2010	2009	2008	2007
Residential units:					
Single family	487	506	590	774	1,398
Multi-family	173	604	749	983	2,935
Townhouse	74	113	166	203	451
Total residential units	734	1,223	1,505	1,960	4,784
Nonresidential units (a)	1,164	2,883	1,222	1,207	2,623
Total new sewer connections	1,898	4,106	2,727	3,167	7,407

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

Fiscal Year 2016				Fiscal Year 2007		
Name	Annual Revenues	Rank	Percentage of Total Operating Revenues	Annual Revenues	Rank	Percentage of Total Operating Revenues
INOVA Fairfax Hospital	\$ 635,606	1	0.33 %	\$ 283,133	1	0.30 %
Greenspring Village	513,035	2	0.27	270,942	2	0.28
RBDW Avant LLC	301,000	3	0.16	-	-	-
McLean Hilton Hotel Assoc.	275,254	4	0.14	80,661	10	0.08
Hyatt Regency Reston	223,877	5	0.12	108,451	6	0.11
Reston Hospital Center	207,013	6	0.11	99,305	7	0.10
Homart Development Corp.	198,340	7	0.10	-	-	-
INOVA Health Systems - Fair Oaks Hospital	147,700	8	0.08	-	-	-
Ritz-Carlton Hotel Co.	139,312	9	0.07	111,762	5	0.12
Reston Town Center Properties	130,546	10	0.07	-	-	-
Shenandoah's Pride Dairy	-	-	-	168,378	3	0.18
Tysons Corner Propety Holdings LLC	-	-	-	141,136	4	0.15
BECO Management	-	-	-	83,066	8	0.09
Rolling Fullerton	-	-	-	82,906	9	0.08
Totals	\$ 2,771,683		1.45 %	\$ 1,429,740		1.49 %

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				
	2016	2015	2014	2013	2012
Senior debt:					
2016 Sewer Revenue Bonds	\$ 189,232,620	\$ -	\$ -	\$ -	\$ -
2014 Sewer Revenue Bonds	64,786,726	68,475,386	68,989,046	-	-
2012 Sewer Revenue Bonds	45,612,953	101,522,504	103,487,772	105,418,040	-
2009 Sewer Revenue Bonds	14,022,610	146,030,833	149,111,493	152,057,153	147,430,000
2004 Sewer Revenue Refunding Bonds	-	-	3,413,434	77,950,428	79,280,000
Total senior debt	313,654,909	316,028,723	325,001,745	335,425,621	226,710,000
Subordinate debt:					
Upper Occoquan Sewage Authority Bonds	254,524,994	265,680,629	277,293,041	283,269,711	273,056,094
Virginia Resource Authority Bonds	32,085,998	37,440,694	42,671,739	47,781,987	52,487,594
Total subordinate debt	286,610,992	303,121,323	319,964,780	331,051,698	325,543,688
Total outstanding debt	\$ 600,265,901	\$ 619,150,046	\$ 644,966,525	\$ 666,477,319	\$ 552,253,688
Outstanding Debt Ratios:					
Per capita (a)	\$ 526	544	570	596	493
Percent of personal income (a)	0.70%	0.76%	0.80%	0.87%	0.78%
Per connection (b)	\$ 1,634	1,690	1,763	1,827	1,519
To operating revenues (c)	\$ 3.15	3.30	3.43	3.84	3.45

	Fiscal Year				
	2011	2010	2009	2008	2007
Senior debt:					
2009 Sewer Revenue Bonds	\$ 149,875,000	\$ 152,255,000	\$ 152,255,000	\$ -	\$ -
2004 Sewer Revenue Refunding Bonds	82,215,000	85,050,000	87,790,000	90,435,000	92,995,000
Total senior debt	232,090,000	237,305,000	\$ 240,045,000	90,435,000	92,995,000
Subordinate debt:					
Upper Occoquan Sewage Authority Bonds	276,062,972	248,240,949	253,660,620	258,823,549	209,858,982
Virginia Resource Authority Bonds	56,946,896	61,236,896	65,364,033	69,334,502	73,154,261
Total subordinate debt	333,009,868	309,477,845	319,024,653	328,158,051	283,013,243
Total outstanding debt	\$ 565,099,868	\$ 546,782,845	\$ 559,069,653	\$ 418,593,051	\$ 376,008,243
Outstanding Debt Ratios:					
Per capita (a)	\$ 522	509	532	402	362
Percent of personal income (a)	0.73%	0.71%	0.75%	0.59%	0.56%
Per connection (b)	\$ 1,560	1,518	1,570	1,184	1,073
To operating revenues (c)	\$ 3.95	4.32	5.14	4.17	3.92

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.

