

**RIVANNA WATER & SEWER AUTHORITY**

**COMPREHENSIVE ANNUAL  
FINANCIAL REPORT**



**YEARS ENDED  
JUNE 30, 2011 AND 2010**

**SERVING**

**CHARLOTTESVILLE &  
ALBEMARLE COUNTY, VIRGINIA**



**RIVANNA WATER & SEWER AUTHORITY  
CHARLOTTESVILLE, VIRGINIA**

**COMPREHENSIVE ANNUAL FINANCIAL REPORT**

**YEARS ENDED JUNE 30, 2011 AND 2010**

**Prepared By:**

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Lonzy E. Wood, III, Director of Finance and Administration



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# RIVANNA WATER & SEWER AUTHORITY

Comprehensive Annual Financial Report  
Fiscal Years Ended June 30, 2011 and 2010

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# RIVANNA WATER & SEWER AUTHORITY

Comprehensive Annual Financial Report  
Fiscal Years Ended June 30, 2011 and 2010

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**BOARD MEMBERS**

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Maurice Jones, Vice-Chairman

Thomas Foley, Secretary/Treasurer

Judith M. Mueller

Kenneth C. Boyd

David Brown

Gary B. O'Connell

**EXECUTIVE DIRECTOR**

Thomas L. Frederick, Jr., P.E.

**DIRECTOR OF FINANCE/ADMINISTRATION**

Lonzy E. Wood, III, CPA

**GENERAL COUNSEL**

McGuire Woods, LLP  
Charlottesville, Virginia

**TRUSTEE AND ESCROW AGENT**

Bank of New York Mellon  
New York, New York





# RIVANNA WATER & SEWER AUTHORITY

695 MOORES CREEK LANE • CHARLOTTESVILLE, VIRGINIA 22902-9016  
(434) 977-2970 • FAX: (434) 293-8858 • WEBSITE: WWW.RIVANNA.ORG

October 24, 2011

To the Board of Directors  
Rivanna Water and Sewer Authority  
Charlottesville, Virginia

The Comprehensive Annual Financial Report (CAFR) of the Rivanna Water and Sewer Authority (Authority) is submitted herewith. This report has been prepared in conformity with the reporting and accounting standards promulgated by the Government Accounting Standards Board and the Financial Accounting Standards Board and with the accounting and reporting standards for enterprise funds set out by the Government Finance Officers Association of the United States and Canada, with such modifications as apply to our status as an independently chartered corporation. The information in the report is believed by Authority management to be sufficient to fully represent the financial result of the Authority's operations for the year ended June 30, 2011 and to provide an accurate and useful picture of the Authority's status as of that date. All information included is the responsibility of the management of the Authority with respect to accuracy, completeness and fairness.

Management's discussion and analysis (MD&A) immediately follows the independent auditors' report and provides a narrative introduction, overview, and analysis of the basic financial statements. MD&A complements this letter of transmittal and should be read in conjunction with it.

## **ORGANIZATION AND SERVICES PROVIDED**

The Rivanna Water and Sewer Authority is a regional non-profit public corporation and political subdivision of the Commonwealth chartered in 1972 under the Virginia Water and Waste Authorities Act (1950, as amended), that supplies drinking water to and treats the sewage of Charlottesville (City) and certain areas of Albemarle County (County). The Authority is a wholesale agency and bills monthly both Charlottesville and the Albemarle County Service Authority, which handle retail distribution of water and collection of sewage in their respective service areas.

The Authority is charged to acquire, finance, construct, operate and maintain facilities for the impoundment, production, storage, treatment and transmission of potable water and for the interception, treatment and discharge of wastewater. The Authority operates under the terms of a Service Agreement signed June 12, 1973 by the officers of the Charlottesville City Council, the Albemarle County Board of Supervisors, the Albemarle County Service Authority and the Rivanna Water and Sewer Authority. The Authority has determined that it is not part of the reporting entity of either the City of Charlottesville or the County of Albemarle and will not be included in the financial report of either (see Note 1 to the Financial Statements).

## **ORGANIZATION AND SERVICES PROVIDED: (CONTINUED)**

The Authority is governed by a seven member Board of Directors (Board). The Board appoints an Executive Director, who manages Authority operations under their direction. The Authority is now organized in administration, laboratory, engineering, maintenance, water, and wastewater departments. The Authority operates and maintains five water treatment plants and four wastewater treatment plants and the associated water storage facilities, pump stations, transmission mains and interceptor sewers, as well as a hydropower generating facility. Retail distribution of water and collection of wastewater is performed by the Authority's two customers: the City of Charlottesville's Public Utilities Division and the Albemarle County Service Authority.

## **JOINT ADMINISTRATION**

By mutual agreement of the respective Boards of Directors, the Authority currently shares administrative staff and office space with the Rivanna Solid Waste Authority, which is billed monthly for its portion of the costs. Administrative procedures were implemented to ensure proper segregation of funds, purchasing activity, personnel, and similar matters. In general, the Rivanna Solid Waste Authority adopted existing Authority administrative policies, procedures and regulations for its own use. The Authorities have also agreed to adopt and administer joint Safety Regulations and a joint Safety Program.

## **ACCOUNTING AND BUDGETARY CONTROLS**

The Authority's accounting records are maintained on the accrual basis of accounting. Under this method, revenues are recognized when earned and expenses are recorded when incurred, without regard to receipt or payment of cash. Current controls provide reasonable assurance that the Authority's assets are properly recorded and protected and that the financial data may be used with confidence in the preparation of historical reports and projections. Accounting control is maintained by segregation of duties and data security systems in all areas of record keeping, disbursements, and purchasing authority. All of these control systems are reviewed regularly by staff and are evaluated as part of the annual financial audit (see Annual Audit section below).

The Authority is required by the Service Agreement to adopt an annual budget for setting wholesale rates as well as for fiscal guidance to staff. Separate fiscal year budgets are currently prepared for six rate centers to include direct costs and allocations of administrative, engineering, maintenance, lab and debt service expenses. Projections of flows and expenses are used to calculate rates per thousand gallons for the two Urban rate centers and flat monthly charges for the other rate centers. A proposed budget for each fiscal year is prepared by the Authority Directors and the Executive Director and submitted to the Board of Directors, usually in February, with a public hearing held on the proposed rates in April or May. All budget items lapse at the end of the fiscal year, with the exception of encumbrances and capital commitments. It should be noted that the budget is prepared for internal use and does not reflect the accrual basis of accounting. An example of this is that principal payments on debt are shown as an expense.

Budgetary compliance is monitored and reported to the Board by the Director of Finance & Administration and the Executive Director. Projections of both revenues and expenses are understood to reflect anticipated service levels and to incorporate a variety of economic, climatic, and demographic forecasts. Variances from budget line items are examined at least monthly to assure a reasonable relation between actual costs and actual service levels, emergencies, or economic conditions.

## **ANNUAL AUDIT**

The Code of Virginia, the June 12, 1973 Service Agreement, the Trust Agreement and its Supplements require an annual audit of the books and records of the Authority. The opinion of our independent certified public accountants is included in the Financial Section.

## **AWARDS**

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Rivanna Water and Sewer Authority for its comprehensive annual financial report for the fiscal year ended June 30, 2010. In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

This report is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements, and we will submit it to the GFOA to determine its eligibility for a certificate.

## **ACKNOWLEDGEMENTS**

The help of staff and of our certified public accountants is gratefully acknowledged. Such help and the Board of Directors' support and commitment to financial reporting excellence are essential to the preparation of this report.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Lonzy E. Wood, III". The signature is fluid and cursive, with a large initial "L" and "W".

Lonzy E. Wood, III  
Director of Finance and Administration

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# Certificate of Achievement for Excellence in Financial Reporting

Presented to

Rivanna Water & Sewer Authority  
Virginia

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 2010

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

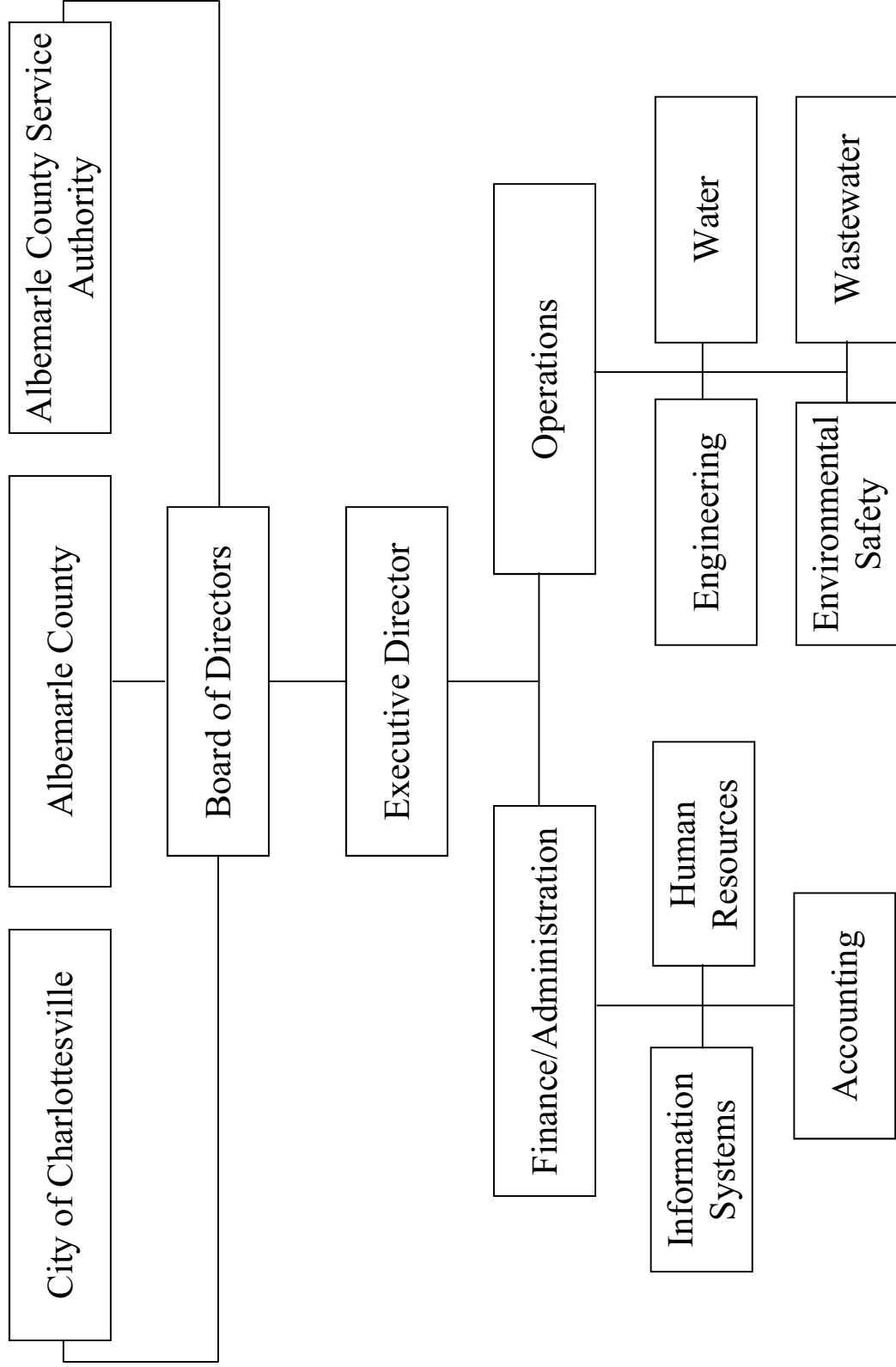


President

Executive Director

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# Rivanna Water & Sewer Authority



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# ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

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## Independent Auditors' Report

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**To the Board of Directors  
Rivanna Water & Sewer Authority  
Charlottesville, Virginia**

We have audited the accompanying statement of net assets of the Rivanna Water & Sewer Authority as of June 30, 2011 and 2010, and the related statements of revenues, expenses and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Authority's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Rivanna Water & Sewer Authority, as of June 30, 2011 and 2010, and the changes in financial position and cash flows, thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 11, 2011, on our consideration of the Rivanna Water & Sewer 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 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of funding progress for the defined benefit pension plan and the schedule of funding progress of the other post-employment benefits plan 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 management's discussion and analysis, schedule of funding progress for the defined benefit pension plan and the schedule of funding progress of the other post-employment benefit plan 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 management's discussion and analysis, the schedule of funding progress for the defined benefit pension plan and the schedule of funding progress for the other postemployment benefit plan because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Rivanna Water & Sewer Authority's financial statements as a whole. The introductory and statistical sections are presented for purposes of additional analysis and are not a required part of the financial statements. The introductory and statistical sections are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*Rivanna, Farmer, Co. Associates*  
Charlottesville, Virginia  
October 11, 2011

## Management's Discussion and Analysis

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**To the Board of Directors  
Rivanna Water & Sewer Authority  
Charlottesville, Virginia**

As management of the Rivanna Water & Sewer Authority (the Authority), we offer readers of our financial statements this narrative overview and analysis of the financial activities of the Authority for the fiscal year ended June 30, 2011. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages 3 through 7 of this report.

### **Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. Since the Authority is engaged only in business-type activities, its basic financial statements are comprised of only two components: 1) enterprise fund financial statements and 2) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Enterprise fund financial statements.** The enterprise fund financial statements are designed to provide readers with a broad overview of the Authority's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on the Authority's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

The statement of revenues, expenses and changes in net assets presents information showing how the Authority's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. earned but unused vacation leave).

The basic enterprise fund financial statements can be found on pages 24 through 27 of this report.

**Notes to financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found on pages 29 through 50 of this report.

**Required supplementary information.** This report also includes required supplementary information concerning the Authority's progress in funding its obligation to provide pension benefits to its employees. It is located immediately following the notes to financial statements.

## Financial Highlights

- The assets of the Authority exceeded its liabilities at the close of the most recent fiscal year by \$104 million (net assets). Of this amount \$23 million (unrestricted net assets) may be used to meet the Authority's ongoing obligations to customers and creditors while \$3 million of net assets are restricted for the bondholders.
- Rivanna's total net assets increased by \$12.5 million in Fiscal Year 2011 and by \$20.4 million in FY 2010, which is an indication of improvement in financial position.
- The Authority's total assets increased during each of the past two fiscal years, primarily due to investment in capital assets with debt financing. Several major projects were well under way this past year and will continue into the next fiscal year.
- Total liabilities increased by \$18 million this year and by \$14.5 million in FY 2010 due to the issuance of new debt to finance capital projects.
- Significant wastewater flows from large snowfall and rain events in FY 2010 caused a 31% increase in wastewater revenues over the previous year. FY 2011 wastewater flows were more in line with average flows, so related revenues decreased by 13%.
- Grant revenues decreased \$5.5 million this year after increasing \$10.6 million in the prior year.

## Financial Analysis

The largest portion of Rivanna Water and Sewer Authority's net assets (75 percent) reflects its investment in capital assets, net of related debt outstanding that was used to acquire those assets. The Authority uses these capital assets to provide services to its customers; consequently, these assets are not available for future spending. Although the Authority's investment in capital assets is reported net of related debt, the resources needed to repay this debt are derived from the revenue generating capability of these capital assets and not from the capital assets themselves. At the end of the past three fiscal years, the Authority has reported positive balances in all categories of net assets.

