

Statements of Cash Flows

Years Ended December 31, 2000 and 1999

	2000	1999
Cash Flows from Operating Activities:		
Cash received from customers	\$ 123,956,579	\$ 124,308,204
Cash paid to suppliers and employees	(33,159,333)	(33,604,874)
Sewer collections remitted	(56,019,219)	(56,096,445)
Net cash provided by operating activities	34,778,027	34,606,885
Cash Flows from Nonoperating Activities:		
Cash received from customers	21,314,587	21,479,564
Cash paid to suppliers and employees	(1,309,776)	(1,382,442)
Net cash provided by nonoperating activities	20,004,811	20,097,122
Cash Flows from Capital and Related Financing Activities:		
Net bond proceeds	50,300,38	-
Principal paid on bonds	(4,650,000)	(4,460,000)
Interest paid on revenue bonds	(18,611,081)	(18,028,080)
Construction of utility plant	(55,812,997)	(37,738,976)
Proceeds from disposition of equipment	352,650	82,394
Contributions by developers	762,107	1,369,116
Net cash used in capital and related financing activities	(27,658,933)	(58,775,546)
Cash Flows from Investing Activities:		
Gross purchases of investments	(217,249,937)	(189,345,173)
Gross sales and maturities of investments	205,444,608	180,509,597
Cash received (paid) for accrued interest purchased	89,804	(49,070)
Interest received	14,798,117	13,756,332
Net cash provided by investing activities	3,082,592	4,871,686
Net Increase in Cash and Cash Equivalents:	30,206,497	800,147
Cash and Cash Equivalents, Beginning of Year	5,198,264	4,398,117
Cash and Cash Equivalents, End of Year	\$ 35,404,761	\$ 5,198,264

See notes to financial statements.

Notes to Financial Statements

Years Ended December 31, 2000 and 1999

1. The Authority

The Fairfax County Water Authority (the Authority) is a public body, corporate and politic, exercising public and essential governmental functions in the Commonwealth of Virginia. The Authority was created by the Board of Supervisors of Fairfax County, Virginia, and chartered by the State Corporation Commission in 1957 for the purpose of establishing and operating a comprehensive county-wide water system. The management is vested in a board of ten members appointed by the Board of Supervisors.

2. Accounting Policies

The significant accounting policies followed in the preparation of the Authority's financial statements are summarized as follows:

Reporting Entity—To determine the appropriate reporting entity for the Authority, its relationship with Fairfax County (the County) was considered in terms of financial accountability as defined in Statement No. 14 of the Governmental Accounting Standards Board (GASB), *The Financial Reporting Entity*. Based on the application of these criteria, the Authority is not a component unit of the County and all governmental entities operating within the County are excluded from the Authority's financial statements. Although the members of the Authority's Board of Directors are appointed by the Fairfax County Board of Supervisors, the County is not financially accountable for the Authority. In addition, there is no potential for the Authority to provide specific financial benefit to, or impose specific financial burdens on the County, and the Authority is not fiscally dependent on the County.

Basis of Accounting—Because the Authority derives its revenues from user charges of the general public, it is considered an enterprise fund. Accordingly, the Authority uses the accrual basis of accounting as prescribed for water utilities.

In accordance with GASB Statement No. 20, the Authority has elected to apply all applicable GASB pronouncements as well as Financial Accounting Standards Board (FASB) statements and interpretations, Accounting Principles Board (APB) opinions, and Accounting Research Bulletins issued on or before November 30, 1989, that do not conflict with or contradict GASB pronouncements.

New Accounting Standards—During 1998, the GASB issued Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*. Compliance with Statement No. 33 will be mandatory for the Authority for the year ending December 31, 2001. During 1999, the

GASB issued Statement No. 34, *Basic Financial Statements—Management’s Discussion and Analysis; for State and Local Governments*. Compliance with Statement No. 34 will be mandatory for the Authority for the year ending December 31, 2003. The impact on the Authority’s balance sheet and statement of operations has not yet been determined.

Use of Estimates—The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Revenues—Rates, fees, and charges for wholesale and retail customers are established to provide sufficient funds to cover the cost of operations, debt service, and essential repairs and improvements to the utility plant. Metered sales are recognized as revenue as water is used by customers. Availability, local facility, and service connection charges are paid by retail customers for each new service connection and meter installation. These charges are recognized as revenue as service connections are made.

Cash and Cash Equivalents—Cash and cash equivalents consist of deposits with initial terms of maturity of three months or less and are recorded at cost, which approximates market.

Utility Plant—The utility plant in service is carried at cost, which includes associated payroll, fringe benefits, administrative costs, and interest charges on debt-financed construction. The Authority accounts for utility plant purchases in the aggregate by year of purchase and depreciates these costs over an estimated useful life of 1-1/2% of the average utility plant balance. Recurring normal maintenance and repair costs are charged to operations, whereas major repairs, improvements, and replacements are capitalized. Interest earned on bond proceeds to be used for utility plant construction and temporarily invested during the construction period is offset against the amount of interest expense capitalized.

Depreciation—The utility plant in service is depreciated on the straight-line basis at a composite rate of 1-1/2% of the average utility plant balance.

Unamortized Debt Discount and Expense—Debt discount and bond issuance costs are amortized over the life of the related bond issue using the effective interest rate and straight-line methods, respectively. The current year amortization is included in interest expense.

Vacation and Sick Pay—Employees earn vacation and sick pay based on a prescribed formula that allows employees to accumulate a maximum of 40 days in vacation pay and an unlimited amount of sick pay. Sick pay vests with the employee at an average rate of \$3.68 per hour. The value of vacation and sick pay earned but not used by the Authority’s employees is accrued as a liability.