

Fauquier County
Water and Sanitation Authority
Warrenton, Virginia

**Comprehensive Annual
Financial Report**



**YEARS ENDED
JUNE 30, 2020 AND 2019**

FAUQUIER COUNTY WATER AND SANITATION AUTHORITY

WARRENTON, VIRGINIA

Comprehensive Annual Financial Report
Years Ended June 30, 2020 and 2019

Prepared by:

Deborah A. Whitley
Director of Finance

FAUQUIER COUNTY WATER AND SANITATION AUTHORITY

Comprehensive Annual Financial Report Years Ended June 30, 2020 and 2019

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FAUQUIER COUNTY WATER AND SANITATION AUTHORITY

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OFFICERS AND BOARD MEMBERS

Michael J. Focazio – Chairperson
William G. Downey – Vice-Chairperson/Secretary/Treasurer
Richard Gerhardt
Ross W. D'Urso
A. William Chipman, III

AUDIT COMMITTEE

Ross W. D'Urso
A. William Chipman, III

SENIOR MANAGEMENT

Benjamin R. Shoemaker, Executive Director
Cheryl St. Amant, Associate Executive Director
Deborah A. Whitley, Director of Finance

FAUQUIER COUNTY

WATER & SANITATION AUTHORITY

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Warrenton, Virginia 20187-3907

Phone (540) 349-2092 • Fax (540) 347-7689



October 27, 2020

Board of Directors of the
Fauquier County Water and Sanitation Authority
Fauquier County, Virginia

Gentlemen:

The Comprehensive Annual Financial Report for the Fauquier County Water and Sanitation Authority (the Authority) for the year ended June 30, 2020 is submitted herewith. Financial data, including all appropriate disclosures, have been prepared in accordance with the standards for financial reporting promulgated or permitted by the Governmental Accounting Standards Board.

Management is responsible, in all material respects, for the accuracy of this data and the completeness and fairness of these presentations, including all disclosures. We believe the data presents fairly the financial position and results of operations of the Authority for the year ended June 30, 2020.

Generally Accepted Accounting Principles require that management provide a narrative introduction, overview, and analysis to accompany the basic statements in the form of Management's Discussion and Analysis (MD&A). This transmittal letter is designed to complement the MD&A and should be read in conjunction with it. The Authority's MD&A is included in the Financial Section of this report, immediately following the report of the independent auditors.

The Authority

The Authority was created by a resolution of the Board of Supervisors of Fauquier County, Virginia in 1964 for a period of 50 years, and extended to 2025 in 1975. The Authority is chartered by the State Corporation Commission and is an independent public body responsible for providing comprehensive county-wide water and wastewater services.

The management of the Authority is vested in a board of five members appointed by the Board of Supervisors. The Authority Board appoints the Executive Director, who is responsible for the daily management of the Authority.

*Economic
Conditions and
Outlook*

The Authority is located in rural Fauquier County approximately 40 miles southwest of Washington, D.C., and 95 miles northwest of Richmond. The service area of the Authority is traversed by several highways providing access to the metropolitan area and surrounding jurisdictions. The Authority owns and operates fourteen public water systems and three wastewater (sewer) treatment plants; and operates an additional two water systems.

The local economy has declined due to the uncertainty of the COVID-19 pandemic reflective in the unemployment rate increase. Estimated population in Fauquier County as of July 2020 is approximately 71,395. This is expected to exceed 78,698 by the year 2030 and 84,851 by the year 2040. Per the Virginia Employment Commission, as of July 2020, the total civilian labor force in Fauquier County was 36,513, of which 34,444 are employed, and 2,069 are unemployed. Unemployment is at its highest rate since 2011 at 5.7%, up from 2.6% in 2019.

The Authority provides water and/or wastewater services to single and multi-family housing developments, county schools, a federal complex, and various shopping centers. The Authority experienced a slight increase in customer base as water and wastewater connections grew by 56 and 65, respectively, in FY2020. However, Availability fee revenue decreased by \$776,937 in FY2020 as building slowed down in the service area.

*Internal Control
Structure and
Budgetary
Controls*

The Authority's management is responsible for establishing and maintaining internal controls. Estimates and judgments by management are required to assess the expected benefits and related costs of internal control policies and procedures. Internal controls are designed to provide reasonable, but not absolute, assurances regarding: (1) the safeguarding of assets against loss from unauthorized use or disposition; and (2) the reliability of financial records used to prepare financial statements that are free of any material misstatements. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the evaluation of costs and benefits require estimates and judgments made by management. Management reviews internal controls on a continuous basis.

The Finance Department prepares an annual budget for current revenue, expenses, and capital outlays. The proposed budget is reviewed by management and submitted to the Board of Directors for approval.

The Authority controls current expenses at both the functional and operating division levels. Division managers are responsible for budgetary items that are controllable within their divisions. The Finance department is responsible for general Authority costs, as well as monitoring expenses by function for the Authority. Controlling all expenses at different levels strengthens the overall budgetary and management controls.

*Relevant
Financial
Policies*

Investments are made to safeguard principal, meet liquidity objectives, and seek fair value rates of return within the parameters of the *Code of Virginia*. Funds held for capital projects are invested in accordance with these objectives in addition to ensuring compliance with U.S. Treasury arbitrage regulations.

The state and federal governments enacted regulations dated December 31, 2010 on the nutrient quality of wastewater entering the Chesapeake Bay and its tributaries. The Authority implemented a two-phase plan to meet these regulatory requirements. The first-phase upgrades, completed in FY2012, allowed credit trading of nutrients between two of the plants to assist in meeting the regulatory requirements. The Authority estimates this process provided a ten to fifteen-year window before construction of the second phase of upgrades are required. The two-phase plan should produce the best effect on user rates to cover new debt service. Debt service in FY2020 was \$1,647,723 and will reduce to \$931,332 in FY2030. The Authority began a review of phase two options in FY2020. When required, the Authority will begin phase two of upgrades on the Remington and Marshall wastewater treatment plants at a potential cost of \$31 million and \$21 million, respectively.

The Authority adopted a \$13.4 million, 5-year Capital Improvement Plan (CIP) in its FY2021 budget for water exploration, sources, storage, and treatment facilities. A \$18.3 million, 5-year Replacement and Renewal Program (R&R) was also adopted for repairs and upgrades to its existing water and wastewater systems.

*Independent
Audit*

The *Code of Virginia* requires that an external audit be performed annually. The Authority's financial statements for the year ended June 30, 2020 have been audited by Robinson, Farmer, Cox Associates, an independent firm of licensed certified public accountants. The fiscal year 2020 Independent Auditors' Report is in the financial section of this report.

Awards

The Governmental Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Fauquier County Water & Sanitation Authority for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2019. This is a prestigious national award recognizing conformance with the highest standards for preparation of state and local governmental financial reports.

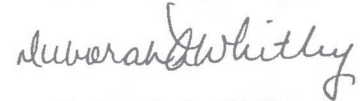
To be awarded a Certificate of Achievement, a government must publish an easily readable, and efficiently organized comprehensive annual financial report, whose contents conform to program standards. Said report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year. The Authority believes our current Comprehensive Annual Financial Report conforms to the Certificate of Achievement Program requirements, and we are submitting the CAFR to the GFOA to determine its eligibility for a Certificate for FY2020.

Acknowledgments

The preparation of this report could not have been accomplished without the efficient and dedicated services of the Finance and Administration staff of the Authority. All members of the division have my sincere appreciation for their contributions to the preparation of this report. I would also like to thank the Executive Director and Board of Directors for their interest and support in planning and conducting the financial operations of the Authority in a responsible and progressive manner.

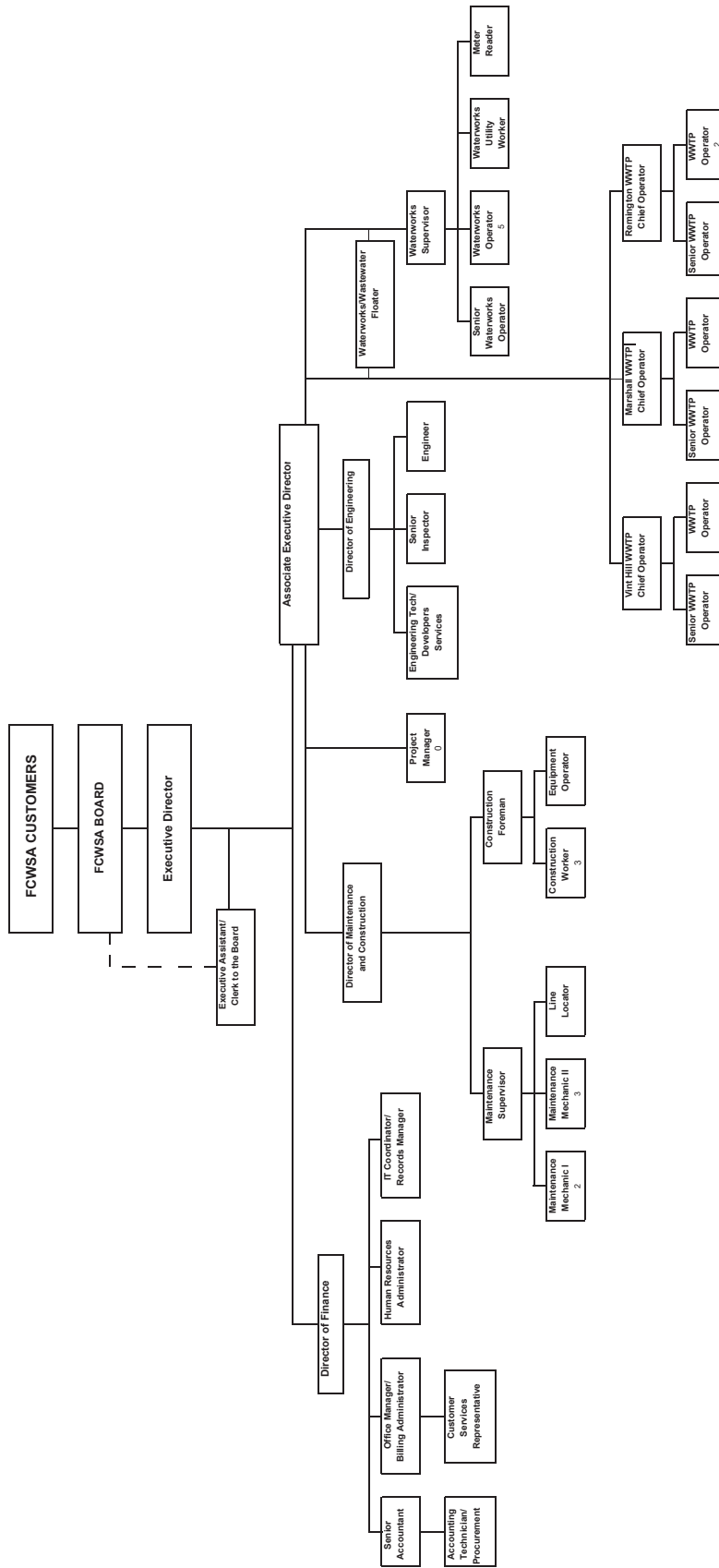
Respectfully submitted,

A handwritten signature in dark ink, appearing to read "Deborah A. Whitley", with a stylized flourish at the end.

Deborah A. Whitley
Director of Finance

FCWSA ORGANIZATION

FC2020





Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

**Fauquier County Water & Sanitation
Authority, Virginia**

For its Comprehensive Annual
Financial Report
For the Fiscal Year Ended

June 30, 2019

Christopher P. Morrell

Executive Director/CEO



ROBINSON, FARMER, COX ASSOCIATES, PLLC

Certified Public Accountants

Independent Auditors' Report

**To The Honorable Members of the Board of Directors
Fauquier County Water and Sanitation Authority
Warrenton, Virginia**

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Fauquier County Water and Sanitation Authority as of and for the years ended June 30, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the Authority'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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Authorities, Boards, and Commissions*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. 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 auditors' 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 business-type activities of the Fauquier County Water and Sanitation Authority, as of June 30, 2020 and 2019, and the changes in financial position, and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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 schedules related to pension and OPEB funding on pages 55-60 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.

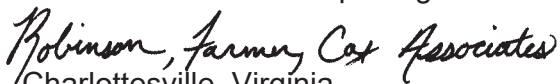
Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Fauquier County Water and Sanitation Authority's basic financial statements. The introductory section and statistical section 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 October 13, 2020, on our consideration of the Fauquier County Water and Sanitation Authority'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 solely 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 the effectiveness of Fauquier County Water and Sanitation Authority's 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 Fauquier County Water and Sanitation Authority's internal control over financial reporting and compliance.


Charlottesville, Virginia
October 13, 2020

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis of the Fauquier County Water and Sanitation Authority's (the Authority) financial performance provides a narrative overview of the financial activities of the Authority for the Fiscal Year (FY) ending June 30, 2020. The Authority's mission is to provide quality, reliable water and wastewater services to its current and future customers in an environmentally responsible and sustainable manner. To accomplish this, the Authority set its FY2020 budget focus on customer service, water and wastewater system upgrades, supervisory control and data acquisition (SCADA) upgrades, wastewater inflow and infiltration (I&I) rehabilitation, and equipment replacement. We encourage readers to consider the information presented here in conjunction with the audited financial statements that follow this section.

FINANCIAL HIGHLIGHTS

- Net Capital Assets increased by \$731,811 as a result of the completion of the Remington Sludge Bay, New Baltimore G-4 Well, New Baltimore SCADA, and I&I projects in Remington, Marshall, and Vint Hill; as well as the purchase of heavy equipment and machinery;
- Construction in Progress projects decreased by \$1,059,891 in FY2020;
- Net Position increased by \$1.2 million from \$86,879,437 to \$88,116,436;
- Total Revenues, including Capital Contributions, were \$12,797,239; and Total Expenses were \$11,560,240;
- Net Operating Income was \$55,906 in FY2020 and \$572,512 in FY2019;
- The Authority has received unmodified audit opinions for over thirty years and has received the Government Finance Officers Association's (GFOA) Certificate of Achievement for Excellence in Financial Reporting for the past thirteen years.

OVERVIEW OF THE FINANCIAL STATEMENTS

This Comprehensive Annual Financial Report (CAFR) is presented in three main sections. The Introductory Section includes the Letter of Transmittal, the GFOA Certificate of Achievement, a list of Authority Board Members and Officers, and an Organizational Chart. The Financial Section includes the Independent Auditors' Report, Management's Discussion and Analysis, the Basic Financial Statements with related notes, and Required Supplementary Information. The Statistical Section includes selected financial and demographic information about the Authority and the surrounding area.

There are three financial statements included in the Financial Section of this report – Statement of Net Position; Statement of Revenues, Expenses and Changes in Net Position; and Statement of Cash Flows. The Statement of Net Position includes the Authority's assets and liabilities using the accrual basis of accounting. It provides the basis for evaluating the capital structure of the Authority, and its liquidity and flexibility. All current and prior years' revenues and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Net Position. This statement measures the performance of the Authority's operations over the past year and can be used to determine whether the Authority has successfully recovered its costs through user fees and other charges. The Statement of Cash Flows reports the cash provided and used by operating activities, as well as other cash sources, such as investment income and cash payments for debt and capital additions. The notes to the financial statements provide additional information that is essential for a full understanding of the data provided in the statements.

FINANCIAL ANALYSIS

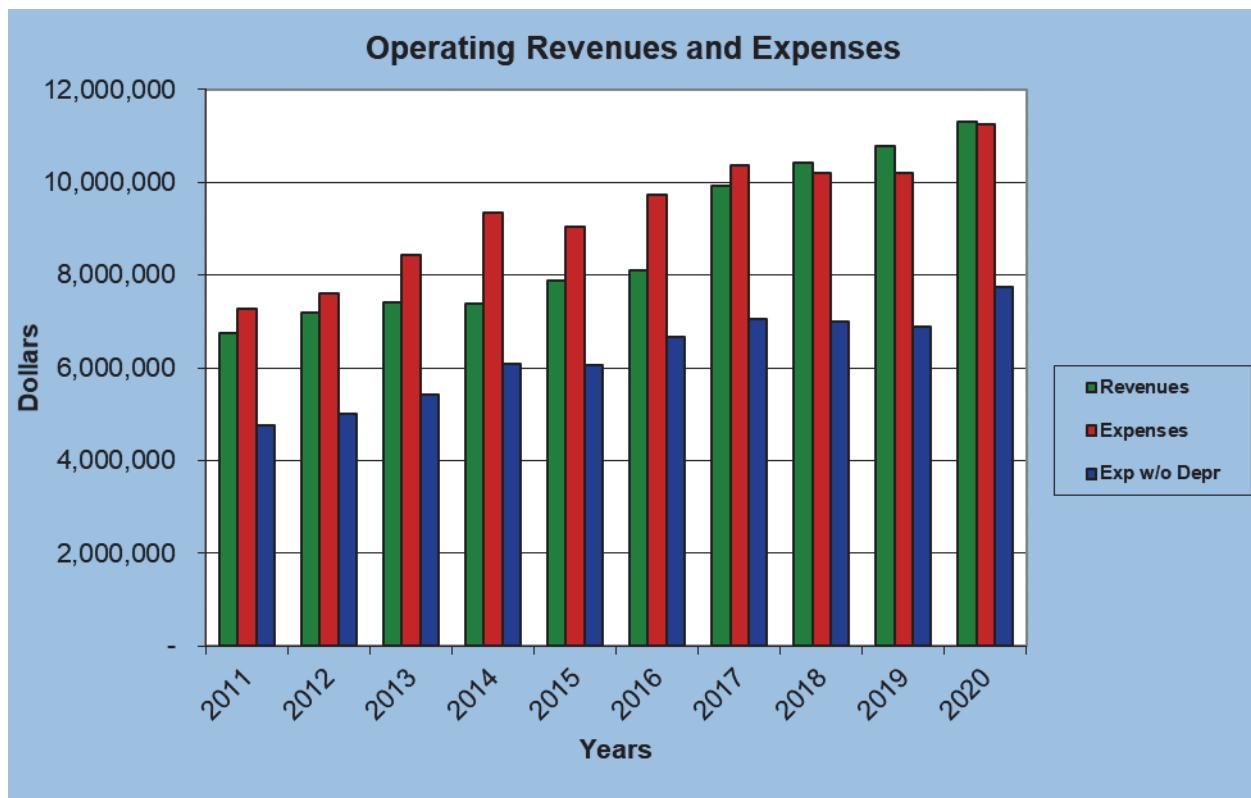
The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position report information about the Authority's activities that determine if the overall financial position has improved during the year. These two statements help determine the financial health of the organization, and whether its financial position is improving or deteriorating. Non-financial factors such as economic conditions, population growth, and changes in governmental legislation need to be considered as well. The Authority's financial strength has continued to improve during FY2020 as Operating Revenues are covering Operating Expenses as described in the following sections of this report.

