



Fairfax County
WATER AUTHORITY

Annual Report 2001

The Fairfax County Water Authority is governed by a board of 10 members who are appointed by the Board of Supervisors of Fairfax County, Virginia, each for a term of three years. Three non-voting representatives are appointed by wholesale customers or jurisdictions served by the Authority. Members of the Authority hold frequent public meetings—19 were held in 2001—to guide and oversee all aspects of our operation. In addition, board committees met regularly in 2001 to manage specific efforts: The Finance Committee reviewed our budget, Capital Improvement Program, and financial performance, while the Personnel Committee focused on employee programs, policies, and benefits. The Water Quality Committee met to maintain the excellence of our product and explore innovative treatment methods.

Members of the Authority



Fred C. Morin
Chairman
Lee District

Member since September 6, 1961
Chairman since September 4, 1969



Harry F. Day
Vice Chairman
Mason District

Member since July 16, 1987
Vice Chairman since
November 5, 1992



Bill G. Evans
Mount Vernon District

Member since July 8, 1970
Vice Chairman 1976–1986



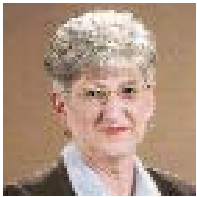
Paul J. Andino
Braddock District

Member since July 1, 1988



Pamela B. Danner
Dranesville District

Member since July 1, 1992



Constance M. Houston
Secretary
Providence District

Member since July 31, 1989
Secretary since February 2, 1995



Philip W. Allin
Treasurer
Sully District

Member since April 7, 1992
Treasurer since February 2, 1995



Burton J. Rubin
Springfield District

Member since July 1, 1984



Richard G. Terwilliger
At-Large Member

Member since July 1, 1997



Martha V. Pennino
Hunter Mill District

Member since October 19, 1998

Lalit Kumar Sharma
Non-Voting Representative
City of Alexandria
Representative since 2000

Barry A. Cianflone
Non-Voting Representative
Prince William County
Representative since 1981

Fred P. Griffith, Jr.
Non-Voting Representative
Town of Herndon and
Loudoun County Sanitation
Authority
Representative since 1993

Financial Highlights

Water Sales
(in millions)

\$72.7

Total Revenue
(in millions)

\$119.9

Average Daily
Production (mgd)

136

Metered
Accounts

219,575

Miles of
Water Main

3,019

Fire
Hydrants

20,130

Authorized
Employees

390

Authority Staff



Charlie C. Crowder, Jr.
General Manager

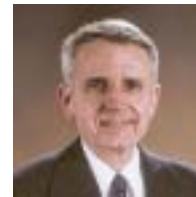


James A. Warfield, Jr.
Executive Officer



Thomas P. Bonacquisti
Director

Water Quality and
Production Division



C. David Binning, Jr.
Director

Planning and Engineering Division



Robert C. Spengler
Director

Finance Division



Ibrahim J. "Abe" Homs
Director

Maintenance and Emergency
Services Division



David L. Rasmussen
Director

Support Services Division

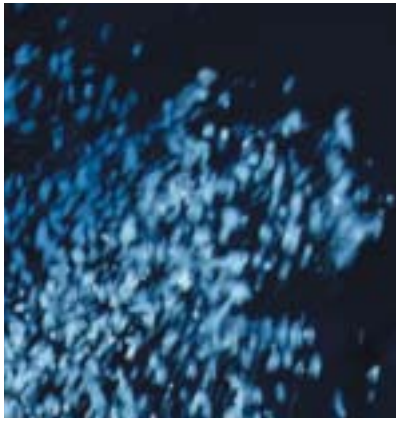


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I have seen a tremendous growth in the number of customers we serve and in the size and sophistication of the water treatment facilities used to supply the citizens of Northern Virginia.

Chairman's Letter

In 2001 we moved forward on a number of projects that will ensure good, safe drinking water for the 1.2 million Virginians who depend on the Fairfax County Water Authority for their drinking water.

After several years of administrative review and successful litigation, we received a permit from the State of Maryland to construct the Potomac River Off-Shore Intake. The new intake, which will withdraw cleaner water from near the middle of the Potomac River, replaces the larger shoreline intake built 20 years ago. Contracts were awarded and construction has commenced. This project, an important improvement in providing an additional barrier to waterborne pathogens, is scheduled to be operational in 2003.

Additionally, significant progress has been made in the construction of the Griffith Water Treatment Plant at Lorton.

Progress on this major effort is detailed elsewhere in this report.

We are proud of the many other accomplishments made in the day-to-day operation of running our large and important enterprise. While we are active in developing new facilities to meet the ever-growing service area population, we are also proud that we have been able to improve the quality of life in many older subdivisions of Fairfax County with new and replacement water mains. One such community is Lewis Park, where construction began to bring public water into this community of 140 homes during the year. We also will be replacing in the

current year the well systems in Gunston Manor and Hallowing Point River Estates with surface water from a new pipeline being constructed on Gunston Road. This older area of Fairfax County is near the plantation where George Mason penned Virginia's Bill of Rights, the predecessor to the Bill of Rights that is a part of the U.S. Constitution.

Water utilities have always been active in protecting their product from unforeseen circumstances, and post-September 11 we have doubled our efforts to protect our facilities, with guards at our treatment facilities and installation of new surveillance equipment. We will seek newer and more effective methods to improve the safety and integrity of our distribution network in the years ahead.



We also continue working toward developing an adequate water supply for the next generation of customers. With the help of nearly \$600,000 in federal grant money, we are investigating the feasibility of renovating an abandoned reservoir in West Virginia to supplement the Potomac River. We are also studying other creative measures, such as use of local rock quarries for water storage and use of estuary water using membrane treatment technology—an alternative that is becoming more and more attractive as its cost becomes more affordable.

This is a bittersweet moment for me, as this will be my last report to the customers of our water system as chairman of the Water Authority. This year I celebrated my 41st year with the

Water Authority, 33 of those years as its chairman. I plan to remain active and continue contributing to the success of the Water Authority as a member of the Board of Directors.

During my tenure I have witnessed and been a part of many changes and improvements. I have seen a tremendous growth in the number of customers we serve and in the size and sophistication of the water treatment facilities used to supply the citizens of Northern Virginia good, safe drinking water at a very reasonable price.

I want to thank my fellow members of the Water Authority for their support and dedication. Also, my heartfelt gratitude goes to the many fine employees and retirees of the Water Authority who have ensured that the poli-

cies established by the Water Authority were carried out expeditiously and efficiently in the highest professional manner.

I want to provide my best wishes to incoming Chairman Harry Day, Vice Chairman Phil Allin, Treasurer Connie Houston and Secretary Pam Danner. The Water Authority is in good and able hands for the years ahead.