	<b>Net Assets</b>		
	<u>2011</u>	<u>2010</u>	<u>2009</u>
Current and other assets	\$ 37,822,249	\$ 38,778,357	\$ 31,255,042
Capital assets	<u>144,902,553</u>	<u>113,449,532</u>	<u>86,082,208</u>
Total assets	<u>\$ 182,724,802</u>	<u>\$ 152,227,889</u>	<u>\$ 117,337,250</u>
Noncurrent liabilities	\$ 70,493,545	\$ 54,793,204	\$ 40,869,603
Current liabilities	<u>8,364,349</u>	<u>6,041,915</u>	<u>5,493,418</u>
Total liabilities	<u>\$ 78,857,894</u>	<u>\$ 60,835,119</u>	<u>\$ 46,363,021</u>
Net assets:			
Invested in capital assets, net of related debt	\$ 77,662,172	\$ 62,172,653	\$ 47,324,770
Restricted	3,048,111	2,522,530	3,230,185
Unrestricted	<u>23,156,625</u>	<u>26,697,587</u>	<u>20,419,274</u>
Total net assets	<u>\$ 103,866,908</u>	<u>\$ 91,392,770</u>	<u>\$ 70,974,229</u>

## Financial Analysis: (Continued)

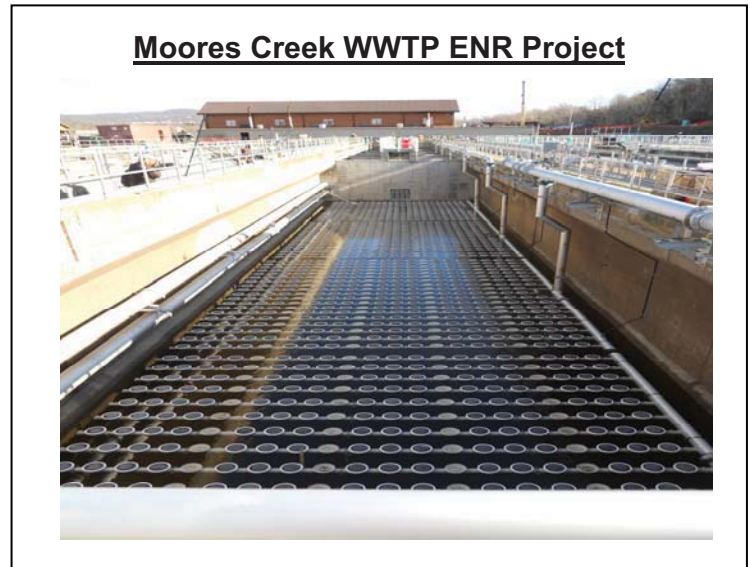
Operating revenues decreased \$1,483,000 in FY 2011 after increasing by \$3,909,000 in FY 2010, because precipitation and resulting wastewater revenues were significantly higher than average in FY 2010. Grant revenues declined by \$5.5 million this year after increasing by \$10.5 million in the prior year, which is directly related to the increase and decrease in construction costs incurred on the Moores Creek Enhanced Nutrient Removal (ENR) project and the state's 15% reduction in grant funding last year. Total expenses increased 6%, primarily due to a \$500,000 increase in interest on debt service. Key elements of these changes are explained further in the Review of Operations section.

	<u>Changes in Net Assets</u>		
	<u>2011</u>	<u>2010</u>	<u>2009</u>
Revenues:			
Operating revenues			
Metered water sales	\$ 10,895,551	\$ 10,746,260	\$ 9,867,555
Wastewater service charges	11,069,488	12,701,859	9,671,122
Nonoperating revenues			
Investment earnings	120,623	149,587	418,585
Buck Mountain revenue	52,400	93,300	90,300
Administrative reimbursement	277,000	418,000	420,000
Other revenues	256,541	110,396	140,205
Capital grants	<u>6,080,256</u>	<u>11,531,027</u>	<u>970,169</u>
Total revenues	<u>\$ 28,751,859</u>	<u>\$ 35,750,429</u>	<u>\$ 21,577,936</u>
Expenses:			
Operating expenses			
Personnel	\$ 5,525,332	\$ 5,428,691	\$ 5,449,513
Professional services	338,814	238,975	210,710
Other services and charges	2,341,123	2,137,741	2,291,946
Operations and maintenance	2,415,211	2,412,752	2,515,504
Depreciation expense	2,962,912	2,966,823	2,906,351
Nonoperating expenses			
Interest expense	2,607,502	2,107,381	2,090,583
Amortization expense	<u>86,827</u>	<u>39,525</u>	<u>39,995</u>
Total expenses	<u>\$ 16,277,721</u>	<u>\$ 15,331,888</u>	<u>\$ 15,504,602</u>
Increase in net assets	\$ 12,474,138	\$ 20,418,541	\$ 6,073,334
Net assets - July 1	<u>91,392,770</u>	<u>70,974,229</u>	<u>64,900,895</u>
Net assets - June 30	<u>\$ 103,866,908</u>	<u>\$ 91,392,770</u>	<u>\$ 70,974,229</u>

**Capital Asset and Debt Administration:**

Capital Assets - The Authority's investment in capital assets net of accumulated depreciation increased 28% in the current year and 32% in the prior year as a result of costs incurred on major wastewater construction projects in both years that are still in progress. More detailed information on the Authority's capital assets is presented in Notes 5 and 6 of the notes to the financial statements and is addressed further under the operations discussion below.

The various categories of capital assets net of depreciation at the end of the past three fiscal years are as follows:



	<u>2011</u>	<u>2010</u>	<u>2009</u>
Land and improvements	\$ 7,740,670	\$ 7,740,670	\$ 7,740,670
Buildings and operating equipment	63,620,207	65,608,994	68,420,532
Trucks and autos	184,697	258,618	271,347
Office equipment	25,261	41,777	59,453
Construction in progress	<u>73,331,718</u>	<u>39,799,473</u>	<u>9,590,206</u>
 Total capital assets	 <u>\$ 144,902,553</u>	 <u>\$ 113,449,532</u>	 <u>\$ 86,082,208</u>

Major capital asset activity for the current fiscal year included:

**Current Year Projects:**

MCWWTP Upgrade to ENR Construction	\$ 15,440,588
Meadowcreek Interceptor Improvements	11,302,154
MCWWTP Wet Weather Capacity	4,583,710
Ragged Mountain Dam Design	1,855,049
Moores Creek Pump Stn & Force Main Upgrade	1,188,821
Route 29 Pumping Station Site Acquisition	332,686
Interceptor Sewer & Manhole Repair	253,805
Stillhouse System Pump Station	111,612
Disinfection By-Product Optimization - Urban	101,071
Rivanna Pump Station Upgrade	80,020
Mitigation Plan Implementation	62,121
MCWWTP Odor Control	(68,588)
29 North Pipeline Removal/Temporary Pump Connection	(251,074)
MCWWTP Septage Receiving	(799,045)
Other	217,630
Retainage on Construction in Progress	(31,994)
Total Current Year Construction Costs and Adjustments	<u>\$ 34,378,566</u>

## Capital Asset and Debt Administration: (Continued)

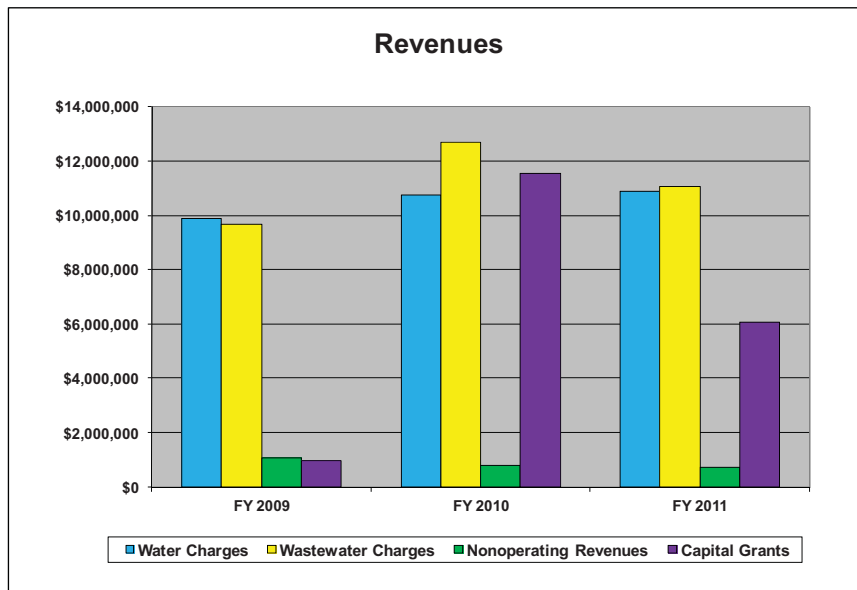
Long-Term Debt - At the end of the current fiscal year, the Authority had \$73,831,000 in bonds outstanding versus \$57,250,000 last year, an increase of \$16,581,000 due to draws on new bonds issued this year (Series 2011A, B, and C) and Series 2009A and 2010A Bonds issued in recent years. The 2009A and 2011 bonds are Virginia Revolving Loan Fund debt instruments for \$24,000,000 and \$11,000,000, respectively being used to fund the Moores Creek ENR project. The Series 2010A Bond is another Virginia Revolving Loan Fund loan in the original amount of \$15,180,000 for the Meadow Creek Sewer Rehabilitation project. These loans act like construction loans where the proceeds stay with the State until the construction costs are paid to the contractor. Approximately \$14,346,700 was remaining to be drawn on these loans at year end, which will add to the long-term debt balances in the next few years.

On March 9, 2011, Standard & Poor's issued a report after its review of the Authority's financial condition relative to the outstanding revenue bonds. The report states that Standard & Poor's "raised its rating on Rivanna Water and Sewer Authority, Va.'s revenue bonds outstanding to 'AA+' from 'AA', reflecting our view of the authority's maintenance of a strong financial position as it has continued to successfully manage its capital needs."

Although the revolving loan fund "loan/bonds" mentioned above did not need to be reviewed or carry an official rating from the rating agencies, they do affect their review of the financial and debt profile in general. The Series 2001, 2003 and 2005B Bonds are more directly affected by this positive increase in our bond ratings.

## Review of Operations

Operating revenues for Fiscal Year 2011 decreased 6.3% from the previous year for two main reasons. Wastewater revenues were abnormally high in FY 2010 (31% higher than FY 2009) due to significant flows from wet weather and have leveled off to normal levels again for FY 2011. Grant revenues have declined



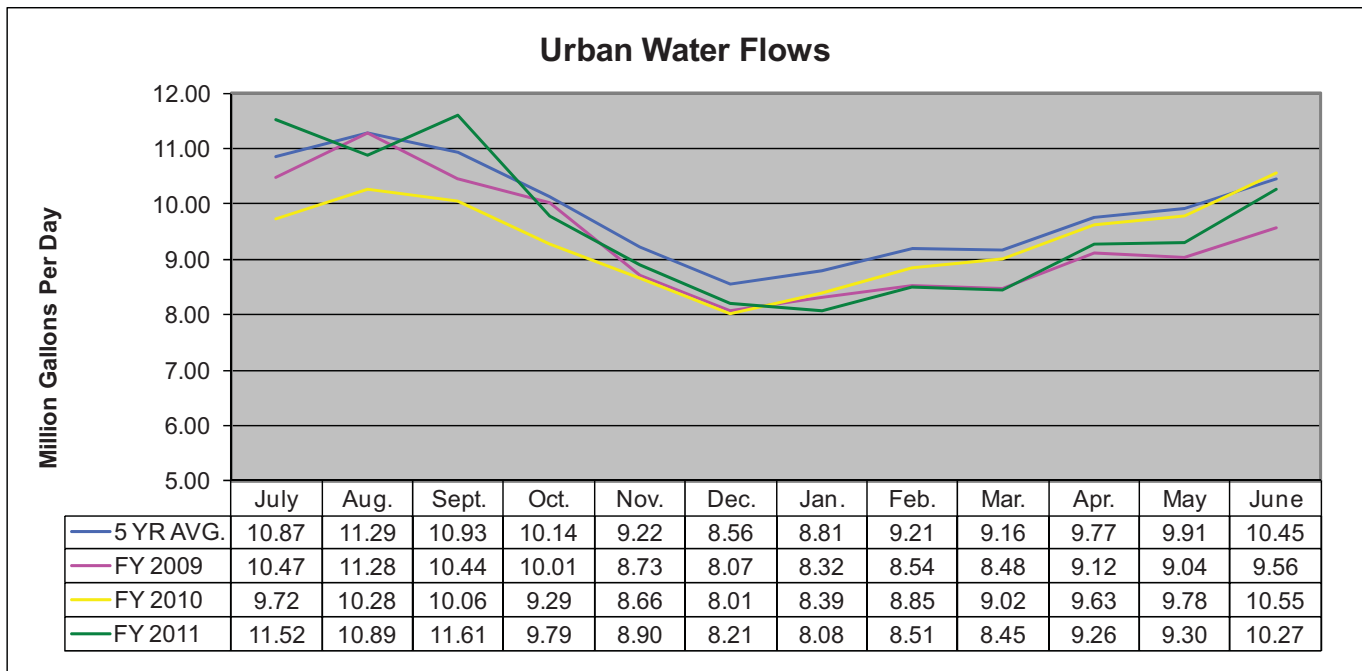
\$5,451,000 because the project that those revenues fund entered its final stages of construction, and the State Water Quality Improvement Fund (WQIF) is falling short of its obligations to utilities like Rivanna for the Chesapeake Bay clean-up program. The WQIF was to fund a set amount of the wastewater treatment plant upgrades at the Moores Creek; however the state began funding only 85 percent of its agreed obligation beginning July 1, 2010, and will stop funding its obligations altogether after December 2011 until such time as funding becomes available through the state budgeting process. The revenues from grants fund the capital program directly and do not support operations.

The Authority has been steadily increasing rates over the years due to the aggressive capital improvement plan adopted by the Board of Directors and the related debt service impacts to our revenue requirements. However, for FY 2011 rates were relatively flat or decreasing. As the economy worsened, the authority strived to keep rates from rising as in the past. Urban Water rates actually decreased both for the City and the Albemarle County Service Authority (ACSA) by 1% and 0.5% respectively. Water flows for FY 2011 did increase about 2.3% from FY 2010 resulting in a \$149,000 increase in revenues or 1.4%.

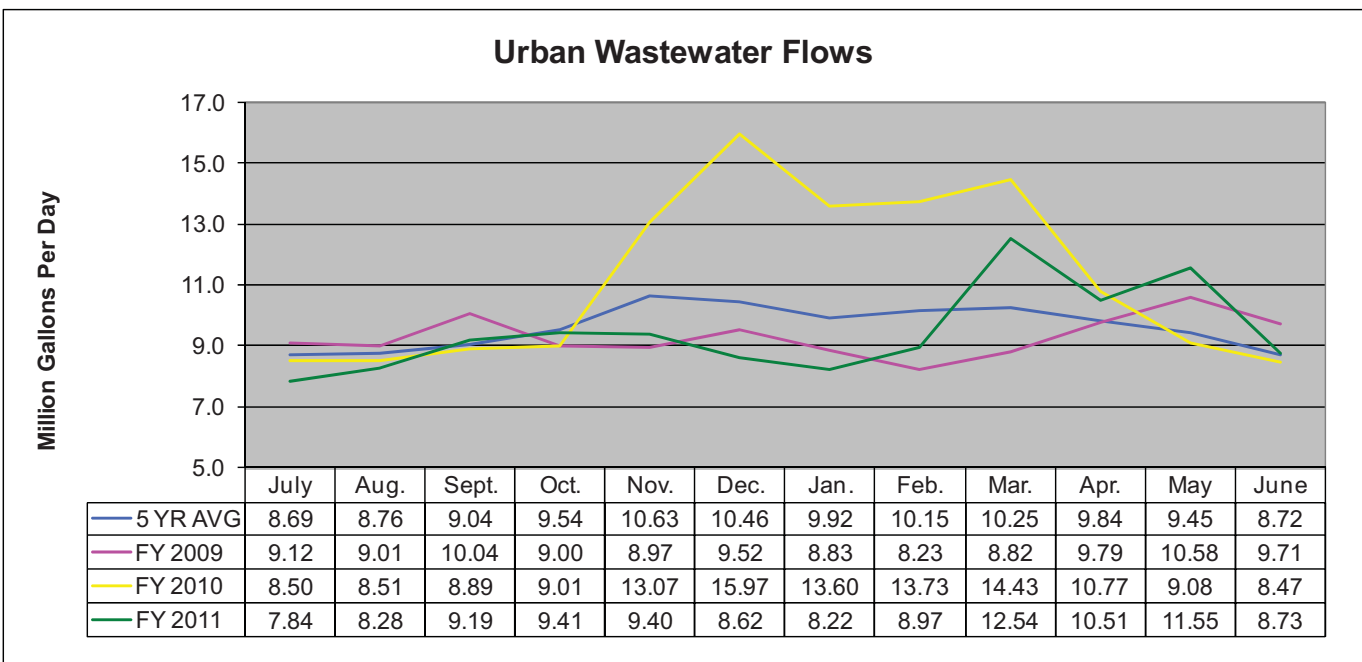
**Review of Operations: (Continued)**

Urban Wastewater rates were relatively flat as well. City rates increased 3.8% but the ACSA rates decreased 0.5% mainly due to a shift in the allocation of the flows between the two customers based on those retail systems' reported flow amounts. Revenues from wastewater charges decreased 12.9% or \$1,632,000 due to lower flows.