Net Position and Liabilities -The Authority's **Total Net Position** increased in FY2020 by \$1.2 million, or 1.4%, as compared to Net Position as of June 30, 2019. Total Net Position increased in FY2019 by \$5.7 million, or 7.1%, as compared to Net Position as of June 30, 2018. Total Net Position in FY2018 increased by \$4.7 million, or 6.3%, as compared to net position as of June 30, 2017. A significant portion of this increase was due to Capital Contributions of \$0.3, \$3.5, and \$1.8 million in FY2020, FY2019, and FY2018, respectively, as well as availabilities fees of \$0.8, \$1.6, and \$3 million in FY2020, FY2019, and FY2018, respectively. In FY2020 the **Total Liabilities** increased by \$0.3 million, or 2%, from FY2019 as a new capital lease was obtained for heavy equipment and machinery. FY2019's Total Liabilities decreased by \$2 million, or 12.6% from FY2018. FY2018's Total Liabilities decreased by \$0.3 million, or 2.4%, over FY2017. The following table depicts the Authority's assets and liabilities as of June 30, 2020, 2019, and 2018:

| | Net Position | | |
|---|---------------------|----------------|---------------|
| | 2020 | 2019 | 2018 |
| Current and other assets | \$ 21,531,164 | \$ 21,064,890 | \$ 20,836,575 |
| Capital assets | 80,449,076 | 79,717,265 | 76,173,481 |
| Total assets | \$ 101,980,240 | \$ 100,782,155 | \$ 97,010,056 |
| Deferred outflows of resources | \$ 600,024 | \$ 284,324 | \$ 338,780 |
| Total assets and deferred outflows of resources | \$ 102,580,264 | \$ 101,066,479 | \$ 97,348,836 |
| Noncurrent liabilities | \$ 11,788,414 | \$ 11,560,963 | \$ 12,825,570 |
| Other liabilities | 2,474,431 | 2,368,611 | 3,060,280 |
| Total liabilities | \$ 14,262,845 | \$ 13,929,574 | \$ 15,885,850 |
| Deferred inflows of resources | \$ 200,983 | \$ 257,468 | \$ 351,212 |
| Net position: | | | |
| Net investment in capital assets | \$ 71,821,673 | \$ 71,184,508 | \$ 67,587,981 |
| Restricted | 369,386 | 369,386 | 369,386 |
| Unrestricted | 15,925,377 | 15,325,543 | 13,154,407 |
| Total net position | \$ 88,116,436 | \$ 86,879,437 | \$ 81,111,774 |
| Total liabilities, deferred inflows of resources and net position | \$ 102,580,264 | \$ 101,066,479 | \$ 97,348,836 |

FINANCIAL ANALYSIS: (Continued)

Operating Income – In FY2020 the **Operating Revenues** were \$11.3 million, a 4.9% increase over FY2019. The increase reflects a 3% rate increase to users in year 4 of a five-year rate increase plan, voted in by the Authority Board, after a rate study was completed in late FY2016. Operating Revenues in FY2019 were \$10.7 million, a 3.5% increase over FY2018. The increase reflects a 3% rate increase to users in year 3 of the five-year rate increase plan. In FY2018 Operating Revenues were \$10.4 million, a 5.9% increase over FY2017 because of the 7% rate increase to users in year 2 of the five-year plan. In FY2020, the **Operating Expenses** increased by \$1 million, a 10.3% increase over FY2019. The increase reflects a one-time salary adjustment in Salaries and Benefits as a result of a salary and benefits compensation study performed by Gallagher Benefits Services in FY2019 as well as increases in Administrative, Operations, Maintenance and Depreciation Expense. As in FY2019, FY2020's Operating Revenues completely covered Operating Expenses. In FY2019, the Operating Expenses increased to \$10.2 million, or 0.2%, from FY2018. Operating Expenses in FY2018 decreased to \$10.1 million, or 1.5%, under FY2017. FY2019 saw a reduction in Salaries and Fringe Benefits from position vacancies; and increases in Operations and Maintenance, and Depreciation Expenses. Depreciation Expense represents 31%, 33%, and 31%, of Operating Expense in FY2019, FY2018, and FY2017, respectively. The following chart depicts **Operating Revenues** as compared to **Operating Expenses**, with Depreciation and **Operating Expenses without Depreciation Expense** during the last ten years.



As a not-for-profit governmental entity, the Authority's goal is to match revenues with expenses and not to generate a profit. Consequently, the Authority will generally experience a small loss or profit, neither of which significantly affects the financial condition of the organization.

FINANCIAL ANALYSIS: (Continued)

The Authority had a rate study performed by Municipal & Financial Services Group in late FY2016, that determined rate increases were needed to cover CIP, R&R, rising operating costs, and debt service. As such, the Board voted in the five-year rate increase plan, with Year 1 – 9.5%, Year 2 – 7%, and Years 3-5 (FY2019-21) having planned user increases of 3% each. The additional rate adjustments would further strengthen the financial position of the organization and allow the budget focus to remain on customer service and quality, reliable water and wastewater services. However, due to economic uncertainty regarding the COVID-19 pandemic, the Board adopted a reduced FY2021 annual budget with negligible changes to operating expenses and continued FY2020 user rates indefinitely. The Authority will have a rate study performed in FY2021.

The following table is a comparison of Operating Revenues, Operating Expenses, Non-Operating Revenues and Expenses, Net Income (Loss), and Capital Contributions for the years ending June 30, 2020, 2019, and 2018.

| | <u>2020</u> | <u>2019</u> | <u>2018</u> |
|--|-----------------------------|-----------------------------|-----------------------------|
| Operating revenues: | | | |
| Water service | \$ 5,094,624 | \$ 4,793,437 | \$ 4,630,031 |
| Sewer service | 5,353,484 | 5,144,754 | 4,867,411 |
| Septic service | 439,891 | 388,808 | 364,114 |
| Late charges | 124,090 | 181,607 | 194,015 |
| Other operating revenues | 303,788 | 276,633 | 368,109 |
| Total operating revenues | <u>\$ 11,315,877</u> | <u>\$ 10,785,239</u> | <u>\$ 10,423,680</u> |
| Operating expenses: | | | |
| Salaries | \$ 3,539,417 | \$ 3,093,075 | \$ 3,167,950 |
| Fringe benefits | 1,044,151 | 837,296 | 872,536 |
| General and administrative | 582,573 | 497,459 | 639,812 |
| Operations and maintenance | 2,589,780 | 2,463,265 | 2,311,448 |
| Depreciation expense | 3,504,050 | 3,321,632 | 3,198,751 |
| Total operating expenses | <u>\$ 11,259,971</u> | <u>\$ 10,212,727</u> | <u>\$ 10,190,497</u> |
| Net operating income (loss) | <u>\$ 55,906</u> | <u>\$ 572,512</u> | <u>\$ 233,183</u> |
| Nonoperating revenue and expenses: | | | |
| Availability fees | \$ 893,800 | \$ 1,670,737 | \$ 3,043,318 |
| Interest earned | 232,502 | 299,055 | 221,570 |
| Interest expense | (300,269) | (315,493) | (349,662) |
| Net nonoperating revenue | <u>\$ 826,033</u> | <u>\$ 1,654,299</u> | <u>\$ 2,915,226</u> |
| Net income (loss) before capital contributions | \$ 881,939 | \$ 2,226,811 | 3,148,409 |
| Capital Contributions | <u>355,060</u> | <u>3,540,852</u> | <u>1,875,351</u> |
| Change in net position | <u>\$ 1,236,999</u> | <u>\$ 5,767,663</u> | <u>\$ 5,023,760</u> |
| Net position, at beginning of year | <u>86,879,437</u> | <u>81,111,774</u> | <u>76,088,014</u> |
| Net position, at end of year | <u><u>\$ 88,116,436</u></u> | <u><u>\$ 86,879,437</u></u> | <u><u>\$ 81,111,774</u></u> |

CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets - The increase in capital assets for FY2020 is the result of completed CIP and R&R projects, Contributed Capital completed and placed in service, and the purchase of vehicles, equipment, and machinery. The detail of additions to Capital Assets being depreciated is as follows:

| | |
|-------------------------|------------|
| Contributed Capital | \$ 355,060 |
| Vehicles | 532,270 |
| Equipment and Machinery | 812,050 |
| CIP and R&R Projects | 2,401,107 |

The largest Construction in Progress projects as of June 30, 2020, were:

| | |
|--------------------------------|------------|
| I&I Projects | \$ 978,490 |
| Marshall Salem Wells #3 and #4 | 491,930 |

The following table shows capital asset balances for the fiscal years ending June 30, 2020, 2019, and 2018:

| | <u>2020</u> | <u>2019</u> | <u>2018</u> |
|---|----------------------|----------------------|----------------------|
| Land | \$ 651,060 | \$ 651,060 | \$ 651,060 |
| Construction in progress | 2,280,997 | 3,340,888 | 3,212,677 |
| Structures and improvements | 60,986,584 | 58,636,264 | 56,239,263 |
| Infrastructure | 60,307,393 | 58,913,661 | 55,066,662 |
| Vehicles | 1,872,862 | 1,335,008 | 1,175,406 |
| Machinery and equipment | <u>14,750,883</u> | <u>13,844,913</u> | <u>13,661,994</u> |
| Total Property & Equipment | \$ 140,849,779 | \$ 136,721,794 | \$ 130,007,062 |
| Less: Accumulated Depreciation (as restated) | <u>60,400,703</u> | <u>57,004,529</u> | <u>53,833,581</u> |
| Net property & equipment | <u>\$ 80,449,076</u> | <u>\$ 79,717,265</u> | <u>\$ 76,173,481</u> |

Additional information on the capital assets can be reviewed in Note 6.

CAPITAL ASSETS AND LONG-TERM DEBT: (Continued)

Cash Balances – In FY2016, the Authority's Board and Management determined that a multi-year rate setting plan would provide the Authority a basis for budgeting Operating and Capital projects. Due to the economic uncertainty caused by the COVID-19 pandemic, the Board continued the FY2020 rates indefinitely. However, the Authority will perform a rate study in FY2020. The Board also determined a portion of the water and sewer availability fees would be set aside to cover future CIP and R&R projects. By analyzing rates on an annual basis, the five-year cash flow is used to indicate the probability of, or necessity for, future rate adjustments. The *Code of Virginia* requires the advertisement of new rates and a public rate hearing in the event additional rate adjustments are deemed necessary. The following are the projected ending cash balances for the next five years:

| | Uncommitted Cash Balances | Voluntary Cash Reserves |
|--------|--------------------------------------|------------------------------------|
| FY2021 | \$ 1,762,363 | \$ 5,246,523 |
| FY2022 | 912,459 | 5,279,263 |
| FY2023 | 372,924 | 5,312,003 |
| FY2024 | 173,075 | 5,312,003 |
| FY2025 | 93,109 | 5,344,743 |

These projected cash flow balances presume economic recovery after the pandemic, no user rate increases, and availability fee revenues in future years. In addition, the Authority may approve cash funding for some CIP & R&R projects which will affect the cash balances.

Capital Projects -

Below is a summary schedule of our planned capital projects (CIP) and replacement and renewals (R&R) for the next five years:

| Five Year Capital Improvement Program (FY 21 - 25) FY2021 Approved Budget | | | | | | |
|--|-------------------|---------------------|---------------------|---------------------|-------------------|----------------------|
| Project | FY2021 | FY2022 | FY2023 | FY2024 | FY2025 | 5 YR Totals |
| Opal/Bealeton/Remington Master Plan | \$ 100,000 | \$ - | \$ - | \$ - | \$ - | 100,000 |
| Bealeton Water Master Plan | 100,000 | - | - | - | - | 100,000 |
| Marshall Water Master Plan | 100,000 | - | - | - | - | 100,000 |
| Remington Water Master Plan | 70,000 | - | - | - | - | 70,000 |
| ENR Phase 2 For 2.0 MGD | 200,000 | 1,000,000 | 1,000,000 | - | - | 2,200,000 |
| ENR for 2.5 MGD | - | - | - | - | 250,000 | 250,000 |
| High Rock/E Wells Treatment | - | 500,000 | 500,000 | - | - | 1,000,000 |
| Bethel Academy Nitrate Treatment (Ion Exchange) | - | - | - | - | 300,000 | 300,000 |
| The Plains Route 55 - Nitrate Treatment (Ion Exchange) | - | - | - | 300,000 | - | 300,000 |
| Nitrate Treatment (Ion Exchange) | - | - | - | - | 300,000 | 300,000 |
| E-6 Well | 100,000 | 500,000 | - | - | - | 600,000 |
| E-7 Well | 100,000 | 1,000,000 | - | - | - | 1,100,000 |
| K Well | - | 100,000 | - | - | - | 100,000 |
| Exploratory Well Work | - | 100,000 | 100,000 | 100,000 | 100,000 | 400,000 |
| Opal Phase 1A, 250 GPM well, 250,000 gal storage tank (County Funded) | - | - | 2,600,000 | 2,600,000 | - | 5,200,000 |
| TPL - 1A Well | 100,000 | 500,000 | 700,000 | - | - | 1,300,000 |
| Project Totals | \$ 870,000 | \$ 3,700,000 | \$ 4,900,000 | \$ 3,000,000 | \$ 950,000 | \$ 13,420,000 |

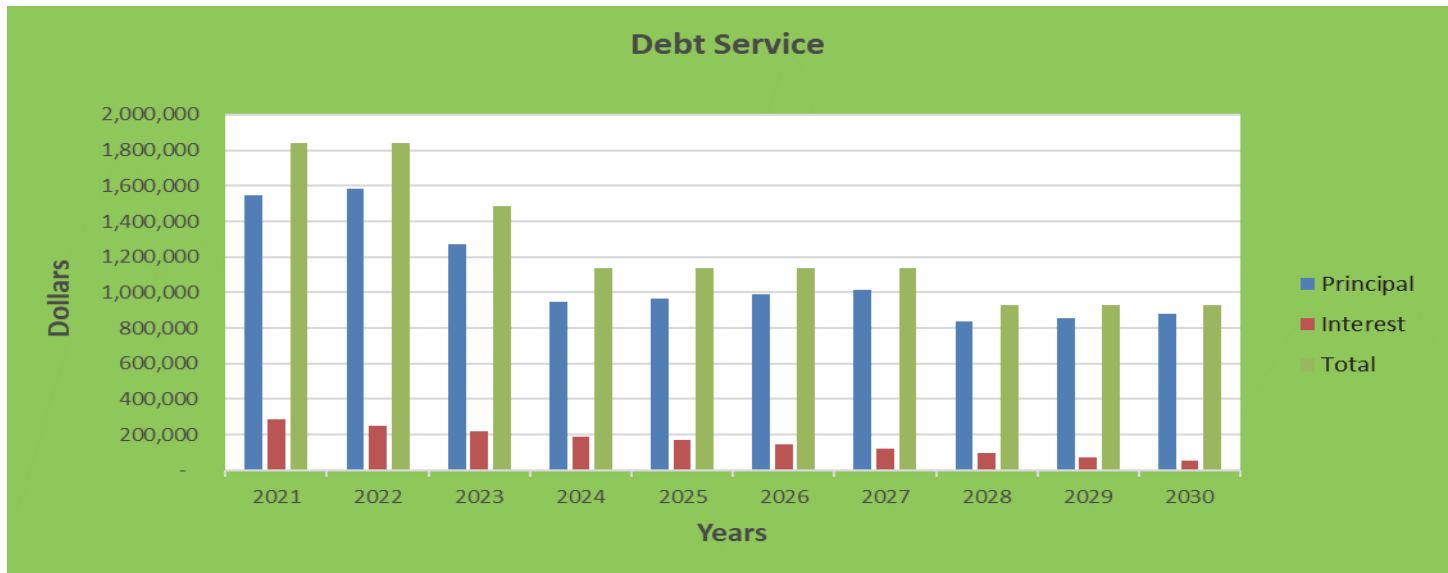
CAPITAL ASSETS AND LONG-TERM DEBT: (Continued)

| Five Year Replacement and Renewal Program (FY 21 - 25) | | | | | | |
|---|---------------------|---------------------|---------------------|---------------------|---------------------|----------------------|
| FY 2021 Approved Budget | | | | | | |
| Project | FY2021 | FY2022 | FY2023 | FY2024 | FY2025 | 5 YR Totals |
| Systemwide Security Upgrades to Water/Wastewater/Admin Facilities | \$ 230,000 | \$ 50,000 | \$ 50,000 | \$ 50,000 | \$ 50,000 | \$ 430,000 |
| Arc Flash Analysis | - | 50,000 | 50,000 | 50,000 | 50,000 | 200,000 |
| Road maintenance (MWWTP road, High Rock Driveway, VH WWTP) | 30,000 | 30,000 | 30,000 | 30,000 | 30,000 | 150,000 |
| Wastewater Systems Major Replacements | 60,000 | 60,000 | 60,000 | 60,000 | 60,000 | 300,000 |
| Water System Major Replacements | 60,000 | 60,000 | 60,000 | 60,000 | 60,000 | 300,000 |
| Aqua Aerobic Aerator | 10,000 | - | - | - | - | 10,000 |
| LakeSide Aeroductor Grit Chamber Equipment Replacement | 25,000 | - | - | - | - | 25,000 |
| Seepex Pump Replacement | 10,000 | - | - | - | - | 10,000 |
| Reactor Effluent Pump KSB | 20,000 | - | - | - | - | 20,000 |
| Reliance Pump for EQ Basin | 10,000 | - | - | - | - | 10,000 |
| PLC Upgrade | 30,000 | - | - | - | - | 30,000 |
| Treatment Plant Security Improvements | 10,000 | 10,000 | 10,000 | 10,000 | 10,000 | 50,000 |
| EPA Risk & Resilience Assessment + Emergency Response Plan | 25,000 | - | - | - | - | 25,000 |
| Influent Structure Project | - | - | 200,000 | 1,000,000 | 1,000,000 | 2,200,000 |
| Treatment Plant Security Improvements | 20,000 | 20,000 | 20,000 | 20,000 | 20,000 | 100,000 |
| Remington Generator Replacement | - | 500,000 | - | - | - | 500,000 |
| Replace Centrifuge | - | - | - | 750,000 | - | 750,000 |
| Centrifuge Rebuild and Conveyor | 70,000 | - | - | - | - | 70,000 |
| Schreiber Maintenance and Repairs | 16,000 | - | - | - | - | 16,000 |
| UV Complete Rebuild | 105,000 | - | - | - | - | 105,000 |
| New Reactor Blowers | 11,000 | 11,000 | - | - | - | 22,000 |
| PLC Upgrades | 50,000 | 50,000 | - | - | - | 100,000 |
| Ferric Chloride System Rehabilitation | - | - | 40,000 | - | - | 40,000 |
| Generator Replacement | 100,000 | 100,000 | 100,000 | 100,000 | 100,000 | 500,000 |
| Green Meadows Electrical Upgrades | 50,000 | - | - | - | - | 50,000 |
| Bealeton Miller School Well - Generator | 100,000 | - | - | - | - | 100,000 |
| EPA Risk & Resilience Assessment + Emergency Response Plan | 25,000 | - | - | - | - | 25,000 |
| SCADA Master Plan | 200,000 | - | - | - | - | 200,000 |
| SCADA Major Repairs | 25,000 | 25,000 | 25,000 | 25,000 | 25,000 | 125,000 |
| Lift Station Automation - Craig Run and Tinpot | 25,000 | 25,000 | - | - | - | 50,000 |
| Lift Station Automation - "C" and Mt Shade | 25,000 | 25,000 | - | - | - | 50,000 |
| Lift Station Automation - Mill Run and Riley Road | 25,000 | 25,000 | - | - | - | 50,000 |
| PLC Upgrades - 17/66 | 125,000 | - | - | - | - | 125,000 |
| Marshall Well System Automation | - | - | 25,000 | 25,000 | - | 50,000 |
| Remington Well Automation - The Meadows and The Ridge | - | 25,000 | - | - | - | 25,000 |
| PLC Upgrades | 50,000 | 50,000 | - | - | - | 100,000 |
| Treatment Plant Security Improvements | 20,000 | 20,000 | 20,000 | 20,000 | 20,000 | 100,000 |
| Control Building Modification | 100,000 | 300,000 | - | - | - | 400,000 |
| SBR Equipment Replacement | 120,000 | - | - | - | - | 120,000 |
| Effluent Pump #3 | 20,000 | - | - | - | - | 20,000 |
| Lab Equipment | 3,500 | - | - | - | - | 3,500 |
| Chem Scan Rebuild | 5,000 | - | - | - | - | 5,000 |
| Filter Air Compressor Replacement | 3,500 | - | - | - | - | 3,500 |
| UV Replacement Parts | 10,000 | - | - | - | - | 10,000 |
| Denitrification Filter Air Lift Replacement | 6,000 | - | - | - | - | 6,000 |
| Replace belt press | - | 500,000 | - | - | - | 500,000 |
| I/I - Town of Remington | 680,000 | 370,000 | - | - | - | 1,050,000 |
| I/I - Bealeton East of CR PS - Flow Area #5 - SSES/CIP Development | - | 250,000 | - | - | - | 250,000 |
| I/I - Bealeton East of CR PS - Flow Area #5 | - | - | 600,000 | - | - | 600,000 |
| Flow Monitoring I/I Evaluation | - | - | - | 100,000 | - | 100,000 |
| I/I - The Plains | 200,000 | 600,000 | - | - | - | 800,000 |
| I/I - Marshall South Main Street | - | - | 400,000 | 500,000 | - | 900,000 |
| Flow Monitoring I/I Evaluation | - | - | - | - | 100,000 | 100,000 |
| New Baltimore Phase 1 Flow Monitoring | - | - | - | - | 100,000 | 100,000 |
| Lift Station Improvements | 75,000 | 20,000 | 20,000 | 20,000 | 20,000 | 155,000 |
| Craig Run and Tin Pot LS wetwell coating | - | 200,000 | - | - | - | 200,000 |
| VFD Replacement - East End PS (2) and Brookside PS (1) | 30,000 | - | - | - | - | 30,000 |
| Leak Detection Services and Repairs | 50,000 | 50,000 | 50,000 | 50,000 | 50,000 | 250,000 |
| AMI - Utility Management | - | 50,000 | - | - | - | 50,000 |
| Water System - Hydrotank Automation (Repairs and Cleaning Services) | 60,000 | 60,000 | 60,000 | - | - | 180,000 |
| Repair Well Houses | 20,000 | 20,000 | 20,000 | 20,000 | 20,000 | 100,000 |
| Upgrade Water Meters with radio read | 70,000 | 70,000 | - | - | - | 140,000 |
| Fire Hydrant Testing and Maintenance Program | - | - | - | - | 200,000 | 200,000 |
| New Baltimore Water Systems Upgrade (Based on Water Modeling) | 100,000 | 1,000,000 | 1,000,000 | 1,000,000 | 1,000,000 | 4,100,000 |
| Anderson Avenue Line Replacement | 115,000 | - | - | - | - | 115,000 |
| Salem Avenue Line Replacement | - | 115,000 | - | - | - | 115,000 |
| Bethel Academy Line Replacement | - | - | - | 200,000 | - | 200,000 |
| Well G-4 Monitoring Service | 30,000 | 30,000 | - | - | - | 60,000 |
| Marshall Well Monitoring | 40,000 | - | - | - | - | 40,000 |
| Waterloo rehabilitation, redrill, tie in well #4 | - | - | - | 200,000 | 200,000 | 400,000 |
| Project Totals | \$ 3,300,000 | \$ 4,771,000 | \$ 2,840,000 | \$ 4,290,000 | \$ 3,115,000 | \$ 18,316,000 |

CAPITAL ASSETS AND LONG TERM DEBT: (Continued)

Long-Term Debt –

The Authority has five Revenue Bonds and one Capital Lease, totaling \$12,323,800, as of June 30, 2020. The Authority obtained one new Capital Lease in FY2020 to purchase heavy equipment and machinery. The following graph provides detail of principal and interest amounts due on the Revenue Bonds over the next ten years:



More detailed information on the Authority's long-term obligations are presented in Note 8.