Finally, I am thankful to the Water Authority for bestowing on me the title of Chairman Emeritus.

Thank you.

A handwritten signature in cursive script that reads "Fred C. Morin".

Fred C. Morin
Chairman
Fairfax County Water Authority

The new state-of-the-art treatment facilities will be able to treat 120 million gallons of drinking water per day.



Lorton Medium Security Prison—1999

New Treatment Facilities on the Occoquan Reservoir

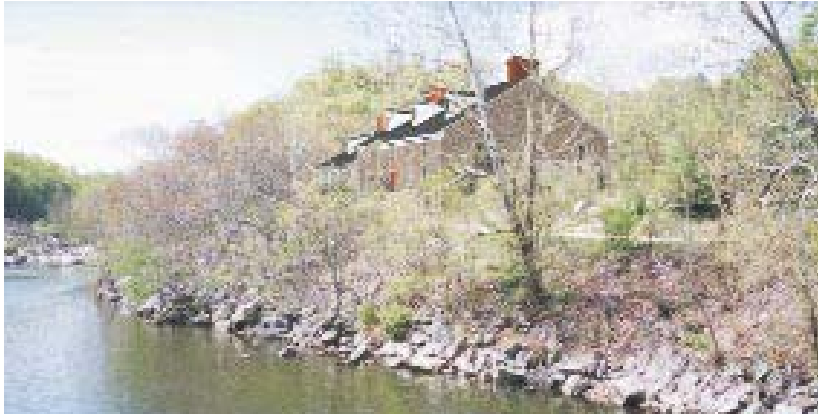
Nearly 10 years ago, in light of forthcoming and more stringent regulations, the Fairfax County Water Authority realized the need to evaluate its aging infrastructure in the three treatment plants in the southern end of the county on the Occoquan Reservoir. The existing treatment plants—Old Lorton, River Station, and New Lorton—were placed in service in 1951, 1964, and 1973, respectively. In 1993, the Water Authority commissioned a study to determine the best long-term approach to meeting the public health and treatment reliability needs of our customers and the proposed federal regulations under the Safe Drinking Water Act (SDWA) reauthorization. While the project team, composed of the professional engineering firms of Black & Veatch and Mont-

gomery Watson, performed the majority of the technical aspects of the study, the Water Authority also formed a technical advisory group to provide independent, impartial, and expert guidance and interpretation of the project team's evaluations throughout the study. This advisory group included nationally renowned specialists in the field of drinking water treatment and research, the director of the Occoquan Watershed Monitoring Laboratory, and the Water Authority's trust engineer, Greeley and Hansen.

Acknowledging that the Old Lorton and Occoquan facilities are nearly 50 years old, this study found that they would not be capable of meeting the requirements of the SDWA Stage 1 Disinfectants/Disinfection Byproducts Rule, which sets stricter limits

within the distribution system for trihalomethanes and haloacetic acids. Furthermore, the study indicated that the facilities would not be able to meet the more rigorous standards of the Enhanced Surface Water Treatment Rule, which calls for the removal or inactivation of pathogenic organisms such as *Giardia* and *Cryptosporidium*. The study recommended building a new, state-of-the-art, 120 million gallons per day (mgd) facility, expandable to 160 mgd, to replace the existing treatment plants. The new facility will incorporate ozone disinfection and biologically active filters to be consistent with the treatment practices of the Water Authority's Corbalis Water Treatment Plant on the Potomac.





An artist's rendering of the raw water pumping station.

A New Raw Water Pumping Station and Tunnel

In addition to the new treatment plant, the study recommended new raw water pumping facilities and a new tunnel under the river to transport water to the new pumping facilities.

The Pumping Station

When the Water Authority considered the design of the new treatment plant, it also contemplated the need for a new raw water pumping station. The existing Occoquan Low Service Pumping Station, on the south side of the low dam on the Occoquan Reservoir, has been in service since the Old Lorton treatment plant went into service in 1951. Its location below the high dam makes it vulnerable to flooding, and it has a

maximum pumping capacity of 85 mgd. The Water Authority recognized the need to build a new pumping station.

The new raw water pumping station will be located on the Fairfax County side of the Occoquan River, across from the Town of Occoquan. Like the new treatment plant, the pumping station

has the capacity to pump 120 mgd and can be expanded to 160 mgd. The new pumping facility is being built above the 500-year flood line to provide added reliability and protection against flooding.

The architectural design of this facility was inspired by the Rockledge Mansion, on the opposite



The Rockledge Mansion, inspiration for the pumping station, located in Occoquan, VA.



Workers entering 84-inch pipe.

shore of the river in the Town of Occoquan, including the stone facade, clapboard-sided addition, wrought iron fencing, and dormers. In keeping with the architectural origins of the Rockledge Mansion, the Water Authority contracted with the same quarry that produced the stone for the mansion, Mountain State Stone Quarry in West Virginia, to obtain matching sandstone veneer for the pumping station.

Tunneling under the Occoquan

Just as the Water Authority examined the limitations of the existing raw water pumping station, it also considered the need to expand the capacity of the existing piping between the Occoquan Reservoir Intake and the new treatment plant. Subsequently, the Water

Authority decided to tunnel under the Occoquan River to connect the existing intake to the new raw water pumping station.

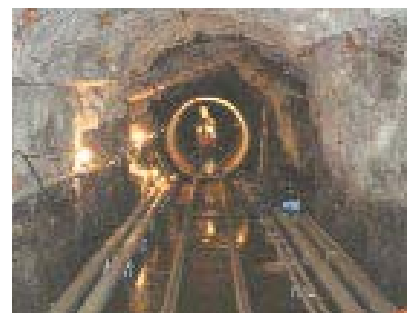
On November 14, 2000, the Water Authority began work on the tunnel. This tunnel travels 700 feet under the Occoquan River to connect the Occoquan Reservoir Intake to the new raw water pumping station. The 10-foot wide tunnel took 174 days and 15,000 pounds of dynamite to excavate. The excavation produced over 7,700 tons of rock that were hauled off-site. Once the tunnel was cleared, the Water Authority installed a seven-foot-wide raw water transmission main.

Final Tally

Construction for the pumping station began on June 29, 2001, and is scheduled to be completed in

early 2003. When the dust clears and the paint dries, the new pumping station will have 6,000 cubic yards of concrete, 600 tons of steel, 2,500 feet of piping, and a system of nearly 22 miles of electrical wiring.

This project provides the Water Authority with a state-of-the-art pumping facility that not only serves our current needs, but is set to serve our customers' needs well into the future.



Pipe being installed in 700-foot tunnel under the Occoquan River.