As mentioned above, flows in the two urban rate centers are the single largest determining factor in the revenues billed to our two customers. Urban Water was a good example, despite rates that were lower than the previous year, revenues were slightly higher. The graphs below show the flows for the year compared to the last two years and the five-year average.



FY 2011 Urban Water flows (green line) started off the year much higher than FY 2010, but began to even out as the year progressed ending the year with a smaller increase. Weather patterns can significantly affect metered flows and revenues as the graph below for wastewater flows demonstrates.



## Review of Operations: (Continued)

Operating expenses did increase over FY 2010 by 3% or \$398,000 but were nearly flat (only 1.5%) compared to FY 2009 spending levels. Personnel expenses increased 1.8% due to benefit increases and a one-time bonus to all employees of \$1,500 each. Employees had not seen a pay increase since 2008. The remaining cost increase is related to engineering services for the dredging studies and the statewide water supply planning services.

Cash balances were stable for the year which is evident in maintaining a strong debt service coverage ratio the past several years. (See Table 8 in the Statistical Section.) The Authority has been able to meet targets to increase cash reserves for rate stabilization, maintenance and capital replacement through the rate setting policies. After the drought of 2002, which fiscally occurred in FY 2003, the Authority began setting aside funds for rate stabilization to better handle wide fluctuations in flow. Rate stabilization reserves totaled \$1,000,000 at June 30, 2011. The Authority began setting aside funds in FY 2004 for watershed and water resources management projects relative to the environmental health of the community's watershed, which totaled \$421,000 at the end of FY 2011. Some of these funds were used to pay for research into the viability of dredging the South Fork Rivanna Reservoir.

The Capital fund cash had been accumulating in previous fiscal years according to the Capital Improvement Plan; however, this past year we have used a large portion of the capital fund to pay project costs that are not covered by the recently issued Revolving loan fund loan/bonds mentioned previously. Capital cash funded roughly \$5,751,000 last year and \$3,400,000 in fiscal year 2010 of the capital projects expenditures over the last two years. Several projects that are being funded with grants and loans have a lag of time between paying the contactors and receiving the funds from the grant and loan sources. This "draw down lag" is causing a need for working capital just for capital project cash flow needs to temporarily fund projects awaiting reimbursement. The capital cash fund is supplying that cash flow need. While these funds are being used as anticipated, the next phase of capital projects financing is being sought as mentioned above in the Long-term debt section. As proceeds are used from these sources, capital cash will again accumulate to fund an ambitious capital program. This is a cash flow cycle that will keep repeating over the next few years due to the large size and amount of capital expansion at the Authority which is discussed more in depth in the next section.

### Capital Improvements & Long-Term Trends -

The Authority generally updates the five-year projection of our Capital Improvement Plan (CIP) annually. The following estimates from the CIP adopted in October 2010 are broken out by fiscal year:

<b>2011</b>	<b>\$ 127,034,300</b>	<b>Capital Budget</b>
<b>2012</b>	<b>25,239,200</b>	<b>CIP estimate</b>
<b>2013</b>	<b>22,965,000</b>	<b>CIP estimate</b>
<b>2014</b>	<b>9,660,100</b>	<b>CIP estimate</b>
<b>2015</b>	<b><u>1,364,000</u></b>	<b>CIP estimate</b>
	<b>\$ 186,262,600</b>	

The fiscal challenges placed on the Authority with such an aggressive CIP have prompted management to target funding a portion, roughly 10 percent, of our capital costs with cash reserves. The total five-year CIP is estimated at \$186.3 million in capital needs through the year 2015. The first year of the CIP is the capital budget, and at year end \$72.9 million of the \$127 million was in progress and spent or nearly 57% completed. The next update to the CIP is slated for the Fall of 2011.

## **Review of Operations: (Continued)**

One of the largest and most publicly scrutinized capital projects is the future increase to water supply better known as the Community Water Supply project. With support from the City, County and the Albemarle County Service Authority, Rivanna submitted a permit application to expand the Ragged Mountain Reservoir, replace the existing dam, and construct a new pipeline between the new reservoir and the South Fork Rivanna Reservoir. This plan would supply the community with the raw water it needs for the next 50 years.

A permit application was submitted, and approval was received from the Virginia Department of Environmental Quality in February 2008 and the federal permit was received from the Army Corps of Engineers in June 2008. Since then, public concerns over various issues like dredging of the South Fork Rivanna Reservoir to sentiments that there is no need for additional water supply now that conservation has reduced demand have been part of the public debate over the long-term water supply. The City and County came to a compromise last winter to continue with the replacement of the dam at Ragged Mtn. and begin the process of dredging the South Fork Rivanna Reservoir. The dam, after being thoroughly reviewed by a team of independent dam experts, was to be redesigned as an earthen dam. An earthen dam does not require the same foundation construction as the concrete dam previously being designed. Several years ago, the geotechnical analysis of the borings taken at the dam site had discovered some concerns over the bedrock foundation. The change in course eliminated the issue of the fractured bedrock because the earthen dam is not only feasible but appears to be a better economic fit for the water plan because the costs of the redesigned dam will be much less. The water supply project is actually several projects including building the reservoir, building a new pipeline, mitigation work and plant expansion at the Observatory Water Treatment Plant over the next 20 to 50 years.

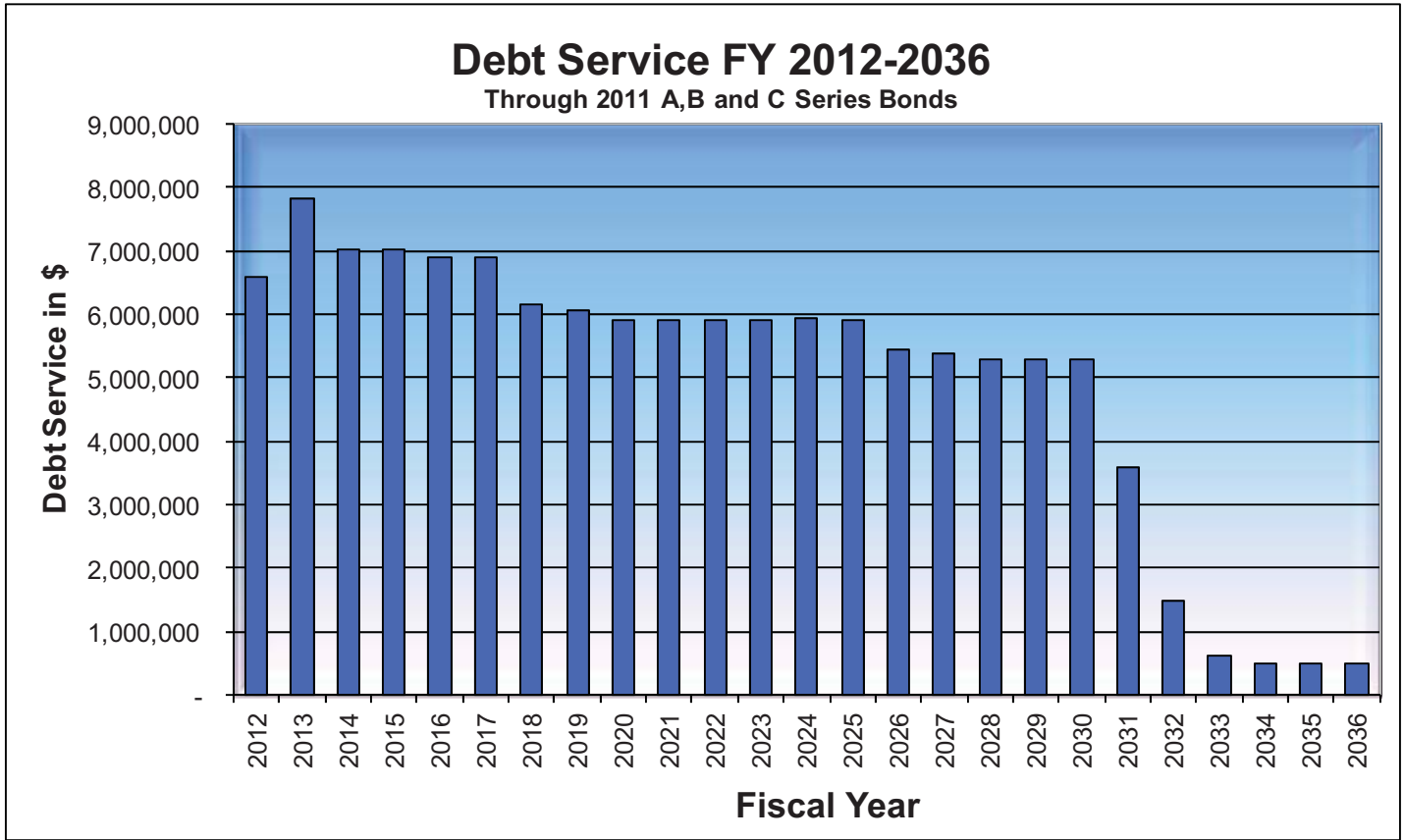
**Ragged Mountain Earthen Dam Illustration**



Nutrient removal requirements of the wastewater treatment process are being mandated by the State as part of the statewide efforts in the clean-up of the Chesapeake Bay. This project is estimated to cost roughly \$49 million when completed (\$42.7 million has been expended at year end). Several sewer projects, the Meadow Creek and Schenks Branch interceptors, were badly in need of replacement due to age and capacity limitations. The Meadow Creek Project, which has a budget of \$20 million is nearing completion. The significant precipitation in 2010 drew attention to the poor condition of the community's wastewater infrastructure. The City, ACSA and Rivanna along with Virginia DEQ have worked on an integrated wastewater plan to add and rehabilitate sanitary sewer capacity. These projects that the Authority is calling "Wet Weather Capacity" will be affecting all wastewater infrastructures from the collection interceptors, the pump stations and the wastewater treatment plant, and will have estimated costs of approximately \$65 – 80 million in future capital spending.

**Review of Operations: (Continued)**

Despite the significant infrastructure needs identified in the CIP, the Authority is positioned to provide for these needs by using more cash up front for projects and having a debt and rate structure that will accommodate more debt in the future. The Authority has been slowly but consistently implementing rate increases to pay for such infrastructure needs in 5 year increments. As shown in the graph, which represents debt service payments on existing and recent debt, the Authority has a declining debt structure (2014 & 2018). Additionally, the rates are currently programmed to generate \$10.1 million in debt service revenues; however, the wastewater capital needs will require additional rate increases in the future.



**Requests for Information**

This financial report is designed to provide a general overview of the Authority’s finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Department at 695 Moores Creek Lane, Charlottesville, Virginia 22902-9016.

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## **Basic Financial Statements**

Statement of Net Assets  
At June 30, 2011 and 2010

	At June 30,	
	<u>2011</u>	<u>2010</u>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents (Note 2)	\$ 23,633,368	\$ 22,641,515
Restricted cash & cash equivalents	3,173,210	2,489,969
Accounts receivable	1,853,540	2,855,480
Grants receivable	359,798	2,544,759
Unbilled accounts receivable	17,000	41,800
Total current assets	<u>\$ 29,036,916</u>	<u>\$ 30,573,523</u>
Noncurrent assets:		
Restricted assets:		
Cash & cash equivalents	\$ 8,288,835	\$ 7,699,793
Investments (Note 4)	30,953	34,571
Total restricted assets	<u>\$ 8,319,788</u>	<u>\$ 7,734,364</u>
Other assets:		
Unamortized bond issue costs	\$ 465,545	\$ 470,470
Capital assets: (Note 5)		
Land and improvements	\$ 7,740,670	\$ 7,740,670
Buildings and operating equipment	118,868,973	118,002,302
Trucks and autos	1,131,034	1,127,777
Office equipment	482,091	482,091
Less accumulated depreciation	<u>(56,651,933)</u>	<u>(53,702,781)</u>
Sub-total	\$ 71,570,835	\$ 73,650,059
Construction work in progress (Note 6)	<u>73,331,718</u>	<u>39,799,473</u>
Total capital assets	<u>\$ 144,902,553</u>	<u>\$ 113,449,532</u>
Total noncurrent assets	<u>\$ 153,687,886</u>	<u>\$ 121,654,366</u>
Total assets	<u><u>\$ 182,724,802</u></u>	<u><u>\$ 152,227,889</u></u>

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

Statement of Net Assets  
At June 30, 2011 and 2010

	At June 30,	
	2011	2010
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities:		
Current liabilities:		
Accounts payable	\$ 2,321,238	\$ 1,106,057
Retainage payable	1,228,896	1,260,890
Accrued vacation leave payable	290,000	300,000
Accrued interest payable	140,303	150,308
Revenue bonds payable - current portion (Note 7)	<u>1,210,702</u>	<u>734,691</u>
Subtotal current liabilities	<u>\$ 5,191,139</u>	<u>\$ 3,551,946</u>
Current liabilities (payable from restricted assets):		
Accrued interest payable	\$ 625,099	\$ 467,439
Revenue bond principal - current portion (Note 7)	<u>2,548,111</u>	<u>2,022,530</u>
Subtotal current liabilities (payable from restricted assets)	<u>\$ 3,173,210</u>	<u>\$ 2,489,969</u>
Total current liabilities	<u>\$ 8,364,349</u>	<u>\$ 6,041,915</u>
Noncurrent liabilities:		
Accrued vacation leave payable	\$ 94,248	\$ 66,671
Other post employment benefits payable (Note 11)	326,836	233,401
Revenue bonds payable - noncurrent portion (Note 7)	<u>70,072,461</u>	<u>54,493,132</u>
Total noncurrent liabilities	<u>\$ 70,493,545</u>	<u>\$ 54,793,204</u>
Total liabilities	<u>\$ 78,857,894</u>	<u>\$ 60,835,119</u>
Net assets:		
Invested in capital assets, net of related debt	\$ 77,662,172	\$ 62,172,653
Restricted for bond covenants	3,048,111	2,522,530
Unrestricted	<u>23,156,625</u>	<u>26,697,587</u>
Total net assets	<u>\$ 103,866,908</u>	<u>\$ 91,392,770</u>

Statement of Revenues, Expenses, and Changes in Net Assets  
 Years Ended June 30, 2011 and 2010

	Year Ended June 30,	
	2011	2010
Operating revenues:		
Metered water sales	\$ 10,895,551	\$ 10,746,260
Wastewater service charges	11,069,488	12,701,859
Total operating income	\$ 21,965,039	\$ 23,448,119
Operating expenses:		
Personnel costs	\$ 5,525,332	\$ 5,428,691
Professional services	338,814	238,975
Other services and charges	2,341,123	2,137,741
Operations and maintenance	2,415,211	2,412,752
Depreciation	2,962,912	2,966,823
Total operating expenses	\$ 13,583,392	\$ 13,184,982
Operating income	\$ 8,381,647	\$ 10,263,137
Nonoperating revenues (expenses):		
Investment earnings	\$ 120,623	\$ 149,587
Buck Mountain revenue	52,400	93,300
Administrative reimbursement	277,000	418,000
Other revenues	256,541	110,396
Interest expense	(2,607,502)	(2,107,381)
Amortization expense	(86,827)	(39,525)
Total nonoperating revenues (expenses)	\$ (1,987,765)	\$ (1,375,623)
Income before capital grants	\$ 6,393,882	\$ 8,887,514
Capital grants	6,080,256	11,531,027
Change in net assets	\$ 12,474,138	\$ 20,418,541
Net assets, beginning of year	91,392,770	70,974,229
Net assets, end of year	\$ 103,866,908	\$ 91,392,770