ECONOMIC FACTORS

In FY2020, the Authority's Non-Cash Revenue from Developer Contribution in the form of infrastructure was \$355,060. Availability Fee Revenue has decreased in FY2020 to \$893,800 as building projects in the service district are completed. In FY2020, FY2019, and FY2018 availability fee revenues were \$893,800, \$1.6 million, \$3 million, respectively. The Authority will continue to forecast its revenues in a conservative manner. In addition, the Authority will continue to monitor its operational and capital requirements to ensure that quality, reliable water and wastewater services are provided to customers in an environmentally responsible and sustainable manner.

The Authority's rates, fees, and other charges are structured to produce enough revenue to service debt, and to meet all operational expenses. While user rates met these goals in FY2020, the effects of the pandemic, inflation, cost increases due to regulatory changes, and the need to establish set-aside funds to continue to cover the costs of capital replacement make increases to user rates probable over the next several fiscal years.

REQUEST FOR INFORMATION

The financial report is intended to provide customers, note holders, and creditors with a general overview of the Authority's financial position, and to demonstrate its ability to provide services to its customers. Questions concerning information provided in this report, or request for additional financial information should be directed to the Director of Finance, Fauquier County Water and Sanitation Authority, by mail or in person at 7172 Kennedy Road, Warrenton, Virginia, 20187, by telephone at (540) 349-2092, or by visiting the Authority's website at www.fcwsa.org.

Basic Financial Statements

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FAUQUIER COUNTY WATER AND SANITATION AUTHORITY

Statements of Net Position
At June 30, 2020 and 2019

| | <u>2020</u> | <u>2019</u> |
|--|------------------------------|------------------------------|
| ASSETS | | |
| Current Assets: | | |
| Cash and cash equivalents | \$ 15,167,229 | \$ 14,608,172 |
| Accounts receivable (net of allowance for doubtful accounts) | 1,681,008 | 1,515,636 |
| Due from other governments | 100,000 | 100,000 |
| Other receivable | 150,627 | - |
| Prepaid items | 117,723 | 142,419 |
| Other current assets | <u>16,600</u> | <u>16,600</u> |
| Total current assets | <u>\$ 17,233,187</u> | <u>\$ 16,382,827</u> |
| Noncurrent Assets: | | |
| Restricted Assets: | | |
| Cash and cash equivalents: | | |
| Security deposits and construction meter deposits | \$ 153,075 | \$ 152,693 |
| Performance bonds | 13,231 | 90,007 |
| Opal water system | 369,386 | 369,386 |
| Unexpended bond proceeds | <u>3,712,285</u> | <u>3,880,593</u> |
| Total restricted assets | <u>\$ 4,247,977</u> | <u>\$ 4,492,679</u> |
| Net pension asset | <u>\$ -</u> | <u>\$ 133,634</u> |
| Other noncurrent assets | <u>\$ 50,000</u> | <u>\$ 55,750</u> |
| Capital Assets: | | |
| Capital assets not being depreciated: | | |
| Land | \$ 651,060 | \$ 651,060 |
| Construction in progress | 2,280,997 | 3,340,888 |
| Capital assets being depreciated: | | |
| Structures and improvements | 60,986,584 | 58,636,264 |
| Infrastructure | 60,307,393 | 58,913,661 |
| Vehicles | 1,872,862 | 1,335,008 |
| Machinery and equipment | 14,750,883 | 13,844,913 |
| Accumulated depreciation | <u>(60,400,703)</u> | <u>(57,004,529)</u> |
| Net capital assets | <u>\$ 80,449,076</u> | <u>\$ 79,717,265</u> |
| Total noncurrent assets | <u>\$ 84,747,053</u> | <u>\$ 84,399,328</u> |
| Total assets | <u>\$ 101,980,240</u> | <u>\$ 100,782,155</u> |
| DEFERRED OUTFLOWS OF RESOURCES | | |
| Pension related items | \$ 540,353 | \$ 245,212 |
| OPEB related items | <u>59,671</u> | <u>39,112</u> |
| Total deferred outflows of resources | <u>\$ 600,024</u> | <u>\$ 284,324</u> |
| Total assets and deferred outflows of resources | <u><u>\$ 102,580,264</u></u> | <u><u>\$ 101,066,479</u></u> |

FAUQUIER COUNTY WATER AND SANITATION AUTHORITY

Statements of Net Position
At June 30, 2020 and 2019 (Continued)

| | <u>2020</u> | <u>2019</u> |
|--|------------------------------|------------------------------|
| LIABILITIES | | |
| Current Liabilities: | | |
| Accounts payable | \$ 661,349 | \$ 634,633 |
| Accrued interest | 37,098 | 40,785 |
| Retainage payable | 10,692 | 74,588 |
| Revenue bonds - current portion | 1,370,741 | 1,339,109 |
| Capital lease - current portion | 179,000 | - |
| Compensated absences - current portion | 49,245 | 36,796 |
| Liabilities payable from Restricted Assets: | | |
| Performance bonds | 13,231 | 90,007 |
| Security deposits and construction meter deposits | <u>153,075</u> | <u>152,693</u> |
| Total current liabilities | <u>\$ 2,474,431</u> | <u>\$ 2,368,611</u> |
| Noncurrent Liabilities: | | |
| Revenue bonds - less current portion | \$ 9,619,059 | \$ 10,989,800 |
| Capital lease - less current portion | 1,155,000 | - |
| Compensated absences-less current portion | 443,200 | 331,163 |
| Net pension liability | 313,884 | - |
| Net OPEB liability | <u>257,271</u> | <u>240,000</u> |
| Total noncurrent liabilities | <u>\$ 11,788,414</u> | <u>\$ 11,560,963</u> |
| Total liabilities | <u>\$ 14,262,845</u> | <u>\$ 13,929,574</u> |
| DEFERRED INFLOWS OF RESOURCES | | |
| Deferred amount on refunding | \$ 5,196 | \$ 9,853 |
| Pension related items | 176,966 | 222,615 |
| OPEB related items | <u>18,821</u> | <u>25,000</u> |
| Total deferred inflows of resources | <u>\$ 200,983</u> | <u>\$ 257,468</u> |
| NET POSITION | | |
| Net investment in capital assets | \$ 71,821,673 | \$ 71,184,508 |
| Restricted: | | |
| Opal water system | 369,386 | 369,386 |
| Unrestricted | <u>15,925,377</u> | <u>15,325,543</u> |
| Total net position | <u>\$ 88,116,436</u> | <u>\$ 86,879,437</u> |
| Total liabilities, deferred inflows of resources and net position | <u><u>\$ 102,580,264</u></u> | <u><u>\$ 101,066,479</u></u> |

The accompanying notes to financial statements are an integral part of these statements.

FAUQUIER COUNTY WATER AND SANITATION AUTHORITY

Statements of Revenues, Expenses, and Changes in Net Position Years Ended June 30, 2020 and 2019

| | <u>2020</u> | <u>2019</u> |
|--|-----------------------------|-----------------------------|
| Operating revenues: | | |
| Water service | \$ 5,094,624 | \$ 4,793,437 |
| Sewer service | 5,353,484 | 5,144,754 |
| Septic service | 439,891 | 388,808 |
| Late charges | 124,090 | 181,607 |
| Other operating revenues | 303,788 | 276,633 |
| Total operating revenues | \$ <u>11,315,877</u> | \$ <u>10,785,239</u> |
| Operating expenses: | | |
| Salaries | \$ 3,539,417 | \$ 3,093,075 |
| Fringe benefits | 1,044,151 | 837,296 |
| General and administrative | 582,573 | 497,459 |
| Operations and maintenance | 2,589,780 | 2,463,265 |
| Depreciation expense | 3,504,050 | 3,321,632 |
| Total operating expenses | \$ <u>11,259,971</u> | \$ <u>10,212,727</u> |
| Net operating income (loss) | \$ <u>55,906</u> | \$ <u>572,512</u> |
| Nonoperating revenue (expenses): | | |
| Availability fees | \$ 893,800 | \$ 1,670,737 |
| Interest income | 232,502 | 299,055 |
| Interest expense | (300,269) | (315,493) |
| Net nonoperating revenue (expenses) | \$ <u>826,033</u> | \$ <u>1,654,299</u> |
| Net income (loss) before capital contributions | \$ 881,939 | \$ 2,226,811 |
| Capital Contributions | <u>355,060</u> | <u>3,540,852</u> |
| Change in net position | \$ 1,236,999 | \$ 5,767,663 |
| Net position, beginning of year | <u>86,879,437</u> | <u>81,111,774</u> |
| Net position, end of year | \$ <u><u>88,116,436</u></u> | \$ <u><u>86,879,437</u></u> |

The accompanying notes to financial statements are an integral part of these statements.

FAUQUIER COUNTY WATER AND SANITATION AUTHORITY

Statements of Cash Flows

Years Ended June 30, 2020 and 2019

| | <u>2020</u> | <u>2019</u> |
|--|-----------------------|-----------------------|
| Cash flows from operating activities: | | |
| Receipts from customers and users | \$ 11,156,637 | \$ 10,725,129 |
| Payments to suppliers for goods and services | (3,218,317) | (3,138,113) |
| Payments to and on behalf of employees for services | (4,361,821) | (3,920,866) |
| Net cash provided by (used for) operating activities | <u>\$ 3,576,499</u> | <u>\$ 3,666,150</u> |
| Cash flows from capital and related financing activities: | | |
| Purchases of property, equipment and construction in progress | \$ (3,997,948) | \$ (3,821,216) |
| Interest payments | (308,613) | (328,860) |
| Principal payments on long-term debt | (1,339,109) | (1,433,462) |
| Proceeds from long-term debt issued | 1,334,000 | - |
| Proceeds from availability fees | 893,800 | 1,670,737 |
| Net cash (used for) capital and related financing activities | <u>\$ (3,417,870)</u> | <u>\$ (3,912,801)</u> |
| Cash flows from noncapital financing activities: | | |
| Performance bond | \$ (76,776) | \$ - |
| Cash flows from investing activities: | | |
| Interest income | \$ 232,502 | \$ 299,055 |
| Net increase (decrease) in cash and cash equivalents | \$ 314,355 | \$ 52,404 |
| Cash and cash equivalents at beginning of year | 19,100,851 | 19,048,447 |
| Cash and cash equivalents at end of year | <u>\$ 19,415,206</u> | <u>\$ 19,100,851</u> |
| Reconciliation of operating (loss) to net cash provided by (used for) operating activities: | | |
| Cash flows from operations: | | |
| Income (loss) from operating activities | \$ 55,906 | \$ 572,512 |
| Reconciliation of operating income (loss) to net cash provided by (used for) operating activities: | | |
| Depreciation expense | 3,504,050 | 3,321,632 |
| Changes in operating assets and liabilities: | | |
| (Increase) decrease in accounts receivable | (165,372) | (24,450) |
| (Increase) decrease in due from other governments | - | 19,922 |
| (Increase) decrease in other receivable | (150,627) | - |
| (Increase) decrease in prepaid items | 24,696 | (126,197) |
| (Increase) decrease in other noncurrent assets | 5,750 | (5,000) |
| Increase (decrease) in compensated absences | 124,486 | 83,891 |
| (Increase) decrease in deferred outflows of resources - pension | (295,141) | 64,836 |
| Increase (decrease) in deferred inflows of resources - pension | (45,649) | (85,656) |
| (Increase) decrease in deferred outflows of resources - OPEB | (20,559) | (10,380) |
| Increase (decrease) in deferred inflows of resources - OPEB | (6,179) | (2,000) |
| (Increase) decrease in net pension liability/asset | 447,518 | (40,186) |
| Increase (decrease) in net OPEB liability | 17,271 | (1,000) |
| Increase (decrease) in operating accounts payable | 79,967 | (51,192) |
| Increase (decrease) in security deposits | 382 | (50,582) |
| Net cash provided by (used for) operating activities | <u>\$ 3,576,499</u> | <u>\$ 3,666,150</u> |
| Reconciliation of Cash: | | |
| Cash and cash equivalents | \$ 15,167,229 | \$ 14,608,172 |
| Restricted cash and cash equivalents | 4,247,977 | 4,492,679 |
| Total | <u>\$ 19,415,206</u> | <u>\$ 19,100,851</u> |
| Noncash investing, capital and financing activities | | |
| Contributions of capital assets | \$ 355,060 | \$ 3,540,852 |
| (Increase) decrease in retainage payable for capital projects | 63,896 | 91,427 |

The accompanying notes to financial statements are an integral part of these statements.

FAUQUIER COUNTY WATER AND SANITATION AUTHORITY

Notes to Financial Statements
As of June 30, 2020 and 2019

NOTE 1–BASIS OF PRESENTATION:

A. Organization and Purpose

The Fauquier County Water and Sanitation Authority was created by the Fauquier County Board of Supervisors, pursuant to the provisions of the Virginia Water and Sanitation Authorities Act, Section 15.2-5100 et. seq. of the Code of Virginia, 1950, as amended. The by-laws and rules for the transaction of the business of the Fauquier County Water and Sanitation Authority are made pursuant to authority vested in this Authority by the general provisions of the Virginia Water and Waste Authorities Act. The Authority is authorized to acquire, construct, operate, and maintain an integrated water and sewer system for Fauquier County, Virginia.

B. Financial Reporting Entity

The Fauquier County Water and Sanitation Authority has determined that it is a related organization to Fauquier County in accordance with Governmental Accounting Standards Board Statement 14. The Authority is a legally separate organization whose Board members are appointed by the Fauquier County Board of Supervisors. Since the Board of Supervisors cannot impose its will on the Authority and since there is no potential financial benefit (or burden) in the relationship, the Board of Supervisors is not financially accountable for the Authority. Accordingly, the Authority is not considered a component unit of the County.

NOTE 2–SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

A. Basic Financial Statements

Since the Authority is only engaged in business-type activities, it is required to present only the financial statements required for enterprise funds. For the Authority, the basic financial statements and required supplementary information consist of:

- Management's discussion and analysis
- Enterprise fund financial statements
 - Statement of Net Position
 - Statement of Revenues, Expenses, and Changes in Net Position
 - Statement of Cash Flows
 - Notes to Financial Statements
- Schedule of Changes in Net Pension Liability (Asset) and Related Ratios
- Schedule of Employer Contributions – Pension Plan
- Notes to Required Supplementary Information – Pension Plan
- Schedule of Authority's Share of Net OPEB Liability – Group Life Insurance Program
- Schedule of Employer Contributions – Group Life Insurance Program
- Notes to Required Supplementary Information – Group Life Insurance Program

FAUQUIER COUNTY WATER AND SANITATION AUTHORITY

Notes to Financial Statements
As of June 30, 2020 and 2019 (Continued)

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

B. Basis of Accounting

The Authority operates as an enterprise fund and its accounts are maintained on the accrual basis of accounting. Under this method, revenues are recognized when earned, and expenses are recorded as liabilities when incurred, without regard to receipt or payment of cash. The Authority accrues revenue for services rendered but not yet billed at the end of the fiscal year.

The Authority distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Authority's principal ongoing operations. The principal operating revenues of the Authority are charges to customers for sales and services. The Authority also recognizes as operating revenue the portion of availability charges intended to recover the cost of connecting new customers to the system. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

C. Cash and Cash Equivalents

The Authority's cash and cash equivalents consist of cash on hand, demand deposits, certificates of deposit and short-term investments with original maturities of three months or less from the date of acquisition.

D. Restricted Assets

The Authority records security deposit amounts received from customers as restricted assets on the statement of net position.

Also, certain proceeds of the Authority's revenue bonds are classified as restricted assets on the statement of net position because they are to be expended on various water and sewer capital projects and/or used for certain purposes.

E. Capital Assets

Capital assets include property, plant, and equipment and infrastructure. Capital assets are defined by the Authority as assets with an initial, individual cost of more than \$3,500, except for water meters for new construction, and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated acquisition value at the date of donation.

FAUQUIER COUNTY WATER AND SANITATION AUTHORITY

Notes to Financial Statements
As of June 30, 2020 and 2019 (Continued)

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

E. Capital Assets: (Continued)

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized.

Major outlays for capital assets are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. No interest was capitalized to construction projects during the current or prior fiscal year. Depreciation expense totaled \$3,504,050 for the year ended June 30, 2020 and \$3,321,632 for the year ended June 30, 2019.

Property and equipment is being depreciated using the straight line method over the following estimated useful lives:

| <u>Assets</u> | <u>Years</u> |
|---------------------------------|--------------|
| Treatment plant | 28 years |
| Buildings and improvements | 28 years |
| Water and sewer lines | 50 years |
| Meters | 10-15 years |
| Vehicles | 6 years |
| Other furnishings and equipment | 5-10 years |

F. Other Significant Accounting Policies

- All trade receivables are shown net of an allowance for doubtful accounts. The Authority calculates its allowance for doubtful accounts using historical collection data and, in certain cases, specific account analysis. The allowance totaled \$116,945 at June 30, 2020 and \$93,602 for the year ended June 30, 2019.
- Investments - Money market investments, participating interest-earning investment contracts (repurchase agreements) that have a remaining maturity at time of purchase of one year or less, nonparticipating interest-earning investment contracts (nonnegotiable certificates of deposit (CDs)) and external investment pools are measured at amortized cost. All other investments are stated at fair value.

FAUQUIER COUNTY WATER AND SANITATION AUTHORITY

Notes to Financial Statements
As of June 30, 2020 and 2019 (Continued)

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

G. Use of Estimates

The preparation of financial statements in conformity with 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.

H. Net Position

Net position is the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources. Net investment in capital assets represents capital assets, less accumulated depreciation less any outstanding debt related to the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are also included in this component of net position.

I. Net Position Flow Assumption

Sometimes the government will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Authority's position to consider restricted - net position to have been depleted before unrestricted – net position is applied.

J. Compensated Absences

The Authority accrues compensated absences (annual and sick leave benefits) when vested. The current and noncurrent portions of the compensated absences liabilities are recorded as accrued liabilities.

K. Restatement / Reclassifications

Certain amounts in previously issued financial statements have been reclassified to conform to current year classifications.

FAUQUIER COUNTY WATER AND SANITATION AUTHORITY

Notes to Financial Statements
As of June 30, 2020 and 2019 (Continued)

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

L. Non-exchange Transactions

The Authority receives non-exchange transactions from developers of property, lines and improvements. These non-exchange transactions are considered capital contributions on the statements of revenues, expenses and changes in net position.

M. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The Authority has one item that qualifies for reporting in this category. It is comprised of certain items related to the measurement of the net pension liability (asset) and net OPEB liability and contributions to the pension and OPEB plans made during the current year and subsequent to the net pension asset and net OPEB liability measurement date. For more detailed information on these items, reference the related notes.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Authority has multiple items that qualify for reporting in this category. One item is the deferred amount on refunding debt. In addition, certain items related to the measurement of the net pension liability (asset) and net OPEB liability are reported as deferred inflows of resources. For more detailed information on these items, reference the related notes.

N. Pensions

For purposes of measuring the net pension liability (asset), deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Authority's Retirement Plan and the additions to/deductions from the Authority's Retirement Plan's net fiduciary position have been determined on the same basis as they were reported by the Virginia Retirement System (VRS). For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

FAUQUIER COUNTY WATER AND SANITATION AUTHORITY

Notes to Financial Statements
As of June 30, 2020 and 2019 (Continued)

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

O. Other Postemployment Benefits (OPEB)

Group Life Insurance

For purposes of measuring the net GLI Program OPEB liability, deferred outflows of resources and deferred inflows of resources related to the GLI OPEB, and GLI OPEB expense, information about the fiduciary net position of the VRS GLI Program OPEB and the additions to/deductions from the VRS GLI OPEB's net fiduciary position have been determined on the same basis as they were reported by VRS. In addition, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

P. Upcoming Pronouncements

Statement No. 84, *Fiduciary Activities*, establishes criteria for identifying fiduciary activities of all state and local governments for accounting and financial reporting purposes and how those activities should be reported. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019.