Water Quality

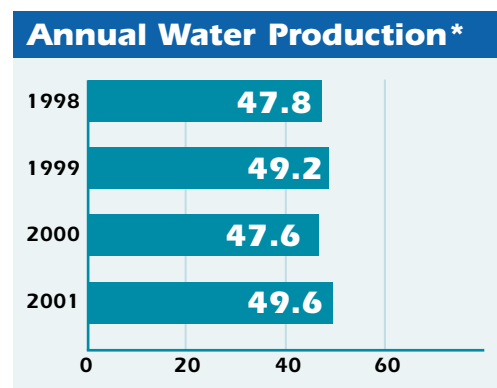
The Water Authority's Water Quality goal is to continue to deliver the highest possible level of water quality to our customers. To reach this goal, the Water Authority promotes the use of the best available technologies in treating drinking water. In 2000, the Corbalis Water Treatment Plant became the first water treatment plant in Virginia to treat its water with ozone. Ozone treatment adds another barrier against waterborne pathogens such as *Cryptosporidium* and *Giardia*. In 2001, as a result of ozone treatment, the Corbalis Water Treatment Plant realized many improvements in its treatment process, including color reduction in settled waters, a decline in filter effluent turbidities, an increase in the inactivation of *Cryptosporidium* and *Giardia*,

improvements in taste and odor, and reductions in the formation of disinfection by-products. The portion of the distribution system served by the Corbalis Water Treatment Plant had a 36 percent reduction in total trihalomethanes and a 43 percent reduction in haloacetic acid concentrations from 2000 to 2001. These levels represent the lowest disinfection by-product concentrations in the Washington metropolitan region.

To ensure the reliability of our advanced treatment systems, the Water Authority maintains an extensive monitoring program, which involves analyzing water at many different stages of treatment, from the source water through the treatment process to our finished product.

Water Authority staff performs three to four times the minimum testing required by law. As a result of this monitoring, we can say with assurance that the water delivered to our customers meets or exceeds all federal and state drinking water quality standards.

The Water Authority published and sent the Annual Water Quality Report to customers in June. This report can be viewed at www.fcwa.org.



*Billions of Gallons



State-of-the-art treatment processes and continual analysis ensure that our water quality meets or exceeds every water quality standard.





Planning and Engineering

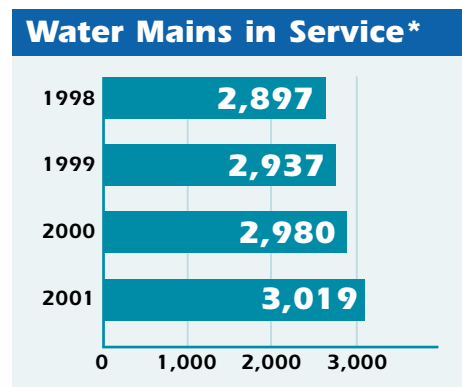
Each year the Water Authority develops a 10-year Capital Improvement Plan (CIP) to ensure the safety and reliability of our water system. In 2001, the CIP's projected 10-year expenditures totaled \$567 million and included such projects as the construction of the Frederick P. Griffith, Jr. Water Treatment Plant and the Occoquan Raw Water Pumping Station and the design and construction of a state-of-the-art water quality laboratory. The CIP also emphasizes the importance of the Water Authority's transmission and distribution system. There are two major components of this work: construction to meet the needs of new retail and wholesale customers, and the stewardship of existing pipe. The proper design, maintenance, and replacement of our distribution

system are crucial to system reliability, water quality, service, and cost control.

During 2001, the Water Authority installed approximately 11,000 feet of 54-inch ductile iron pipe, some of the largest transmission mains in the system, along the Fairfax County Parkway. This addition is the first phase of a multiyear plan to strengthen the western portion of the distribution system. The Water Authority also replaced 20,000 feet of 36-inch prestressed concrete cylinder pipe that had reached the end of its useful life with 42-inch ductile iron pipe. Design is complete for Phase Two of this project, which will replace another 8,000 feet, to be done in 2002. With the completion of these projects, the Water Authority's transmission network will be capable of accommodating the

increased production from the new Frederick P. Griffith, Jr. Water Treatment Plant and the existing Corbalis Water Treatment Plant.

The Water Authority is continually evaluating the reliability of its distribution system. In 2001, approximately 15,000 feet of water main were upgraded with newer, more reliable and serviceable materials. In addition, 6,000 feet of new water main extensions that are crucial to system redundancy were added.



*Miles of Pipe

The Capital Improvement Plan emphasizes careful planning for future needs and stewardship of the existing system.





Customer Service

Swift, accurate, and reliable response to our customers' needs is the goal of our Customer Service Department. Each customer's call is answered personally and given the highest priority until it is resolved. No issue is too big or too small to be addressed promptly and professionally.

In 2001, customer service representatives responded to more than 196,000 calls for service. Meter readers read more than 878,000 meters. Field service personnel, who are available 24 hours a day, seven days a week, made more than 112,000 house calls in response to customers' needs.

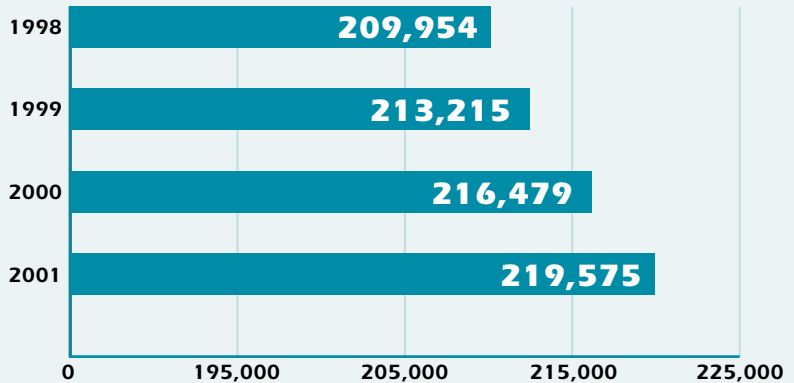
To continue the Water Authority's tradition of convenient, efficient service, in 2001 our Customer Service Department focused on the design of a new customer information system,

which will allow customers to take advantage of the latest bill payment and account access options—features the Water Authority is eager to provide. We are committed to using the best in proven technologies to deliver quality service.

2001 Retail Units Served

Single Family Homes	148,423
Town Homes	60,012
Apartment Units	74,114
Commercial	7,146
Municipal	965

Metered Connections



Providing a swift and accurate response to our customers' needs is the goal of our Customer Service Department.