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

Statement of Cash Flows  
Years Ended June 30, 2011 and 2010

	<u>Year Ended June 30,</u>	
	<u>2011</u>	<u>2010</u>
Operating activities:		
Receipts from customers and users	\$ 23,575,584	\$ 23,008,762
Payments to suppliers	(5,235,535)	(4,687,497)
Payments to and on behalf of employees	(5,414,321)	(5,300,155)
Net cash provided by (used in) operating activities	<u>\$ 12,925,728</u>	<u>\$ 13,021,110</u>
Capital and related financing activities:		
Additions to capital assets	\$ (33,092,320)	\$ (29,119,225)
Disposal of capital assets	2,137	8,544
Principal payments on bonds	(4,572,303)	(3,699,012)
Capital grants	8,265,217	8,986,268
Proceeds from indebtedness, net of issue costs	21,001,837	16,453,936
Interest payments	(2,390,400)	(1,895,039)
Net cash provided by (used in) capital and related financing activities	<u>\$ (10,785,832)</u>	<u>\$ (9,264,528)</u>
Investing activities:		
Maturity of investments	\$ 3,762	\$ 2,671
Interest and dividends received	120,478	148,172
Net cash provided by (used in) investing activities	<u>\$ 124,240</u>	<u>\$ 150,843</u>
Increase (decrease) in cash and cash equivalents	\$ 2,264,136	\$ 3,907,425
Cash and cash equivalents at beginning of year (including \$10,189,762 and \$9,277,997, respectively reported in restricted accounts)	<u>32,831,277</u>	<u>28,923,852</u>
Cash and cash equivalents at end of year (including \$11,462,045 and \$10,189,762, respectively reported in restricted accounts)	<u>\$ 35,095,413</u>	<u>\$ 32,831,277</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:		
Operating income	\$ 8,381,647	\$ 10,263,137
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:		
Depreciation	2,962,912	2,966,823
Buck Mountain revenue	52,400	93,300
Other nonoperating revenues	531,404	519,852
Changes in operating assets and liabilities:		
(Increase) decrease in receivables	1,026,740	(1,052,509)
Increase (decrease) in operating payables and accrued expenses	(29,375)	230,507
Net cash provided by (used in) operating activities	<u>\$ 12,925,728</u>	<u>\$ 13,021,110</u>
Noncash investing, capital and financing activities:		
Increase (decrease) in fair value of investments	\$ 144	\$ 1,415
Increase (decrease) in grants receivable - capital	(2,184,961)	2,544,759
(Increase) decrease in accounts payable for capital projects	(1,355,567)	45,971

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

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# RIVANNA WATER & SEWER AUTHORITY

Notes to the Financial Statements  
as of June 30, 2011 and 2010

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## **Note 1—Formation of the Rivanna Water & Sewer Authority:**

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In the interest of efficient water quality management for the upper Rivanna River Basin, the Rivanna Water and Sewer Authority was formed on June 7, 1972 as a joint venture of the City of Charlottesville, the Albemarle County Service Authority, and the County of Albemarle, pursuant to the Virginia Water and Waste Authorities Act (1950 as amended). The Authority is responsible for acquiring, financing, constructing and maintaining facilities for the improvement, treatment, storage and transmission of potable water, and for the interception, treatment and discharge of wastewater for the City and County. The Authority operates under the terms of a Service Agreement among the Authority, the Albemarle County Service Authority, the City of Charlottesville, and the County of Albemarle which was signed June 12, 1973.

### Determination of the Reporting Entity

The Rivanna Water & Sewer Authority was established according to the Agreement mentioned above for the purposes stated. The participating entities are City of Charlottesville, County of Albemarle, and Albemarle County Service Authority. The City of Charlottesville and the Albemarle County Service Authority have an ongoing financial responsibility to the Authority because a covenant to pay the Authority's rates and charges is included in the operating agreement.

The Authority's governing body is comprised of three members appointed by the County, three members appointed by the City, and one member who is jointly appointed by the City and County. Therefore, none of the participants appoints a voting majority of board members.

The Authority is perpetual. No participating government has access to its resources or surpluses, nor is any participant liable for the Authority's debts or deficits. The Authority also has the ability to finance its capital projects through user charges or the sale of revenue bonds.

Based on the above representations, the Rivanna Water & Sewer Authority has been determined to be a joint venture of the City of Charlottesville, County of Albemarle and Albemarle County Service Authority. The Authority is not a component unit of any of the participating governments. There are no component units to be included within the Authority's financial statements.

For purposes of reporting entity disclosure, it should be noted that a separate entity, the Rivanna Solid Waste Authority, provides garbage and refuse transfer and disposal services to the City of Charlottesville and Albemarle County. Although certain administrative employees provide services to both Authorities, each Authority is operationally and legally independent.

## **Note 2—Significant Accounting Policies:**

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### A. Basis of Accounting

Rivanna Water & Sewer Authority operates as an enterprise activity, uses the flow of economic resources measurement focus 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. Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed in business-type activities to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. The Authority has elected not to follow subsequent private-sector guidance. The Authority accounts have been audited by an independent firm annually since its founding in accordance with the requirements of the Service Agreement, dated June 12, 1973, among the Authority, the City of Charlottesville, Albemarle County, and Albemarle County Service Authority.

# RIVANNA WATER & SEWER AUTHORITY

Notes to the Financial Statements  
as of June 30, 2011 and 2010 (Continued)

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## Note 2—Significant Accounting Policies: (Continued)

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### A. Basis of Accounting: (Continued)

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. 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.

### B. Accounts Receivable

Accounts receivable are stated at book value utilizing the direct write-off method for uncollectible accounts.

### C. 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 Assets
  - Statement of Revenues, Expenses, and Changes in Net Assets
  - Statement of Cash Flows
  - Notes to Financial Statements
- Required Supplementary Information
  - Schedule of Funding Progress for the Defined Benefit Pension Plan
  - Schedule of Funding Progress for Other Post-Employment Benefits

### D. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the financial statements. Capital assets are defined by the Authority as assets with an initial, individual cost of more than \$5,000 (amount not rounded) 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 fair market value at the date of donation.

# RIVANNA WATER & SEWER AUTHORITY

Notes to the Financial Statements  
as of June 30, 2011 and 2010 (Continued)

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## Note 2—Significant Accounting Policies: (Continued)

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### D. Capital Assets: (Continued)

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

Major outlays for capital assets and improvements 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 during the current or previous fiscal year.

Property, plant, and equipment are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings & operating equipment	5 to 50
Trucks & autos	5 to 10
Office equipment	5 to 10
Data processing equipment	5

### E. Cash and Cash Equivalents

The Authority's cash and cash equivalents consist of demand deposits, certificates of deposit, and short-term U.S. Governmental obligations, with an original maturity of three months or less, all of which are readily convertible to known amounts of cash.

### F. Investments

Investments are stated at fair value.

### G. Budgets and Budgetary Accounting

A budget is prepared for information, fiscal planning purposes, and to provide the basis for setting wholesale rates, in accordance with the requirements of the Service Agreement, dated June 12, 1973, among the Authority, the City of Charlottesville, Albemarle County, and the Albemarle County Service Authority. Rates charged by the six rate centers are not subjected to regulatory scrutiny but may be changed at any time by the Authority's Board of Directors, if necessary, in order to adjust revenues. None of the participating entities are required to approve the budget. The budget is adopted as a planning document and is not a legal control on expenses.

# RIVANNA WATER & SEWER AUTHORITY

Notes to the Financial Statements  
as of June 30, 2011 and 2010 (Continued)

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## Note 2—Significant Accounting Policies: (Continued)

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### G. Budgets and Budgetary Accounting: (Continued)

The budgets are adopted on an appropriation basis. Principally, the appropriation basis of budgeting provides for a full accrual basis of accounting, capital expenditures, and bond principal payments and partially provides for depreciation of utility plant and amortization.

### H. Inventory

Consumption of materials and supplies is recorded as an expense when used. No inventory amounts are recorded as an asset, as available inventories are not significant.

### I. 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.

### J. Net Assets

Net assets are the difference between assets and liabilities. Net assets invested in capital assets represent capital assets, reduced by accumulated depreciation and by any outstanding debt related to the acquisition, construction or improvement of those assets. Restricted net assets represent restricted assets reduced by any related outstanding debt. The balance in the replacement reserve is presented as a restricted net asset.

### K. Restricted Assets

Certain proceeds of the Authority's revenue bonds and certain resources set aside for their repayment are classified as restricted assets on the statement of net assets, because they are maintained in separate bank accounts, and their use is limited by applicable bond covenants. The "revenue bond general operating reserve" is used to report resources set aside to subsidize potential deficiencies from the Authority's operation that could adversely affect debt service payments. The "revenue bond payment account" is used to segregate resources accumulated for debt service payments over the next twelve months. The "debt service reserve" is used to report resources set aside to make up potential future deficiencies in the revenue bond payment account. The "repair and replacement reserve" is used to report resources set aside to meet unexpected contingencies or to fund asset renewals and replacements.

# RIVANNA WATER & SEWER AUTHORITY

Notes to the Financial Statements  
as of June 30, 2011 and 2010 (Continued)

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## Note 2—Significant Accounting Policies: (Continued)

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### L. Long-Term Obligations

Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

### M. Reclassification

Certain amounts in previously issued financial statements have been restated to conform to the current year's classifications.

## Note 3—Acquisition of Water and Wastewater Facilities:

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Under the terms of the Service Agreement (See Note 1), the Authority agreed to purchase certain water production, transmission and storage facilities and wastewater interception and treatment facilities from the City and the Albemarle County Service Authority. The agreement provides that the sale be consummated ten years from the date of the agreement or at such later time as the debts, if any, attributed to each such facility have been paid or provision is made for their payment, and that the Authority will lease the facility until such time as the sale is consummated. The purchase price is the fair value of the facilities as of June 12, 1973, as determined by all payments paid by the Authority during the term of lease applicable to the principal retired on the debt of such facilities. In accordance with generally accepted accounting principles, the aforementioned agreement has been treated as an installment purchase of the facilities, with the purchase price being discounted at an annual rate of 6% for ten years.

The following tabulation reflects the agreed upon purchase price and accounting thereof:

Fair value as of June 12, 1973:	
Facilities acquired from City of Charlottesville	\$ 6,128,124
Facilities acquired from Albemarle County Service Authority	<u>3,604,384</u>
Total purchase price	\$ 9,732,508
Add: Interest portion of rental payments not applied to principal reduction	<u>1,154,074</u>
Total contracts payable	\$ 10,886,582
Less: Interest included in contract price computed at annual rate of 6% for 10 years	<u>4,940,705</u>
Asset carrying value	<u><u>\$ 5,945,877</u></u>

## RIVANNA WATER & SEWER AUTHORITY

Notes to the Financial Statements  
as of June 30, 2011 and 2010 (Continued)

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### Note 3–Acquisition of Water and Wastewater Facilities: (Continued)

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The contracts payable have been reduced by the amount of the annual rental payments on the facilities as outlined in the following tabulation:

	<u>City of Charlottesville</u>	<u>Albemarle County Service Authority</u>
Contracts payable, June 12, 1973	\$ 6,354,634	\$ 4,531,948
Rental payments and contract adjustments in prior fiscal years	\$ 1,760,676	\$ 3,680,395
Rental payments this fiscal year	-	-
Total rental payments	\$ 1,760,676	\$ 3,680,395
Final payment on facilities with no outstanding debt as of June 30, 1983	<u>4,593,958</u>	<u>851,553</u>
Total payments	\$ <u>6,354,634</u>	\$ <u>4,531,948</u>
Contracts payable, June 30, 2011	<u>\$ -</u>	<u>\$ -</u>

The total annual rental payments over the initial ten year agreement were not sufficient to retire the contracts payable to the Albemarle County Service Authority. The deferred interest was amortized over the initial ten year period of the agreement and was fully amortized as of June 30, 1983.

Depreciation has been based upon the engineer's estimates of useful lives remaining as of the valuation date (June 12, 1973). Depreciation expense on these facilities amounted to \$80,378 and \$80,378 for the years ended June 30, 2011 and 2010, respectively.

### Note 4–Deposits and Investments:

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#### 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 the 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 the amounts from 50% to 130% of excess deposits. Accordingly, all deposits are considered fully collateralized.

# RIVANNA WATER & SEWER AUTHORITY

Notes to the Financial Statements  
as of June 30, 2011 and 2010 (Continued)

## Note 4—Deposits and Investments: (Continued)

### 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).

The Authority does not have a formal investment policy that addresses credit risk or interest rate risk.

### Credit Risk of Debt Securities

The Authority’s rated debt investments as of June 30, 2011 were rated by Standard & Poor’s and the ratings are presented below using Standard & Poor’s rating scale.

#### Authority's Rated Debt Investments' Values

	<u>Fair Quality Ratings</u>				
	<u>AAA</u>	<u>AA</u>	<u>A</u>	<u>A1</u>	<u>Unrated</u>
U.S. Agencies Securities	\$ 30,953	\$ -	\$ -	\$ -	\$ -
Local Government Investment Pool	14,808,351	-	-	-	-
U.S. Treasury Money Market Fund	4,902,777	-	-	-	-
Total	<u>\$ 19,742,081</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

#### Investment Maturities (in years)

<u>Investment Type</u>	<u>Fair Value</u>	<u>1 Year</u>	<u>1-5 Years</u>	<u>6-10 Years</u>	<u>Greater Than 10 Years</u>
U.S. Agencies Securities	\$ 30,953	\$ -	\$ -	\$ -	\$ 30,953
Total	<u>\$ 30,953</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 30,953</u>

### External Investment Pools

The fair value of the positions in the external investment pool (Local Government Investment Pool) is the same as the value of the pool shares. As these pools are not SEC registered, regulatory oversight of the pool rests with the Virginia State Treasury. Local Government Investment Pool maintains a policy to operate in a manner consistent with SEC Rule 2a-7.

# RIVANNA WATER & SEWER AUTHORITY

Notes to the Financial Statements  
as of June 30, 2011 and 2010 (Continued)

## Note 5—Capital Assets:

Details of changes in capital assets for the year ended June 30, 2011 are as follows:

	<u>Balance July 1, 2010</u>	<u>Increases</u>	<u>Decreases</u>	<u>Transfers</u>	<u>Balance June 30, 2011</u>
<b>Capital assets not being depreciated:</b>					
Land and improvements	\$ 7,740,670	\$ -	\$ -	\$ -	\$ 7,740,670
Construction in progress	<u>39,799,473</u>	<u>34,378,566</u>	<u>846,321</u>	<u>-</u>	<u>73,331,718</u>
Total capital assets not being depreciated	<u>\$ 47,540,143</u>	<u>\$ 34,378,566</u>	<u>\$ 846,321</u>	<u>\$ -</u>	<u>\$ 81,072,388</u>
<b>Other capital assets:</b>					
Buildings & operating equipment:					
Water system	\$ 51,124,716	\$ -	\$ -	\$ -	\$ 51,124,716
Wastewater system	66,623,639	846,321	-	-	67,469,960
Support departments	<u>253,947</u>	<u>20,350</u>	<u>-</u>	<u>-</u>	<u>274,297</u>
Subtotal	\$ 118,002,302	866,671	\$ -	\$ -	\$ 118,868,973
Less: accumulated depreciation	<u>(52,393,308)</u>	<u>(2,855,458)</u>	<u>-</u>	<u>-</u>	<u>(55,248,766)</u>
Total	<u>\$ 65,608,994</u>	<u>\$ (1,988,787)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 63,620,207</u>
Trucks and autos:					
Water system	\$ 298,086	\$ 17,017	\$ -	\$ (138,732)	\$ 176,371
Wastewater system	415,978	-	13,760	(217,288)	184,930
Support departments	<u>413,713</u>	<u>-</u>	<u>-</u>	<u>356,020</u>	<u>769,733</u>
Subtotal	\$ 1,127,777	\$ 17,017	\$ 13,760	\$ -	\$ 1,131,034
Less: accumulated depreciation	<u>(869,159)</u>	<u>(90,938)</u>	<u>(13,760)</u>	<u>-</u>	<u>(946,337)</u>
Total	<u>\$ 258,618</u>	<u>\$ (73,921)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 184,697</u>
Office equipment:					
Water system	\$ 282,987	\$ -	\$ -	\$ -	\$ 282,987
Wastewater system	109,291	-	-	-	109,291
Support departments	<u>89,813</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>89,813</u>
Subtotal	\$ 482,091	\$ -	\$ -	\$ -	\$ 482,091
Less: accumulated depreciation	<u>(440,314)</u>	<u>(16,516)</u>	<u>-</u>	<u>-</u>	<u>(456,830)</u>
Total	<u>\$ 41,777</u>	<u>\$ (16,516)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 25,261</u>
Capital assets, net	<u>\$ 113,449,532</u>	<u>\$ 32,299,342</u>	<u>\$ 846,321</u>	<u>\$ -</u>	<u>\$ 144,902,553</u>