Statement No. 87, *Leases*, requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The requirements of this Statement are effective for reporting periods beginning after June 15, 2021.

Statement No. 90, *Majority Equity Interests – An Amendment of GASB Statements No. 14 and No. 61*, provides guidance for reporting a government's majority equity interest in a legally separate organization and for reporting financial statement information for certain component units. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019.

Statement No. 91, *Conduit Debt Obligations*, provides a single method of reporting conduit debt obligations by issuers and eliminates diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. The requirements of this Statement are effective for reporting periods beginning after December 15, 2021.

Management is currently evaluating the impact these standards will have on the financial statements when adopted.

FAUQUIER COUNTY WATER AND SANITATION AUTHORITY

Notes to Financial Statements
As of June 30, 2020 and 2019 (Continued)

NOTE 3—DEPOSITS AND INVESTMENTS:

Deposits

Deposits with banks are covered by the Federal Deposit Insurance Corporation (FDIC) and collateralized in accordance with the Virginia Security for Public Deposits Act (the “Act”) Section 2.2-4400 et. seq. of the Code of Virginia. Under the Act, banks and savings institutions holding public deposits in excess of the amount insured by FDIC must pledge collateral to the Commonwealth of Virginia Treasury Board. Financial Institutions may choose between two collateralization methodologies and depending upon that choice will pledge collateral that ranges in amounts from 50% to 130% of excess deposits. Accordingly, all deposits are considered fully collateralized.

Investments

Statutes authorize the Authority to invest in obligations of the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, obligations of the International Bank for Reconstruction and Development (World Bank), the Asian Development Bank, the African Development Bank, “prime quality” commercial paper and certain corporate notes, banker’s acceptances, repurchase agreements and the State Treasurer’s Local Government Investment Pool (LGIP).

Credit Risk of Debt Securities

State statutes require that commercial paper have a short-term debt rating of no less than “A-1” (or its equivalent) from at least two of the following; Moody’s Investors Service, Standard & Poor’s and Fitch Investor’s Service. Corporate notes, negotiable Certificates of Deposit and bank deposit notes maturing in less than one year must have a short-term debt rating of at least “A-1” by Standard & Poor’s and “P-1” by Moody’s Investor Service. Notes having a maturity of greater than one year must be rated “AA” by Standard & Poor’s and “Aa” by Moody’s Investor Service. The Authority’s rated debt investments as of June 30, 2020 were rated by Standard & Poor’s and/or an equivalent national rating organization and the ratings are presented below using the Standard & Poor’s rating scale.

| Authority's Rated Debt Investments' Values | |
|---|---------------------------------|
| Rated Debt Investments | Fair Quality Ratings |
| | AAAm |
| Local Government Investment Pool | \$ 7,502,187 |
| Virginia State Non-Arbitrage Program | 3,910,507 |
| Total | <u>\$ 11,412,694</u> |

FAUQUIER COUNTY WATER AND SANITATION AUTHORITY

Notes to Financial Statements
As of June 30, 2020 and 2019 (Continued)

NOTE 3—DEPOSITS AND INVESTMENTS: (CONTINUED)

External Investment Pools: (Continued)

The value of the positions in the external investment pools (Local Government Investment Pool and State Non-Arbitrage Pool) is the same as the value of the pool shares. As LGIP and SNAP are not SEC registered, regulatory oversight of the pool rests with the Virginia State Treasury. LGIP and SNAP are amortized cost basis portfolios. There are no withdrawal limitations or restrictions imposed on participants.

Interest Rate Risk

Interest rate risk is defined as the risk that changes in interest rates will adversely affect the fair value of an investment.

| Investment type | Investment Maturities (in years) | |
|--------------------------------------|----------------------------------|----------------------|
| | Fair Value | Less than 1 yr |
| Local Government Investment Pool | \$ 7,502,187 | \$ 7,502,187 |
| Virginia State Non-Arbitrage Program | 3,910,507 | 3,910,507 |
| Total | <u>\$ 11,412,694</u> | <u>\$ 11,412,694</u> |

NOTE 4—RESTRICTED ASSETS:

Restricted assets and net position at June 30, 2020 and 2019 consist of the following:

| | Balance June 30, 2020 | Balance June 30, 2019 |
|---|-----------------------------|-----------------------------|
| Restricted Assets: | | |
| Security deposits and construction meter deposits | \$ 153,075 | \$ 152,693 |
| Performance bonds | 13,231 | 90,007 |
| Opal water system | 369,386 | 369,386 |
| Unexpended bond proceeds | <u>3,712,285</u> | <u>3,880,593</u> |
| Total restricted assets | \$ 4,247,977 | \$ 4,492,679 |
| Restricted net position: | | |
| Less: | | |
| Security deposits and construction meter deposits | (153,075) | (152,693) |
| Performance bonds | (13,231) | (90,007) |
| Unexpended bond proceeds | <u>(3,712,285)</u> | <u>(3,880,593)</u> |
| Total restricted net position | <u>\$ 369,386</u> | <u>\$ 369,386</u> |

FAUQUIER COUNTY WATER AND SANITATION AUTHORITY

Notes to Financial Statements
As of June 30, 2020 and 2019 (Continued)

NOTE 5—DUE TO/FROM OTHER GOVERNMENTS:

At June 30, 2020 and 2019, respectively, the Authority has receivables from other governments as follows:

| | Balance June 30, 2020 | Balance June 30, 2019 |
|-----------------|--------------------------------------|--------------------------------------|
| Fauquier County | \$ 100,000 | \$ 100,000 |
| Total | <u>\$ 100,000</u> | <u>\$ 100,000</u> |

NOTE 6—CAPITAL ASSETS:

Property and Equipment

The following is a summary of changes to property and equipment for the year ending June 30, 2020:

| | Balance July 1, 2019 | Additions | Deletions | Balance June 30, 2020 |
|--|-------------------------------------|---------------------|---------------------|--------------------------------------|
| Capital assets, not being depreciated: | | | | |
| Land | \$ 651,060 | \$ - | \$ - | \$ 651,060 |
| Construction in progress | 3,340,888 | 1,903,911 | 2,963,802 | 2,280,997 |
| Total capital assets not being depreciated | <u>\$ 3,991,948</u> | <u>\$ 1,903,911</u> | <u>\$ 2,963,802</u> | <u>\$ 2,932,057</u> |
| Capital assets being depreciated: | | | | |
| Structures and improvements | \$ 58,636,264 | \$ 2,350,320 | \$ - | \$ 60,986,584 |
| Infrastructure | 58,913,661 | 1,393,732 | - | 60,307,393 |
| Vehicles | 1,335,008 | 537,854 | - | 1,872,862 |
| Machinery and equipment | 13,844,913 | 1,013,846 | 107,876 | 14,750,883 |
| Total capital assets being depreciated | <u>\$ 132,729,846</u> | <u>\$ 5,295,752</u> | <u>\$ 107,876</u> | <u>\$ 137,917,722</u> |
| Accumulated depreciation: | | | | |
| Structures and improvements | \$ 26,299,046 | \$ 2,010,352 | \$ - | \$ 28,309,398 |
| Infrastructure | 17,122,269 | 1,199,415 | - | 18,321,684 |
| Vehicles | 905,760 | 95,366 | - | 1,001,126 |
| Machinery and equipment | 12,677,454 | 198,917 | 107,876 | 12,768,495 |
| Total accumulated depreciation | <u>\$ 57,004,529</u> | <u>\$ 3,504,050</u> | <u>\$ 107,876</u> | <u>\$ 60,400,703</u> |
| Total capital assets being depreciated, net | <u>\$ 75,725,317</u> | <u>\$ 1,791,702</u> | <u>\$ -</u> | <u>\$ 77,517,019</u> |
| Business-type activities capital assets, net | <u>\$ 79,717,265</u> | <u>\$ 3,695,613</u> | <u>\$ 2,963,802</u> | <u>\$ 80,449,076</u> |

Depreciation expense for the year ended June 30, 2020 totaled \$3,504,050.

FAUQUIER COUNTY WATER AND SANITATION AUTHORITY

Notes to Financial Statements
As of June 30, 2020 and 2019 (Continued)

NOTE 6—CAPITAL ASSETS: (CONTINUED)

Property and Equipment: (Continued)

The following is a summary of changes to property and equipment for the year ending June 30, 2019:

| | Balance July 1, 2018 | Additions | Deletions | Balance June 30, 2019 |
|--|----------------------------|--------------|--------------|-----------------------------|
| Capital assets, not being depreciated: | | | | |
| Land | \$ 651,060 | \$ - | \$ - | \$ 651,060 |
| Construction in progress | 3,212,677 | 2,597,340 | 2,469,129 | 3,340,888 |
| Total capital assets not being depreciated | \$ 3,863,737 | \$ 2,597,340 | \$ 2,469,129 | \$ 3,991,948 |
| Capital assets being depreciated: | | | | |
| Structures and improvements | \$ 56,239,263 | \$ 2,397,001 | \$ - | \$ 58,636,264 |
| Infrastructure | 55,066,662 | 3,846,999 | - | 58,913,661 |
| Vehicles | 1,189,697 | 160,975 | 15,664 | 1,335,008 |
| Machinery and equipment | 13,647,703 | 332,230 | 135,020 | 13,844,913 |
| Total capital assets being depreciated | \$ 126,143,325 | \$ 6,737,205 | \$ 150,684 | \$ 132,729,846 |
| Accumulated depreciation: | | | | |
| Structures and improvements | \$ 24,358,216 | \$ 1,940,830 | \$ - | \$ 26,299,046 |
| Infrastructure | 15,999,794 | 1,122,475 | - | 17,122,269 |
| Vehicles | 847,171 | 74,253 | 15,664 | 905,760 |
| Machinery and equipment | 12,628,400 | 184,074 | 135,020 | 12,677,454 |
| Total accumulated depreciation | \$ 53,833,581 | \$ 3,321,632 | \$ 150,684 | \$ 57,004,529 |
| Total capital assets being depreciated, net | \$ 72,309,744 | \$ 3,415,573 | \$ - | \$ 75,725,317 |
| Business-type activities capital assets, net | \$ 76,173,481 | \$ 6,012,913 | \$ 2,469,129 | \$ 79,717,265 |

Depreciation expense for the year ended June 30, 2019 totaled \$3,321,632.

Computation of net investment in capital assets:

| | Balance June 30, 2020 | Balance June 30, 2019 |
|---|-----------------------------|-----------------------------|
| Net capital assets | \$ 80,449,076 | \$ 79,717,265 |
| Revenue bonds | (10,989,800) | (12,328,909) |
| Capital leases | (1,334,000) | - |
| Debt proceeds received but unexpended on capital assets | 3,712,285 | 3,880,593 |
| Retainage payable | (10,692) | (74,588) |
| Deferred amount on refunding | (5,196) | (9,853) |
| Net investment in capital assets | \$ 71,821,673 | \$ 71,184,508 |

FAUQUIER COUNTY WATER AND SANITATION AUTHORITY

Notes to Financial Statements
As of June 30, 2020 and 2019 (Continued)

NOTE 6—CAPITAL ASSETS: (CONTINUED)

The following is a summary of capital project activity for the fiscal year ending June 30, 2020 and 2019:

| | Balance July 1, 2019 | Additions | Deletions | Balance June 30, 2020 |
|--------------------------------|-------------------------------------|---------------------|---------------------|--------------------------------------|
| New Baltimore G-4 Well | \$ 635,780 | \$ 98,085 | \$ 733,865 | \$ - |
| I & I Remington and Marshall | 752,099 | 950,523 | 752,099 | 950,523 |
| Remington Sludge Bay Extension | 407,276 | 144,966 | 552,242 | - |
| Marshall Salem Well | 386,666 | 14,333 | - | 400,999 |
| Miscellaneous projects | 1,159,067 | 696,004 | 925,596 | 929,475 |
| Total construction in progress | <u>\$ 3,340,888</u> | <u>\$ 1,903,911</u> | <u>\$ 2,963,802</u> | <u>\$ 2,280,997</u> |
| | Balance July 1, 2018 | Additions | Deletions | Balance June 30, 2019 |
| New Baltimore Water Tank | \$ 795,446 | \$ 631,731 | \$ 1,427,177 | \$ - |
| New Baltimore G-4 Well | 193,041 | 519,386 | 76,647 | 635,780 |
| I & I Remington and Marshall | 662,858 | 89,241 | - | 752,099 |
| Remington Sludge Bay Extension | 61,564 | 345,712 | - | 407,276 |
| Marshall Salem Well | 350,886 | 35,780 | - | 386,666 |
| Rock Springs Line Replacement | 294,192 | 11,954 | 306,146 | - |
| Miscellaneous projects | 854,690 | 963,536 | 659,159 | 1,159,067 |
| Total construction in progress | <u>\$ 3,212,677</u> | <u>\$ 2,597,340</u> | <u>\$ 2,469,129</u> | <u>\$ 3,340,888</u> |

FAUQUIER COUNTY WATER AND SANITATION AUTHORITY

Notes to Financial Statements
As of June 30, 2020 and 2019 (Continued)

NOTE 7—LONG-TERM OBLIGATIONS:

The following is a summary of changes in long-term obligation transactions for the year ended June 30, 2020 and 2019:

| Description | Beginning Balance July 1, 2019 | Issuances/ Additions | Retirements/ Deletions | Ending Balance June 30, 2020 | Due Within One Year |
|--|---|-------------------------|---------------------------|---------------------------------------|---------------------------|
| Direct borrowings and placements: | | | | | |
| Revenue bonds | \$ 12,328,909 | \$ - | \$ 1,339,109 | \$ 10,989,800 | \$ 1,370,741 |
| Total direct borrowings and placements | \$ 12,328,909 | \$ - | \$ 1,339,109 | \$ 10,989,800 | \$ 1,370,741 |
| Capital lease | - | 1,334,000 | - | 1,334,000 | 179,000 |
| Net pension liability | - | 1,069,873 | 755,989 | 313,884 | - |
| Net OPEB liability | 240,000 | 75,069 | 57,798 | 257,271 | - |
| Compensated absences | 367,959 | 225,368 | 100,882 | 492,445 | 49,245 |
| Total | \$ 12,936,868 | \$ 2,704,310 | \$ 2,253,778 | \$ 13,387,400 | \$ 1,598,986 |
| Description | Restated Beginning Balance July 1, 2018 | Issuances/ Additions | Retirements/ Deletions | Ending Balance June 30, 2019 | Due Within One Year |
| Direct borrowings and placements: | | | | | |
| Revenue bonds | \$ 13,762,371 | \$ - | \$ 1,433,462 | \$ 12,328,909 | \$ 1,339,109 |
| Total direct borrowings and placements | \$ 13,762,371 | \$ - | \$ 1,433,462 | \$ 12,328,909 | \$ 1,339,109 |
| Net OPEB liability | 241,000 | 53,000 | 54,000 | 240,000 | - |
| Compensated absences | 284,068 | 142,034 | 58,143 | 367,959 | 36,796 |
| Total | \$ 14,287,439 | \$ 195,034 | \$ 1,545,605 | \$ 12,936,868 | \$ 1,375,905 |

FAUQUIER COUNTY WATER AND SANITATION AUTHORITY

Notes to Financial Statements
As of June 30, 2020 and 2019 (Continued)

NOTE 7—LONG-TERM OBLIGATIONS: (CONTINUED)

Annual requirements to amortize long-term obligations are as follows:

| Year Ending June 30, | Direct Borrowings and Placements | | | |
|-------------------------|-------------------------------------|--------------|---------------|-----------|
| | Revenue Bonds | | Capital Lease | |
| | Principal | Interest | Principal | Interest |
| 2021 | \$ 1,370,741 | \$ 263,772 | \$ 179,000 | \$ 25,064 |
| 2022 | 1,403,136 | 231,377 | 183,000 | 21,419 |
| 2023 | 1,083,787 | 199,134 | 187,000 | 17,693 |
| 2024 | 753,936 | 177,396 | 191,000 | 13,887 |
| 2025 | 773,383 | 157,948 | 194,000 | 10,010 |
| 2026 | 793,333 | 137,998 | 198,000 | 6,062 |
| 2027 | 813,798 | 117,534 | 202,000 | 2,034 |
| 2028 | 834,791 | 96,540 | - | - |
| 2029 | 856,327 | 75,005 | - | - |
| 2030 | 878,418 | 52,913 | - | - |
| 2031 | 705,133 | 31,575 | - | - |
| 2032 | 723,017 | 12,930 | - | - |
| Total | \$ 10,989,800 | \$ 1,554,122 | \$ 1,334,000 | \$ 96,169 |

Revenue bonds totaling \$10,989,800 contain a provision that in the event of default, the bond owner may declare all amounts payable under the bond to be immediately due and payable.

FAUQUIER COUNTY WATER AND SANITATION AUTHORITY

Notes to Financial Statements
As of June 30, 2020 and 2019 (Continued)

NOTE 7—LONG-TERM OBLIGATIONS: (CONTINUED)

Details of long-term obligations as of June 30, 2020 and 2019 are as follows:

| | <u>2020</u> | <u>2019</u> |
|--|----------------------|----------------------|
| Direct Borrowings and Placements: | | |
| Revenue Bonds: | | |
| \$5,870,600 revenue refunding bonds, issued November 16, 2012, payable in quarterly installments of \$162,320, including principal and interest, beginning February 1, 2013 through November 1, 2022, interest payable at 2.02% . | \$ 1,579,011 | \$ 2,188,678 |
| \$456,400 revenue refunding bonds, issued November 16, 2012, payable in quarterly installments of \$13,476, including principal and interest, beginning February 1, 2013 through November 1, 2022, interest payable at 3.38%. | 128,698 | 177,222 |
| \$2,350,262 revenue refunding bonds Series 2017A, issued May 25, 2017, payable in semi-annual installments of \$94,612, including principal and interest, beginning December 1, 2017 through May 1, 2032, interest payable at 2.52%. | 1,949,016 | 2,086,521 |
| \$6,800,000 revenue bonds Series 2017 B, issued May 25, 2017, payable in semi-annual installments of \$273,742, including principal and interest, beginning December 1, 2017 through May 1, 2032, interest payable at 2.52%. | 5,639,076 | 6,036,920 |
| Revenue bonds, issued July 9, 2009 payable in 35 semiannual installments of \$103,810 through September 1, 2029, final payment of \$83,981 due March 1, 2030, interest at 3.55%. On October 23, 2014 the Authority received notification of a Cost of Funds reduction from 3.55% to 2.72%. Beginning March 1, 2015, each semi-annual payment decreased to \$97,312 with a final installment of \$97,312 due March 1, 2030. | <u>1,693,999</u> | <u>1,839,568</u> |
| Total Direct Borrowings and Placements | \$ 10,989,800 | \$ 12,328,909 |
| Capital Lease: | | |
| \$1,334,000 capital lease for financing the acquisition of equipment, due in varying annual maturities, including interest at 2.014%, which is due in semi-annually. | 1,334,000 | - |
| Net Pension liability | 313,884 | - |
| Net OPEB liability | 257,271 | 240,000 |
| Compensated absences | <u>492,445</u> | <u>367,959</u> |
| Total long-term obligations | <u>\$ 13,387,400</u> | <u>\$ 12,936,868</u> |

FAUQUIER COUNTY WATER AND SANITATION AUTHORITY

Notes to Financial Statements
As of June 30, 2020 and 2019 (Continued)

NOTE 8—COMPENSATED ABSENCES:

In accordance with GASB statement 16 “Accounting for Compensated Absences,” the Authority has accrued the liability arising from outstanding compensated absences.

Authority employees accrue vacation and sick leave at various rates. The Authority has outstanding accrued vacation and sick pay at June 30 in the amount of \$492,445 for fiscal year ended June 30, 2020 and \$367,959 for fiscal year ended June 30, 2019.

NOTE 9—LITIGATION:

At June 30, 2020, there were no matters of litigation involving the Authority which would materially affect the Authority’s financial position should any court decisions on pending matters not be favorable to the Authority.

NOTE 10—CONSTRUCTION COMMITMENT:

At June 30, 2020 the Authority did not have any construction commitments outstanding.

NOTE 11—PENSION PLAN:

Plan Description

All full-time, salaried permanent employees of the Authority are automatically covered by a VRS Retirement Plan upon employment. This is an agent multiple-employer plan administered by the Virginia Retirement System (the System) along with plans for other employer groups in the Commonwealth of Virginia. Members earn one month of service credit for each month they are employed and for which they and their employer pay contributions to VRS. Members are eligible to purchase prior service, based on specific criteria as defined in the Code of Virginia, as amended. Eligible prior service that may be purchased includes prior public service, active military service, certain periods of leave, and previously refunded service.

