

WESTERN VIRGINIA
WATER AUTHORITY

Comprehensive Annual
Financial Report
Year Ended June 30, 2005
Roanoke, Virginia

INTRODUCTORY SECTION

WESTERN VIRGINIA WATER AUTHORITY

ROANOKE, VIRGINIA

Comprehensive Annual Financial Report
Year Ended June 30, 2005

Prepared by:

Bruce M. Grant,
Director of Finance and Administrative Services

WESTERN VIRGINIA WATER AUTHORITY

Comprehensive Annual Financial Report
Year Ended June 30, 2005

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WESTERN VIRGINIA WATER AUTHORITY

Comprehensive Annual Financial Report
Year Ended June 30, 2005

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WESTERN VIRGINIA WATER AUTHORITY

(A Governmental organization established March 2, 2004
under the Water and Wastewater Authorities Act, Chapter 51, Title 15.2,
1950 Code of Virginia, As Amended)

MEMBERS

Michael W. Altizer, Chairman

John B. Williamson, III

H. Odell Minnix

Darlene L. Burcham

Elmer C. Hodge

M. Rupert Cutler

Robert C. Lawson, Jr.

OFFICIALS

Executive Director, Water

Executive Director, Water Pollution Control

Secretary

Treasurer and Director of Finance and Administrative Services

Gary Robertson

Mike McEvoy

Jean Thurman

Bruce M. Grant



November 30, 2005

To the Honorable Chairman, Members of the Board of Directors and Interested Parties:

We are pleased to submit the Comprehensive Annual Financial Report (CAFR) of the Western Virginia Water Authority (Authority) for the fiscal year ended June 30, 2005. This audit was conducted 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 *Specifications for Audits of Authorities, Boards and Commissions*, issued by the Auditor of Public Accounts for the Commonwealth of Virginia. Responsibility for both the accuracy of the data and the completeness and fairness of the presentations, including all disclosures rests with the Authority. To the best of our knowledge and belief, the enclosed financial data is accurate in all material respects and fairly presents the financial position, results of operations and cash flows of the Authority. All disclosures necessary to enable the reader to gain an understanding of the Authority's financial activities have been included.

The basic financial statements have been audited by our independent auditors, Robinson, Farmer, Cox Associates, who have issued an unqualified ("clean") opinion on the financial statements of the Authority for the year ending June 30, 2005. The annual audit is planned and performed to obtain reasonable, rather than absolute, assurance that the basic financial statements of the Western Virginia Water Authority are free of any material misstatement.

Management's discussion and analysis (MD&A) immediately follows the independent auditor's 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 with it.

The CAFR is presented in the following four sections:

Introductory: The introductory section includes this letter of transmittal, a directory of principal officials, and an organizational chart.

Financial: The financial section includes the Independent Auditor's Report, Management's Discussion and Analysis, the basic financial statements, required supplemental information and supporting schedules.

Statistical: The statistical section includes selected financial and demographic information to provide the reader with additional information on the Authority.

Compliance: The compliance section includes the Report on Compliance and on Internal Control over Financial Reporting.

The Authority was formed by the Council of the City of Roanoke and the Board of Supervisors of the County of Roanoke on July 1, 2004 as a regional water authority to establish and operate a water and sewer disposal system and related facilities. The Authority was chartered in 2004 pursuant to the Virginia Water and Waste Authorities Act, Chapter 51 title 15.2 of the Code of Virginia 1950 as amended. Additional information on the formation of the Authority is covered under Note 1 of the Notes to Financial Statements.

The Authority's Board of Directors consists of seven members; three of which are appointed by the City Council of Roanoke, three appointed by the Board of Supervisors of the County of Roanoke, and one member is selected by the consent of both groups. Board terms are four years.

Profile

The Authority was created to provide Roanoke area citizens with a dependable supply of water. The existing staffs of the County and City utility departments were transferred to the Authority as of July 1, 2004. Employee teams were instrumental in the planning process of creating the Authority. Assets and liabilities of the County and City Utility departments were transferred to the Authority. A six year rate equalization plan has been developed and is being implemented by the Authority to achieve equal user rates for all customers by 2010.

The formation of the Authority also created savings for the customer. The initial budget of the Authority was \$900,000 less than the combined Utility Department budgets of the City and County. Greater efficiencies that result from the combined operations are expected to provide savings to customers throughout its existence.