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 w/o AF	Total w/AF	Total w/o AF
2016	\$ 206,286,555	\$ 92,452,813	\$ 113,833,742	\$20,896,350	\$26,219,955	\$ 47,116,305	4.74	2.42	2.10
2015	210,056,680	92,311,556	117,745,124	20,524,756	26,239,074	46,763,830	4.68	2.52	2.04
2014	212,782,338	91,111,419	121,670,919	21,889,744	26,107,036	47,996,780	4.46	2.53	2.03
2013	195,627,747	86,441,125	109,186,622	18,153,551	26,155,106	44,308,657	4.89	2.46	2.00
2012	189,447,450	85,454,838	103,992,612	16,334,719	25,528,010	41,862,729	4.59	2.48	1.79
2011	155,218,051	84,756,903	70,461,148	16,322,531	24,910,740	41,233,271	3.63	1.44	1.44
2010	138,701,673	83,111,991	55,589,682	10,881,182	24,297,131	35,178,313	4.13	1.58	1.28
2009	122,531,678	85,306,888	37,224,790	6,644,456	23,022,158	29,666,614	3.88	1.25	0.87
2008	119,394,571	79,870,054	39,524,517	6,637,531	21,745,381	28,382,912	3.86	1.39	0.90
2007	121,314,639	73,662,889	47,651,750	6,602,572	21,744,580	28,347,152	4.26	1.68	0.99

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 changed the minimum senior debt coverage to 2.0 times in FY 2011. The Sewer Fund surpassed its total debt coverage of 1.25 times, without availability fee (AF) revenue, by FY 2014.

Unaudited - see accompanying accountants' report.

TABLE 3.3 - DEBT SERVICE REQUIREMENTS - LAST TEN FISCAL YEARS

	Fiscal Year				
	2016	2015	2014	2013	2012
Senior debt:					
2014 Sewer Revenue Bonds	\$ 5,688,250	\$ 1,901,681	\$ -	\$ -	\$ -
2012 Sewer Revenue Bonds	5,556,950	5,554,675	5,556,200	1,801,401	-
2009 Sewer Revenue Bonds	9,651,150	9,650,025	9,651,900	9,652,150	9,651,213
2004 Sewer Revenue Refunding Bonds	-	3,418,375	6,681,644	6,700,000	6,683,506
Total senior debt	\$20,896,350	\$ 20,524,756	\$ 21,889,744	\$18,153,551	\$16,334,719
Subordinate debt:					
Upper Occoquan Sewage Authority Bonds	20,016,677	20,035,797	19,903,758	19,734,931	18,890,938
Virginia Resource Authority Bonds	6,203,278	6,203,277	6,203,278	6,420,175	6,637,073
Total subordinate debt	26,219,955	26,239,074	26,107,036	26,155,106	25,528,011
Total debt service requirements	\$47,116,305	\$ 46,763,830	\$ 47,996,780	\$44,308,657	\$41,862,730

	Fiscal Year				
	2011	2010	2009	2008	2007
Senior debt:					
2009 Sewer Revenue Bonds	\$ 9,652,475	\$ 4,222,501	\$ -	\$ -	\$ -
2004 Sewer Revenue Refunding Bonds	6,670,056	6,658,681	6,644,456	6,637,531	4,623,431
1996 Sewer Revenue Bonds	-	-	-	-	1,979,141
Total senior debt	16,322,531	10,881,182	6,644,456	6,637,531	6,602,572
Subordinate debt:					
Upper Occoquan Sewage Authority Bonds	18,303,668	17,660,059	16,385,086	15,108,309	15,107,508
Virginia Resource Authority Bonds	6,637,073	6,637,073	6,637,072	6,637,072	6,637,072
Total subordinate debt	24,940,741	24,297,132	\$ 23,022,158	21,745,381	21,744,580
Total debt service requirements	\$41,263,272	\$ 35,178,314	\$ 29,666,614	\$28,382,912	\$28,347,152

Source: Fairfax County Wastewater Management Program

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	Unemployment Rate (d)
	Total (a)	On County Sewer (b)		Personal Income	
2015	1,142,234	938,500	\$ 85,675,546	\$ 75,007	3.1 %
2014	1,137,538	938,245	81,620,627	71,752	3.5
2013	1,130,924	935,435	80,982,075	71,607	3.7
2012	1,118,602	932,864	77,012,392	68,847	4.3
2011	1,100,692	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

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 only Fairfax County 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 2013 is estimated using percent change in per capita personal income from 2011 to 2012.
- (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