FAUQUIER COUNTY WATER AND SANITATION AUTHORITY

Notes to Financial Statements
As of June 30, 2020 and 2019 (Continued)

NOTE 11—PENSION PLAN: (CONTINUED)

Benefit Structures

The System administers three different benefit structures for covered employees – Plan 1, Plan 2 and Hybrid. Each of these benefit structures has different eligibility criteria, as detailed below.

- a. Employees hired before July 1, 2010, vested as of January 1, 2013, and have not taken a refund, are covered under Plan 1, a defined benefit plan. Non-hazardous duty employees are eligible for an unreduced retirement benefit beginning at age 65 with at least 5 years of creditable service or age 50 with at least 30 years of creditable service. Non-hazardous duty employees may retire with a reduced benefit as early as age 55 with at least 5 years of creditable service or age 50 with at least 10 years of creditable service.
- b. Employees hired on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013 are covered under Plan 2, a defined benefit plan. Non-hazardous duty employees are eligible for an unreduced benefit beginning at their normal social security retirement age with at least 5 years of creditable service or when the sum of their age and service equals 90. Non-hazardous duty employees may retire with a reduced benefit as early as age 60 with at least 5 years of creditable service.
- c. Non-hazardous duty employees hired on or after January 1, 2014 are covered by the Hybrid Plan combining the features of a defined benefit plan and a defined contribution plan. Plan 1 and Plan 2 members also had the option of opting into this plan during the election window held January 1 – April 30, 2014 with an effective date of July 1, 2014. Employees covered by this plan are eligible for an unreduced benefit beginning at their normal social security retirement age with at least 5 years of creditable service, or when the sum of their age and service equal 90. Employees may retire with a reduced benefit as early as age 60 with at least 5 years of creditable service. For the defined contribution component, members are eligible to receive distributions upon leaving employment, subject to restrictions.

Average Final Compensation and Service Retirement Multiplier

The VRS defined benefit is a lifetime monthly benefit based on a retirement multiplier as a percentage of the employee's average final compensation multiplied by the employee's total creditable service. Under Plan 1, average final compensation is the average of the employee's 36 consecutive months of highest compensation and the multiplier is 1.7% for non-hazardous duty employees, 1.85% for sheriffs and regional jail superintendents. Under Plan 2, average final compensation is the average of the employee's 60 consecutive months of highest compensation and the retirement multiplier is 1.65% for non-hazardous duty employees, 1.85% for sheriffs and regional jail superintendents. Under the Hybrid Plan, average final compensation is the average of the employee's 60 consecutive months of highest compensation and the multiplier is 1.00%. For members who opted into the Hybrid Retirement Plan from Plan 1 or Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans.

FAUQUIER COUNTY WATER AND SANITATION AUTHORITY

Notes to Financial Statements
As of June 30, 2020 and 2019 (Continued)

NOTE 11—PENSION PLAN: (CONTINUED)

Cost-of-Living Adjustment (COLA) in Retirement and Death and Disability Benefits

Retirees with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service are eligible for an annual COLA beginning July 1 after one full calendar year from the retirement date. Retirees with a reduced benefit and who have less than 20 years of creditable service are eligible for an annual COLA beginning on July 1 after one calendar year following the unreduced retirement eligibility date. Under Plan 1, the COLA cannot exceed 5.00%. Under Plan 2 and the Hybrid Plan, the COLA cannot exceed 3.00%. The VRS also provides death and disability benefits. Title 51.1 of the Code of Virginia, as amended, assigns the authority to establish and amend benefit provisions to the General Assembly of Virginia.

Employees Covered by Benefit Terms

As of the June 30, 2018 and June 30, 2017 actuarial valuations, the following employees were covered by the benefit terms of the pension plan:

| | June 30, 2018 Number | June 30, 2017 Number |
|--|-------------------------|-------------------------|
| Inactive members or their beneficiaries currently receiving benefits | 15 | 12 |
| Inactive members: | | |
| Vested inactive members | 3 | 2 |
| Non-vested inactive members | 10 | 8 |
| Inactive members active elsewhere in VRS | 10 | 11 |
| Total inactive members | 23 | 21 |
| Active members | 45 | 46 |
| Total covered employees | 83 | 79 |

Contributions

The contribution requirement for active employees is governed by §51.1-145 of the Code of Virginia, as amended, but may be impacted as a result of funding options provided to political subdivisions by the Virginia General Assembly. Employees are required to contribute 5.00% of their compensation toward their retirement.

The Authority's contractually required employer contribution rate for the years ended June 30, 2020 and June 30, 2019 was 3.93% of covered employee compensation. These rates were based on actuarially determined rates from actuarial valuations as of June 30, 2017.

FAUQUIER COUNTY WATER AND SANITATION AUTHORITY

Notes to Financial Statements
As of June 30, 2020 and 2019 (Continued)

NOTE 11–PENSION PLAN: (CONTINUED)

Contributions: (Continued)

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the Authority were \$108,553 and \$121,771 for the years ended June 30, 2020 and June 30, 2019, respectively.

Net Pension Liability (Asset)

The net pension liability (asset) is calculated separately for each employer and represents that particular employer’s total pension liability determined in accordance with GASB Statement No. 68, less that employer’s fiduciary net position. The Authority’s net pension liability (asset) was measured as of June 30, 2019. The total pension liability used to calculate the net pension liability (asset) was determined by an actuarial valuation performed as of June 30, 2018 and rolled forward to the measurement date of June 30, 2019.

Actuarial Assumptions–General Employees

The total pension liability for General Employees in the Authority’s Retirement Plan was based on an actuarial valuation as of June 30, 2018, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2019.

| | |
|---------------------------------------|--|
| Inflation | 2.5% |
| Salary increases, including inflation | 3.5% – 5.35% |
| Investment rate of return | 7.0%, net of pension plan investment expense, including inflation* |

* Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 6.75%. However, since the difference was minimal, and a more conservative 6.75% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 6.75% to simplify preparation of pension liabilities.

FAUQUIER COUNTY WATER AND SANITATION AUTHORITY

Notes to Financial Statements
As of June 30, 2020 and 2019 (Continued)

NOTE 11—PENSION PLAN: (CONTINUED)

Actuarial Assumptions—General Employees: (Continued)

Mortality rates:

All Others (Non 10 Largest) – Non-Hazardous Duty: 15% of deaths are assumed to be service related Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates at ages 81 and older projected with scale BB to 2020; males 95% of rates; females 105% of rates.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 3 years; females 1.0% increase compounded from ages 70 to 90.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with scale BB to 2020; males set forward 2 years, 110% of rates; females 125% of rates.

The actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016, except the changes in the discount rate, which was based on the VRS Board actions effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

All Others (Non 10 Largest)—Non-Hazardous Duty:

| | |
|---|---|
| Mortality Rates (pre-retirement, post-retirement healthy, and disabled) | Updated to a more current mortality table - RP-2014 projected to 2020 |
| Retirement Rates | Lowered rates at older ages and changed final retirement from 70 to 75 |
| Withdrawal Rates | Adjusted rates to better fit experience at each year age and service through 9 years of service |
| Disability Rates | Lowered rates |
| Salary Scale | No change |
| Line of Duty Disability | Increased rate from 14% to 15% |

FAUQUIER COUNTY WATER AND SANITATION AUTHORITY

Notes to Financial Statements
As of June 30, 2020 and 2019 (Continued)

NOTE 11—PENSION PLAN: (CONTINUED)

Long-Term Expected Rate of Return

The long-term expected rate of return on pension System investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension System 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. The target asset allocation and best estimate of arithmetic real rates of return for each major asset class are summarized in the following table:

| Asset Class (Strategy) | Target Allocation | Arithmetic Long-term Expected Rate of Return | Weighted Average Long-term Expected Rate of Return |
|--------------------------------------|--------------------------|---|---|
| Public Equity | 34.00% | 5.61% | 1.91% |
| Fixed Income | 15.00% | 88.00% | 0.13% |
| Credit Strategies | 14.00% | 5.13% | 0.72% |
| Real Assets | 14.00% | 5.27% | 0.74% |
| Private Equity | 14.00% | 8.77% | 1.23% |
| MAPS - Multi-Asset Public Strategies | 6.00% | 3.52% | 0.21% |
| PIP - Private Investment Partnership | 3.00% | 6.29% | 0.19% |
| Total | 100.00% | | 5.13% |
| | | Inflation | 2.50% |
| | | *Expected arithmetic nominal return | 7.63% |

*The above allocation provides a one-year return of 7.63%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 7.11%, including expected inflation of 2.50%. The VRS Board elected a long-term rate of 6.75% which is roughly at the 40th percentile of expected long-term results of the VRS fund asset allocation.

Discount Rate

The discount rate used to measure the total pension liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Consistent with the phased-in funding provided by the General Assembly for state and teacher employer contributions; the Authority was also provided with an opportunity to use an alternative employer contribution rate. For the year ended June 30, 2019, the alternate rate was the employer contribution rate used in FY 2012 or 100% of the actuarially determined

FAUQUIER COUNTY WATER AND SANITATION AUTHORITY

Notes to Financial Statements
As of June 30, 2020 and 2019 (Continued)

NOTE 11—PENSION PLAN: (CONTINUED)

Discount Rate (Continued)

employer contribution rate from the June 30, 2017 actuarial valuations, whichever was greater. From July 1, 2019 on, participating employers are assumed to continue to contribute 100% of the actuarially determined contribution rates. 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 active and inactive employees. Therefore, the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in Net Pension Liability (Asset)

| | Increase (Decrease) | | |
|--|--------------------------------------|--|--|
| | Total Pension Liability (a) | Plan Fiduciary Net Position (b) | Net Pension Liability (Asset) (a) - (b) |
| Balances at June 30, 2018 | \$ 7,315,078 | \$ 7,448,712 | \$ (133,634) |
| Changes for the year: | | | |
| Service cost | \$ 246,411 | \$ - | \$ 246,411 |
| Interest | 504,181 | - | 504,181 |
| Changes of assumptions | 281,227 | - | 281,227 |
| Differences between expected and actual experience | 166,548 | - | 166,548 |
| Contributions - employer | - | 105,933 | (105,933) |
| Contributions - employee | - | 146,362 | (146,362) |
| Net investment income | - | 503,694 | (503,694) |
| Benefit payments, including refunds of employee contributions | (224,975) | (224,975) | - |
| Administrative expenses | - | (4,822) | 4,822 |
| Other changes | - | (318) | 318 |
| Net changes | \$ 973,392 | \$ 525,874 | \$ 447,518 |
| Balances at June 30, 2019 | \$ 8,288,470 | \$ 7,974,586 | \$ 313,884 |

FAUQUIER COUNTY WATER AND SANITATION AUTHORITY

Notes to Financial Statements
As of June 30, 2020 and 2019 (Continued)

NOTE 11—PENSION PLAN: (CONTINUED)

Changes in Net Pension Liability (Asset): (Continued)

| | Increase (Decrease) | | |
|--|--------------------------------------|--|--|
| | Total Pension Liability (a) | Plan Fiduciary Net Position (b) | Net Pension Liability (Asset) (a) - (b) |
| Balances at June 30, 2017 | \$ 6,832,685 | \$ 6,926,133 | \$ (93,448) |
| Changes for the year: | | | |
| Service cost | \$ 244,681 | \$ - | \$ 244,681 |
| Interest | 469,509 | - | 469,509 |
| Changes of assumptions | - | - | - |
| Differences between expected and actual experience | 19,035 | - | 19,035 |
| Contributions - employer | - | 119,358 | (119,358) |
| Contributions - employee | - | 143,020 | (143,020) |
| Net investment income | - | 515,935 | (515,935) |
| Benefit payments, including refunds of employee contributions | (250,832) | (250,832) | - |
| Administrative expenses | - | (4,358) | 4,358 |
| Other changes | - | (544) | 544 |
| Net changes | \$ 482,393 | \$ 522,579 | \$ (40,186) |
| Balances at June 30, 2018 | \$ 7,315,078 | \$ 7,448,712 | \$ (133,634) |

Sensitivity of the Net Pension Liability (Asset) to Changes in the Discount Rate as of June 30, 2020

The following presents the net pension asset of the Authority using the discount rate of 6.75%, as well as what the Authority's net pension liability (asset) would be if it were calculated using a discount rate that is one percentage point lower (5.75%) or one percentage point higher (7.75%) than the current rate:

| | Rate | | |
|---|--------------|------------|--------------|
| | (5.75%) | (6.75%) | (7.75%) |
| 2020 | | | |
| Authority's Net Pension Liability (Asset) | \$ 1,563,766 | \$ 313,884 | \$ (664,221) |

FAUQUIER COUNTY WATER AND SANITATION AUTHORITY

Notes to Financial Statements
As of June 30, 2020 and 2019 (Continued)

NOTE 11—PENSION PLAN: (CONTINUED)

Sensitivity of the Net Pension Liability (Asset) to Changes in the Discount Rate as of June 30, 2019

The following presents the net pension asset of the Authority using the discount rate of 7.00%, as well as what the Authority's net pension liability (asset) would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate:

| | Rate | | |
|---|-----------|-----------|-------------|
| | (6.00%) | (7.00%) | (8.00%) |
| 2019 | | | |
| Authority's Net Pension Liability (Asset) | 1,011,566 | (133,634) | (1,064,688) |

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended June 30, 2020, the Authority recognized pension expense of \$215,298. At June 30, 2020, the Authority 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 | \$ 207,069 | \$ 25,614 |
| Change in assumptions | 224,756 | 80,231 |
| Net difference between projected and actual earnings on pension plan investments | - | 71,121 |
| Employer contributions subsequent to the measurement date | 108,533 | - |
| Total | \$ 540,358 | \$ 176,966 |

FAUQUIER COUNTY WATER AND SANITATION AUTHORITY

Notes to Financial Statements
As of June 30, 2020 and 2019 (Continued)

NOTE 11—PENSION PLAN: (CONTINUED)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions: (Continued)

For the year ended June 30, 2019, the Authority recognized pension expense of \$39,838. At June 30, 2019, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|--|---|--|
| Differences between expected and actual experience | \$ 139,321 | \$ 37,583 |
| Change in assumptions | - | 117,723 |
| Net difference between projected and actual earnings on pension plan investments | - | 67,309 |
| Employer contributions subsequent to the measurement date | <u>105,891</u> | <u>-</u> |
| Total | \$ <u>245,212</u> | \$ <u>222,615</u> |

\$108,533 reported as deferred outflows of resources related to pensions resulting from the Authority's contributions subsequent to the measurement date will be recognized as a reduction (increase) of the Net Pension Asset in the fiscal year ending June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in future reporting periods as follows:

Year ended June 30

| | |
|------------|-----------|
| 2021 | \$ 88,441 |
| 2022 | (9,992) |
| 2023 | 84,256 |
| 2024 | 92,154 |
| 2025 | - |
| Thereafter | - |

FAUQUIER COUNTY WATER AND SANITATION AUTHORITY

Notes to Financial Statements
As of June 30, 2020 and 2019 (Continued)

NOTE 11—PENSION PLAN: (CONTINUED)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions: (Continued)

\$105,891 reported as deferred outflows of resources related to pensions resulting from the Authority's contributions subsequent to the measurement date will be recognized as a reduction (increase) of the Net Pension Asset in the fiscal year ending June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in future reporting periods as follows:

| | <u>Year ended June 30</u> | |
|--|---------------------------|--|
|--|---------------------------|--|

| | | |
|------------|----|-----------|
| 2020 | \$ | 34,502 |
| 2021 | | (5,171) |
| 2022 | | (103,604) |
| 2023 | | (9,356) |
| 2024 | | 335 |
| Thereafter | | - |

Pension Plan Data

Information about the VRS Political Subdivision Retirement Plan is also available in the separately issued VRS 2019 Comprehensive Annual Financial Report (CAFR). A copy of the 2019 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2019-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA 23218-2500.

NOTE 12—GROUP LIFE INSURANCE (GLI) Plan (OPEB PLAN):

Plan Description

The Group Life Insurance (GLI) Plan was established pursuant to §51.1-500 et seq. of the Code of Virginia, as amended, and which provides the authority under which benefit terms are established or may be amended. All full-time, salaried permanent employees of the state agencies, teachers, and employees of participating political subdivisions are automatically covered by the VRS GLI Plan upon employment. This is a cost-sharing multiple-employer plan administered by the Virginia Retirement System (the System), along with pensions and other OPEB plans, for public employer groups in the Commonwealth of Virginia.

In addition to the Basic GLI benefit, members are also eligible to elect additional coverage for themselves as well as a spouse or dependent children through the Optional GLI Plan. For members who elect the optional group life insurance coverage, the insurer bills employers directly for the premiums. Employers deduct these premiums from members' paychecks and pay the premiums to the insurer. Since this is a separate and fully insured program, it is not included as part of the GLI Plan OPEB.

FAUQUIER COUNTY WATER AND SANITATION AUTHORITY

Notes to Financial Statements
As of June 30, 2020 and 2019 (Continued)

NOTE 12—GROUP LIFE INSURANCE (GLI) Plan (OPEB PLAN):

Plan Description: (Continued)

The specific information for GLI OPEB, including eligibility, coverage and benefits is described below:

Eligible Employees

The GLI Plan was established July 1, 1960, for state employees, teachers, and employees of political subdivisions that elect the program. Basic GLI coverage is automatic upon employment. Coverage ends for employees who leave their position before retirement eligibility or who take a refund of their accumulated retirement member contributions and accrued interest.

Benefit Amounts

The GLI Plan is a defined benefit plan with several components. The natural death benefit is equal to the employee's covered compensation rounded to the next highest thousand and then doubled. The accidental death benefit is double the natural death benefit. In addition to basic natural and accidental death benefits, the Plan provides additional benefits provided under specific circumstances that include the following: accidental dismemberment benefit, safety belt benefit, repatriation benefit, felonious assault benefit, and accelerated death benefit option. The benefit amounts are subject to a reduction factor. The benefit amount reduces by 25% on January 1 following one calendar year of separation. The benefit amount reduces by an additional 25% on each subsequent January 1 until it reaches 25% of its original value. For covered members with at least 30 years of creditable service, the minimum benefit payable was set at \$8,000 by statute in 2015. This amount is increased annually based on the VRS Plan 2 cost-of-living adjustment. The minimum benefit adjusted for the COLA was \$8,463 as of June 30, 2020.

Contributions

The contribution requirements for the Group Life Insurance Plan are governed by §51.1-506 and §51.1-508 of the Code of Virginia, as amended, but may be impacted as a result of funding provided to state agencies and school divisions by the Virginia General Assembly. The total rate for the Group Life Insurance Plan was 1.31% of covered employee compensation. This was allocated into an employee and an employer component using a 60/40 split. The employee component was 0.79% (1.31% x 60%) and the employer component was 0.52% (1.31% x 40%). Employers may elect to pay all or part of the employee contribution; however, the employer must pay all of the employer contribution. Each employer's contractually required employer contribution rate for the year ended June 30, 2020 was 0.52% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2017. The actuarially determined rate, when combined with employee contributions, was expected to finance the costs of benefits payable during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the Group Life Insurance Plan from the entity were \$17,523 and \$16,112 for the years ended June 30, 2020 and June 30, 2019, respectively.

FAUQUIER COUNTY WATER AND SANITATION AUTHORITY

Notes to Financial Statements
As of June 30, 2020 and 2019 (Continued)

NOTE 12—GROUP LIFE INSURANCE (GLI) PLAN (OPEB PLAN): (CONTINUED)

GLI OPEB Liabilities, GLI OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the Group Life Insurance Plan OPEB

At June 30, 2020, the entity reported a liability of \$257,271 for its proportionate share of the Net GLI OPEB Liability. The Net GLI OPEB Liability was measured as of June 30, 2019 and the total GLI OPEB liability used to calculate the Net GLI OPEB Liability was determined by an actuarial valuation performed as of June 30, 2018 and rolled forward to the measurement date of June 30, 2019. The covered employer's proportion of the Net GLI OPEB Liability was based on the covered employer's actuarially determined employer contributions to the Group Life Insurance Plan for the year ended June 30, 2019 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2019, the participating employer's proportion was 0.01581% as compared to 0.01579% at June 30, 2018.

For the year ended June 30, 2020, the participating employer recognized GLI OPEB expense of \$7,921. Since there was a change in proportionate share between measurement dates, a portion of the GLI OPEB expense was related to deferred amounts from changes in proportion.

For the year ended June 30, 2019, the participating employer recognized GLI OPEB expense of \$3,000. Since there was a change in proportionate share between measurement dates, a portion of the GLI OPEB expense was related to deferred amounts from changes in proportion.