The Authority treats and delivers 23 million gallons of drinking water per day for 55,000 customer accounts (155,000 residents in the Roanoke Valley which include our customers in the Town of Vinton, City of Salem and Botetourt County). The Water Authority treats 37 million gallons of wastewater a day from throughout the valley at its Roanoke Regional Water Pollution Control Plant for its 46,000 sewer customers (more than 185,000 residents). The Authority maintains 960 miles of water mains, 900 miles of sewer mains and 4,000 hydrants in the City of Roanoke and Roanoke County.

The Authority's finances are organized into two funds, Water and Water Pollution Control. The Water fund fully supports debt incurred for water facilities and the Water Capital Improvement Plan, as well as fully funding the Water Operations Division and 65% of the operation of Utility Lines Services, Engineering Services, Finance and Administration, and Utility Administration divisions.

The Water Pollution Control (WPC) Fund supports debt incurred for wastewater facilities, the Wastewater and Water Pollution Control Plant Capital Improvement Plans, the operations of the Water Pollution Control Division, and 35% of the operations of Utility Lines Services, Engineering Services, Finance and Administration, and Utility Administration divisions.

The Authority is administered by two Executive Directors, who serve at the pleasure of the Board. The Executive Director of Water Operations was previously responsible for the Utility Department at the County of Roanoke. The Executive Director of Wastewater Services was previously responsible for the Utility Department at the City of Roanoke. The Executive Directors have the direct supervision of all employees of the Authority, are responsible for the operation of the Authority, and the establishment of guidelines for efficient and sound fiscal management of the Authority.

System Description

The Roanoke Regional Water Pollution Control Facility serves the City of Roanoke, Roanoke County, the City of Salem, the Town of Vinton and portions of Botetourt County. The facility presently has a permitted capacity of 42 million gallons per day (MGD). Currently under construction to expand capacity, the plant is scheduled to be completed in 2007 and have a permitted capacity of 55 MGD. The original plant was constructed in 1951 and major upgrades were made in 1959, 1977 and 1998.

Major water sources include the Spring Hollow reservoir, Carvins Cove reservoir, Falling Creek / Beaver Dam Creek reservoirs and Crystal Spring. Other sources include various groundwater wells.

The Spring Hollow reservoir was constructed in 1993 and consists of a 243 foot high by 990 foot long roller-compacted concrete dam with a working volume of 3.2 billion gallons. Water is pumped from the Roanoke River for storage and the safe yield of this reservoir is 19.4 MGD. The treatment facility was constructed in 1996 and has a capacity of 18 MGD.

Profile: (Continued)

System Description: (Continued)

The Carvins Cove reservoir was constructed in 1940 and includes an 80 foot high dam with a 6.47 billion gallon impoundment. Tinker Creek tunnel, constructed in 1966 and the Catawba Creek tunnel, constructed in 1974 enable additional source water to be impounded. The reservoir has a safe yield of between 14 and 18 MGD. The reservoir is also used for limited recreation purposes. The treatment facility capacity is 28 MGD.

Falling Creek / Beaver Dam Creek reservoirs have a combined storage volume of 520 million gallons. The Falling Creek reservoir was constructed in 1900 and the Beaver Dam Creek reservoir was completed in 1926. Both are clay core, rock filled dams and have a combined safe yield of 1.45 MGD. Treatment facility capacity is comparable to the yield.

Crystal Spring has a safe yield of 3.5 MGD and has undergone a treatment upgrade in 2003 to use membrane filtration with a capacity of 4.84 MGD. Crystal Spring is located on the north side of Mill Mountain.

Economic Condition and Outlook

The Western Virginia Water Authority is located in the Roanoke valley in south western Virginia. The valley is located between the Blue Ridge mountains on the east and the Alleghany mountains to the west, with Interstate 81 running north and south. Area attractions include Smith Mountain Lake to the east and the Blue Ridge Parkway runs through the service area. The Roanoke area is the region's rail center and is the largest metropolitan area in western Virginia. The Roanoke Metropolitan Statistical Area (MSA) has a population of 291,000, which includes the Cities of Roanoke and Salem and the Counties of Roanoke, Botetourt, Franklin and Craig. For 2005, the City of Roanoke's estimated population is 92,600 while Roanoke County's population is estimated to be 88,200. The Authority serves approximately 62% of the (MSA).

The principal economy of the area revolves around industry, transportation and health care. Both the City and County of Roanoke are proactive in attracting and developing new businesses which will lead to economic growth. Downtown Roanoke is undergoing redevelopment to provide for both retail and residential opportunities. Area unemployment is estimated to be between 3.1 and 3.7% for 2005.