Table 4.2 - Principal Employers - Current Year and Nine Years Ago

Employer	Fiscal Year 2016 (1)			Fiscal Year 2007 (1)		
	Number of Employees (2)	Rank	Pct. of Total County Employment (3)	Number of Employees (2)	Rank	Pct. of Total County Employment
Fairfax County Public Schools	23,827	1	3.81 %	22,707	1	3.91 %
Federal Government	23,664	2	3.79	13,359	2	2.30
Fairfax County Government	12,326	3	1.97	11,324	3	1.95
Inova Health System	7,000-10,000	4	1.36	7,000-10,000	4	1.46
George Mason University	5,000-10,000	5	1.20	-	-	-
Booz-Allen Hamilton	4,000-6,999	6	0.88	7,000-10,000	5	1.46
Federal Home Loan Mortgage	4,000-6,999	7	0.88	4,000-6,999	8	0.95
General Dynamics	4,000-6,999	8	0.88	-	-	-
Science Applications International Corporation (4)	1,000-3,999	9	0.40	4,000-6,999	7	0.95
Northrup Grumman	1,000-3,999	10	0.40	7,000-10,000	6	1.46
Lockheed Martin	-	-	0.00	4,000-6,999	9	0.95
Sprint	-	-	0.00	4,000-6,999	10	0.95
Totals			<u>15.57 %</u>			<u>16.34 %</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 2016 excluding data for Fairfax County Government and Fairfax County Public Schools, is from the 1st quarter of calendar year 2016 VEC. Employment information for fiscal year 2007 is as was presented 2007
- (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 2016 is estimated at 625,030, based on Business Vital Statistics of the Fairfax Economic Development Authority. Average total County employment for fiscal year 2007 was estimated at 581,053.
- (4) Science Applications International Corporation employment reported prior to the September 2013 split into two independent companies (SAIC and Leidos).

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				
	2016	2015	2014	2013	2012
Planning & Administration	35	35	35	25	25
Laboratory	19	19	19	21	21
Collection	132	132	132	140	140
Treatment	129	129	129	135	135
Total	315	315	315	321	321

Division	Fiscal Year				
	2011	2010	2009	2008	2007
Planning & Administration	25	25	25	26	23
Laboratory	21	21	21	19	19
Collection	140	140	140	141	142
Treatment	135	135	135	135	144
Total	321	321	321	321	328

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

Treatment Plant	Fiscal Year				
	2016	2015	2014	2013	2012
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	22.60	22.60	22.60
Arlington County	3.00	3.00	3.00	3.00	3.00
Loudoun Water	1.00	1.00	1.00	1.00	1.00
Other (a)	0.18	0.18	0.18	0.18	0.18
Treatment plant capacity	157.18	157.18	157.18	157.18	157.18

Treatment Plant	Fiscal Year				
	2011	2010	2009	2008	2007
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	24.60	24.60	24.60	27.60
Arlington County	3.00	3.00	3.00	3.00	3.00
Other (a)	0.18	0.18	0.18	0.18	0.18
Treatment plant capacity	157.18	158.18	158.18	158.18	161.18

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

Treatment Plant	Fiscal Year				
	2016	2015	2014	2013	2012
Noman M. Cole, Jr.	37.78	38.36	39.77	37.56	39.91
DCWASA Blue Plains	27.14	28.17	29.98	28.39	29.31
Alexandria Renew Enterprises	16.52	16.39	19.07	17.66	18.93
Upper Occoquan Sewage Authority	12.64	12.76	13.53	12.50	12.60
Arlington County	2.08	2.04	1.96	1.96	2.00
Loudoun Water	0.00	0.00	0.00	0.00	0.00
Other (a)	0.04	0.03	0.03	0.02	0.04
Total system flow	96.20	97.75	104.34	98.09	102.79

Treatment Plant	Fiscal Year				
	2011	2010	2009	2008	2007
Noman M. Cole, Jr.	38.59	42.04	41.12	40.53	42.80
DCWASA Blue Plains	28.65	29.65	28.05	26.67	29.37
Alexandria Renew Enterprises	18.57	20.81	16.90	17.04	20.03
Upper Occoquan Sewage Authority	12.54	13.14	12.44	12.61	12.94
Loudoun Water	2.02	2.02	1.98	0.00	0.00
Arlington County	0.00	0.00	0.00	1.95	2.04
Other (a)	0.03	0.07	0.07	0.04	0.03
Total system flow	100.40	107.73	100.56	98.84	107.21