Maintenance and Emergency Services

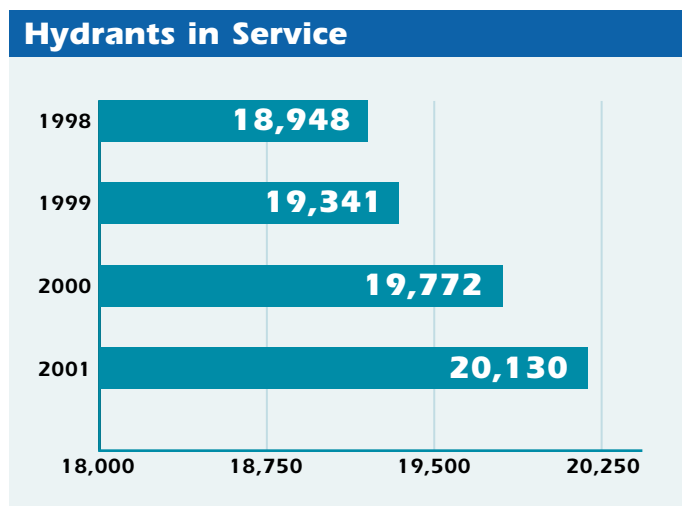
Preventive maintenance and emergency preparedness are the strengths that support dependable and quality service. The Water Authority relies on its maintenance and emergency services personnel to provide the essential preventive and emergency repairs that keep its water treatment plants, pumping stations, distribution system, service facilities, and vehicles operating efficiently.

Routine maintenance included improving overall operational reliability through extensive electrical upgrades at critical facilities, replacing chlorine feed systems, and conducting an inspection of the River Station clearwell.

Annually, the Water Authority conducts a comprehensive hydrant flushing program. This program is essential to ensuring both the delivery of high-quality water to our customers and the reliability of the county's fire protection system. This year the

Water Authority inspected and exercised 5,719 fire hydrants.

The Water Authority maintains more than 3,000 miles of water mains and repaired 202 main breaks in 2001. This is a 34 percent reduction in main breaks from 2000.





The reliability of service provided by the Water Authority reflects the skill and preparedness of the Maintenance and Emergency Service personnel.



The Water Authority continues to maintain strong financial ratings.

Finance

The Water Authority maintains a strong financial position. It received confirmation of its AAA bond rating by Standard & Poor's and Aa1 rating by Moody's during the year. These high ratings reflect the sound financial management under which the Water Authority operates. The Water Authority's financial team continually seeks to lower debt costs, which strengthens the financial stability of the organization. Excellent bond ratings equate to lower interest costs and ultimately mean a lower cost of providing water to our 1.2 million retail and wholesale customers.

A comprehensive, independent rate study was conducted in 1997 to ensure that all rate charge methodologies that the Water Authority uses are accurate and fair. Each year, the Water Authority

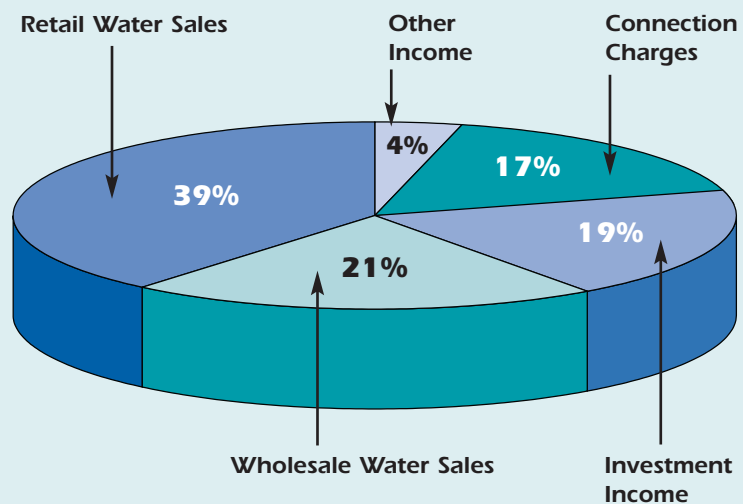
reviews its rates using the methodologies set out in the 1997 study. As a result of this review, the commodity rate remained unchanged for 2001. Water Authority customers enjoy the lowest commodity rate in the Washington metropolitan area.

Total Water Sales Revenue

\$72,700,000

2001 Revenue Components

As a Percentage of Total Income





Fairfax County Water Authority

Financial Statements
As of December 31, 2001 and 2000
Together with Report of Independent Public
Accountants

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Report of Independent Public Accountants

To the Members of Fairfax County Water Authority:

We have audited the accompanying balance sheet of Fairfax County Water Authority (the Authority) as of December 31, 2001, and the related statements of operations and accumulated net income, and cash flows for the year 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 audit. The financial statements of the Authority for the year ended December 31, 2000, were audited by other auditors whose report, dated March 26, 2001, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States. 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 2001 financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of December 31, 2001, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States.

Arthur Andersen LLP

Vienna, Virginia
March 22, 2002

Balance Sheets

As of December 31, 2001 and 2000

Assets	2001	2000
Current assets:		
Cash and cash equivalents, including amounts held with Trustee for debt service of \$2,314,075 and \$2,742,467 in 2001 and 2000, respectively	\$ 35,732,564	\$ 35,404,761
Short-term investments	7,341,340	49,896,210
Customers' receivables, net of allowance for doubtful accounts	2,427,788	2,337,121
Unbilled revenue	6,043,577	5,957,706
Materials and supplies, at average cost	2,412,839	2,537,282
Accrued interest receivable	3,500,448	3,535,495
Other current assets	102,409	140,753
Total current assets	57,560,965	99,809,328
Utility plant:		
In service	1,072,149,266	1,031,767,045
Less accumulated depreciation	(201,678,397)	(186,823,042)
Net utility plant in service	870,470,869	844,944,003
Construction in progress	87,095,795	42,233,385
Investments held for construction	17,346,187	19,009,031
Net utility plant	974,912,851	906,186,419
Other assets:		
Investments restricted for debt service	14,608,176	14,394,420
Investments held in escrow	29,263,216	30,061,939
Other investments	200,986,707	177,386,808
Deferred financing costs	2,390,453	2,490,319
Costs to be recovered from future revenues	—	18,617,077
Total other assets	247,248,552	242,950,563
Total assets	\$1,279,722,368	\$1,248,946,310

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

Balance Sheets

As of December 31, 2001 and 2000

Liabilities and net assets	2001	2000
Current liabilities:		
Accounts payable	\$ 10,347,365	\$ 11,265,687
Accrued expenses	3,437,754	3,282,837
Bonds payable, current maturities, net of unamortized bond discount of \$258,522 and \$244,845 in 2001 and 2000, respectively	5,571,478	5,775,155
Accrued interest on bonds payable	5,073,591	5,141,308
Retainage on construction contracts	4,033,193	1,922,098
Total current liabilities	28,463,381	27,387,085
Deferred credits and other liabilities:		
Unearned service connection, local facility and availability charges	18,976,027	21,034,959
Refundable construction advances	5,239,042	4,504,926
Total deferred credits and other liabilities	24,215,069	25,539,885
Bonds payable, net of current maturities and unamortized bond discount of \$13,999,175 and \$14,257,699 in 2001 and 2000, respectively	346,116,662	351,059,397
Total liabilities	398,795,112	403,986,367
Net assets:		
Contributed capital	232,315,156	226,637,891
Accumulated net income	648,612,100	618,322,052
Total net assets	880,927,256	844,959,943
Total liabilities and net assets	\$1,279,722,368	\$1,248,946,310