# RIVANNA WATER & SEWER AUTHORITY

Notes to the Financial Statements  
as of June 30, 2011 and 2010 (Continued)

## Note 5—Capital Assets: (Continued)

Details of changes in capital assets for the year ended June 30, 2010 are as follows:

	<u>Balance July 1, 2009</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2010</u>
<b>Capital assets not being depreciated:</b>				
Land and improvements	\$ 7,740,670	\$ -	\$ -	\$ 7,740,670
Construction in progress	<u>9,590,206</u>	<u>30,209,267</u>	<u>-</u>	<u>39,799,473</u>
Total capital assets not being depreciated	<u>\$ 17,330,876</u>	<u>\$ 30,209,267</u>	<u>\$ -</u>	<u>\$ 47,540,143</u>
<b>Other capital assets:</b>				
Buildings & operating equipment:				
Water system	\$ 51,111,018	\$ 13,698	\$ -	\$ 51,124,716
Wastewater system	66,605,989	17,650	-	66,623,639
Support departments	<u>248,417</u>	<u>5,530</u>	<u>-</u>	<u>253,947</u>
Subtotal	\$ 117,965,424	36,878	\$ -	\$ 118,002,302
Less: accumulated depreciation	<u>(49,544,892)</u>	<u>(2,848,416)</u>	<u>-</u>	<u>(52,393,308)</u>
Total	<u>\$ 68,420,532</u>	<u>\$ (2,811,538)</u>	<u>\$ -</u>	<u>\$ 65,608,994</u>
Trucks and autos:				
Water system	\$ 298,724	\$ 17,700	\$ 18,338	\$ 298,086
Wastewater system	442,123	-	26,145	415,978
Support departments	<u>371,478</u>	<u>70,299</u>	<u>28,064</u>	<u>413,713</u>
Subtotal	\$ 1,112,325	\$ 87,999	\$ 72,547	\$ 1,127,777
Less: accumulated depreciation	<u>(840,978)</u>	<u>(100,731)</u>	<u>(72,550)</u>	<u>(869,159)</u>
Total	<u>\$ 271,347</u>	<u>\$ (12,732)</u>	<u>\$ (3)</u>	<u>\$ 258,618</u>
Office equipment:				
Water system	\$ 282,987	\$ -	\$ -	\$ 282,987
Wastewater system	109,291	-	-	109,291
Support departments	<u>89,813</u>	<u>-</u>	<u>-</u>	<u>89,813</u>
Subtotal	\$ 482,091	\$ -	\$ -	\$ 482,091
Less: accumulated depreciation	<u>(422,638)</u>	<u>(17,676)</u>	<u>-</u>	<u>(440,314)</u>
Total	<u>\$ 59,453</u>	<u>\$ (17,676)</u>	<u>\$ -</u>	<u>\$ 41,777</u>
Capital assets, net	<u>\$ 86,082,208</u>	<u>\$ 27,367,321</u>	<u>\$ (3)</u>	<u>\$ 113,449,532</u>

# RIVANNA WATER & SEWER AUTHORITY

Notes to the Financial Statements  
as of June 30, 2011 and 2010 (Continued)

## Note 6—Construction Work in Progress:

Details of construction work in progress for the year ended June 30, 2011 are as follows:

	<u>Balance July 1, 2010</u>	<u>Cost of Construction</u>	<u>Expense/ Transfer to Capital Assets</u>	<u>Balance June 30, 2011</u>
Mitigation Plan Implementation	\$ 560,211	\$ 62,122	\$ -	\$ 622,333
South Fork Reservoir to Ragged Mtn Pipeline R/W	24,859	-	-	24,859
Ragged Mountain Dam Design	3,366,193	1,855,048	-	5,221,241
Ragged Mountain Dam Construction	-	6,637	-	6,637
Route 29 Pumping Station	81,516	332,686	-	414,202
Route 29 Pipeline	354,569	-	251,074	103,495
Alderman Road PS Improvements	8,033	44,832	-	52,865
Stillhouse System Pump Station	110,194	111,612	-	221,806
Valve Repair-Replacement	4,047	12,246	-	16,293
Disinfectants & Disinfection By Products Rule	76,863	101,071	-	177,934
Meters - Sanitary Sewer	-	45,000	-	45,000
Meadowcreek Interceptor Improvements	3,203,232	11,302,154	-	14,505,386
Shenks Branch Interceptor	72,489	4,945	-	77,434
Albemarle-Berkley Interceptor	11,304	32,231	-	43,535
Comprehensive Sewer Interceptor Study	818,211	28,110	846,321	-
Rivanna Pump Station Upgrade	36,530	80,020	-	116,550
Moore's Creek Pump Stn & Force Main Upgrade	53,532	1,188,821	-	1,242,353
UWW Misc. Repairs to Pipelines Adjacent to Streams	66,438	-	-	66,438
Interceptor Sewer & Manhole Repair	104,330	253,805	-	358,135
MCWWTP Upgrade to ENR Design	2,805,864	16,058	-	2,821,922
MCWWTP Upgrade to ENR Construction	24,465,856	15,440,588	-	39,906,444
MCWWTP Odor Control - Other	389,584	-	68,588	320,996
MCWWTP Odor Control - Septage Receiving Only	1,825,619	-	799,045	1,026,574
MCWWTP Wet Weather Flow Capacity	99,109	4,583,710	-	4,682,819
SWWTP Conversion to Ultraviolet Disinfection	-	27,571	-	27,571
Retainage on Construction in Progress	1,260,890	-	31,994	1,228,896
	<u>\$ 39,799,473</u>	<u>\$ 35,529,267</u>	<u>\$ 1,997,022</u>	<u>\$ 73,331,718</u>

Cost of construction includes interest capitalized during the fiscal year, where applicable. For the years ended June 30, 2011 and 2010, capitalized interest was \$0.

# RIVANNA WATER & SEWER AUTHORITY

Notes to the Financial Statements  
as of June 30, 2011 and 2010 (Continued)

## Note 6—Construction Work in Progress: (Continued)

Details of construction work in progress for the year ended June 30, 2010 are as follows:

	<b>Balance July 1, 2009</b>	<b>Cost of Construction</b>	<b>Expense/ Transfer to Capital Assets</b>	<b>Balance June 30, 2010</b>
Ragged Mountain Dam Construction	\$ 1,201	\$ (1,201)	\$ -	\$ -
Mitigation Plan Implementation	535,822	24,389	-	560,211
South Fork Reservoir to Ragged Mtn Pipeline R/W	147	24,712	-	24,859
Ragged Mountain Dam Design	2,088,476	1,277,717	-	3,366,193
Route 29 Pumping Station	75,114	6,402	-	81,516
Route 29 Pipeline	339,140	15,429	-	354,569
Alderman Road PS Improvements	-	8,033	-	8,033
Stillhouse System Pump Station	18,272	91,922	-	110,194
Valve Repair-Replacement	1,309	2,738	-	4,047
Disinfectants & Disinfection By Products Rule	61,750	15,113	-	76,863
Meadowcreek Interceptor Improvements	1,677,823	1,525,409	-	3,203,232
Shenks Branch Interceptor	52,780	19,709	-	72,489
Albemarle-Berkley Interceptor	7,204	4,100	-	11,304
Comprehensive Sewer Interceptor Study	790,524	27,687	-	818,211
Rivanna Pump Station Upgrade	-	36,530	-	36,530
Moores Creek Pump Stn & Force Main Upgrade	-	53,532	-	53,532
UWW Misc. Repairs to Pipelines Adjacent to Streams	63,827	2,611	-	66,438
Interceptor Sewer & Manhole Repair	28,459	75,871	-	104,330
MCWWTP Upgrade to ENR Design	2,805,864	-	-	2,805,864
MCWWTP Upgrade to ENR Construction	669,120	23,796,736	-	24,465,856
MCWWTP Odor Control - Other	135,300	254,284	-	389,584
MCWWTP Odor Control - Septage Receiving Only	238,074	1,587,545	-	1,825,619
MCWWTP Wet Weather Flow Capacity	-	99,109	-	99,109
Retainage on Construction in Progress	-	1,260,890	-	1,260,890
	<u>\$ 9,590,206</u>	<u>\$ 30,209,267</u>	<u>\$ -</u>	<u>\$ 39,799,473</u>

# RIVANNA WATER & SEWER AUTHORITY

Notes to the Financial Statements  
as of June 30, 2011 and 2010 (Continued)

## Note 7—Long-Term Debt:

### A. Changes in Long-Term Debt

The following is a summary of long-term debt transactions for the year ended June 30, 2011:

	<b>Balance July 1, 2010</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance June 30, 2011</b>	<b>Due Within One Year</b>
Revenue bonds payable	\$ 58,329,789	\$ 21,083,777	\$ (4,572,303)	\$ 74,841,263	\$ 3,758,813
Less deferred amounts:					
For issuance discounts	156,115	-	(11,716)	144,399	-
On refunding	<u>(1,235,551)</u>	<u>-</u>	<u>81,163</u>	<u>(1,154,388)</u>	<u>-</u>
Total revenue bonds payable	<u>\$ 57,250,353</u>	<u>\$ 21,083,777</u>	<u>\$ (4,502,856)</u>	<u>\$ 73,831,274</u>	<u>\$ 3,758,813</u>
Other post-employment benefits	<u>\$ 233,401</u>	<u>\$ 93,435</u>	<u>\$ -</u>	<u>\$ 326,836</u>	<u>\$ -</u>
Compensated absences	<u>\$ 366,671</u>	<u>\$ 306,951</u>	<u>\$ (289,374)</u>	<u>\$ 384,248</u>	<u>\$ 290,000</u>
Totals	<u>\$ 57,850,425</u>	<u>\$ 21,484,163</u>	<u>\$ (4,792,230)</u>	<u>\$ 74,542,358</u>	<u>\$ 4,048,813</u>

The following is a summary of long-term debt transactions for the year ended June 30, 2010:

	<b>Balance July 1, 2009</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance June 30, 2010</b>	<b>Due Within One Year</b>
Revenue bonds payable	\$ 45,515,459	\$ 16,513,342	\$ (3,699,012)	\$ 58,329,789	\$ 2,757,221
Less deferred amounts:					
For issuance discounts	167,975	-	(11,860)	156,115	-
On refunding	<u>(1,333,355)</u>	<u>-</u>	<u>97,804</u>	<u>(1,235,551)</u>	<u>-</u>
Total revenue bonds payable	<u>\$ 44,350,079</u>	<u>\$ 16,513,342</u>	<u>\$ (3,613,068)</u>	<u>\$ 57,250,353</u>	<u>\$ 2,757,221</u>
Other post-employment benefits	<u>\$ 120,001</u>	<u>\$ 113,400</u>	<u>\$ -</u>	<u>\$ 233,401</u>	<u>\$ -</u>
Compensated absences	<u>\$ 351,535</u>	<u>\$ 316,397</u>	<u>\$ (301,261)</u>	<u>\$ 366,671</u>	<u>\$ 300,000</u>
Totals	<u>\$ 44,821,615</u>	<u>\$ 16,943,139</u>	<u>\$ (3,914,329)</u>	<u>\$ 57,850,425</u>	<u>\$ 3,057,221</u>

# RIVANNA WATER & SEWER AUTHORITY

Notes to the Financial Statements  
as of June 30, 2011 and 2010 (Continued)

## Note 7—Long-Term Debt: (Continued)

### B. Details of Long-Term Debt:

	<b>Total Amount</b>	<b>Amount Due Within One Year</b>
<u>Revenue Bonds</u>		
<b>Regional Water and Sewer System Revenue Bonds, Series 1994 B -</b>		
On November 23, 1994, the Authority issued \$1,321,652 in bonds through the Virginia Revolving Loan Fund for the purpose of financing improvements to the Scottsville Wastewater Treatment System. These bonds are secured by a supplemental trust agreement between the Authority and the trustee for the bondholders. This agreement states that these obligations will be repaid from revenue generated by the Authority and also provides for the establishment of several accounts to insure the timely payment of interest and debt maturities. These accounts are included in the restricted current assets section of the statement of net assets.		
The bond resolution provides a redemption schedule with interest only due on October 1, 1995 and semi-annual payments of combined principal and interest of \$47,010 through April 1, 2015. Effective April 1, 2004, the bonds bear interest at an annual rate of 2.9%.	\$ 352,678	\$ 84,399
<b>Water and Sewer System Revenue Bonds, Series of 2001 -</b>		
On July 10, 2001, the Authority issued \$14,755,000 in Revenue Refunding Bonds with an average interest rate of 4.51% to advance refund \$7,755,000 of outstanding 1991 Series bonds with an average interest rate of 6.2%, and \$6,405,000 of outstanding 1994 Series bonds with an average interest rate of 5.88%. The net proceeds of \$14,660,358 (after payment of \$259,518 in underwriting and other issuance costs) plus an additional \$29,543 of Debt Service Reserve and Bond Funds were used to purchase the Revenue Bonds. These funds were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1991 and 1994 Series bonds. As a result, the 1991 and 1994 Series bonds are considered to be defeased, and the liability for those bonds has been removed.		
The bond resolution provides a redemption schedule with principal due serially through October 1, 2024. The balance of \$460,000 is payable October 1, 2024. The bonds bear interest at an annual rate of 4.51%.		
The Authority advance refunded the 1991 and 1994 Series bonds to reduce its total debt service payments over the next 25 years by \$1.81 million and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$1.12 million.		
	6,645,000	1,155,000

**RIVANNA WATER & SEWER AUTHORITY**

Notes to the Financial Statements  
as of June 30, 2011 and 2010 (Continued)

**Note 7-Long-Term Debt: (Continued)**

B. Details of Long-Term Debt: (Continued)

	<u>Total Amount</u>	<u>Amount Due Within One Year</u>
<u>Revenue Bonds (continued)</u>		
<b>Water and Sewer System Revenue Bonds, Series of 2003</b> - On September 17, 2003, the Authority issued \$10,000,000 in Revenue Refunding Bonds with an interest rate of 3.69% to advance refund \$9,665,000 of outstanding 1993 Series bonds with an average interest rate of 4.7%. The net proceeds of \$9,919,641 (after payment of \$80,359 in underwriting and other issuance costs) plus an additional \$146,947 of Debt Service Reserve and Bond Funds were used to purchase the Revenue Bonds. These funds were deposited in an irrevocable trust with an escrow agent to provide funds to call this portion of the 1993 bonds on October 20, 2003.		
The bond resolution provides a redemption schedule with principal due serially through October 1, 2018. The bonds bear interest at an annual rate of 3.69%.		
The Authority advance refunded the 1993 Series bonds to reduce its total debt service payments over the next 16 years by \$675,475 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$531,473.		
	\$ 5,627,000	\$ 800,000
<b>Water and Sewer System Revenue Bonds, Series 2005B</b> - On December 7, 2005, the Authority issued \$25,805,000 in Revenue Refunding Bonds with an interest rate between 3.50% to 5.00% to advance refund \$10,675,000 of outstanding 1999 Series bonds with an interest rate from 4.85% to 6.00% and \$6,060,000 of outstanding 2000 Series bonds with an interest rate from 4.35% to 5.40%. Proceeds of \$7,800,000 will be used for the construction of various water and sewer projects. The net proceeds (after payment of \$383,538 in underwriting and other issuance costs, construction funds of \$7,800,000 and a deposit of \$368,870 to the debt service reserve) of \$17,266,922 plus an additional \$151,827 of prior debt service reserve funds were used to purchase the Revenue bonds. These funds were deposited in an irrevocable trust with an escrow agent to call the bonds beginning October 2027.		
The bond resolution provides a redemption schedule with principal due annually through October 1, 2035. The bonds bear interest at an annual rate of 3.50% to 5.00%. The Authority advanced refunded the 1999 and 2000 Series bonds to reduce its total debt service payments over the next 25 years by \$1.81 million and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$1.17 million.		
	24,420,000	725,000