At June 30, 2020, the employer reported deferred outflows of resources and deferred inflows of resources related to the GLI OPEB from the following sources:

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|--|---|--|
| Differences between expected and actual experience | \$ 17,110 | \$ 3,336 |
| Net difference between projected and actual earnings on GLI OPEB program investments | - | 5,285 |
| Change in assumptions | 16,243 | 7,758 |
| Changes in proportion | 8,795 | 2,442 |
| Employer contributions subsequent to the measurement date | <u>17,523</u> | <u>-</u> |
| Total | <u>\$ 59,671</u> | <u>\$ 18,821</u> |

FAUQUIER COUNTY WATER AND SANITATION AUTHORITY

Notes to Financial Statements
As of June 30, 2020 and 2019 (Continued)

NOTE 12—GROUP LIFE INSURANCE (GLI) PLAN (OPEB PLAN): (CONTINUED)

GLI OPEB Liabilities, GLI OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the Group Life Insurance Plan OPEB: (Continued)

At June 30, 2019, the employer reported deferred outflows of resources and deferred inflows of resources related to the GLI OPEB from the following sources:

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|--|---|--|
| Differences between expected and actual experience | \$ 12,000 | \$ 4,000 |
| Net difference between projected and actual earnings on GLI OPEB program investments | - | 8,000 |
| Change in assumptions | - | 10,000 |
| Changes in proportion | 11,000 | 3,000 |
| Employer contributions subsequent to the measurement date | <u>16,112</u> | <u>-</u> |
| Total | <u>\$ 39,112</u> | <u>\$ 25,000</u> |

\$17,523 reported as deferred outflows of resources related to the GLI OPEB resulting from the employer's contributions subsequent to the measurement date will be recognized as a reduction of the Net GLI OPEB Liability in the fiscal year ending June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the GLI OPEB will be recognized in the GLI OPEB expense in future reporting periods as follows:

| <u>Year Ended June 30</u> | |
|---------------------------|----------|
| 2021 | \$ 2,886 |
| 2022 | 2,886 |
| 2023 | 5,124 |
| 2024 | 5,807 |
| 2025 | 5,134 |
| Thereafter | 1,490 |

FAUQUIER COUNTY WATER AND SANITATION AUTHORITY

Notes to Financial Statements
As of June 30, 2020 and 2019 (Continued)

NOTE 12—GROUP LIFE INSURANCE (GLI) PLAN (OPEB PLAN): (CONTINUED)

GLI OPEB Liabilities, GLI OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the Group Life Insurance Plan OPEB: (Continued)

\$16,112 reported as deferred outflows of resources related to the GLI OPEB resulting from the employer's contributions subsequent to the measurement date will be recognized as a reduction of the Net GLI OPEB Liability in the fiscal year ending June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the GLI OPEB will be recognized in the GLI OPEB expense in future reporting periods as follows:

| <u>Year Ended June 30</u> | |
|---------------------------|------------|
| 2020 | \$ (3,000) |
| 2021 | (3,000) |
| 2022 | (3,000) |
| 2023 | 1,000 |
| 2024 | 4,000 |
| Thereafter | 2,000 |

Actuarial Assumptions

The total GLI OPEB liability was based on an actuarial valuation as of June 30, 2018, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2019. The assumptions include several employer groups as noted below. Mortality rates included herein are for relevant employer groups. Information for other groups can be referenced in the VRS CAFR.

| | |
|--|--|
| Inflation | 2.50% |
| Salary increases, including inflation: | |
| Locality - General employees | 3.50%-5.35% |
| Investment rate of return | 6.75%, net of investment expenses, including inflation* |

*Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 6.75%. However, since the difference was minimal, and a more conservative 6.75% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 6.75% to simplify preparation of OPEB liabilities.

FAUQUIER COUNTY WATER AND SANITATION AUTHORITY

Notes to Financial Statements
As of June 30, 2020 and 2019 (Continued)

NOTE 12—GROUP LIFE INSURANCE (GLI) PLAN (OPEB PLAN): (CONTINUED)

Mortality Rates—Largest Ten Locality Employers—General Employees

The actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016, except the changes in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

| | |
|---|--|
| Mortality Rates (pre-retirement, post-retirement healthy, and disabled) | Updated to a more current mortality table - RP-2014 projected to 2020 |
| Retirement Rates | Lowered retirement rates at older ages and extended final retirement age from 70 to 75 |
| Withdrawal Rates | Adjusted termination rates to better fit experience at each age and service year |
| Disability Rates | Lowered disability rates |
| Salary Scale | No change |
| Line of Duty Disability | Increased rate from 14% to 20% |

Mortality Rates—Non-Largest Ten Locality Employers—General Employees

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with scale BB to 2020; males 95% of rates; females 105% of rates.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 3 years; females 1.0% increase compounded from ages 70 to 90.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with scale BB to 2020; males set forward 2 years, 110% of rates; females 125% of rates.

FAUQUIER COUNTY WATER AND SANITATION AUTHORITY

Notes to Financial Statements
As of June 30, 2020 and 2019 (Continued)

NOTE 12—GROUP LIFE INSURANCE (GLI) PLAN (OPEB PLAN): (CONTINUED)

Actuarial Assumptions: (Continued)

Mortality Rates—Non-Largest Ten Locality Employers—General Employees: (Continued)

The actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016, except the changes in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study are as follows:

| | |
|---|--|
| Mortality Rates (pre-retirement, post-retirement healthy, and disabled) | Updated to a more current mortality table - RP-2014 projected to 2020 |
| Retirement Rates | Lowered retirement rates at older ages and extended final retirement age from 70 to 75 |
| Withdrawal Rates | Adjusted termination rates to better fit experience at each age and service year |
| Disability Rates | Lowered disability rates |
| Salary Scale | No change |
| Line of Duty Disability | Increased rate from 14% to 15% |

NET GLI OPEB Liability

The net OPEB liability (NOL) for the Group Life Insurance Plan represents the Plan's total OPEB liability determined in accordance with GASB Statement No. 74, less the associated fiduciary net position. As of the measurement date of June 30, 2019 and 2018, NOL amounts for the Group Life Insurance Plan is as follows (amounts expressed in thousands):

| | Group Life Insurance OPEB Plan | |
|--|---|---------------------|
| | 2019 | 2018 |
| Total GLI OPEB Liability | \$ 3,390,238 | \$ 3,113,508 |
| Plan Fiduciary Net Position | 1,762,972 | 1,594,773 |
| Employers' Net GLI OPEB Liability (Asset) | <u>\$ 1,627,266</u> | <u>\$ 1,518,735</u> |
| Plan Fiduciary Net Position as a Percentage of the Total GLI OPEB Liability | 52.00% | 51.22% |

FAUQUIER COUNTY WATER AND SANITATION AUTHORITY

Notes to Financial Statements
As of June 30, 2020 and 2019 (Continued)

NOTE 12—GROUP LIFE INSURANCE (GLI) PLAN (OPEB PLAN): (CONTINUED)

NET GLI OPEB LIABILITY: (CONTINUED)

The total GLI OPEB liability is calculated by the System's actuary, and each plan's fiduciary net position is reported in the System's financial statements. The net GLI OPEB liability is disclosed in accordance with the requirements of GASB Statement No. 74 in the System's notes to the financial statements and required supplementary information.

Long-Term Expected Rate of Return

The long-term expected rate of return on the System's investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of System's 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. The target asset allocation and best estimate of arithmetic real rates of return for each major asset class are summarized in the following table:

| Asset Class (Strategy) | Target Allocation | Arithmetic Long-term Expected Rate of Return | Weighted Average Long-term Expected Rate of Return |
|--------------------------------------|-------------------|--|--|
| Public Equity | 34.00% | 5.61% | 1.91% |
| Fixed Income | 15.00% | 0.88% | 0.13% |
| Credit Strategies | 14.00% | 5.13% | 0.72% |
| Real Assets | 14.00% | 5.27% | 0.74% |
| Private Equity | 14.00% | 8.77% | 1.23% |
| MAPS - Multi-Asset Public Strategies | 6.00% | 3.52% | 0.21% |
| PIP - Private Investment Partnership | 3.00% | 6.29% | 0.19% |
| Total | 100.00% | | 5.13% |
| | | Inflation | 2.50% |
| | | Expected arithmetic nominal return* | 7.63% |

*The above allocation provides a one-year return of 7.63%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 7.11%, including expected inflation of 2.50%. The VRS Board elected a long-term rate of 6.75% which is roughly in the 40th percentile of expected long-term results of the VRS fund asset allocation.

FAUQUIER COUNTY WATER AND SANITATION AUTHORITY

Notes to Financial Statements
As of June 30, 2020 and 2019 (Continued)

NOTE 12—GROUP LIFE INSURANCE (GLI) PLAN (OPEB PLAN): (CONTINUED)

Discount Rate

The discount rate used to measure the total GLI OPEB liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that member contributions will be made per the VRS guidance and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ended June 30, 2019, the rate contributed by the entity for the GLI OPEB will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly which was 100% of the actuarially determined contribution rate. From July 1, 2019 on, employers are assumed to continue to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the GLI OPEB's fiduciary net position was projected to be available to make all projected future benefit payments of eligible employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total GLI OPEB liability.

Sensitivity of the Employer's Proportionate Share of the Net GLI OPEB Liability to Changes in the Discount Rate as of June 30, 2020

The follow presents the employer's proportionate share of the net GLI OPEB liability using the discount rate of 6.75%, as well as what the employer's proportionate share of the net GLI OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (5.75%) or one percentage point higher (7.75%) than the current rate:

| | Rate | | |
|--|------------------------|-----------------------------|------------------------|
| | 1% Decrease (5.75%) | Current Discount (6.75%) | 1% Increase (7.75%) |
| 2020 | | | |
| Authority's proportionate share of the Group Life Insurance Program Net OPEB Liability | \$ 337,982 | \$ 257,271 | \$ 191,816 |

Sensitivity of the Employer's Proportionate Share of the Net GLI OPEB Liability to Changes in the Discount Rate as of June 30, 2019

The follow presents the employer's proportionate share of the net GLI OPEB liability using the discount rate of 7.00%, as well as what the employer's proportionate share of the net GLI OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate:

| | Rate | | |
|--|------------------------|-----------------------------|------------------------|
| | 1% Decrease (6.00%) | Current Discount (7.00%) | 1% Increase (8.00%) |
| 2019 | | | |
| Authority's proportionate share of the Group Life Insurance Program Net OPEB Liability | \$ 313,000 | \$ 240,000 | \$ 180,000 |

FAUQUIER COUNTY WATER AND SANITATION AUTHORITY

Notes to Financial Statements
As of June 30, 2020 and 2019 (Continued)

NOTE 12—GROUP LIFE INSURANCE (GLI) PLAN (OPEB PLAN): (CONTINUED)

Group Life Insurance Plan Fiduciary Net Position

Detailed information about the GLI Plan's Fiduciary Net Position is available in the separately issued VRS 2019 Comprehensive Annual Financial Report (CAFR). A copy of the 2019 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2019-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

NOTE 13—RISK MANAGEMENT:

A. The Authority

The Authority 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 natural disasters.

The Authority is a member of the Virginia Risk Sharing Association (VRSA) for its property, automobile, liability, public officials, and workers' compensation coverage. Each association member jointly and severally agrees to assume, pay and discharge any liability. The Authority pays VRSA contributions and assessments based upon classifications and rates into a designated cash reserve fund out of which expenses of the Association and claims and awards are to be paid. In the event of a loss deficit and depletion of all available excess insurance, the Association may assess all members in the proportion which the premium of each bears to the total premiums of all members in the year in which such deficit occurs.

The Authority carries commercial insurance for all risks of loss. During the last three fiscal years, settled claims from these risks have not exceeded commercial coverage.

B. Health and Dental

Anthem Blue Cross and Blue Shield administers the group health insurance and prescription programs and Delta Dental administers the group dental insurance for employees and their dependents. The plans are self-insured by the Authority under Fauquier County. The Authority collects employee contributions bi-monthly. Anthem processes claims from the hospitals, doctors, and other health care providers. Fauquier County is then billed for these paid claims and must reimburse Anthem for these costs. Fauquier County then bills the Authority their portion of the claims and administration fees. The program is a minimum premium design subject to an aggregate attachment point and a specific stop loss of \$50,000. The stop loss coverage was carved out of the Anthem policy and is administered by Symetra. Symetra insures both medical and prescription claims that are in excess of \$50,000. Symetra reimburses the Authority for the amount. The premiums the Authority pays Symetra are based on covered employees.

The dental plans are fully insured by Delta Dental and administered by Fauquier County. Delta Dental processes claims, from dentists and other dental providers, and pays these claims. The Authority is only responsible for the premiums set by Delta Dental.

FAUQUIER COUNTY WATER AND SANITATION AUTHORITY

Notes to Financial Statements
As of June 30, 2020 and 2019 (Continued)

NOTE 13—RISK MANAGEMENT:

B. Health and Dental: (Continued)

The Authority has a Health Insurance Reserve of \$50,000 held by Fauquier County for claims run out in case of termination of the self-insured plan. In addition, the Authority Board restricted \$40,000 in a fund for health insurance.

NOTE 14—SUBSEQUENT EVENT:

On January 30, 2020, the World Health Organization (“WHO”) announced a global health emergency stemming from a new strain of coronavirus that was spreading globally (the “COVID-19 outbreak”). On March 11, 2020, the WHO classified the COVID-19 outbreak as a pandemic, triggering volatility in financial markets and a significant negative impact on the global economy. The COVID-19 pandemic has developed rapidly in 2020 and remains a quickly evolving situation. As a result of the spread of COVID-19, economic uncertainties have arisen which are likely to negatively impact economic activity. Fauquier County Water and Sanitation Authority is not able to estimate the effects of the COVID-19 pandemic for fiscal year 2021.

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Required Supplementary Information

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FAUQUIER COUNTY WATER AND SANITATION AUTHORITY

Schedule of Changes in Net Pension Liability (Asset) and Related Ratios
Pension Plan
For the Measurement Dates of June 30, 2014 through June 30, 2019

| | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| Total pension liability | | | | | | |
| Service cost | \$ 246,411 | \$ 244,681 | \$ 235,183 | \$ 210,790 | \$ 210,819 | \$ 233,185 |
| Interest | 504,181 | 469,509 | 454,867 | 411,798 | 381,354 | 351,577 |
| Changes in assumptions | 281,227 | - | (192,707) | - | - | - |
| Difference between expected and actual experience | 166,548 | 19,035 | (61,521) | 245,293 | 78,832 | - |
| Benefit payments, including refunds of employee contributions | (224,975) | (250,832) | (202,483) | (302,722) | (169,477) | (149,264) |
| Net change in total pension liability | \$ 973,392 | \$ 482,393 | \$ 233,339 | \$ 565,159 | \$ 501,528 | \$ 435,498 |
| Total pension liability - beginning | 7,315,078 | 6,832,685 | 6,599,346 | 6,034,187 | 5,532,659 | 5,097,161 |
| Total pension liability - ending (a) | \$ 8,288,470 | \$ 7,315,078 | \$ 6,832,685 | \$ 6,599,346 | \$ 6,034,187 | \$ 5,532,659 |
| Plan fiduciary net position | | | | | | |
| Contributions - employer | \$ 105,933 | \$ 119,358 | \$ 120,399 | \$ 141,775 | \$ 131,280 | \$ 166,227 |
| Contributions - employee | 146,362 | 143,020 | 141,283 | 162,447 | 128,938 | 121,744 |
| Net investment income | 503,694 | 515,935 | 755,805 | 106,166 | 264,236 | 766,252 |
| Benefit payments, including refunds of employee contributions | (224,975) | (250,832) | (202,483) | (302,722) | (169,477) | (149,264) |
| Administrative expense | (4,822) | (4,358) | (4,233) | (3,680) | (3,477) | (3,968) |
| Other | (318) | (544) | (754) | (45) | (56) | 41 |
| Net change in plan fiduciary net position | \$ 525,874 | \$ 522,579 | \$ 810,017 | \$ 103,941 | \$ 351,444 | \$ 901,032 |
| Plan fiduciary net position - beginning | 7,448,712 | 6,926,133 | 6,116,116 | 6,012,175 | 5,660,731 | 4,759,699 |
| Plan fiduciary net position - ending (b) | \$ 7,974,586 | \$ 7,448,712 | \$ 6,926,133 | \$ 6,116,116 | \$ 6,012,175 | \$ 5,660,731 |
| Authority's net pension liability (asset) - ending (a) - (b) | \$ 313,884 | \$ (133,634) | \$ (93,448) | \$ 483,230 | \$ 22,012 | \$ (128,072) |
| Plan fiduciary net position as a percentage of the total pension liability | 96.21% | 101.83% | 101.37% | 92.68% | 99.64% | 102.31% |
| Covered payroll | \$ 3,098,487 | \$ 3,002,308 | \$ 2,959,345 | \$ 2,728,127 | \$ 2,495,933 | \$ 2,386,659 |
| Authority's net pension (asset) liability as a percentage of covered payroll | 10.13% | -4.45% | -3.16% | 17.71% | 0.88% | -5.37% |

Schedule is intended to show information for 10 years. Information prior to the 2014 valuation is not available. However, additional years will be included as they become available.

FAUQUIER COUNTY WATER AND SANITATION AUTHORITY

Schedule of Employer Contributions

Pension Plan

Years Ended June 30, 2011 through June 30, 2020

| Date | Contributions in Relation to | | | Employer's Covered Payroll (4) | Contributions as a % of Covered Payroll (5) |
|------|--|--|---|---|---|
| | Contractually Required Contribution (1) | Contractually Required Contribution (2) | Contribution Deficiency (Excess) (3) | | |
| 2020 | \$ 108,533 | \$ 108,533 | \$ - | \$ 3,369,779 | 3.93% |
| 2019 | 105,891 | 105,891 | - | 3,098,487 | 3.93% |
| 2018 | 124,405 | 124,405 | - | 3,002,308 | 4.38% |
| 2017 | 129,619 | 129,619 | - | 2,959,345 | 4.38% |
| 2016 | 145,955 | 145,955 | - | 2,728,127 | 5.35% |
| 2015 | 133,532 | 131,280 | - | 2,495,933 | 5.35% |
| 2014 | 166,589 | 166,589 | - | 2,386,659 | 6.98% |
| 2013 | 163,810 | 163,810 | - | 2,346,852 | 6.98% |
| 2012 | 102,513 | 102,513 | - | 2,238,283 | 4.58% |
| 2011 | 100,762 | 100,762 | - | 2,200,037 | 4.58% |

Current year contributions are from Authority records and prior year contributions are from the VRS actuarial valuation performed each year.

FAUQUIER COUNTY WATER AND SANITATION AUTHORITY

Notes to Required Supplementary Information
Pension Plan
Year Ended June 30, 2020

Changes of benefit terms – There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation.

Changes of assumptions – The actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

Largest 10 – Non-Hazardous Duty:

| | |
|---|---|
| Mortality Rates (pre-retirement, post-retirement healthy, and disabled) | Updated to a more current mortality table - RP-2014 projected to 2020 |
| Retirement Rates | Lowered rates at older ages and changed final retirement from 70 to 75 |
| Withdrawal Rates | Adjusted rates to better fit experience at each year age and service through 9 years of service |
| Disability Rates | Lowered rates |
| Salary Scale | No change |
| Line of Duty Disability | Increased rate from 14.00% to 15.00% |
| Discount Rate | Decreased rate from 7.00% to 6.75% |

All Others (Non 10 Largest) – Non-Hazardous Duty:

| | |
|---|---|
| Mortality Rates (pre-retirement, post-retirement healthy, and disabled) | Updated to a more current mortality table - RP-2014 projected to 2020 |
| Retirement Rates | Lowered rates at older ages and changed final retirement from 70 to 75 |
| Withdrawal Rates | Adjusted rates to better fit experience at each year age and service through 9 years of service |
| Disability Rates | Lowered rates |
| Salary Scale | No change |
| Line of Duty Disability | Increased rate from 60.00% to 45.00% |
| Discount Rate | Decreased rate from 7.00% to 6.75% |

FAUQUIER COUNTY WATER AND SANITATION AUTHORITY

Schedule of Authority's Share of Net OPEB Liability

Group Life Insurance (GLI) Plan

For the Measurement Dates of June 30, 2017 through June 30, 2019

| Date (1) | Employer's Proportion of the Net GLI OPEB Liability (Asset) (2) | Employer's Proportionate Share of the Net GLI OPEB Liability (Asset) (3) | Employer's Covered Payroll (4) | Employer's Proportionate Share of the Net GLI OPEB Liability (Asset) as a Percentage of Covered Payroll (3)/(4) (5) | Plan Fiduciary Net Position as a Percentage of Total GLI OPEB Liability (6) |
|-------------|---|---|---|--|---|
| 2019 | 0.01581% \$ | 257,271 \$ | 3,098,487 | 8.30% | 52.00% |
| 2018 | 0.01579% | 240,000 | 3,002,308 | 7.99% | 51.22% |
| 2017 | 0.01604% | 241,000 | 2,959,345 | 8.14% | 48.86% |

Schedule is intended to show information for 10 years. Information prior to the 2017 valuation is not available. However, additional years will be included as they become available.