The Authority is working closely with the City and County government in many areas. The Authority anticipates that periodically, the Authority Board will participate in joint meetings with the City Council and Board of Supervisors. The current membership of the Board of Directors for the Authority includes a member of City Council of Roanoke and a member of the Board of Supervisors of the County of Roanoke. Also the City Manager and County Administrator sit on the Authority Board of Directors. In addition to providing guidance in the startup of the Authority's operations, these members also provide a key link to the local governments which help facilitate close coordination of mutual objectives. These Board members will rotate off the Board over the next two years and be replaced by members chosen from the respected governing bodies. The Authority Board also includes local business and civic leaders who balance government representation on the Board.

The Authority has bulk wastewater treatment agreements with the City of Salem, the Town of Vinton and the County of Botetourt. These jurisdictions share in the Regional Wastewater Treatment Plant capacity and plant upkeep. The agreements include the cost of treatment and the capital maintenance on the regional facility.

Major Initiatives and Accomplishments for FY 2005

Special Order by Consent: The Commonwealth of Virginia, through the State Water Control Board and the Department of Environmental Quality (DEQ), required the Western Virginia Water Authority to enter into a Special Order by Consent (SOC) to settle alleged operating, permit and regulatory exceedences incurred by the City of Roanoke and Roanoke County prior to the formation of the Authority and the Authority after its formation. The consent order process is the typical method of resolution for these type claims and relies upon a negotiated settlement acceptable to both parties. Negotiations have been ongoing for some time prior to the Authority's creation. The consent order was finalized in March 2005.

Under the SOC, the Authority is required to complete a series of small interim collection system projects, finish on-going consulting studies to characterize improvements needed to reduce Inflow and Infiltration (I&I) and develop a long term corrective action plan (CAP); design and construct improvements to the Garst Mill sewer interceptor; revise rates to provide funding to complete the projects detailed in the CAP; develop regulatory programs aimed at reducing household I & I contributions; revise internal operating procedures to adopt the Environmental Protection Agency's Capacity, Management, Operations and Maintenance (CMOM) performance model; provide annual, independent financial reports to DEQ on sewer revenue collection and expenditures; and work with the localities being provided bulk service - City of Salem, Town of Vinton, and Botetourt County - to control peak flows and make I&I reductions.

The SOC is expected to add at least \$0.75M in annual operating costs (new staff, equipment, and data management systems) to comply with the CMOM provisions and up to \$0.6M annually (project management staff) to implement the Corrective Action Plan. The CAP, which may include items such as replacement and/or lining of sewer lines, additional improvements and/or flow storage at the treatment plant, chemical treatment of sewer mains for removal of roots, lining of manholes with waterproof coatings and other such improvements are expected to run \$3M to \$8M annually over the next 20 years.

Purchase of Office Building: The Authority purchased the Coulter building at the corner of Franklin Road and Jefferson Street in downtown Roanoke to house its administrative and billing functions. At formation, the Authority utilized the City and County facilities to continue operations. The building will incorporate the administrative, financial, engineering and customer service functions under one roof. The Authority will lease the majority of the building's space, which will help offset the building's cost. The buildings location is central to the Authority's customer base and field operation groups, and it is also located on a public transportation route.

Billing Processes: A new billing methodology was adopted for customers of both jurisdictions. American Water Works Association (AWWA) standards for meter size and equivalent residential units replaced other methodologies used by the City and County. Billing was converted to a single platform through several conversions. Conversions included changes from quarterly to monthly billing, billing in hundred cubic feet to thousand of gallons, and estimations of customer bills. The customer service water bill was redesigned to provide more useful information. Several new customer payment plans were introduced.

Water Fund Projects Completed: During FY 2005 the Authority replaced approximately 2,500 water meters with radio read meters. The Authority also replaced 25,000 feet of water main, painted 2 storage tanks, and interconnected the Suncrest Heights Water System to the Authority's water system. Installation of System Control and Data Acquisition (SCADA) and automatic control valves at the Catawba Creek and Tinker Creek tunnels was completed. The Mill Mountain pump station and storage tank were finished and successful startup was accomplished. Staff prepared an Emergency Management Plan for providing potable water during an extended power outage. The Authority received the Excellence in Water Operations Award from the Virginia Department of Health for quality operations at the Spring Hollow and Carvins Cove Treatment Plants.

