

3. Cash and Investments

Cash and investments consist of investments held for construction, cash in banks, short-term investments, restricted investments, investments held in escrow and other investments.

- a. **Cash and Cash Equivalents**—Cash in bank accounts is insured by the FDIC and/or collateralized in accordance with the Virginia Security for Public Deposits Act.

As of December 31, 2000 and 1999, the Authority held \$5,205,000 and \$5,410,000, respectively, in repurchase agreements, which have been classified as cash and cash equivalents. The repurchase agreements matured on January 2, 2001, and January 3, 2000, respectively. The repurchase agreements held at the end of each year were collateralized by U.S. Government securities and were held in an account with First Union National Bank in the Authority's name.

As of December 31, 2000 and 1999, the Authority held \$30,516,001 and \$221,471 of short-term investment classified as cash equivalents. Short-term investments consist of investments in the Commonwealth Cash Reserve Fund and STI Classic Fund, which are money market funds.

- b. **Investments**—Investments are reported at fair market value, with any related gain or loss reported in the statement of operations. Restricted investments represent investments held by the Trustee for debt service in accordance with applicable bond covenants. All investments are held by agents of the Authority in the Authority's name and consist of U.S. Treasury and U.S. Agency securities and Resolution Funding Corporation stripped securities (REFCO Strips). Accrued interest at December 31, 2000 and 1999, of approximately \$11,735,916 and \$10,770,248, respectively, on the REFCO Strips is classified with the REFCO Strips in investments held in escrow. Maturity dates of the investments determine the balance sheet classification.

Cash and cash equivalents and investments are categorized to give an indication of the level of risk assumed by the Authority. All investments are classified as Category 1 as defined by Statement No. 3 of the Governmental Accounting Standards Board. Category 1 includes repurchase agreements and investments that are insured or registered or for which the securities are held by the Authority or by its agents in the Authority's name.

The market value of investments as of December 31, 2000 and 1999, was \$290,748,408 with a carrying cost of \$282,265,694 and \$268,560,359 with a carrying cost of \$275,121,374, respectively.

4. Utility Plant in Service

The utility plant in service consists of the following facilities at December 31, 2000 and 1999:

	2000	1999
Water supply	\$ 75,941,620	\$ 73,248,943
Water treatment	231,388,873	228,926,532
Transmission	233,466,665	228,780,156
Distribution	332,905,991	323,588,911
General plant	158,063,896	143,329,935
	<u>\$ 1,031,767,045</u>	<u>\$ 997,874,477</u>

5. Costs to be Recovered by Future Revenues

The cost recovery rate model of the Authority was established to generate sufficient revenues to cover annual operation and maintenance costs, debt service, certain additions, betterments and extensions, and extraordinary maintenance and repairs. Statement of Financial Accounting Standards No. 71 (SFAS No. 71) identifies the accounting principles to be followed when differences arise between the Authority's cost recovery rate model used to establish rates, fees and charges, and generally accepted accounting principles. The effect of this accounting principle is to defer costs that will be recovered through future revenues in accordance with the rate model. The costs being deferred represent the excess of current depreciation on assets financed with bond proceeds and capitalized interest over current repayments of bond principal and net interest capitalized.

In 2000 and 1999, the effect of SFAS No. 71 was to increase costs to be recovered in future years and to increase nonoperating income by \$1,307,266 and \$1,123,289, respectively.

A summary of the differences between the Authority's rate model and generally accepted accounting principles is as follows:

	2000	1999
Costs excluded from rate model:		
Depreciation of debt financed utility plant	\$ 6,245,234	\$ 6,256,712
Depreciation of capitalized interest	335,684	314,157
Amortization of loss on bond issuance	811,542	548,662
	7,392,460	7,119,531
Costs included in rate model:		
Debt principal repayments	4,650,000	4,460,000
Capitalized interest, net	1,435,194	1,536,242
	6,085,194	5,996,242
Increase in costs to be recovered by future revenues	1,307,266	1,123,289
Costs to be recovered, beginning of year	17,309,811	16,186,522
Costs to be recovered, end of year	\$ 18,617,077	\$ 17,309,811

6. Contributed Capital

Changes in contributed capital for the years ended December 31, 2000 and 1999, were as follows:

	2000	1999
Balance, Beginning of Year	\$ 221,171,207	\$ 215,390,482
Contributed assets	3,888,310	4,577,671
Nonrefundable construction advances	1,026,074	643,340
Expired construction advances	552,300	559,714
Balance, End of Year	\$ 226,637,891	\$ 221,171,207

Contributed assets consist principally of water mains constructed by developers and subsequently donated to the Authority. They are valued at the Authority's estimated cost to construct similar assets. The Authority also receives assets and cash in aid of construction from developers, which are refundable over a 10-year period, based on the number of applicable connections made to the contributed water mains. At the end of 10 years, the portion not refunded is transferred to contributed capital.