FAUQUIER COUNTY WATER AND SANITATION AUTHORITY

Schedule of Employer Contributions

Group Life Insurance (GLI) Plan

For the Years Ended June 30, 2011 through June 30, 2020

| Date | Contractually Required Contribution (1) | Contributions in Relation to Contractually Required Contribution (2) | Contribution Deficiency (Excess) (3) | Employer's Covered Payroll (4) | Contributions as a % of Covered Payroll (5) |
|-------------|--|---|---|---|--|
| 2020 | \$ 17,523 | \$ 17,523 | \$ - | \$ 3,369,779 | 0.52% |
| 2019 | 16,112 | 16,112 | - | 3,098,487 | 0.52% |
| 2018 | 15,732 | 15,732 | - | 3,002,308 | 0.52% |
| 2017 | 15,389 | 15,389 | - | 2,959,345 | 0.52% |
| 2016 | 13,095 | 13,095 | - | 2,728,127 | 0.48% |
| 2015 | 11,994 | 11,994 | - | 2,498,762 | 0.48% |
| 2014 | 11,456 | 11,456 | - | 2,386,659 | 0.48% |
| 2013 | 11,265 | 11,265 | - | 2,346,852 | 0.48% |
| 2012 | 6,267 | 6,267 | - | 2,238,283 | 0.28% |
| 2011 | 6,160 | 6,160 | - | 2,200,037 | 0.28% |

FAUQUIER COUNTY WATER AND SANITATION AUTHORITY

Notes to Required Supplementary Information
Group Life Insurance (GLI) Plan
Year Ended June 30, 2020

Changes of benefit terms – There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation.

Changes of assumptions – The actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

Largest Ten Locality Employers - General Employees

| | |
|---|--|
| Mortality Rates (pre-retirement, post-retirement healthy, and disabled) | Updated to a more current mortality table - RP-2014 projected to 2020 |
| Retirement Rates | Lowered retirement rates at older ages and extended final retirement age from 70 to 75 |
| Withdrawal Rates | Adjusted termination rates to better fit experience at each age and service year |
| Disability Rates | Lowered disability rates |
| Salary Scale | No change |
| Line of Duty Disability | Increased rate from 14.00% to 15.00% |
| Discount Rate | Decreased rate from 7.00% to 6.75% |

Non-Largest Ten Locality Employers - General Employees

| | |
|---|--|
| Mortality Rates (pre-retirement, post-retirement healthy, and disabled) | Updated to a more current mortality table - RP-2014 projected to 2020 |
| Retirement Rates | Lowered retirement rates at older ages and extended final retirement age from 70 to 75 |
| Withdrawal Rates | Adjusted termination rates to better fit experience at each age and service year |
| Disability Rates | Lowered disability rates |
| Salary Scale | No change |
| Line of Duty Disability | Increased rate from 60.00% to 45.00% |
| Discount Rate | Decreased rate from 7.00% to 6.75% |

Statistical Section

Contents

Tables

Financial Trends

These tables contain trend information to help the reader understand how the the Authority's financial performance has changed over time.

1-2

Revenue, Rates and Usage Information

These tables contain information to help the reader assess the factors affecting the Authority's change in revenues and its ability to generate revenues.

3-6

Expenses

This table contains comparative information about the Authority's expenses.

7

Debt Capacity

These tables present information to help the reader assess the affordability of the Authority's current levels of outstanding debt and the Authority's ability to issue debt in the future.

8-9

Demographic and Economic Information

These tables offer demographic and economic indicators to help the reader understand the environment within which the Authority's financial activities take place and to help make comparisons over time.

10-11

Operating Information

These tables contain information about the Authority's operations and resources to help the reader understand how the Authority's financial information relate to the activities it performs.

12

Other Information

These tables contain miscellaneous data

13

Sources: Unless otherwise noted, the information in these tables is derived from the comprehensive annual financial reports for the relevant year.

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Net Position by Component
Last Ten years

| | Fiscal Years | | | | |
|----------------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| | 2020 | 2019 | 2018 | 2017 | 2016 |
| Net position: | | | | | |
| Net Investment in capital assets | \$ 71,821,673 | \$ 71,184,508 | \$ 67,421,966 | \$ 64,987,481 | \$ 65,074,202 |
| Restricted | 369,386 | 369,386 | 369,386 | 468,724 | - |
| Unrestricted | <u>15,925,377</u> | <u>15,325,543</u> | <u>13,320,422</u> | <u>10,881,809</u> | <u>7,996,376</u> |
| Total net position | <u>\$ 88,116,436</u> | <u>\$ 86,879,437</u> | <u>\$ 81,111,774</u> | <u>\$ 76,338,014</u> | <u>\$ 73,070,578</u> |

| | Fiscal Years | | | | |
|----------------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| | 2018 | 2014 | 2013 | 2012 | 2011 |
| Net position: | | | | | |
| Net Investment in capital assets | \$ 60,030,622 | \$ 58,184,968 | \$ 54,323,804 | \$ 53,333,168 | \$ 53,412,822 |
| Restricted | - | 111,972 | - | 31,915 | 445,567 |
| Unrestricted | <u>8,011,147</u> | <u>7,413,933</u> | <u>5,110,621</u> | <u>4,339,839</u> | <u>2,525,847</u> |
| Total net position | <u>\$ 68,041,769</u> | <u>\$ 65,710,873</u> | <u>\$ 59,434,425</u> | <u>\$ 57,704,922</u> | <u>\$ 56,384,236</u> |

Source: Fauquier County Water and Sanitation Authority

FAUQUIER COUNTY WATER AND SANITATION AUTHORITY

Changes in Net Position Last Ten Years

| | 2020 | 2019 | 2018 |
|--|-----------------------------|--------------------------|-----------------------------|
| Operating revenues: | | | |
| Water service | \$ 5,094,624 | 4,793,437 | \$ 4,630,031 |
| Sewer service | 5,353,484 | 5,144,754 | 4,867,411 |
| Septic service | 439,891 | 388,808 | 364,114 |
| Late charges | 124,090 | 181,607 | 194,015 |
| Other operating revenues | 303,788 | 276,633 | 368,109 |
| Total operating revenues | <u>\$ 11,315,877</u> | <u>10,785,239</u> | <u>\$ 10,423,680</u> |
| Operating expenses: | | | |
| Salaries | \$ 3,539,417 | 3,093,075 | \$ 3,167,950 |
| Fringe benefits | 1,044,151 | 837,296 | 872,536 |
| General and administrative | 582,573 | 497,459 | 639,812 |
| Operations and maintenance | 2,589,780 | 2,463,265 | 2,311,448 |
| Depreciation expense | 3,504,050 | 3,321,632 | 3,198,751 |
| Total operating expenses | <u>\$ 11,259,971</u> | <u>10,212,727</u> | <u>\$ 10,190,497</u> |
| Net operating income (loss) | <u>\$ 55,906</u> | <u>572,512</u> | <u>\$ 233,183</u> |
| Nonoperating revenue (expenses): | | | |
| Availability fees | \$ 893,800 | 1,670,737 | \$ 3,043,318 |
| Interest earned | 232,502 | 299,055 | 221,570 |
| Interest expense | (300,269) | (315,493) | (349,662) |
| Net nonoperating revenue (expenses) | <u>\$ 826,033</u> | <u>1,654,299</u> | <u>\$ 2,915,226</u> |
| Net income (loss) before capital contributions | <u>\$ 881,939</u> | <u>2,226,811</u> | <u>\$ 3,148,409</u> |
| Capital Contributions | <u>355,060</u> | <u>3,540,852</u> | <u>1,875,351</u> |
| Change in net position | <u>\$ 1,236,999</u> | <u>5,767,663</u> | <u>\$ 5,023,760</u> |
| Net position, at beginning of year | <u>86,879,437</u> | <u>81,111,774</u> | <u>* 76,088,014</u> |
| Net position, at end of year | <u><u>\$ 88,116,436</u></u> | <u><u>86,879,437</u></u> | <u><u>\$ 81,111,774</u></u> |

Source: Fauquier County Water and Sanitation Authority.

* During FY2018, the Authority prospectively implemented GASB Statement No. 75, which resulted in a restatement of beginning net position. In the year of implementation, comparative information for the net OPEB liability and related items was unavailable. Therefore, the FY2017 amounts related to OPEB have not be restated to reflect the requirements of GASB Statement No. 75.

Table 2

| 2017 | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 |
|----------------------|-----------------------|-----------------------|-----------------------|-----------------------|----------------------|----------------------|
| \$ 4,351,789 | \$ 3,438,450 | \$ 3,519,398 | \$ 3,290,504 | \$ 3,278,523 | \$ 3,110,188 | \$ 3,150,219 |
| 4,515,284 | 3,874,505 | 3,524,999 | 3,390,211 | 3,202,582 | 3,178,717 | 3,132,887 |
| 387,223 | 337,780 | 295,896 | 222,908 | 490,042 | 468,705 | 176,063 |
| 163,712 | 129,880 | 151,975 | 161,898 | 147,231 | 171,640 | 147,980 |
| 420,630 | 334,378 | 383,291 | 328,601 | 294,476 | 267,671 | 148,189 |
| <u>\$ 9,838,638</u> | <u>\$ 8,114,993</u> | <u>\$ 7,875,559</u> | <u>\$ 7,394,122</u> | <u>\$ 7,412,854</u> | <u>\$ 7,196,921</u> | <u>\$ 6,755,338</u> |
| \$ 3,135,875 | \$ 2,848,966 | \$ 2,622,093 | \$ 2,515,181 | \$ 2,338,834 | \$ 2,308,237 | \$ 2,172,426 |
| 984,579 | 1,138,118 | 882,093 | 829,358 | 926,274 | 847,748 | 786,446 |
| 584,324 | 556,190 | 477,316 | 537,264 | 388,643 | 428,523 | 400,482 |
| 2,359,475 | 2,128,639 | 2,082,445 | 2,192,251 | 1,768,958 | 1,419,252 | 1,388,562 |
| 3,304,507 | 3,063,090 | 2,982,641 | 3,276,736 | 3,002,676 | 2,599,488 | 2,521,187 |
| <u>\$ 10,368,760</u> | <u>\$ 9,735,003</u> | <u>\$ 9,046,588</u> | <u>\$ 9,350,790</u> | <u>\$ 8,425,385</u> | <u>\$ 7,603,248</u> | <u>\$ 7,269,103</u> |
| <u>\$ (530,122)</u> | <u>\$ (1,620,010)</u> | <u>\$ (1,171,029)</u> | <u>\$ (1,956,668)</u> | <u>\$ (1,012,531)</u> | <u>\$ (406,327)</u> | <u>\$ (513,765)</u> |
| \$ 2,295,031 | \$ 2,095,670 | \$ 1,952,908 | \$ 3,687,466 | \$ 1,168,821 | \$ 603,542 | \$ 520,656 |
| 81,424 | 31,869 | 40,078 | 32,504 | 26,253 | 32,346 | 34,240 |
| (250,894) | (168,652) | (188,494) | (219,958) | (495,053) | (331,064) | (370,451) |
| <u>\$ 2,125,561</u> | <u>\$ 1,958,887</u> | <u>\$ 1,804,492</u> | <u>\$ 3,500,012</u> | <u>\$ 700,021</u> | <u>\$ 304,824</u> | <u>\$ 184,445</u> |
| \$ 1,595,439 | \$ 338,877 | \$ 633,463 | \$ 1,543,344 | \$ (312,510) | \$ (101,503) | \$ (329,320) |
| 1,671,997 | 4,689,932 | 1,868,668 | 4,733,104 | 2,042,013 | 1,422,189 | 1,730,322 |
| \$ 3,267,436 | \$ 5,028,809 | \$ 2,502,131 | \$ 6,276,448 | \$ 1,729,503 | \$ 1,320,686 | \$ 1,401,002 |
| 73,070,578 | 68,041,769 | 65,539,638 | 59,434,425 | 57,704,922 | 56,384,236 | 54,983,234 |
| <u>\$ 76,338,014</u> | <u>\$ 73,070,578</u> | <u>\$ 68,041,769</u> | <u>\$ 65,710,873</u> | <u>\$ 59,434,425</u> | <u>\$ 57,704,922</u> | <u>\$ 56,384,236</u> |

FAUQUIER COUNTY WATER AND SANITATION AUTHORITY
Table 3

 Schedule of Revenues
 Last Ten Fiscal Years

| Fiscal Years | | Water Service | | Sewer Service | | Availability Fees | | Other Revenues | | Total |
|-------------------------|----|--------------------------|----|--------------------------|----|------------------------------|----|---------------------------|----|--------------|
| 2011 | \$ | 3,150,219 | \$ | 3,132,887 | \$ | 520,656 | \$ | 506,472 | \$ | 7,310,234 |
| 2012 | | 3,110,188 | | 3,178,717 | | 603,542 | | 940,362 | | 7,832,809 |
| 2013 | | 3,278,523 | | 3,202,582 | | 1,168,821 | | 958,002 | | 8,607,928 |
| 2014 | | 3,290,504 | | 3,390,211 | | 3,687,466 | | 745,911 | | 11,114,092 |
| 2015 | | 3,519,398 | | 3,524,999 | | 1,952,908 | | 871,240 | | 9,868,545 |
| 2016 | | 3,438,450 | | 3,874,505 | | 2,095,670 | | 833,907 | | 10,242,532 |
| 2017 | | 4,351,789 | | 4,515,284 | | 2,295,031 | | 1,052,989 | | 12,215,093 |
| 2018 | | 4,630,031 | | 4,867,411 | | 3,043,318 | | 1,147,808 | | 13,688,568 |
| 2019 | | 4,793,437 | | 5,144,754 | | 1,670,737 | | 1,146,103 | | 12,755,031 |
| 2020 | | 5,094,624 | | 5,353,484 | | 893,800 | | 1,100,271 | | 12,442,179 |

Source: Fauquier County Water and Sanitation Authority

Schedule of Rates
Last Ten Years

| Fiscal Year | Water Usage Fee (1) | Water Base Service Fees | Sewer Usage Fee (2) | Sewer Base Service Fees |
|------------------------|------------------------------------|--|------------------------------------|--|
| 2011 | \$ 3.36 | \$ 18.04 | \$ 6.63 | \$ 18.26 |
| 2012 | 3.36 | 18.04 | 6.63 | 18.26 |
| 2013 | 3.47 | 18.59 | 6.83 | 18.81 |
| 2014 | 3.47 | 18.59 | 6.83 | 18.81 |
| 2015 | 3.70 | 19.80 | 7.27 | 20.03 |
| 2016 | 3.94 | 21.09 | 7.74 | 21.33 |
| 2017 | 4.06 | 25.59 | 8.48 | 25.86 |
| 2018 | 4.35 | 27.39 | 9.07 | 27.67 |
| 2019 | 4.48 | 28.21 | 9.34 | 28.50 |
| 2020 | 4.61 | 29.05 | 9.62 | 29.35 |

(1) This is the first step of several steps in the Water Usage Fee schedule.

(2) There is only one rate for the Sewer Usage Fee.

Source: Fauquier County Water and Sanitation Authority

Schedule of New Connections
Last Ten Fiscal Years

| Fiscal Year | WATER | | | SEWER | | |
|----------------|--------------------|---------------------------|----------------|--------------------|---------------------------|----------------|
| | New Connections | Cumulative Connections | % of Growth | New Connections | Cumulative Connections | % of Growth |
| 2011 | 90 | 5,063 | 1.81% | 114 | 3,388 | 3.48% |
| 2012 | 107 | 5,170 | 2.11% | 114 | 3,502 | 3.36% |
| 2013 | 109 | 5,279 | 2.11% | 84 | 3,586 | 2.40% |
| 2014 | 187 | 5,466 | 3.54% | 111 | 3,697 | 3.10% |
| 2015 | 110 | 5,579 | 2.01% | 115 | 3,812 | 3.11% |
| 2016 | 141 | 5,717 | 2.53% | 115 | 3,927 | 3.02% |
| 2017 | 171 | 5,888 | 2.99% | 135 | 4,062 | 3.44% |
| 2018 | 133 | 6,021 | 2.26% | 134 | 4,196 | 3.30% |
| 2019 | 159 | 6,180 | 2.64% | 143 | 4,339 | 3.41% |
| 2020 | 56 | 6,236 | 0.91% | 65 | 4,404 | 1.50% |

Source: Fauquier County Water and Sanitation Authority connection records

* Table has been restated in prior years per new information provided to management

Schedule of Water Processed and Wastewater Treated (in gallons)
Last Ten Calendar Years

| Calendar Year | Water Processed | Wastewater Treated |
|--------------------------|----------------------------|-------------------------------|
| 2011 | 525,137,807 | 442,022,000 |
| 2012 | 536,037,859 | 469,519,300 |
| 2013 | 534,209,766 | 480,046,100 |
| 2014 | 537,318,945 | 558,264,400 |
| 2015 | 546,562,030 | 461,156,400 |
| 2016 | 545,205,211 | 546,088,100 |
| 2017 | 596,703,569 | 461,951,400 |
| 2018 | 573,800,866 | 512,976,900 |
| 2019 | 553,532,301 | 749,957,300 |
| 2020 | 523,397,812 | 569,722,300 |

Source: Fauquier County Water and Sanitation Authority

Schedule of Operating Expenses
Last Ten Fiscal Years

| Fiscal Years | Salaries | Fringe Benefits | General & Administrative | Operations & Maintenance | Depreciation Expense | Total |
|-------------------------|-----------------|----------------------------|---|---|---------------------------------|--------------|
| 2011 | \$ 2,172,426 | \$ 786,446 | \$ 400,482 | \$ 1,388,562 | \$ 2,521,187 | \$ 7,269,103 |
| 2012 | 2,308,237 | 847,748 | 428,523 | 1,419,252 | 2,599,488 | 7,603,248 |
| 2013 | 2,338,834 | 926,274 | 388,643 | 1,768,958 | 3,002,676 | 8,425,385 |
| 2014 | 2,515,181 | 829,358 | 537,264 | 2,192,251 | 3,276,736 | 9,350,790 |
| 2015 | 2,622,093 | 882,093 | 477,316 | 2,082,445 | 2,982,641 | 9,046,588 |
| 2016 | 2,848,966 | 1,138,118 | 556,190 | 2,128,639 | 3,113,765 | 9,785,678 |
| 2017 | 3,135,875 | 984,579 | 584,324 | 2,359,475 | 3,393,628 | 10,457,881 |
| 2018 | 3,167,950 | 872,536 | 639,812 | 2,311,448 | 3,198,751 | 10,190,497 |
| 2019 | 3,093,075 | 837,296 | 497,459 | 2,463,265 | 3,321,632 | 10,212,727 |
| 2020 | 3,539,417 | 1,044,151 | 582,573 | 2,589,780 | 3,504,050 | 11,259,971 |

Source: Fauquier County Water and Sanitation Authority

FAUQUIER COUNTY WATER AND SANITATION AUTHORITY
Table 8
**Outstanding Debt by Type
Last Ten Fiscal Years**

| | Fiscal Year | | | | |
|-------------------------------|----------------------|----------------------|----------------------|----------------------|---------------------|
| | 2020 | 2019 | 2018 | 2017 | 2016 |
| Revenue Refunding Bond 2017 | \$ 1,949,016 | \$ 2,086,521 | \$ 2,220,626 | \$ 2,350,262 | \$ - |
| Revenue Refunding Bond 2017 | 5,639,076 | 6,036,920 | 6,424,924 | 6,800,000 | - |
| Revenue Bond 7-9-2009 | 1,693,999 | 1,839,568 | 1,981,259 | 2,119,172 | 2,253,410 |
| Revenue Bond 9-20-10 | - | - | 125,240 | 270,038 | 410,421 |
| Revenue Bond 11-16-2012 | - | - | - | - | 1,949,592 |
| Revenue Refunding Bond 2012 | 1,579,011 | 2,188,678 | 2,786,184 | 3,371,772 | 3,945,678 |
| Revenue Refunding Bond 2012 | 128,698 | 177,222 | 224,138 | 269,502 | 313,364 |
| Capital lease | 1,334,000 | - | - | - | - |
| Total outstanding debt | \$ 12,323,800 | \$ 12,328,909 | \$ 13,762,371 | \$ 15,180,746 | \$ 8,872,465 |
| Debt per capita (1) | \$ 173 | \$ 401 | \$ 442 | \$ 281 | \$ 280 |

| | Fiscal Year | | | | |
|-------------------------------|---------------------|---------------------|----------------------|----------------------|----------------------|
| | 2015 | 2014 | 2013 | 2012 | 2011 |
| Notes Payable VHEDA | \$ - | \$ - | \$ - | \$ - | \$ 938,800 |
| Note Payable - Brookside | - | - | 516,150 | 516,150 | 525,450 |
| Notes Payable Opal system | - | - | - | - | 451,831 |
| VRA Water Revenue Bond | - | - | - | 455,811 | 491,089 |
| VRA Water Revenue Bond | - | - | - | 1,575,992 | 1,704,310 |
| VRA Water Revenue Bond | - | - | - | 1,246,396 | 1,326,713 |
| Revenue Bond 7-9-2009 | 2,384,070 | 2,507,394 | 2,622,917 | 2,735,447 | 2,903,781 |
| Revenue Bond 2011 | - | - | - | 3,113,956 | 3,417,208 |
| Revenue Bond 9-20-10 | 546,525 | 678,480 | 806,412 | 1,127,971 | 1,242,201 |
| Revenue Bond 11-16-2012 | 273,176 | 80,341 | 80,341 | - | - |
| Revenue Refunding Bond 2012 | 4,508,136 | 5,059,374 | 5,599,617 | - | - |
| Revenue Refunding Bond 2012 | 355,775 | 396,782 | 436,432 | - | - |
| Virginia Water Facility Bond | - | - | - | 180,000 | 350,000 |
| Total outstanding debt | \$ 8,067,682 | \$ 8,722,371 | \$ 10,061,869 | \$ 10,951,723 | \$ 13,351,383 |
| Debt per capita | \$ 289 | \$ 345 | \$ 382 | \$ 476 | \$ 476 |

Source: Fauquier County Water and Sanitation Authority

(1) Population data can be found in the table of demographic and economic statistics, reference Table 10.