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

Statements of Operations and Accumulated Net Income

For the years ended December 31, 2001 and 2000

	2001	2000
Operating revenues:		
Sales to retail customers	\$ 47,095,612	\$ 43,461,384
Sales to wholesale customers	25,594,043	21,848,252
Service connection charges	1,889,379	1,340,515
Other	798,967	770,392
Total operating revenues	75,378,001	67,420,543
Operating expenses:		
Supply facilities	2,105,593	2,527,624
Treatment facilities	14,221,283	12,996,292
Transmission system	1,904,806	2,012,168
Distribution system	6,679,298	6,883,431
Administrative and general	11,558,997	9,370,536
Total operating expenses	36,469,977	33,790,051
Income from operations before depreciation	38,908,024	33,630,492
Depreciation	(15,828,923)	(15,222,311)
Income from operations	23,079,101	18,408,181
Non-operating revenues:		
Availability charges	18,242,335	14,282,402
Local facility charges	515,360	299,469
Investment income – net of \$553,255 and \$1,196,039, offset to interest capitalized in 2001 and 2000, respectively	22,774,200	24,835,608
Sewer service billing charges	2,236,405	2,149,870
Other	762,122	940,872
Total non-operating revenues	44,530,422	42,508,221
Non-operating expenses:		
Interest expense – net of \$2,135,459 and \$2,631,233, capitalized to utility plant in 2001 and 2000, respectively	18,646,821	17,625,290
Other	55,577	39,163
Total non-operating expenses	18,702,398	17,664,453
Costs to be recovered from future revenues	(18,617,077)	1,307,266
Net income	30,290,048	44,559,215
Accumulated net income, beginning of year	618,322,052	573,762,837
Accumulated net income, end of year	\$ 648,612,100	\$ 618,322,052

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

Statements of Cash Flows

For the years ended December 31, 2001 and 2000

	2001	2000
Cash flows from operating activities:		
Cash received from customers	\$ 136,694,503	\$ 123,956,579
Cash paid to employees	(19,284,381)	(18,170,506)
Cash paid to suppliers	(16,989,515)	(14,988,827)
Sewer collections remitted	(61,711,040)	(56,019,219)
Net cash provided by operating activities	38,709,567	34,778,027
Cash flows from non-operating activities:		
Cash received from customers	19,598,968	21,314,587
Cash paid to employees	(812,260)	(709,405)
Cash paid to suppliers	(687,587)	(600,371)
Net cash provided by non-operating activities	18,099,121	20,004,811
Cash flows from capital and related financing activities:		
Net bond proceeds	—	50,300,388
Principal paid on bonds	(6,020,000)	(4,650,000)
Interest paid on revenue bonds	(20,429,799)	(18,611,081)
Construction of utility plant	(76,983,439)	(55,812,997)
Proceeds from disposition of equipment	154,273	352,650
Contributions by developers	2,232,798	762,107
Net cash used in capital and related financing activities	(101,046,167)	(27,658,933)
Cash flows from investing activities:		
Gross purchases of investments	(248,964,935)	(217,249,937)
Gross sales and maturities of investments	276,481,583	205,444,608
Cash (paid) received for accrued interest purchased	(60,248)	89,804
Interest received	17,108,882	14,798,117
Net cash provided by investing activities	44,565,282	3,082,592
Net increase in cash and cash equivalents	327,803	30,206,497
Cash and cash equivalents, beginning of year	35,404,761	5,198,264
Cash and cash equivalents, end of year	\$ 35,732,564	\$ 35,404,761

Notes to Financial Statements

December 31, 2001 and 2000

1. The Authority:

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

2. Accounting policies:

Reporting entity

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

Basis of accounting

Because the Authority derives its revenues from user charges of the general public, it is considered an enterprise fund. Accordingly, the Authority uses the accrual basis of accounting.

In accordance with the provisions of Statement No. 20 of the GASB, "Accounting and Financial Reporting for Proprietary Funds and Other Entities that Use Proprietary Fund Accounting," issued in September 1993, the Authority has elected to continue to apply all applicable GASB pronouncements as well as Financial Accounting Standards Board (FASB) pronouncements and interpretations, Accounting Principles Board (APB) opinions, and Accounting Research Bulletins issued on or before November 30, 1989, that do not conflict with or contradict GASB pronouncements.

Change in accounting principle

Effective January 1, 2001, the Authority adopted GASB Statement No. 33, "Accounting and Financial Reporting for Nonexchange Transactions." GASB No. 33 requires recognition of grant funds as revenues rather than contributed capital. Accordingly, the Authority reflects such grant funds as revenue in fiscal year 2001. The impact of adopting GASB No. 33 was not material to the financial statements.

New accounting standard

During 1999, the GASB issued Statement No. 34, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments." Compliance with GASB No. 34 will be required for the Authority for the year ending December 31, 2003. The impact on the Authority's financial statements has not yet been determined.

Use of estimates

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

Reclassifications

The 2000 financial statements reflect certain reclassifications to conform with the 2001 presentation.

Operating and non-operating revenues

Rates, fees, and charges for wholesale and retail customers are established to provide sufficient funds to cover the cost of operations, debt service, and essential repairs and improvements to the utility plant.

Metered sales are recognized as revenue as water is used by customers. At year-end, the amount of revenue generated for which customers have not been billed is recorded as unbilled revenue. Availability, local facility, and service connection charges are paid by retail customers for each new service connection and meter installation. These charges are deferred and are recognized as revenue as service connections are made. Sewer service billing charges are derived from the billing of sewer service on the behalf of Fairfax County.

Cash and cash equivalents

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

Utility plant

The utility plant in service is carried at cost, which includes associated payroll, fringe benefits, administrative costs, and interest charges on debt-financed construction. Recurring normal maintenance and repair costs are charged to operations, whereas major repairs, improvements, and replacements are capitalized. Interest earned on bond proceeds to be used for utility plant construction and temporarily invested during the construction period is offset against the amount of interest expense capitalized.

Depreciation

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

Unamortized debt discount and expense

Debt discount and bond issuance costs are amortized over the life of the related bond issuance using the effective interest rate and straight-line methods, respectively. The current year amortization is included in interest expense. The debt discount is netted against the related debt and bond issuance costs are reported as deferred financing costs on the accompanying balance sheets.