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

Source	Fiscal Year				
	2016	2015	2014	2013	2012
County connections	85.82	87.93	92.26	88.72	92.75
City of Fairfax	3.24	2.84	3.20	2.63	3.15
Town of Herndon	2.43	2.46	2.66	2.27	2.46
Arlington County	1.35	1.37	1.39	1.21	1.36
Fort Belvoir	1.29	1.13	2.70	1.30	1.05
City of Falls Church	0.94	0.89	0.98	0.94	0.99
Town of Vienna	0.75	0.77	0.86	0.73	0.82
Loudoun County	0.12	0.12	0.11	0.10	0.09
Other (a)	0.26	0.24	0.18	0.19	0.12
Total system flow	96.20	97.75	104.34	98.09	102.79

Source	Fiscal Year				
	2011	2010	2009	2008	2007
County connections	90.85	96.79	90.51	88.63	96.56
City of Fairfax	3.00	3.46	3.27	3.49	3.50
Town of Herndon	2.47	2.59	2.40	2.40	2.48
Arlington County	1.32	1.57	1.42	1.40	1.61
Fort Belvoir	0.90	1.16	1.07	1.12	1.12
City of Falls Church	0.93	1.12	1.04	1.02	1.02
Town of Vienna	0.73	0.86	0.67	0.61	0.82
Loudoun County	0.08	0.07	0.07	0.05	0.04
Other (a)	0.12	0.11	0.11	0.12	0.06
Total system flow	100.40	107.73	100.56	98.84	107.21

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

Treatment Plant	Recent Five Years		Past Ten Years	
	Flow	Month	Flow	Month
Noman M. Cole, Jr.	45.77	May-14	50.19	May-08
DCWASA Blue Plains	34.75	May-14	34.75	May-14
Alexandria Renew Enterprises	26.72	Sep-11	26.72	Sep-11
Upper Occoquan Sewage Authority	15.60	Mar-15	15.96	May-08
Arlington County	2.33	Feb-16	2.33	Feb-16

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

Treatment Plant	Fiscal Year				
	2016	2015	2014	2013	2012
Noman M. Cole, Jr.	29.22	28.64	27.23	29.44	27.09
DCWASA Blue Plains	3.86	2.83	1.02	2.60	1.69
Alexandria Renew Enterprises	15.88	16.01	13.33	14.73	13.47
Upper Occoquan Sewage Authority	9.96	9.83	9.07	10.10	10.00
Arlington County	0.92	0.97	1.04	1.04	1.00
Loudoun Water	1.00	1.00	1.00	1.00	1.00
Other (b)	0.14	0.15	0.15	0.15	0.14
Total unused capacity	60.98	59.43	52.84	59.06	54.39

Treatment Plant	Fiscal Year				
	2011	2010	2009	2008	2007
Noman M. Cole, Jr.	28.41	24.96	25.88	26.47	24.20
DCWASA Blue Plains	2.35	1.35	2.95	4.33	1.63
Alexandria Renew Enterprises	13.83	11.59	15.50	15.37	12.37
Upper Occoquan Sewage Authority	10.06	11.46	12.16	11.99	14.66
Arlington County	0.98	0.98	1.02	1.06	0.96
Loudoun Water	1.00	-	-	0.00	0.00
Other (b)	0.15	0.11	0.11	0.14	0.15
Total unused capacity	56.78	50.45	57.62	59.36	53.97

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

Treatment Plant	Fiscal Year				
	2016	2015	2014	2013	2012
Noman M. Cole, Jr.	56.39 %	57.25	59.36	56.06	59.57
DCWASA Blue Plains	87.55	90.87	96.71	91.61	94.55
Alexandria Renew Enterprises	50.99	50.59	58.86	54.53	58.43
Upper Occoquan Sewage Authority	55.93	56.46	59.87	55.75	55.75
Arlington County	69.33	68.00	65.33	66.67	66.67
Other (b)	22.22	16.67	16.11	16.67	22.22
Total system capacity utilization	61.20 %	62.19	66.38	62.42	65.40

Treatment Plant	Fiscal Year				
	2011	2010	2009	2008	2007
Noman M. Cole, Jr.	57.60 %	62.75	61.37	60.50	63.88
DCWASA Blue Plains	92.42	95.65	90.48	86.02	94.74
Alexandria Renew Enterprises	57.31	64.23	52.16	52.58	61.82
Upper Occoquan Sewage Authority	55.49	53.41	50.57	51.26	46.88
Arlington County	67.33	67.33	66.00	64.83	68.00
Other (b)	16.67	38.89	38.89	20.00	15.56
Total system capacity utilization	63.88 %	68.11	63.57	62.48	66.51