Revenue Bond Coverage (Water and Sewer Bonds)
Last Ten Fiscal Years

| Fiscal Year | Gross Revenue | Direct Operating Expenses | Net Revenue Available for Debt Service | Debt Service Requirements | | | |
|-------------|---------------|---------------------------|--|---------------------------|----------|-----------|----------|
| | | | | Principal | Interest | Total | Coverage |
| 2011 | 7,310,234 | 4,747,916 | 2,562,318 | 1,108,704 | 356,213 | 1,464,917 | 1.75 |
| 2012 | 7,832,809 | 5,003,760 | 2,829,049 | 999,729 | 454,370 | 1,454,099 | 1.95 |
| 2013 | 8,607,928 | 5,422,709 | 3,185,219 | 1,105,769 | 437,768 | 1,543,537 | 2.06 |
| 2014 | 11,114,092 | 6,074,054 | 5,040,038 | 1,339,498 | 200,278 | 1,539,776 | 3.27 |
| 2015 | 9,868,545 | 6,063,947 | 3,804,598 | 847,524 | 164,159 | 1,011,683 | 3.76 |
| 2016 | 10,242,532 | 6,671,913 | 3,570,619 | 871,465 | 156,916 | 1,028,381 | 3.47 |
| 2017 | 12,215,093 | 7,064,253 | 5,150,840 | 892,390 | 260,741 | 1,153,131 | 4.47 |
| 2018 | 13,688,568 | 6,991,746 | 6,696,822 | 1,418,375 | 367,544 | 1,785,919 | 3.75 |
| 2019 | 12,755,031 | 6,891,095 | 5,863,936 | 1,339,109 | 295,404 | 1,634,513 | 3.59 |
| 2020 | 12,442,179 | 7,755,921 | 4,686,258 | 1,370,741 | 263,772 | 1,634,513 | 2.87 |

Note: Details regarding the Authority's outstanding debt can be found in the notes to the financial statements. Gross revenues includes investment earnings and availability fees. Operating expenses do not include interest or depreciation.

Revenue means:

- i All rates, fees, rentals, charges, income and money property allocable to the System in accordance with general accepted accounting principles or resulting from the Borrower's ownership or operation of the System, excluding customer and other deposits subject to refund until such deposits have become the Borrower's property,
- ii The proceeds of any insurance covering business interruption loss relating to the System,
- iii Interest on any money or securities related to the System held by or on behalf of the Borrower,
- iv Any other money from other sources pledged by the Borrower to the payment of its Local Bond.

Source: Fauquier County Water and Sanitation Authority

Demographic and Economic Statistics
Last Ten Fiscal Years

| Year | Estimated Population (1) | Personal Income (expressed in thousands) (2) | Per Capita Personal Income (2) | Unemployment Rate (3) | County Civilian Labor Force (3) | At-Place Employment Annual Average (3) | School Enrollment (4) |
|-------------|-------------------------------------|---|---|----------------------------------|--|---|----------------------------------|
| 2011 | 65,460 | \$ 3,823,425 | \$ 57,797 | 5.7% | 36,637 | 20,771 | 11,241 |
| 2012 | 65,780 | 4,096,730 | 61,441 | 5.4% | 36,761 | 21,381 | 11,201 |
| 2013 | 66,131 | 3,992,753 | 59,326 | 5.2% | 36,742 | 21,212 | 11,032 |
| 2014 | 66,573 | 4,081,897 | 59,695 | 4.8% | 36,696 | 21,070 | 11,084 |
| 2015 | 67,512 | 4,316,279 | 62,832 | 4.2% | 36,618 | 21,517 | 11,055 |
| 2016 | 67,898 | 4,410,308 | 63,854 | 3.7% | 36,294 | 22,043 | 11,042 |
| 2017 | 68,168 | 4,637,197 | 66,756 | 3.4% | 36,989 | 22,093 | 11,007 |
| 2018 | 69,098 | 5,002,860 | 70,787 | 2.8% | 37,613 | 22,021 | 11,104 |
| 2019 | 70,150 | * | * | 2.6% | 37,765 | 36,157 | 11,153 |
| 2020 | 71,395 | * | * | 5.7% | 36,513 | 34,228 | 11,039 |

Sources: (1) Weldon Cooper Center for Public Service, provisional estimate for FY2020 as of July 1, 2019
 (2) Bureau of Economic Analysis, calendar year data.
 (3) Virginia Employment Commission, Virginia Labor Market Information, calendar year end data for FY2009 through FY2017, provisional estimate for FY2018, as of July 2018
 (4) Fauquier County Schools Adopted Budgets

* Unavailable

Principal Employers
Current Year and Nine Years Ago

| Employer | 2020 | | 2011 | |
|--|------|---------------------|------|---------------------|
| | Rank | Number of Employees | Rank | Number of Employees |
| Fauquier County School Board | 1 | 1,000 and over | 1 | 1,000 and over |
| Fauquier Health System | 2 | 500 to 999 | 2 | 500 to 999 |
| County of Fauquier | 3 | 500 to 999 | 3 | 500 to 999 |
| US Department of Transportation | 4 | 250 to 499 | 4 | 250 to 499 |
| Walmart | 5 | 100 to 249 | 5 | 100 to 249 |
| Town of Warrenton | 6 | 100 to 249 | 9 | 100 to 249 |
| Food Lion | 7 | 100 to 249 | 7 | 100 to 249 |
| Blue Ridge Orthopaedic Associates | 8 | 100 to 249 | | |
| County Chevrolet, Peugeot | 9 | 100 to 249 | | |
| Home Depot | 10 | 100 to 249 | | |
| Warrenton Overlook Health & Rehab Center | | | 6 | 100 to 249 |
| Buccaneer Computer System | | | 8 | 100 to 249 |
| Oak Springs Nursing Home | | | 10 | 100 to 249 |

Source: Virginia Employment Commission Top 50 Employers

Operating and Capital Indicators
Last Ten Fiscal Years

| | <u>FY2020</u> | <u>FY2019</u> | <u>FY2018</u> | <u>FY2017</u> | <u>FY2016</u> | <u>FY 2015</u> | <u>FY 2014</u> | <u>FY 2013</u> | <u>FY 2012</u> | <u>FY 2011</u> |
|---|---------------|---------------|---------------|---------------|---------------|----------------|----------------|----------------|----------------|----------------|
| Water System: | | | | | | | | | | |
| Number of water systems | 16 | 16 | 16 | 16 | 16 | 16 | 16 | 14 | 14 | 14 |
| Number of service connections | 6236 | 6034 | 6021 | 5888 | 5717 | 5,576 | 5,466 | 5,279 | 5,170 | 5,063 |
| Miles of water mains | 143 | 143 | 143 | 142 | 142 | 141 | 127 | 100 | 100 | 100 |
| Daily average consumption per MGD | 1.43 | 1.89 | 1.42 | 1.63 | 1.49 | 1.38 | 1.365 | 1.34 | 1.323 | 1.455 |
| Average daily water distributed per MGD | 1.43 | 1.89 | 1.42 | 1.63 | 1.49 | 1.38 | 1.365 | 1.34 | 1.323 | 1.455 |
| Storage capacity in million gallons | 5.904 | 5.154 | 5.154 | 5.154 | 5.154 | 5.154 | 5.154 | 5.154 | 5.154 | 5.154 |
| Sewerage System: | | | | | | | | | | |
| Number of treatment plants | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 |
| Number of pump stations | 15 | 15 | 15 | 14 | 14 | 14 | 14 | 13 | 13 | 16 |
| Number of service connections | 4404 | 4339 | 4196 | 4062 | 3927 | 3,812 | 3,697 | 3,586 | 3,502 | 3,388 |
| Miles of sanitary sewer mains | 96 | 96 | 96 | 91 | 91 | 91 | 91 | 82 | 82 | 82 |
| Daily average treatment per MGD | 1.561 | 0.857 | 1.28 | 1.328 | 1.492 | 1.254 | 1.365 | 1.319 | 1.289 | 1.289 |
| Design capacity of treatment plants per MGD | 3.59 | 3.59 | 3.59 | 3.59 | 3.59 | 3.59 | 3.59 | 3.59 | 3.236 | 3.236 |
| Number of Full-Time Employees: | 46 | 47 | 47 | 47 | 46 | 46 | 42 | 44 | 44 | 44 |

MGD - Million Gallon per Day

Source: Fauquier County Water and Sanitation Authority

* Table has been restated in prior years per new information provided to management

FAUQUIER COUNTY WATER AND SANITATION AUTHORITY

Principal Water and Sewer Customers
Last Ten Fiscal Years

| Principal Users of the Water System | Principal Business | FY 2020 | | FY 2019 | | FY 2018 | |
|-------------------------------------|------------------------|----------|-------------|----------|-------------|----------|-------------|
| | | 000/Gals | % of System | 000/gals | % of System | 000/gals | % of System |
| FAUQUIER COUNTY PUBLIC SCHOOLS | Public Schools | 8,281 | 1.83% | 9,752 | 1.89% | 11,945 | 2.01% |
| CHUCK DAVIS | ODEC | 7,448 | 1.65% | 6,090 | 1.18% | 7,230 | 1.22% |
| WAKEFIELD SCHOOL | Private School | 5,632 | 1.25% | | | | |
| FEDERAL AVIATION ADM | Federal FFA buliding | 4,469 | 0.99% | 6,846 | 1.33% | 5,064 | 0.85% |
| ASPEN SOUTH | Apartments | 3,178 | 0.70% | 4,900 | 0.95% | 2,638 | 0.44% |
| BEALETON VILLAGE CENTER LLC | Shopping Center | 2,929 | 0.65% | 985 | 0.19% | | |
| CEDAR LEE CONDO ASSOCIATES | Apartments | 2,650 | 0.59% | 3,500 | 0.68% | 2,654 | 0.45% |
| SUFFIELD MEADOW CONDO | Condos | 1,750 | 0.39% | 1,889 | 0.37% | 1,142 | 0.19% |
| WAVERLY STATION | Apartments | 1,721 | 0.38% | 1,901 | 0.37% | 1,611 | 0.27% |
| NORTH FORTY ASPEN PLUS | Apartments | 1,567 | 0.35% | 1,330 | 0.26% | 1,628 | 0.27% |
| BROOKSIDE HOA | Homeowners Association | | | 977 | 0.19% | 1,029 | 0.17% |
| VAN MANAGEMENT INC | Marshall McDonalds | | | | | 1,028 | 0.17% |
| CEDAR LEE CONDO ASSOCIATES | Apartments | | | | | | |
| ASPEN CLUB APTS/NORTH 40 | Apartments | | | | | | |
| R. B. DRUMHELLER INC. | Bealeton McDonalds | | | | | | |
| Total | | 39,625 | 8.78% | 38,170 | 7.40% | 9,092 | 1.76% |

Total Water System Annual Consumption

| | | |
|---------|---------|---------|
| 451,497 | 434,569 | 432,214 |
|---------|---------|---------|

| Principal Users of the Sewer System | Principal Business | 000/gals | System | 000/gals | System | 000/gals | System |
|-------------------------------------|--------------------------------|----------|--------|----------|--------|----------|--------|
| FAUQUIER COUNTY PUBLIC SCHOOLS | Public Schools | 11,483 | 3.93% | 12,189 | 3.89% | 10,985 | 2.26% |
| BLUE RIDGE CHRISTIAN HOME | Nursing Home | 8,932 | 3.05% | | | | |
| BEALETON VILLAGE CENTER LLC | Shopping Center | 8,531 | 2.92% | 375 | 0.12% | 930 | 5.18% |
| CEDAR LEE CONDO ASSOCIATES | Condos | 8,509 | 2.91% | 4,628 | 1.48% | 2,654 | 0.55% |
| SHEETZ # 221 UTILITIES | Convenience Store, Gas Station | 5,735 | 1.96% | 1,581 | 0.51% | 2,128 | 0.44% |
| FEDERAL AVIATION ADM | Federal FFA building | 4,469 | 1.53% | 5,156 | 1.65% | 5,064 | 1.04% |
| ASPEN CLUB APTS/NORTH 40 | Apartments | 3,648 | 1.25% | | | | |
| ASPEN SOUTH | Apartments | 3,231 | 1.10% | 3,528 | 1.13% | 2,638 | 0.54% |
| WAVERLY STATION | Apartments | 1,721 | 0.59% | 1,884 | 0.60% | 1,611 | 0.33% |
| NORTH FORTY ASPEN PLUS | Apartments | 1,567 | 0.54% | 1,565 | 0.50% | 1,628 | 0.34% |
| OPAL OIL, INC. | Quarles Q Stop | | | 1,293 | 0.41% | | |
| BROOKSIDE HOA | Homeowners Association | | | 1,007 | 0.32% | 259 | 0.05% |
| VAN MANAGEMENT INC | Marshall McDonalds | | | | | 1,028 | 0.21% |
| R. B. DRUMHELLER INC. | Bealeton McDonalds | | | | | | |
| WAKEFIELD SCHOOL | Private School | | | | | | |
| CHUCK DAVIS | ODEC | | | | | | |
| Total | | 57,826 | 19.78% | 33,206 | 10.61% | 17,940 | 3.85% |

Table 13

| FY 2017 | | FY 2016 | | FY 2015 | | FY 2014 | | FY 2013 | | FY 2012 | | FY 2011 | |
|----------|-------------|----------|-------------|----------|-------------|----------|-------------|----------|-------------|----------|-------------|----------|-------------|
| 000/gals | % of System | 000/gals | % of System | 000/gals | % of System | 000/gals | % of System | 000/gals | % of System | 000/gals | % of System | 000/gals | % of System |
| 11,667 | 1.96% | 12,252 | 2.32% | 9,946 | 1.96% | 10,696 | 2.26% | 9,684 | 2.05% | 13,035 | 2.76% | 17,338 | 3.61% |
| 6,683 | 1.12% | 8,900 | 1.68% | 3,765 | 0.74% | 9,029 | 1.91% | 299 | 0.06% | 1,931 | 0.41% | 957 | 0.20% |
| | | | | 772 | 0.15% | | | 448 | 0.09% | 586 | 0.12% | | 0.00% |
| 13,657 | 2.30% | 2,470 | 0.47% | 3,646 | 0.72% | 3,911 | 0.83% | 3,661 | 0.77% | 4,487 | 0.95% | 4,643 | 0.97% |
| 5,826 | 0.98% | 3,191 | 0.60% | 3,165 | 0.62% | 3,223 | 0.68% | 3,168 | 0.67% | 2,963 | 0.63% | 3,348 | 0.70% |
| | | | | 794 | 0.16% | | | 6,667 | 1.41% | 1,377 | 0.29% | 1,012 | 0.21% |
| 6,960 | 1.17% | 2,880 | 0.54% | 3,562 | 0.70% | | | 1,840 | 0.39% | 526 | | | |
| 5,577 | 0.94% | 12,605 | 2.38% | 2,485 | 0.49% | 3,480 | 0.74% | 3,193 | 0.68% | 773 | 0.16% | | |
| 3,273 | 0.55% | 1,422 | 0.27% | 1,520 | 0.30% | 1,507 | 0.32% | 1,055 | 0.22% | 717 | 0.15% | | |
| 3,757 | 0.63% | 1,754 | 0.33% | 1,730 | 0.34% | 1,520 | 0.32% | 1,402 | 0.30% | 4,900 | 1.04% | 1,649 | 0.34% |
| 4,313 | 0.72% | 1,047 | 0.20% | | | | | | | | | | |
| 2,022 | 0.34% | | | 1,030 | 0.20% | 1,234 | 0.26% | | | 1,280 | 0.27% | 1,462 | 0.30% |
| | | 2,880 | 0.54% | 3,562 | 0.70% | | | 1,840 | 0.39% | 526 | | | |
| | | 1,080 | 0.20% | 1,879 | 0.37% | 2,347 | 0.50% | 2,753 | 0.58% | 2,084 | 0.44% | 3,231 | 0.67% |
| | | | | 790 | 0.16% | 852 | 0.18% | | | | | | |
| 63,735 | 10.71% | 48,011 | 9.08% | 35,000 | 6.90% | 33,888 | 7.17% | 32,349 | 6.83% | 30,698 | 6.27% | 28,997 | 6.04% |
| 439,931 | | 402,214 | | 385,873 | | 337,318 | | 334,209 | | 336,037 | | 325,137 | |
| 000/gals | System | 000/gals | System | 000/gals | System | 000/gals | System | 000/gals | System | 000/gals | System | 000/gals | System |
| 9,632 | 1.99% | 12,835 | 2.50% | 9,885 | 1.91% | 10,025 | 1.99% | 8,397 | 1.67% | 12,837 | 2.55% | 15,024 | 3.35% |
| | | | | 1,271 | 0.25% | | | 930 | 0.18% | 1,026 | 0.20% | 1,212 | 0.27% |
| 1,981 | 0.41% | | | 794 | 0.15% | | | 6,667 | 1.41% | 1,377 | 0.29% | 1,012 | 0.21% |
| 6,960 | 1.44% | 2,880 | 0.56% | 3,562 | 0.69% | | | 1,840 | 0.37% | 526 | 0.10% | 1,515 | 0.34% |
| 2,227 | 0.46% | 2,285 | 0.45% | 2,095 | 0.41% | 2,190 | 0.43% | 1,978 | 0.39% | 1,875 | 0.37% | 1,929 | 0.43% |
| 13,657 | 2.82% | 2,470 | 0.48% | 3,646 | 0.71% | 3,911 | 0.78% | 3,660 | 0.73% | 4,487 | 0.89% | 4,643 | 1.03% |
| | | 1,080 | 0.21% | 1,879 | 0.36% | 2,347 | 0.47% | 2,753 | 0.55% | 2,084 | 0.41% | 3,231 | 0.72% |
| 5,826 | 1.20% | 3,191 | 0.62% | 3,165 | 0.61% | 3,223 | 0.64% | 3,168 | 0.63% | 2,963 | 0.59% | 3,343 | 0.74% |
| 3,273 | 0.67% | 1,422 | 0.28% | 1,520 | 0.29% | 1,507 | 0.30% | 1,055 | 0.21% | 717 | 0.14% | | 0.00% |
| 3,757 | 0.77% | 1,754 | 0.34% | 1,730 | 0.33% | 1,520 | 0.30% | 1,402 | 0.28% | 4,900 | 0.97% | 1,649 | 0.37% |
| | | | | 1,474 | 0.29% | 1,461 | 0.29% | | | | | | |
| 4,313 | 0.89% | 1,047 | 0.20% | | | | | | | | | | |
| 2,022 | 0.42% | | | 1,030 | 0.20% | 1,234 | 0.24% | 1,084 | 0.22% | 1,280 | 0.25% | 1,482 | 0.33% |
| | | | | 790 | 0.15% | 852 | 0.18% | | | | | | |
| | | | | 772 | 0.15% | | | 448 | 0.09% | 586 | 0.12% | | 0.00% |
| | | 8,900 | 1.73% | 1,970 | 0.38% | 9,029 | 1.79% | 359 | 0.07% | 3,880 | 0.77% | 2,993 | 0.67% |
| 53,648 | 11.06% | 35,394 | 6.90% | 31,937 | 6.18% | 21,160 | 4.19% | 27,074 | 5.37% | 37,161 | 7.36% | 37,021 | 8.25% |

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ROBINSON, FARMER, COX ASSOCIATES, PLLC

Certified Public Accountants

**Independent Auditors' Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

**To The Honorable Members of the Board of Directors
Fauquier County Water and Sanitation Authority
Warrenton, Virginia**

We have audited, in accordance with the auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Authorities, Boards, and Commissions*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the business-type activities of Fauquier County Water and Sanitation Authority as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated October 13, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Fauquier County Water and Sanitation Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Fauquier County Water and Sanitation Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of Fauquier County Water and Sanitation Authority's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Fauquier County Water and Sanitation Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Robinson, Farmer, Cox Associates
Charlottesville, Virginia
October 13, 2020