Vacation and sick pay

Employees earn vacation and sick pay based on a prescribed formula that allows employees to accumulate a maximum of 40 days in vacation pay and an unlimited amount of sick pay. The value of vacation and sick pay earned but not used by the Authority's employees is accrued as a liability.

3. Cash and investments:

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

- (a) Cash and cash equivalents – Cash in bank accounts is insured by the FDIC and/or collateralized in accordance with the Virginia Security for Public Deposits Act.

As of December 31, 2001 and 2000, the Authority held \$7,753,000 and \$5,205,000, respectively, in repurchase agreements, which have been classified as cash and cash equivalents. The repurchase agreements matured on January 2, 2002, and January 2, 2001, respectively. The repurchase agreements held at the end of each year were collateralized by U.S. Government securities and were held in an account with First Union National Bank in the Authority's name.

As of December 31, 2001 and 2000, the Authority held \$28,934,441 and \$30,516,001 of short-term investments classified as cash equivalents. Short-term investments consist of investments in the Commonwealth Cash Reserve Fund and STI Classic Fund, which are money market funds.

- (b) Investments – Investments are reported at fair market value, with any related gain or loss reported in investment income on the accompanying statements of operations and accumulated net income. Investments restricted for debt service represent investments held by the Trustee for debt service in accordance with applicable bond covenants. All investments are held by agents of the Authority in the Authority's name and consist of U.S. Treasury and U.S. Agency securities and Resolution Funding Corporation stripped securities (REFCO Strips). Accrued interest at December 31, 2001 and 2000, of approximately \$12,584,886 and \$11,735,916, respectively, on the REFCO Strips is classified with the REFCO Strips in investments held in escrow. Maturity dates of the investments determine the balance sheet classification.

Cash and cash equivalents and investments are categorized to give an indication of the level of risk assumed by the Authority. All investments are classified as Category 1 as defined by GASB No. 3. Category 1 includes repurchase agreements and investments that are insured or registered or for which the securities are held by the Authority or by its agents in the Authority's name. The market value of investments as of December 31, 2001 and 2000, was \$269,545,626 and \$290,748,408, respectively, with a historical cost of \$256,778,980 and \$282,265,694, respectively.

4. Utility plant in service:

The utility plant in service consisted of the following facilities at December 31:

	2001	2000
Water supply	\$ 78,691,397	\$ 75,941,620
Water treatment	241,199,531	231,388,873
Transmission	242,719,435	233,466,665
Distribution	342,140,363	332,905,991
General plant	167,398,540	158,063,896
	\$1,072,149,266	\$1,031,767,045

5. Costs to be recovered by future revenues:

A cost recovery rate model of the Authority was established to generate sufficient revenues to cover annual operation and maintenance costs, debt service, certain additions, betterments and extensions, and extraordinary maintenance and repairs. Costs deferred at December 31, 2000 represent the excess of current depreciation on assets financed with bond proceeds and capitalized interest over current repayments of bond principal and net interest capitalized. These deferred costs were written off in 2001.

6. Contributed capital:

Changes in contributed capital for the years ended December 31, 2001 and 2000, were as follows:

	2001	2000
Balance, beginning of year	\$ 226,637,891	\$ 221,171,207
Contributed assets	4,732,004	3,888,310
Nonrefundable construction advances	945,261	1,026,074
Expired construction advances	—	552,300
Balance, end of year	\$ 232,315,156	\$ 226,637,891

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

7. Bonds payable:

Bonds payable as of December 31, 2001 and 2000, consist of the following:

	Amounts outstanding	
	2001	2000
\$270,570,000 Water Refunding Revenue Bonds of 1992; due in annual installments ranging from \$1,080,000 to \$22,550,000 through 2029; bearing interest ranging from 3.4% to 6.0%; payable semiannually	\$ 167,085,000	\$ 168,320,000
\$76,305,000 Water Revenue Bonds of 1994; due in annual installments ranging from \$2,020,000 to \$4,465,000 through 2016; bearing interest ranging from 2.90% to 5.15%; payable semiannually	56,655,000	59,995,000
\$102,210,000 Water Refunding Revenue Bonds of 1997; due in annual installments ranging from \$245,000 to \$8,280,000 through 2029; bearing interest from 3.8% to 5.0%; payable semiannually	101,170,000	101,445,000
\$51,160,000 Water Revenue Bonds of 2000; due in annual installments ranging from \$760,000 to \$3,350,000 through 2030; bearing interest from 4.50% to 6.125%; payable semiannually	49,990,000	51,160,000
Total	374,900,000	380,920,000
Less— Current portion	(5,571,478)	(5,775,155)
Debt discount	(14,257,697)	(14,502,544)
Deferred amount on refunding	(8,954,163)	(9,582,904)
Long-term portion	\$ 346,116,662	\$ 351,059,397

On November 15, 1992, the Authority issued water refunding revenue bonds in the aggregate principal amount of \$270,570,000 (the Series 1992 Bonds) pursuant to the 1992 General Trust Indenture. The Series 1992 Bonds bear interest rates ranging from 3.4 to 6.0 percent per annum. The bonds began maturing, subject to early redemption, beginning on April 1, 1994. Interest on the Series 1992 Bonds is payable semiannually on each April 1 and October 1, which commenced on April 1, 1993. The Series 1992 Bonds are not subject to redemption prior to April 2002.

On February 23, 1994, the Authority issued water revenue bonds in the aggregate principal amount of \$76,305,000 (the Series 1994 Bonds). The Series 1994 Bonds were issued as additional bonds, in accordance with the General Trust Indenture, and are on parity with the previously issued and outstanding water revenue bonds. The Series 1994 Bonds bear interest rates ranging from 2.90 to 5.15 percent per annum. The bonds began maturing, subject to early redemption, beginning on April 1, 1995. Interest on the Series 1994 Bonds is payable semiannually on each April 1 and October 1, which commenced on October 1, 1994. The Series 1994 Bonds are not subject to redemption prior to April 2004.

On February 23, 1994, the Authority placed \$81.6 million of cash and securities in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1965, 1967, and 1977 series bonds. The 1965, 1967, and 1977 series bonds, which mature between 1994 and 2016, are considered to be defeased; the liability for those bonds was eliminated in 1994. The debt is considered to be extinguished, even though the refunded bonds continue to be obligations of the Authority until redeemed or called. In conjunction with this transaction, the above-mentioned bonds are deemed to have been paid, and the lien of the 1965 Trust Agreement has been released with no remaining force or effect. Refunded bonds outstanding at December 31, 2001, amounted to approximately \$64,980,000.