# RIVANNA WATER & SEWER AUTHORITY

Notes to the Financial Statements  
as of June 30, 2011 and 2010 (Continued)

## Note 7-Long-Term Debt: (Continued)

### B. Details of Long-Term Debt: (Continued)

	Total Amount	Amount Due Within One Year
<p><b>Water and Sewer System Revenue Bonds - Series of 2005A</b> - On November 10, 2005, the Authority issued \$2,340,929 in bonds through the Virginia Resources Authority for purposes of financing the Moores Creek wastewater pre-treatment project. These bonds are secured by a supplemental trust agreement between the Authority and trustee for the bondholders. This agreement states that these obligations will be repaid from revenue generated by the Authority and are backed by a restricted cash account.</p> <p>The bond resolution provides a redemption schedule with annual payments from October 2007 through October 2026. The bonds bear interest at 3%.</p>	\$ 1,963,549	\$ 101,186
<p><b>\$24,000,000 Regional Water and Sewer System Revenue Bond - Series 2009A</b> - On August 1, 2009 the Authority issued \$24,000,000 in bonds through the Virginia Resources Authority for purposes of financing the Moores Creek Wastewater Treatment Plant upgrades, including the Enhanced Nutrient Removal project. These bonds are secured by a supplemental trust agreement between the Authority and trustee for the bondholders. This agreement states that the obligation will be repaid from revenue generated by the Authority and is backed by a restricted cash account.</p> <p>The bond resolution provides a redemption schedule with annual payments commencing October 2011 through October 2030. The bonds bear interest at 3.35%.</p>	24,000,000	893,228
<p><b>\$15,179,718 Regional Water and Sewer System Revenue Bond - Series 2010A</b> - On June 29, 2010 the Authority issued \$15,179,718 in bonds through the Virginia Resources Authority for purposes of financing the acquisition, construction and equipping of improvements to the Authority's water and sewer system, including the replacement of the Meadow Creek Sanitary Sewer Interceptor together with related expenses. These bonds are secured by a supplemental trust agreement between the Authority and trustee for the bondholders. This agreement states that the obligation will be repaid from revenue generated by the Authority and is backed by a restricted cash account.</p> <p>The bond resolution provides a redemption schedule with annual payments commencing October 2012 through October 2031. The bonds bear interest at 2.93%. As of June 30, 2011 the Authority had not expended the entire bond proceeds - \$5,453,473 was unexpended at year-end.</p>	9,726,245	-

**RIVANNA WATER & SEWER AUTHORITY**

Notes to the Financial Statements  
as of June 30, 2011 and 2010 (Continued)

**Note 7-Long-Term Debt: (Continued)**

B. Details of Long-Term Debt: (Continued)

	<b>Total Amount</b>	<b>Amount Due Within One Year</b>
<p><b>\$6,982,662 Regional Water and Sewer System Revenue Bond - Series 2011A</b> - on March 17, 2011 the Authority issued \$6,982,662 in bonds through the Virginia Resources Authority for purposes of financing the acquisition, construction and equipping of improvements to the Authority's sewer system including improvements necessary to address the wet weather flows at the Moores Creek Wastewater Treatment Plant. These bonds are secured by a supplemental trust agreement between the Authority and trustee for the bondholders. This agreement states that the obligation will be repaid from revenue generated by the Authority and is backed by a restricted cash account.</p> <p>The bond resolution provides a redemption schedule with annual payments commencing October 2012 through October 2031. The bonds bear interest at 2.93%. As of June 30, 2011 the Authority had not expended the entire bond proceeds - \$5,792,934 was unexpended at year-end.</p>	\$ 1,189,728	\$ -
<p><b>\$1,017,338 Regional Water and Sewer System Revenue Bond - Series 2011B</b> - on March 17, 2011 the Authority issued \$1,017,338 in bonds through the Virginia Resources Authority for purposes of financing the acquisition, construction and equipping of improvements to the Authority's sewer system including improvements necessary to address the wet weather flows at the Moores Creek Wastewater Treatment Plant. These bonds are secured by a supplemental trust agreement between the Authority and trustee for the bondholders. This agreement states that the obligation will be repaid from revenue generated by the Authority and is backed by a restricted cash account.</p> <p>The bond resolution provides a redemption schedule with annual payments commencing October 2012 through October 2031. The bonds bear interest at 2.93%. As of June 30, 2011 the Authority had not expended the entire bond proceeds - \$967,338 was unexpended at year-end.</p>	50,000	-

# RIVANNA WATER & SEWER AUTHORITY

Notes to the Financial Statements  
as of June 30, 2011 and 2010 (Continued)

## Note 7-Long-Term Debt: (Continued)

### B. Details of Long-Term Debt: (Continued)

	<u>Total Amount</u>	<u>Amount Due Within One Year</u>
<b>\$3,000,000 Regional Water and Sewer System Revenue Bond - Series 2011C</b> - on March 17, 2011 the Authority issued \$3,000,000 in bonds through the Virginia Resources Authority for purposes of financing the acquisition, construction and equipping of improvements to the Authority's sewer system including improvements related to enhanced nutrient removal at the Moores Creek Wastewater Treatment Plant. These bonds are secured by a supplemental trust agreement between the Authority and trustee for the bondholders. This agreement states that the obligation will be repaid from revenue generated by the Authority and is backed by a restricted cash account.		
The bond resolution provides a redemption schedule with annual payments commencing October 2013 through October 2032. The bonds bear interest at 2.93%. As of June 30, 2011 the Authority had not expended the entire bond proceeds - \$2,132,937 was unexpended at year-end.	\$ 867,063	\$ -
Total Revenue Bonds	\$ 74,841,263	\$ 3,758,813
Other post employment benefits	\$ 326,836	\$ -
Compensated Absences	\$ 384,248	\$ 290,000
Total	<u>\$ 75,552,347</u>	<u>\$ 4,048,813</u>

### C. Annual Amortization of Long-Term Debt

The annual requirements to amortize all long-term debt outstanding as of June 30, 2011 are as follows:

<u>Year Ending June 30,</u>	<u>Revenue Bonds</u>	
	<u>Principal</u>	<u>Interest</u>
2012	\$ 3,758,813	\$ 2,821,415
2013	4,331,067	2,669,352
2014	3,539,857	2,499,430
2015	3,672,769	2,368,140
2016	3,705,653	2,229,180
2017-2021	16,916,339	9,200,622
2022-2026	18,465,232	5,820,746
2027-2031	17,734,589	2,249,738
2032-2036	<u>2,716,944</u>	<u>279,771</u>
Total	<u>\$ 74,841,263</u>	<u>\$ 30,138,394</u>

## RIVANNA WATER & SEWER AUTHORITY

Notes to the Financial Statements  
as of June 30, 2011 and 2010 (Continued)

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### Note 7–Long-Term Debt: (Continued)

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#### D. Advance Refunding

The Authority issued \$25,085,000 (of which \$16,735,000 was used for the refunding) of revenue refunding bonds to provide resources to purchase U.S. Government State and Local Government Series securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments of \$16,735,000 of outstanding 1999 and 2000 Series revenue bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the Authority's Statement of Net Assets. The reacquisition price exceeded the net carrying amount of the old debt by \$1,028,259. This amount is being netted against the new debt and amortized over the life of the debt. This advance refunding was undertaken to reduce total debt service payments over the next 25 years by \$1,819,511 and resulted in an economic gain of \$1,172,758.

#### E. Prior-Year Defeasance of Debt

In prior years, the Authority defeased certain revenue bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Authority's financial statements. At June 30, 2011, \$2,235,000 of bonds outstanding is considered defeased.

### Note 8–Compensated Absences:

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Authority employees earn vacation leave each month at a scheduled rate in accordance with the years of service and sick leave at the rate of eight hours per month. Accumulated unpaid vacation leave amounts are accrued when incurred. At June 30, 2011 and 2010, the liability for accrued vacation leave was \$384,248 and \$366,671, respectively.

### Note 9–Defined Benefit Pension Plan:

---

#### A. Plan Description

Name of Plan: Virginia Retirement System (VRS)  
Identification of Plan: Agent and Cost-Sharing, Multiple-Employer Defined Benefit Pension Plan  
Administering Entity: Virginia Retirement System (System)

All full-time, salaried permanent employees of participating employers are automatically covered by VRS upon employment. Benefits vest after five years of service credit. Members earn one month service credit for each month they are employed and their employer is paying into the VRS. Members are eligible to purchase prior public service, active duty military service, certain periods of leave and previously refunded VRS service as credit in their plan.

VRS administers two defined benefit plans for local government employees – Plan 1 and Plan 2:

# RIVANNA WATER & SEWER AUTHORITY

Notes to the Financial Statements  
as of June 30, 2011 and 2010 (Continued)

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## Note 9—Defined Benefit Pension Plan:

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### A. Plan Description: (Continued)

Members hired before July 1, 2010 and who have service credits before July 1, 2010 are covered under Plan 1. Non-hazardous duty members are eligible for an unreduced retirement benefit beginning at age 65 with at least five years of service credit or age 50 with at least 30 years of service credit. They may retire with a reduced benefit as early as age 55 with at least 10 years of service credit or age 50 with at least five years of service credit.

Members hired or rehired on or after July 1, 2010 and who have no service credits before July 1, 2010 are covered under Plan 2. Non-hazardous duty members are eligible for an unreduced benefit beginning at their normal Social Security retirement age with at least five years of service credit or when the sum of their age and service equals 90. They may retire with a reduced benefit as early as age 60 with at least five years of service credit.

The VRS Basic Benefit is a lifetime monthly benefit based on a retirement multiplier as a percentage of the member's average final compensation multiplied by the member's total service credit. Under Plan 1, average final compensation is the average of the member's 36 consecutive months of highest compensation. Under Plan 2, average final compensation is the average of the member's 60 consecutive months of highest compensation. The retirement multiplier for non-hazardous duty members is 1.70%. The retirement multiplier for sheriffs and regional jail superintendents is 1.85%. The retirement multiplier for eligible political subdivision hazardous duty employees other than sheriffs and jail superintendents is 1.70% or 1.85% as elected by the employer. At retirement, members can elect the Basic Benefit, the Survivor Option, a Partial Lump-Sum Option Payment (PLOP) or the Advance Pension Option. A retirement reduction factor is applied to the Basic Benefit amount for members electing the Survivor Option, PLOP or Advance Pension Option or those retiring with a reduced benefit.

Retirees are eligible for an annual cost-of-living adjustment (COLA) effective July 1 of the second calendar year of retirement. Under Plan 1, the COLA cannot exceed 5.00%; under Plan 2, the COLA cannot exceed 6.00%. During years of no inflation or deflation, the COLA is 0.00%. The VRS also provides death and disability benefits. Title 51.1 of the Code of Virginia (1950), as amended, assigns the authority to establish and amend benefit provisions to the General Assembly of Virginia.

The System issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for the plans administered by VRS. A copy of the report may be obtained from the VRS website at <http://www.varetire.org/PDF/Publications/2010-Annual-Report.pdf> or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA 23218-2500.

### B. Funding Policy

Plan members are required by Title 51.1 of the Code of Virginia (1950), as amended, to contribute 5.00% of their compensation toward their retirement. All or part of the 5% member contribution may be assumed by the employer. In addition, the Authority is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the Code of Virginia and approved by the VRS Board of Trustees. The Authority's contribution rate for the fiscal year ended June 30, 2011 was 7.93% of the annual covered payroll.

# RIVANNA WATER & SEWER AUTHORITY

Notes to the Financial Statements  
as of June 30, 2011 and 2010 (Continued)

## Note 9—Defined Benefit Pension Plan:

### C. Annual Pension Cost

For the fiscal year ended June 30, 2011, the Authority's annual pension cost of \$297,182 for VRS (which does not include the employee share of \$187,378, assumed by the Authority) was equal to the required and actual contributions.

Three-Year Trend Information for Rivanna Water & Sewer Authority			
<u>Fiscal Year Ending</u>	<u>Annual Pension Cost * (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2011	\$ 297,182	100%	\$ -
June 30, 2010	237,625	100%	-
June 30, 2009	236,821	100%	-

\* Includes employer costs only.

The fiscal year 2011 required contribution was determined as part of the June 30, 2009 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions at June 30, 2009 included (a) an investment rate of return (net of administrative expenses) of 7.50%, (b) projected salary increases ranging from 3.75% to 5.6% per year, and (c) a cost-of-living adjustment of 2.50% per year. Both the investment rate of return and the projected salary increases include an inflation component of 2.50%. The actuarial value of the Authority's assets is equal to the modified market value of assets. This method uses techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period. The Authority's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2009 for the Unfunded Actuarial Accrued Liability (UAAL) was 20 years.

### D. Funded Status and Funding Progress

As of June 30, 2010, the most recent actuarial valuation date, the plan was 78.96% funded. The actuarial accrued liability for benefits was \$15,815,225, and the actuarial value of assets was \$12,487,469, resulting in an unfunded actuarial accrued liability (UAAL) of \$3,327,756. The covered payroll (annual payroll of active employees covered by the plan) was \$3,742,046 and the ratio of the UAAL to the covered payroll was 88.93%.

The schedule of funding progress, presented as Required Supplementary Information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability (AAL) for benefits.

## RIVANNA WATER & SEWER AUTHORITY

Notes to the Financial Statements  
as of June 30, 2011 and 2010 (Continued)

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### **Note 10–Risk Management:**

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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 joined together with other local governments in the Commonwealth to form the Virginia Municipal Group Self Insurance Association, a public entity risk pool currently operating as a common risk management and insurance program for member governments. The Authority pays an annual premium to the pool for its workers compensation coverage. For property and liability insurance the Authority joined together with other local governments in the State to form the Virginia Association of Counties Group Self-Insurance Pool, a public entity risk pool. The Agreements for Formation of the associations provide that the associations will be self-sustaining through member premiums. Settled claims have not exceeded pool coverage in any of the past three fiscal years.

### **Note 11–Other Post-Employment Benefits Program:**

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- A. **Background:** In fiscal year 2009 the Authority implemented Governmental Accounting Standards Board (GASB) Statement No. 45 for other post-employment benefits (OPEB) offered to retirees. This standard addresses how governmental reporting entities should account for and report their costs related to post-employment healthcare and non-pension benefits, such as the Authority's retiree health benefit. Historically, the Authority's subsidy was funded on a pay-as-you-go basis, but GASB Statement No. 45 requires that the Authority accrue the cost of the retiree health subsidy and other post-employment benefits during the period of the employees' active employment, while the benefits are being earned, and disclose the unfunded actuarial accrued liability in order to accurately account for the total future cost of post-employment benefits and the financial impact on the Authority. This funding methodology mirrors the funding approach used for pension benefits.
- B. **Plan Description:** In addition to the pension benefits described in Note 9, the Authority provides post-retirement healthcare benefits for employees who are eligible under a single-employer defined benefit plan. The Authority will permit retirees to participate and purchase medical benefits under the Authority's existing plan for current employees. Retirees are responsible for the entire cost of the benefits. Benefits are available for a period of five years or until age 65, whichever comes first. The OPEB Plan does not issue separate audited financial statements.

To be eligible, employees must either meet the age and service criteria for unreduced retirement benefits from VRS and be covered by the Authority's group health plan for active employees at retirement or be eligible for reduced retirement benefits at age 50 and employed by the Authority in a benefits-eligible position for 10 years.

- C. **Funding Policy:** The retirees pay and participate in the same plan for medical benefits as current employees creating an implicit rate subsidy liability for the Authority. The Authority determines how the liability will be funded each year, whether it will partially or fully fund the liability. Eligibility under the plan ceases when retirees reach the age of 65. Participating dependents are also entitled to continue coverage under the plan after the death of the retiree.