Major Initiatives and Accomplishments for FY 2005: (Continued)

WPC Fund Projects Completed: During FY 2005 progress continued on the \$50 million Wet Weather Improvements to the WPC plant. Completion is scheduled for 2007. The Authority installed 7,000 feet of new or replacement sewer main, lined 5,200 feet of sewer main and cleaned and televised in excess of 120,000 feet of sewer main.

Other Accomplishments: The Authority launched its Web site, www.westernvawater.org and implemented its new logo on documents, facility signs and its fleet. During the fiscal year education programs were provided to more than 2,000 students on topics of water conservation and water quality protection. Work continued on the Authority's digital mapping, geographic information system and work order system. These systems are scheduled to be completed in FY 2006.

Accounting System & Budget Control

The Authority's accounting records are maintained on an accrual basis under which revenues are recognized when earned and expenses are recognized when incurred. Accounting functions are separated to the extent possible for a small - sized staff. The County of Roanoke, under the Operating Agreement between the City of Roanoke and County of Roanoke and the Authority, is currently acting as fiscal agent for the Authority. The accounting system the Authority is using belongs to the County and County staff has provided support and assistance to the Authority in the first year of operations. The County also provides fleet and fuel management services to the Authority. Under the same agreement, the City of Roanoke provides information services support to the Authority.

Under the Water and Waste Authorities Act, the Authority is not required to adopt a legal budget, but under its bylaws and bond covenants, the Authority's Board of Directors must adopt an annual budget before the first day of each fiscal year. The budget is prepared by the Finance and Administration divisions and serves as a framework for the Authority's financial planning for the year. The Executive Directors have authorization from the Board to move funds within the line item budget without additional Board approval. A report of revenues and expenses is presented to the Board each month at the public meeting.

Risk Management

The Authority relies on several techniques to minimize risk: safety training for employees, proper maintenance of equipment and facilities, continued observation for potential hazards, and prompt response upon discovery of a problem. Not only do these actions reduce potential risks to the Water Authority, they are also sound business practices that improve customer service and overall organizational performance. Worker's compensation, property, vehicle, equipment and liability insurance is provided by Virginia Association of Counties Group Self Insurance Risk Pool. Note 7 of the Notes to Financial Statements provide additional information on risk management.

Cash Management

Cash and investments are maintained by the County of Roanoke acting as the fiscal agent for the Authority. The Board of Directors has adopted an investment policy to guide the investment of Authority funds in accordance with the terms of the Virginia Water and Waste Authorities Act. Note 2 of the Notes to Financial Statements will provide the reader with additional information.

Debt Administration

Total long term debt obligations outstanding for the Authority as of June 30, 2005 was \$125,641,829. Of this amount, \$74,396,439 is for the Water fund and \$51,245,390 for the WPC fund. The Board of Directors has adopted a debt policy which sets forth comprehensive guidelines for the financing of capital expenditures. Note 4 of the Notes to Financial Statements will provide additional information to the reader.

Asset Management

The Authority is committed to a best practices approach to managing its infrastructure capital assets that provides a means to protect, maintain, or improve the asset value of our water distribution system and wastewater collection systems with planned maintenance and repair based on predicted deterioration of the systems. Major parts of the asset management program are the five year capital plan, the geographical information system (GIS), the financial rate model, the work order system and the Supervisory Control and Data Acquisition System (SCADA).