Effective July 15, 1997, the Authority issued water refunding revenue bonds in the aggregate principal amount of \$102,210,000 (the Series 1997 Bonds), pursuant to the 1992 General Trust Indenture, with interest rates ranging from 3.8 to 5.0 percent to advance refund \$93,815,000 of outstanding 1992 series bonds with interest rates ranging from 5.75 to 6.0 percent. The net proceeds of approximately \$97,628,000 (after \$4,230,049 in bond discounts and \$352,000 in issuance costs) and an additional investment already held by the Authority of approximately \$2,000,000, net of the gain on the investment transferred, were used to purchase U.S. government securities. Those securities were deposited into an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded 1992 series bonds. As a result, the refunded portion of the 1992 series bonds were considered to be defeased and the liability for those bonds was eliminated in 1997. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$11,861,178. This difference, reported in the accompanying financial statements as a deduction from bonds payable, and pursuant to GASB Statement No. 23, "Accounting and Reporting for Refunding of Debt Reported by Proprietary Activities," is being charged to operations, as a component of interest expense through the year 2029, the life of the new debt, using the effective interest method. The Authority completed the advance refunding to reduce its total debt service payments from 1997 through 2029 by approximately \$5.9 million and to obtain an economic gain (difference between the present values of the old and new debt service payments) of approximately \$3 million. The holders of the refunded bonds have an express lien on all assets held in escrow by the escrow agent. Refunded bonds outstanding at December 31, 2001, amounted to approximately \$93,815,000.

On June 1, 2000, the Authority issued water revenue bonds in the aggregate principal amount of \$51,160,000 (the Series 2000 Bonds). The Series 2000 Bonds were issued as additional bonds, in accordance with the General Trust Indenture, and are on parity with the previously issued and outstanding water revenue bonds. The Series 2000 Bonds bear interest rates ranging from 4.50 to 6.125 percent per annum. The bonds begin maturing, subject to early redemption, beginning on April 1, 2001. Interest on the Series 2000 Bonds is payable semiannually on each April 1 and October 1, which commenced on October 1, 2000. The Series 2000 Bonds are not subject to redemption prior to April 2012.

At December 31, the Authority is required to have an account balance with the Trustee sufficient to pay principal and interest due on the outstanding 1992, 1994, 1997, and 2000 series bonds issued under the 1992 General Trust Indenture on the following April 1. At December 31, 2001 and 2000, this amount consisted of cash equivalents of \$2,289,320 and \$2,693,137, respectively, and investments in U.S. Government securities of \$13,695,266 and \$13,638,287, respectively, with the market value approximately \$14,042,232 and \$13,837,383, respectively, meeting the requirements of the 1992 General Trust Indenture.

Under the terms of the General Trust Indenture, before the commencement of each fiscal year, the Authority is required to fix, establish, maintain or cause to be fixed, established, and/or maintained such rates, fees, and charges for the provision of water service and revise or cause to be revised the same prior to the commencement of each fiscal year, as necessary, as will produce net revenues, in the opinion of the Consulting Engineer, at least equal in such fiscal year to the total of 110 percent of the principal and interest requirements during that fiscal year.

Future debt payments under all debt agreements as of December 31, 2001 are as follows:

Year	Principal	Interest	Total
2002	\$ 5,830,000	\$ 20,158,978	\$ 25,988,978
2003	6,095,000	19,878,876	25,973,876
2004	6,390,000	19,579,538	25,969,538
2005	6,700,000	19,259,584	25,959,584
2006	7,020,000	18,917,986	25,937,986
2007 – 2011	40,885,000	88,658,219	129,543,219
2012 – 2016	52,740,000	76,463,568	129,203,568
2017 – 2021	74,850,000	59,046,778	133,896,778
2022 – 2026	98,195,000	35,093,056	133,288,056
2027 – 2030	76,195,000	6,834,738	83,029,738
Total	\$374,900,000	\$363,891,321	\$738,791,321

The 1986 Federal Tax Reform Act requires local jurisdictions to report and rebate arbitrage earnings on debt issues to the Federal Government every five years. As of December 31, 2001 and 2000, the arbitrage obligation was not material to the financial statements.

8. Defined benefit pension plan:

Plan description

The Authority contributes to the Fairfax County Water Authority Retirement Plan (the Plan), a single-employer, public-employee retirement system. The Plan document assigns all the responsibilities of maintaining the Plan to the Authority Board, including the approval of Plan changes, setting benefit and contribution levels under the Plan, and ensuring that the Plan is funded sufficiently to meet its benefit obligations. The Authority has established a Benefits Trust Committee to be responsible for the administration of the Plan. Additional information may be obtained from the Plan documents, and members of the Plan receive annual statements providing their statements of earnings.

Upon service retirement, a member of the Plan shall receive an annual basic retirement allowance, payable monthly for life, which shall be an amount determined by Plan elections made by the employee. In addition to the basic retirement allowance, members who retire prior to the earliest date of eligibility for Social Security benefits shall receive a supplemental benefit of 1 percent of the average final compensation to the Social Security breakpoint multiplied by the number of years of creditable service. Such allowance will cease upon attaining such eligibility, whether or not application for Social Security benefits has been made or awarded.

As part of the application for service retirement, a member may elect to receive a decreased basic retirement allowance during the member's lifetime and have such basic retirement allowance, or designated fraction thereof, continued after the member's death to the member's named beneficiary during the remainder of the designated payment period. Retirees or their surviving spouse are eligible for partial payment of certain health insurance premium costs.

Funding policy

All regular full-time employees of the Authority and Board members of the Authority who so elect are participants in the Plan. Employee contributions vary between 4 and 5 percent of annual wages, determined by each participant's Plan elections.

The Authority's funding policy is to make an annual contribution to the Plan in an amount estimated to fully fund all employee benefits at the time of their retirement. The Authority's contribution rate for 2001 and 2000 was 14.31 and 12.37 percent, respectively, of covered employees' compensation. For 2002, the Authority will contribute 13.82 percent of covered payroll.

The contributions made by the Authority to the Plan for 2001, 2000, and 1999 were in accordance with actuarially determined requirements and amounted to \$2,795,179, \$2,297,146, and \$2,265,901, respectively. Employee contributions amounted to \$934,097, \$885,042, and \$849,747 for the same periods, respectively.

The annual required contribution for the current year was determined as part of the January 1, 2000 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) 8.5 percent (compounded annually) investment rate on return (net of administrative expenses) and (b) projected salary increases of 6.0 percent (compounded annually, effective each July 1) per year. Both (a) and (b) included an inflation component of 4 percent. The assumptions did include postretirement benefit increases of 4 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a three-year period. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. As of January 1, 1995, unfunded actuarial accrued liabilities are amortized over 20 years, and any subsequent gains and losses, plan changes, or changes in methods are also amortized over 20 years.