# RIVANNA WATER & SEWER AUTHORITY

Notes to the Financial Statements  
as of June 30, 2011 and 2010 (Continued)

## Note 11—Other Post-Employment Benefits Program: (Continued)

D. Annual Required Contribution (ARC): The annual cost of other post-employment benefits (OPEB) under GASB 45 is called the annual required contribution or ARC. The estimated pay-as-you-go cost for OPEB benefits is \$173,210 for fiscal year 2011. The Authority has paid an estimated \$63,923 towards this obligation during the fiscal year. The Authority is required to contribute the annual required contribution of the employer (ARC), an amount actuarially determined in accordance within the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

### Annual OPEB Cost and Net OPEB Obligation

The estimated contributions are based on projected medical premium payments and credit for the implicit rate subsidy made during the year for the retirees by the Authority. The following table depicts the components of the Authority's annual OPEB cost for the year, the estimated annual contributions to the plan and changes in the Authority's net OPEB obligation.

Annual required contribution	\$ 173,210
Interest on net OPEB obligation	8,716
Adjustment to annual required contribution	<u>(24,568)</u>
Annual OPEB cost (expense)	\$ 157,358
Estimated contributions made	<u>(63,923)</u>
Increase in net OPEB obligation	\$ 93,435
Net OPEB obligation, beginning of year	<u>233,401</u>
Net OPEB obligation, end of year	<u><u>\$ 326,836</u></u>

For fiscal year 2011, the Authority's expected cash payment of \$63,923 was \$93,435 less than the OPEB cost. The Authority's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2011, 2010 and 2009 are as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
June 30, 2009	\$ 146,426	18%	\$ 120,001
June 30, 2010	152,100	25%	233,401
June 30, 2011	157,358	41%	326,836

# RIVANNA WATER & SEWER AUTHORITY

Notes to the Financial Statements  
as of June 30, 2011 and 2010 (Continued)

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## Note 11—Other Post-Employment Benefits Program: (Continued)

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### Funded Status and Funding Progress

The funded status of the plan as of June 30, 2011 is as follows:

Actuarial accrued liability (AAL)	\$ 1,767,467
Actuarial value of plan assets	-
Unfunded actuarial accrued liability	\$ <u>1,767,167</u>
Funded ratio (actuarial value of plan assets / AAL)	0%
Covered payroll (active plan members)	\$ 3,742,046
UAAL as a percentage of covered payroll	47.22%

### Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the type of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revisions as actual results are compared with past expectations and new estimates are made about the future.

### Cost Method

The entry age normal actuarial cost method was used to determine the plan's funding liabilities and costs. The valuation of the liabilities is based on a closed group, current employees and retirees only are considered; no provision is made for future hires. Under the entry age normal actuarial cost method, a present value of benefits and normal cost is determined for each person's entry age. The normal cost assumes that there will be a normal cost each year from the entry age until the first occurrence of a 100% retirement probability decrement. The present value of each person's future entry age normal costs is subtracted from each person's present value of future benefits to determine an entry age normal accrued liability.

### Assumptions

Interest/Discount rate (unfunded)	4.00%
Inflation rate	2.50%
Amortization period	30 years - level percentage of projected payroll on an open basis
Healthcare trend rate	7.50%
Payroll growth rate	2.50%

## **RIVANNA WATER & SEWER AUTHORITY**

Notes to the Financial Statements  
as of June 30, 2011 and 2010 (Continued)

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### **Note 12—Subsequent Events:**

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Subsequent events have been evaluated through the date of the financial statements were available for issuance. There were no known events occurring through that date which would require disclosure.

### **Note 13—Related Parties:**

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Rivanna Solid Waste Authority (RSWA) and Rivanna Water and Sewer Authority (RWSA) share common office space and administrative staff. Procedures are in place to ensure proper segregation of funds, purchasing activity, personnel and similar matters. RSWA pays RWSA monthly for its share of joint administrative expenses, which totaled \$277,000 in FY 2011 and \$418,000 in FY 2010 and for leachate acceptance and treatment of \$1,597 in FY 2011 and \$3,114 in FY 2010. Rivanna Solid Waste Authority billed Rivanna Water & Sewer Authority \$56,822 for hauling and tipping fees in FY 2011 and \$56,723 in the previous year. RSWA owed RWSA \$16,555 and \$30,029 at June 30, 2011 and 2010, respectively.

**Required Supplementary Information**

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## RIVANNA WATER & SEWER AUTHORITY

### Schedule of Funding Progress for Defined Benefit Pension Plan Last Five Fiscal Years

<u>Valuation Date</u>	<u>Actuarial Value of Assets (AVA) (a)</u>	<u>Actuarial Accrued Liability (AAL) (b)</u>	<u>Unfunded Actuarial Accrued Liability (UAAL) (b) - (a)</u>	<u>Funded Ratio (a) / (b)</u>	<u>Annual Covered Payroll (c)</u>	<u>UAAL as % of Covered Payroll (b - a)/c</u>
06/30/06	\$ 9,090,456	\$ 10,412,813	\$ 1,322,357	87.30%	\$ 3,103,465	42.61%
06/30/07	10,630,682	11,563,010	932,328	91.94%	3,394,498	27.47%
06/30/08	11,916,527	12,916,332	999,805	92.26%	3,486,972	28.67%
06/30/09	12,288,978	14,220,772	1,931,794	86.42%	3,880,191	49.79%
06/30/10	12,487,469	15,815,225	3,327,756	78.96%	3,742,046	88.93%

**RIVANNA WATER & SEWER AUTHORITY**

Schedule of Funding Progress for Other Post-Employment Benefits  
Last Three Fiscal Years

<u>Valuation Date</u>	<u>Actuarial Value of Assets (AVA) (a)</u>	<u>Actuarial Accrued Liability (AAL) (b)</u>	<u>Unfunded Actuarial Accrued Liability (UAAL) (b) - (a)</u>	<u>Funded Ratio (a) / (b)</u>	<u>Annual Covered Payroll (c)</u>	<u>UAAL as % of Covered Payroll (b - a)/c</u>
07/01/08	\$ -	\$ 1,355,828	\$ 1,355,828	0.00%	\$ 3,486,972	38.88%
07/01/10	-	1,767,166	1,767,166	0.00%	3,880,191	45.54%
07/01/10	-	1,767,166	1,767,166	0.00%	3,742,046	47.22%

## 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 Useage 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.

3-5

#### Expenses

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

6

#### 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.

7-8

#### 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.

9-10

#### 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.

11-12

#### Other Information

These tables contain miscellaneous data such as insurance coverage and data from related organizations, Albemarle County Service Authority and City of Charlottesville.

13-15

#### Sources:

Unless otherwise noted, the information in these tables is derived from the comprehensive annual financial reports for the relevant year. The Authority implemented GASB Statement 34 in fiscal year 2002; tables presenting net asset information include information beginning in that year.

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**RIVANNA WATER & SEWER AUTHORITY**

**Table 1**

Net Assets by Component  
Last Ten Fiscal Years

	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Invested in capital assets, net of related debt	\$ 77,662,172	\$ 62,172,653	\$ 47,324,770	\$ 40,935,774	\$ 36,586,542	\$ 36,777,712	\$ 37,147,880	\$ 35,408,205	\$ 29,256,828	\$ 28,320,782
Restricted	3,048,111	2,522,530	3,230,185	3,124,165	3,030,350	2,919,269	2,763,638	2,617,327	7,597,881	8,874,689
Unrestricted	23,156,625	26,697,587	20,419,274	20,840,956	19,431,938	13,138,107	8,952,111	6,952,238	3,764,534	1,486,929
Total net assets	<u>\$ 103,866,908</u>	<u>\$ 91,392,770</u>	<u>\$ 70,974,229</u>	<u>\$ 64,900,895</u>	<u>\$ 59,048,830</u>	<u>\$ 52,835,088</u>	<u>\$ 48,863,629</u>	<u>\$ 44,977,770</u>	<u>\$ 40,619,243</u>	<u>\$ 38,682,400</u>

RIVANNA WATER & SEWER AUTHORITY

Table 2

Changes in Net Assets Last Ten Fiscal Years	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Operating revenues:										
Metered water sales	\$ 10,895,551	\$ 10,746,260	\$ 9,867,555	\$ 9,826,958	\$ 10,114,752	\$ 9,876,219	\$ 8,816,327	\$ 8,257,458	\$ 6,512,018	\$ 5,726,981
Wastewater service charges	11,069,488	12,701,859	9,671,122	8,211,378	8,143,177	6,795,118	6,818,840	7,314,528	6,596,802	4,790,192
Total operating revenues	\$ 21,965,039	\$ 23,448,119	\$ 19,538,677	\$ 18,038,336	\$ 18,257,929	\$ 16,671,337	\$ 15,635,167	\$ 15,571,986	\$ 13,108,820	\$ 10,517,173
Operating expenses:										
Personnel costs	\$ 5,525,332	\$ 5,428,691	\$ 5,449,513	\$ 5,224,525	\$ 4,939,525	\$ 4,619,754	\$ 4,256,623	\$ 3,832,356	\$ 3,460,494	\$ 3,385,511
Professional services	338,814	238,975	210,710	215,377	211,370	232,970	182,450	230,867	284,403	72,201
Other services and charges	2,341,123	2,137,741	2,291,946	2,054,600	1,666,178	1,765,687	1,427,067	1,398,038	1,280,423	1,386,864
Operations and maintenance	2,415,211	2,412,752	2,515,504	2,366,111	2,233,192	2,489,625	1,976,379	2,019,863	1,784,732	1,211,479
Depreciation	2,962,912	2,966,823	2,906,351	2,702,333	2,572,143	2,512,244	2,424,576	2,374,634	2,387,345	2,254,404
Total operating expenses	\$ 13,583,392	\$ 13,184,982	\$ 13,374,024	\$ 12,562,946	\$ 11,622,408	\$ 11,620,280	\$ 10,267,095	\$ 9,855,758	\$ 9,197,397	\$ 8,310,459
Operating income	\$ 8,381,647	\$ 10,263,137	\$ 6,164,653	\$ 5,475,390	\$ 6,635,521	\$ 5,051,057	\$ 5,368,072	\$ 5,716,228	\$ 3,911,423	\$ 2,206,714
Nonoperating revenues (expenses):										
Investment earnings	\$ 120,623	\$ 149,587	\$ 418,585	\$ 1,169,571	\$ 1,350,896	\$ 728,978	\$ 306,789	\$ 69,303	\$ 196,165	\$ 247,627
Non-capital grant revenue	-	-	-	-	21,000	-	-	-	-	-
Buck Mountain revenue	52,400	93,300	90,300	120,300	128,900	104,600	120,200	157,400	142,300	164,400
Administrative reimbursement	277,000	418,000	420,000	419,001	399,800	365,500	359,915	324,430	314,432	279,613
Other revenues	256,541	110,396	140,205	104,582	59,139	101,659	100,115	115,053	68,388	127,135
Interest expense	(2,607,502)	(2,107,381)	(2,090,583)	(2,213,064)	(2,347,443)	(2,346,022)	(2,348,380)	(2,541,329)	(2,670,850)	(2,836,685)
Amortization expense	(86,827)	(39,525)	(39,995)	(33,768)	(34,071)	(34,313)	(20,852)	(39,729)	(25,015)	(27,141)
Total nonoperating revenues (expenses)	\$ (1,987,765)	\$ (1,375,623)	\$ (1,061,488)	\$ (433,378)	\$ (421,779)	\$ (1,079,598)	\$ (1,482,213)	\$ (1,914,872)	\$ (1,974,580)	\$ (2,045,051)
Income before capital grants and contributions	\$ 6,393,882	\$ 8,887,514	\$ 5,103,165	\$ 5,042,012	\$ 6,213,742	\$ 3,971,459	\$ 3,885,859	\$ 3,801,356	\$ 1,936,843	\$ 161,663
Capital grants	\$ 6,080,256	\$ 11,531,027	\$ 970,169	\$ 810,053	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Capital contributions	-	-	-	-	-	-	-	557,171	-	-
Change in net assets	\$ 12,474,138	\$ 20,418,541	\$ 6,073,334	\$ 5,852,065	\$ 6,213,742	\$ 3,971,459	\$ 3,885,859	\$ 4,358,527	\$ 1,936,843	\$ 161,663

**RIVANNA WATER & SEWER AUTHORITY**

**Table 3**

Revenues by Source  
Last Ten Fiscal Years

Fiscal Years Ended June 30,	Operating Revenues			Nonoperating Revenues				Total Nonoperating Revenues	Other Capital Grants and Contributions	Total Revenues
	Water Sales	Wastewater Service Charges	Total Operating Revenues	Investment Earnings	Buck Mountain Revenue	Other Revenue	Non-capital Grant Revenue			
2002	\$ 5,726,981	\$ 4,790,192	\$ 10,517,173	\$ 270,092	\$ 164,400	\$ 384,283	\$ -	\$ 818,775	\$ -	\$ 11,335,948
2003	6,512,018	6,596,802	13,108,820	151,327	142,300	427,657	-	721,284	-	13,830,104
2004	8,257,457	7,314,529	15,571,986	69,304	157,400	439,482	-	666,186	-	16,795,343
2005	8,816,327	6,818,840	15,635,167	306,789	120,200	460,030	-	887,019	-	16,522,186
2006	9,876,219	6,795,118	16,671,337	728,978	104,600	467,159	-	1,300,737	-	17,972,074
2007	10,114,752	8,143,177	18,257,929	1,350,896	128,900	458,939	21,000	1,959,735	-	20,217,664
2008	9,826,958	8,211,378	18,038,336	1,169,571	120,300	523,583	-	1,813,454	810,053	20,661,843
2009	9,867,555	9,671,122	19,538,677	418,585	90,300	560,205	-	1,069,090	970,169	21,577,936
2010	10,746,260	12,701,859	23,448,119	149,587	93,300	528,396	-	771,283	11,531,027	35,750,429
2011	10,895,551	11,069,488	21,965,039	120,623	52,400	533,541	-	706,564	6,080,256	28,751,859

**RIVANNA WATER & SEWER AUTHORITY**

**Table 4**

Water and Wastewater Rates and Flows  
Last Ten Fiscal Years

Rates	Fiscal Years Ended June 30,									
	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Urban Water - City (per 1000 gallons)	\$ 2,438 \$	2,461 \$	2,285 \$	2,226 \$	2,149 \$	2,071 \$	1,995 \$	2,086 \$	various (1) \$	1,255
Urban Water - ACSA (per 1000 gallons)	\$ 3,305 \$	3,320 \$	2,983 \$	2,912 \$	2,717 \$	2,582 \$	2,422 \$	2,173 \$	various (1) \$	1,349
Scottsville Water (per month)	\$ 32,834 \$	32,089 \$	31,421 \$	34,127 \$	31,227 \$	32,571 \$	32,794 \$	26,897 \$	20,849 \$	18,596
Crozet Water (per month)	\$ 50,712 \$	52,315 \$	50,226 \$	43,372 \$	43,587 \$	45,337 \$	41,857 \$	37,660 \$	34,254 \$	34,669
Urban Wastewater - City (per 1000 gallons)	\$ 2,878 \$	2,784 \$	2,466 \$	2,233 \$	1,865 \$	1,685 \$	1,543 \$	1,512 \$	1,124 \$	0,976
Urban Wastewater - ACSA (per 1000 gallons)	\$ 3,048 \$	3,063 \$	2,722 \$	2,460 \$	2,101 \$	1,955 \$	1,815 \$	1,793 \$	1,361 \$	1,217
Scottsville Wastewater (per month)	\$ 25,603 \$	25,216 \$	25,968 \$	24,897 \$	24,022 \$	21,936 \$	21,302 \$	19,885 \$	18,894 \$	18,014
Glenmore Wastewater (per month)	\$ 21,806 \$	22,968 \$	24,606 \$	19,726 \$	18,772 \$	17,488 \$	17,262 \$	15,473 \$	13,134 \$	10,498

Note:

(1) Water rates changed during FY 2003 as follows due to drought conditions:

	7/1/02 -	10/1/02 -	2/1/03 -
	9/30/02	1/31/03	6/30/03
Urban Water - City (per 1000 gallons)	\$ 1,309	\$ 2,955	\$ 1,955
Urban Water - ACSA (per 1000 gallons)	\$ 1,391	\$ 3,037	\$ 2,037

Flows (in million gallons per day):	Fiscal Years Ended June 30,									
	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Urban Water	9,569	9,352	9,344	9,546	10,435	10,607	9,933	9,622	9,200	10,756
Crozet Water	0,436	0,420	0,384	0,378	0,386	0,395	0,341	0,320	0,309	0,371
Scottsville Water	0,056	0,077	0,077	0,087	0,108	0,118	0,136	0,136	0,135	0,143
	10,060	9,848	9,805	10,011	10,929	11,120	10,410	10,078	9,644	11,270
Urban Wastewater	9,442	11,158	9,307	8,553	10,047	8,993	9,802	10,863	10,531	9,735
Scottsville Wastewater	0,054	0,083	0,064	0,060	0,123	0,075	0,080	0,078	0,105	0,081
Glenmore Wastewater	0,137	0,125	0,115	0,117	0,087	0,111	0,106	0,133	0,094	0,078
	9,632	11,367	9,486	8,730	10,257	9,179	9,988	11,074	10,730	9,894

**RIVANNA WATER & SEWER AUTHORITY**

**Table 5**

Current Customers  
Fiscal Year 2011

	Water Revenue		Wastewater Revenue	
	Amount	%	Amount	%
Albemarle County Service Authority	\$ 6,287,772	57.71%	\$ 5,264,520	47.56%
City of Charlottesville	4,607,779	42.29%	5,541,730	50.06%
Others	-	0.00%	263,238	2.38%
	<u>\$ 10,895,551</u>	<u>100.00%</u>	<u>\$ 11,069,488</u>	<u>100.00%</u>

Note: The Authority's two wholesale customers, which are both governmental entities, provide 100% of water revenue and 98% of wastewater revenue. The remaining 2% of revenue comes from septage acceptance customers. Due to lack of materiality, the number of customers by type that provide that revenue is not presented here.