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

Treatment Plant	Fiscal Year				
	2016	2015	2014	2013	2012
Noman M. Cole, Jr.	\$ 1,651	\$ 1,542	\$ 1,509	\$ 1,551	\$ 1,379
DCWASA Blue Plains	1,245	1,460	1,080	1,275	1,239
Alexandria Renew Enterprises	1,938	2,237	1,887	1,983	1,858
Upper Occoquan Sewage Authority	2,868	2,701	2,486	2,769	2,620
Arlington County	2,703	3,642	3,110	3,039	3,050

Treatment Plant	Fiscal Year				
	2011	2010	2009	2008	2007
Noman M. Cole, Jr.	\$ 1,367	\$ 1,254	\$ 1,419	\$ 1,268	\$ 1,162
DCWASA Blue Plains	1,290	1,135	1,223	1,210	962
Alexandria Renew Enterprises	1,950	1,822	2,296	2,246	1,823
Upper Occoquan Sewage Authority	2,880	2,699	2,902	2,725	2,597
Arlington County	2,305	2,178	2,204	2,106	2,180

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			
2016	1	6	59	54	3,431
2015	1	6	59	54	3,425
2014	1	6	59	54	3,420
2013	1	6	59	54	3,412
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

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				
	2016	2015	2014	2013	2012
Noman M. Cole, Jr.	98	100	103	98	104
DCWASA Blue Plains	122	128	135	129	133
Alexandria Renew Enterprises	94	94	109	101	108
Upper Occoquan Sewage Authority	101	104	108	100	101
Arlington County	76	75	71	71	72
Total system flow per capita	103	105	112	105	110
Annual rainfall, inches	36.55	41.63	48.57	39.65	46.83

Treatment Plant	Fiscal Year				
	2011	2009	2009	2008	2007
Noman M. Cole, Jr.	106	100	100	99	103
DCWASA Blue Plains	137	109	109	111	123
Alexandria Renew Enterprises	112	97	97	99	116
Upper Occoquan Sewage Authority	106	105	105	107	111
Arlington County	77	77	77	79	83
Total system flow per capita	114	101	101	102	110
Annual rainfall, inches	40.67	42.32	42.32	42.39	37.62

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

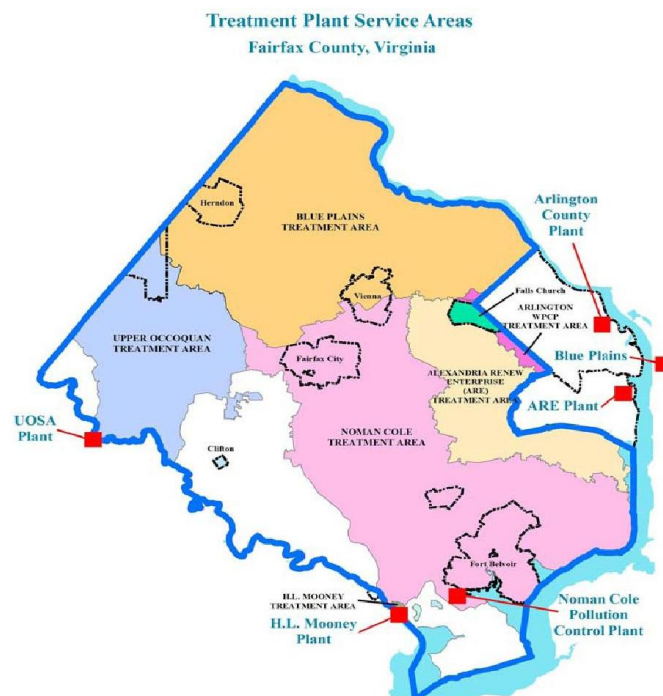
Treatment Plant	Fiscal Year				
	2016	2015	2014	2013	2012
Noman M. Cole, Jr.	252	257	267	253	269
DCWASA Blue Plains	306	319	340	323	335
Alexandria Renew Enterprises	241	240	280	260	279
Upper Occoquan Sewage Authority	256	261	275	254	256
Arlington County	195	191	184	184	188
Total system flow per connection	262	267	285	269	283

Treatment Plant	Fiscal Year				
	2011	2010	2009	2008	2007
Noman M. Cole, Jr.	262	286	250	247	261
DCWASA Blue Plains	328	342	263	270	301
Alexandria Renew Enterprises	276	310	239	247	292
Upper Occoquan Sewage Authority	255	268	261	260	269
Arlington County	190	190	190	196	206
Total system flow per connection	277	299	250	253	275

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.



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