Three-year trend information

Fiscal year ending	Annual pension cost (APC)	Percentage of APC contributed	Net pension obligation
12/31/1999	\$ 2,265,901	100%	\$ —
12/31/2000	2,297,146	100	—
12/31/2001	2,795,179	100	—

The unfunded actuarial liability is shown below:

	January 1		
	2002 ⁽¹⁾	2001	2000
Actuarial accrued liability:			
a. Members currently receiving payments	\$ 67,175,764	\$ 60,604,982	\$ 58,841,177
b. Former vested members and disabled members	920,571	749,998	681,607
c. Active members	59,762,003	52,955,095	50,352,949
Total	127,858,338	114,310,075	109,875,733
Actuarial value of assets	108,806,447	105,312,853	97,123,180
Total unfunded actuarial accrued liability	\$19,051,891	\$ 8,997,222	\$12,752,553
Annual covered payroll	\$20,009,390⁽²⁾	\$18,939,354	\$18,218,217
Funded ratio	85.10%	92.13%	88.39%
Unfunded actuarial accrued liability as a percentage of payroll	95.21%	47.51%	70.00%

⁽¹⁾Based on December 31, 2001 assumptions.

⁽²⁾ Annual covered payroll is equal to the Authority's total 2001 payroll increased by 6 percent for salary scale.

9. Postemployment benefits other than pensions:

The Fairfax County Water Authority Retirement Plan (the Plan) makes contributions to the Fairfax County Water Authority Welfare Benefit Trust (the Trust) for postemployment benefits other than pensions. The Plan provides partial payment of certain health insurance premium costs of the Authority's retirees and surviving spouses. There were 143 active participants receiving postemployment benefits other than pensions in 2001. The benefit is equal to 3 percent times years of creditable service under the Plan, up to 25 years, times the designated premium. The Plan paid \$572,325 and \$531,806 to the Trust for postemployment benefits other than pensions in 2001 and 2000, respectively.

10. Welfare benefit trust:

The Authority has established the Fairfax County Water Authority Welfare Benefit Trust (the Trust). The purpose of the Trust is to receive and hold assets to provide medical benefits for Authority employees and retirees. Amounts deposited to the Trust are based on projected benefit levels determined on an annual basis less projected employee contributions. The Authority is protected from catastrophic losses through a stop-loss insurance policy for losses in excess of \$125,000 per individual per year. The Authority and the Retirement Plan contributed \$2,123,475 and \$2,042,106 to the Trust in 2001 and 2000, respectively.

11. Commitments and contingencies:

In connection with its ongoing capital improvement program, the Authority has entered into various construction contracts. As of December 31, 2001, the uncompleted cost of these and other contracts is approximately \$80,208,225.

The Authority has also agreed, in principle, to pay certain portions of the capital and annual operation and maintenance costs relating to various water supply augmentation facilities constructed and proposed to be constructed by other parties for the use and benefit of the Authority and other water supply agencies in the Washington, D.C., metropolitan area. The Authority's share of the capital costs is presently estimated at \$11,077,000, which is to be paid with interest over the next 39 years. The Authority's share of annual operation and maintenance costs associated with these facilities for 2002 is estimated to be \$131,000.

In May 2000, the Supreme Court of the United States accepted jurisdiction over an original action by the Commonwealth of Virginia against the State of Maryland concerning Virginia's rights of access to the Potomac River, *Virginia v. Maryland*, No. 129, Orig. Virginia seeks a declaration that Maryland does not have legal authority to require Virginia, nor its political subdivisions, to obtain water appropriation permits or waterway construction permits. The Authority has given declarations in support of Virginia's claims.

In addition, the Authority is contingently liable for claims that arise in the ordinary course of operations and in connection with its capital improvement program. It is the opinion of the Authority and legal counsel that any losses that may ultimately be incurred as a result of any claims will not be material to the balance sheets, results of operations and accumulated net income, or cash flows.

12. Wholesale water revenue:

On June 1, 1992, the Authority entered into an Escrow Deposit Agreement with Loudoun County Sanitation Authority and SunTrust Bank, as Escrow Agent. On July 1, 1992, Loudoun County Sanitation Authority placed REFCO stripped securities into the escrow account with an original value of \$27,377,881, which will provide a cash flow to the Authority of approximately \$2.1 million annually until the year 2029. The Authority may, at any time, substitute the investments in the escrow account with any other investments authorized by the laws of Virginia. The cash flow was designed to be equal to or greater than the cash flow that Loudoun County Sanitation Authority was obligated to pay to the Authority for its purchase of 10 million gallons per day of capacity rights in the Authority's system. The Authority has included this amount as investments held in escrow. At December 31, 2001 and 2000, the carrying amount in escrow was \$29,263,216 and \$30,061,939, respectively.

13. Statements of cash flows:

The following schedule reconciles net cash provided by operating activities to income from operations:

	2001	2000
Cash flows from operating activities:		
Income from operations	\$ 23,079,101	\$ 18,408,181
Adjustments to reconcile operating income to net cash provided by operating activities—		
Depreciation	15,828,923	15,222,311
Change in assets and liabilities:		
Customers' receivables, net	(706,707)	111,422
Unbilled revenue	(85,871)	(354,560)
Other assets	—	61,270
Accounts payable	376,696	769,506
Accrued expenses	68,424	168,395
Unearned service connection	149,001	391,502
Total adjustments	15,630,466	16,369,846
Net cash provided by operating activities	\$ 38,709,567	\$ 34,778,027

Supplemental noncash information is presented below:

	2001	2000
Noncash investing, capital, and financing activities:		
Contributed capital—		
Estimated fair value of utility plant received from developers	\$ 4,732,004	\$ 3,888,310

14. Deferred compensation plan:

The Authority offers its employees a deferred compensation plan created in accordance with Internal Revenue Code (the Code) Section 457. The deferred compensation plan, available to all employees, permits them to defer a portion of their salaries to future years. All of the assets of the deferred compensation plan are held in a trust for the exclusive benefit of participants and beneficiaries and the asset or liability is not reported on the accompanying balance sheet as stated under GASB Statement No. 32, "Accounting and Financial Reporting for Internal Revenue Code Sections 457 Deferred Compensation Plans." Participants' rights under the plan are equal to the fair market value of the deferred account for each participant.

15. Tax-exempt status:

The Authority is considered a political subdivision under the Commonwealth of Virginia and is tax-exempt under Section 115 of the Code.

16. Subsequent event:

In March 2002, the Authority issued water revenue and refunding revenue bonds in the aggregate principal amount of \$174,495,000 (Series 2002) to provide funding for the Authority's capital improvement program and to refund certain 1992 bonds in advance of their maturities. The Series 2002 Bonds were issued as additional bonds, in accordance with the General Trust Indenture, and bear interest from 3.0 to 5.5 percent, per annum. The Series 2002 Bonds are not subject to redemption prior to April 2004.





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