**RIVANNA WATER & SEWER AUTHORITY**

**Table 6**

Expenses by Type  
Last Ten Fiscal Years

<b>Fiscal Years Ended June 30,</b>	<b>Operations</b>	<b>Depreciation</b>	<b>Interest</b>	<b>Total</b>
2002	\$ 6,056,056 \$	2,254,404 \$	2,863,826 \$	11,174,286
2003	6,810,052	2,387,345	2,695,865	11,893,262
2004	7,481,126	2,374,634	2,581,058	12,436,818
2005	7,842,519	2,424,576	2,369,232	12,636,327
2006	9,108,036	2,512,244	2,380,335	14,000,615
2007	9,050,265	2,572,143	2,381,514	14,003,922
2008	9,860,613	2,702,333	2,246,832	14,809,778
2009	10,467,673	2,906,351	2,130,578	15,504,602
2010	10,218,159	2,966,823	2,146,906	15,331,888
2011	10,620,480	2,962,912	2,694,329	16,277,721

**RIVANNA WATER & SEWER AUTHORITY**

**Table 7**

Outstanding Debt by Type  
Last Ten Fiscal Years

	Fiscal Years Ended June 30,									
	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Revenue bonds payable	\$ 73,831,274	\$ 57,250,353	\$ 44,350,079	\$ 47,765,367	\$ 51,009,997	\$ 52,364,550	\$ 46,280,940	\$ 48,956,452	\$ 51,253,837	\$ 52,861,280
Contracts payable	-	-	-	-	-	35,265	63,053	123,781	737,748	791,826
Line of credit payable	-	-	-	-	-	-	665,542	418,771	-	-
<b>Total outstanding debt</b>	<b>\$ 73,831,274</b>	<b>\$ 57,250,353</b>	<b>\$ 44,350,079</b>	<b>\$ 47,765,367</b>	<b>\$ 51,009,997</b>	<b>\$ 52,399,815</b>	<b>\$ 47,009,535</b>	<b>\$ 49,499,004</b>	<b>\$ 51,991,585</b>	<b>\$ 53,653,106</b>
Debt per capita	\$ 538.42	\$ 417.50	\$ 326.33	\$ 356.42	\$ 383.40	\$ 399.38	\$ 363.06	\$ 386.50	\$ 407.66	\$ 424.42
Debt as a percentage of personal income	1.16%	0.90%	0.69%	0.77%	0.87%	0.98%	0.94%	1.07%	1.18%	1.23%

Notes:

Debt per capita was calculated based on population figures for the calendar year (CY) ending within the fiscal year (FY) obtained from U.S. Department of Commerce - Bureau of Economic Analysis for the City of Charlottesville and County of Albemarle. Since the population for CY 2010 is not yet available, the population for CY 2009 was used for the FY 2011 calculation. See Table 9.

Debt as a percentage of personal income was calculated based on personal income for the CY ending within the FY obtained from U.S. Department of Commerce - Bureau of Economic Analysis for the City of Charlottesville and County of Albemarle. Since personal income for CY 2009 and 2010 is not yet available, the personal income for CY 2008 was used for the FY 2010 and 2011 calculations. See Table 9.

**RIVANNA WATER & SEWER AUTHORITY**

**Table 8**

Revenue Bond Debt Service Coverage  
Last Ten Fiscal Years

Fiscal Years Ended June 30,	Gross Revenue (1)		Direct Operating Expense (2)		Net Available		Required Debt Service Payments (3)		Coverage
2002	\$	11,335,948	\$	6,056,056	\$	5,279,892	\$	4,928,180	1.1X
2003		13,830,104		6,810,052		7,020,052		5,115,286	1.4X
2004		16,238,172		7,481,126		8,757,046		5,084,496	1.7X
2005		16,522,186		7,842,519		8,679,667		5,079,040	1.7X
2006		17,972,074		9,108,036		8,864,038		4,942,800	1.8X
2007		20,196,664		9,050,265		11,146,399		5,526,143	2.0X
2008		19,851,790		9,860,613		9,991,177		5,603,277	1.8X
2009		20,607,767		10,467,673		10,140,094		5,591,120	1.8X
2010		24,219,402		10,218,159		14,001,243		5,592,641	2.5X
2011		22,671,603		10,620,480		12,051,123		6,962,703	1.7X

(1) Excluding grant revenue

(2) Excluding depreciation expense

(3) Including payments on revenue bonds and contracts payable

**RIVANNA WATER AND SEWER AUTHORITY**

**Table 9**

Demographic Data for the Service Area  
 City of Charlottesville & Albemarle County, Virginia  
 Last Ten Calendar Years

<b>Calendar Year</b>	<b>Population (2)</b>	<b>Personal Income (thousands of \$) (2)</b>	<b>Per Capita Personal Income (\$) (2)</b>	<b>Unemployment Rate (1)</b>
2010	not available	not available	not available	5.9%
2009	137,126	not available	not available	5.6%
2008	135,905	6,383,281	46,969	3.3%
2007	134,014	6,223,665	46,440	2.5%
2006	133,046	5,860,752	44,051	2.6%
2005	131,203	5,322,493	40,567	3.1%
2004	129,481	4,988,520	38,527	3.3%
2003	128,071	4,618,725	36,064	3.6%
2002	127,537	4,417,234	34,635	3.4%
2001	126,416	4,357,679	34,471	2.6%

(1) Virginia Employment Commission - Virginia Workforce Connection

(2) U.S. Department of Commerce - Bureau of Economic Analysis

**RIVANNA WATER & SEWER AUTHORITY**

**Table 10**

Principal Employers in the Charlottesville Area  
Current Year and Nine Years Ago

Employer	Fourth Quarter of 2010		Fourth Quarter of 2001	
	Number of Employees	Rank	Number of Employees	Rank
University of Virginia/ Blue Ridge Hospital	1,000 & over	1	1,000 & over	1
University of Virginia Medical Center	1,000 & over	2	1,000 & over	2
County of Albemarle	1,000 & over	3	1,000 & over	3
Martha Jefferson Hospital	1,000 & over	4	1,000 & over	4
City of Charlottesville	1,000 & over	5	1,000 & over	5
Nimbus Records			1,000 & over	6
UVA Health Services Foundation	1,000 & over	6	1,000 & over	7
State Farm Mutual Automobile Insurance	1,000 & over	7	1,000 & over	8
Charlottesville City School Board	500-999	8	500-999	8
Aramark Campus LLC	500-999	9		
Northrop Grumman Corporation	500-999	10		
Wintergreen Partners			500-999	9
SP Marine Inc.			500-999	10

Source: Virginia Employment Commission, Quarterly Census of Employment and Wages  
- for Charlottesville Metropolitan Service Area (MSA)

Each employer's percentage of total employment is not available

**RIVANNA WATER & SEWER AUTHORITY**

**Table 11**

**Number of Employees by Identifiable Activity  
Last Ten Fiscal Years**

	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Number of budgeted full-time equivalent positions:										
Water (1)	23.0	23.0	27.0	27.0	27.0	27.0	27.0	25.0	25.0	25.0
Wastewater	15.0	16.0	25.0	25.0	26.0	25.0	25.0	25.0	25.0	25.0
Maintenance (4)	15.0	14.0								
Grounds crew maintenance (2)			2.0	2.0	4.0	4.0	4.0	4.0	3.5	3.5
Operations Management	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	1.0	1.0
Administration (3)	9.0	8.0	8.0	7.1	7.1	7.1	7.1	6.9	5.3	5.5
Laboratory	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0
Engineering	9.0	11.0	11.0	10.0	7.0	7.0	7.0	7.0	4.0	4.0
<b>Total</b>	<b>76.0</b>	<b>77.0</b>	<b>78.0</b>	<b>76.1</b>	<b>76.1</b>	<b>75.1</b>	<b>75.1</b>	<b>72.9</b>	<b>66.8</b>	<b>67.0</b>

(1) For FY 2002 and 2003, three of the positions included in Water above worked approximately 20% in the wastewater department.

(2) Grounds crew maintenance positions worked approximately 60% (80% in FY 2002-2005) on wastewater department maintenance and 40% (20% in FY 2002-2005) on water department maintenance. Beginning in FY 2010, grounds crew maintenance positions are included in Maintenance.

(3) Administration staff is shared with Rivanna Solid Waste Authority. The number of employees noted above is the number of full time employee equivalents allocated to Rivanna Water and Sewer Authority

(4) Maintenance includes mechanics and maintenance workers for Water and Wastewater

**RIVANNA WATER & SEWER AUTHORITY**

**Table 12**

Operating and Capital Indicators  
Last Eight Fiscal Years

	2011	2010	2009	2008	2007	2006	2005	2004
<b>Water</b>								
Size of watershed (square miles)	766	766	766	766	766	766	766	766
Raw water safe yield (mgd)								
Urban system	12.80	12.80	12.80	12.80	12.80	12.80	12.80	12.80
Rural system	3.40	3.40	3.40	3.40	3.00	3.00	3.00	3.00
Miles of pipelines	64.30	64.30	64.30	64.30	64.30	64.30	64.30	64.30
Number of treatment plants	5	5	5	5	5	5	5	5
Number of pumping stations	7	7	7	7	7	7	7	7
Number of reservoirs	4	4	4	4	4	4	4	4
Number of finished water storage tanks	11	11	11	11	11	11	11	11
Maximum treatment capacity (mgd)	22.750	22.750	22.750	22.750	22.750	22.750	22.750	22.750
Water treated (mgd)	10.060	9.984	9.805	10.011	10.929	11.120	10.410	10.078
Unused capacity (mgd)	12.690	12.766	12.945	12.739	11.821	11.630	12.340	12.672
Percentage of capacity utilized	44.22%	43.89%	43.10%	44.00%	48.04%	48.88%	45.76%	44.30%
<b>Wastewater</b>								
Miles of pipelines	37	37	37	37	37	37	37	37
Number of treatment plants	5	5	5	5	5	5	5	5
Number of pumping stations	7	7	7	7	7	7	7	7
Maximum treatment capacity (mgd)	15.945	15.945	15.945	15.945	15.945	15.945	15.945	15.945
Wastewater treated (mgd)	9.632	8.730	9.486	8.730	10.257	9.179	9.988	11.074
Unused capacity (mgd)	6.313	7.215	6.459	7.215	5.688	6.766	5.957	4.871
Percentage of capacity utilized	60.41%	54.75%	59.49%	54.75%	64.33%	57.57%	62.64%	69.45%

Notes: mgd = millions of gallons per day

Safe yield is a measure of raw water resources during a drought of record.

Information regarding the above operating and capital indicators for Fiscal Years 2002-2003 is not disclosed here because it is not available.

**RIVANNA WATER & SEWER AUTHORITY**

**Table 13**

Schedule of Insurance in Force  
June 30, 2011

<u>Type Coverage/Company Name</u>	<u>Coverage</u>	<u>Annual Premium</u>
<u>Commercial Property</u> Virginia Association of Counties 07/01/10-07/01/11	\$ 128,389,882 Property Value and Business Interruption/ Extra Expense	\$ 96,305
<u>Worker's Compensation</u> Virginia Municipal Group Self Insurance Association 07/01/10-07/01/11	\$ 1,000,000 Each Occurrence	\$ 57,870
<u>Comprehensive Automobile</u> Virginia Association of Counties 07/01/10-07/01/11	\$ 5,000,000 Each Occurrence	\$ 26,180
<u>General Liability</u> Virginia Association of Counties 07/01/10-07/01/11	\$ 5,000,000 Each Occurrence	\$ 16,633
<u>Public Officials Liability</u> Virginia Association of Counties 07/01/10-07/01/11	\$ 5,000,000 Each Occurrence	\$ 9,383
<u>Crime Coverage</u> Virginia Association of Counties 07/01/10-07/01/11	\$ 500,000 Each Occurrence	\$ 1,635



Miscellaneous Statistical Data  
City of Charlottesville, Virginia

Date of incorporation	1888
Date present charter adopted	1976
Form of government	Council Manager
Area	10.4 square miles
Miles of streets	156
Number of water customers	14,396
Number of sewer customers	14,243
Miles of water lines	180
Miles of sanitary sewer lines	167
Number of fire hydrants	988
Bond Rating	AAA/Aaa

Rates FY 2011 per 1,000 cubic feet:

Water	
May - Sept.	\$ 50.00
Oct. - Apr.	\$ 38.46
Wastewater	\$ 42.16

**Ten Largest Customers in Fiscal Year 2011:**

	Water		Wastewater		Percentage of Total Revenue
	Water Consumption (in cubic feet)	Billed Revenue	Wastewater Treated (in cubic feet)	Billed Revenue	
University of Virginia	69,964,291	\$ 1,634,915	57,049,299	\$ 2,025,678	22.99%
City of Charlottesville	3,385,136	157,238	2,503,185	107,990	1.23%
Martha Jefferson Hospital	3,360,902	161,171	2,370,967	100,370	1.14%
Charlottesville Redevelopment & Housing	2,393,754	104,836	2,393,754	102,156	1.16%
Pepsi Cola	2,025,300	93,497	1,869,310	78,526	0.89%
Omni Charlottesville Hotel	1,440,300	68,187	1,235,203	51,978	0.59%
Edgewood Management (Friendship Court)	980,800	46,187	980,800	41,240	0.47%
EDR Charlottesville LLC	900,200	41,797	900,200	37,910	0.43%
CDQ Hotels	893,000	42,921	893,000	37,492	0.43%
Red Roof Inn	865,533	41,609	864,520	36,382	0.43%
	<b>86,209,216</b>	<b>\$ 2,392,359</b>	<b>71,060,238</b>	<b>\$ 2,619,722</b>	<b>29.73%</b>

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# ROBINSON, FARMER, COX ASSOCIATES

A PROFESSIONAL LIMITED LIABILITY COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

## 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 Board of Directors  
Rivanna Water and Sewer Authority  
Charlottesville, Virginia

We have audited the financial statements of the Rivanna Water and Sewer Authority for the year ended June 30, 2011, and have issued our report thereon dated October 11, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Authorities, Boards, and Commissions*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Rivanna Water and Sewer Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on financial statements, but not for the purpose of expressing an opinion on the effectiveness of Rivanna Water and Sewer Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Rivanna Water and Sewer Authority's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Rivanna Water and Sewer Authority's financial statements are free of 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*.

This report is intended solely for the information and use of management, Board of Directors, others within the entity and is not intended to be and should not be used by anyone other than these specified parties.

*Robinson, Farmer, Cox Associates*  
Charlottesville, Virginia  
October 11, 2011

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