Acknowledgements

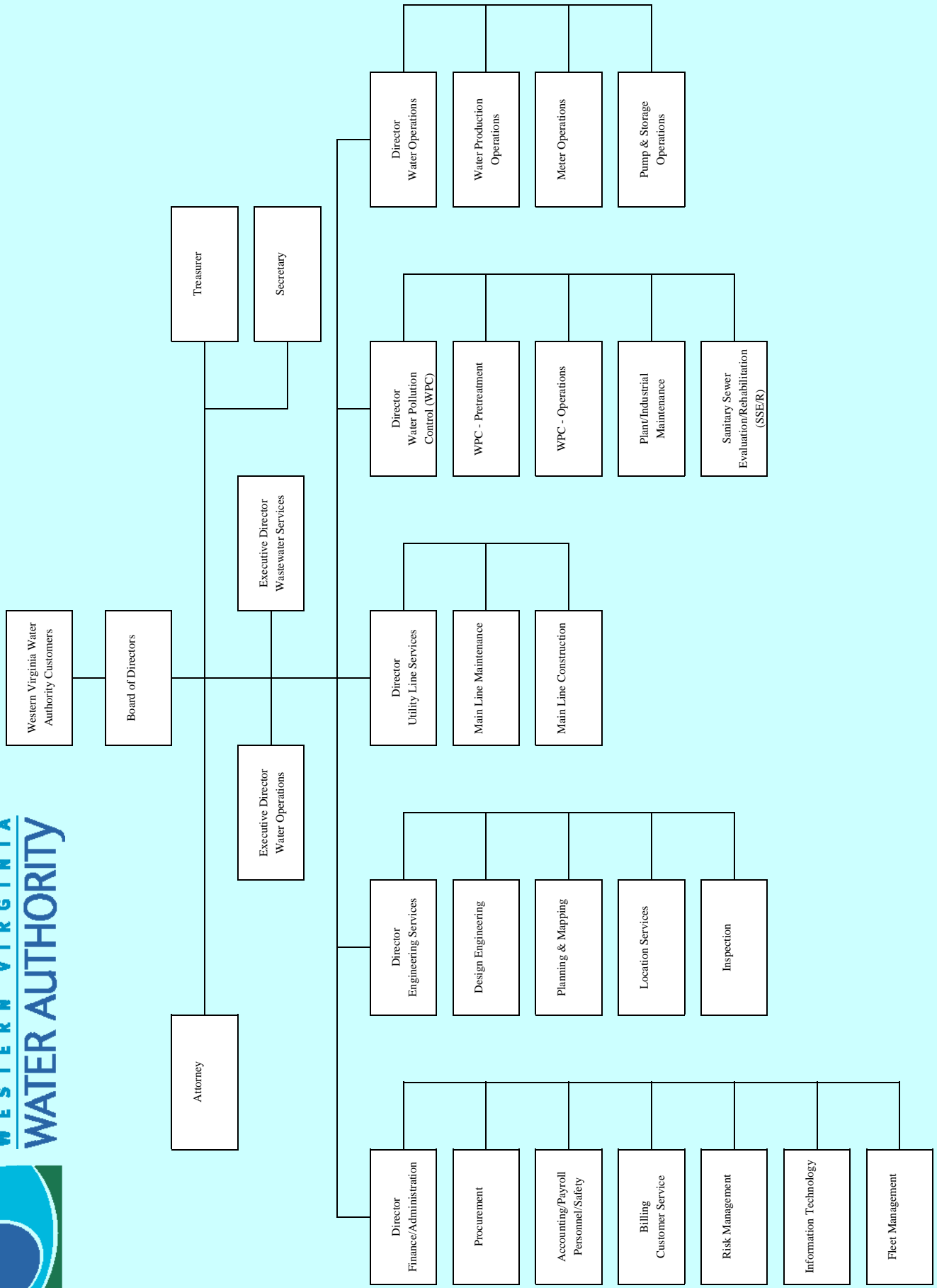
We would like to express our appreciation to the members of the City Council of Roanoke and the Board of Supervisors of the County of Roanoke and other community leaders for their vision in establishing this regional Authority, and the citizen's support for this process. We would like to express our appreciation to our employees whose hard work and dedication has brought the Authority successfully through its first year of operations. We would also like to thank the employees of the City of Roanoke and Roanoke County who have provided support services to the Authority in its initial year of operations.



Gary Robertson
Executive Director
Water Operations

Bruce M. Grant
Director of Finance
& Administrative Services

Michael T. McEvoy
Executive Director
Wastewater Operations



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FINANCIAL SECTION

ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

Independent Auditors' Report

**To the Board of Directors
Western Virginia Water Authority
Roanoke, Virginia**

We have audited the accompanying statement of net assets of the Western Virginia Water Authority as of June 30, 2005, and the related statements of revenues, expenses and changes in net assets, 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.

We conducted our audit 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 Audit 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 Western Virginia Water Authority at June 30, 2005, 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 of America.

In accordance with Government Auditing Standards, we have also issued a report dated November 2, 2005 on our consideration of the Western Virginia Water 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 Governmental Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis on pages 3 through 8 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying information listed as supporting schedules in the Table of Contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Authority. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented, in all material respects, in relation to the basic financial statements taken as a whole.

The Introductory and Statistical sections are presented for the purpose of additional analysis and are not a required part of the basic financial statements, and we did not audit or apply limited procedures to such information. Accordingly, we do not express any assurance on such information.

Robinson, Famm, Cox Associates

Charlottesville, Virginia
November 2, 2005

**Western Virginia Water Authority
Management's Discussion and Analysis
For the Year Ended June 30, 2005**

As management of the Western Virginia Water 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, 2005. 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 vii through xii of this report.

Financial Highlights

- The assets of the Authority exceeded its liabilities at the close of the fiscal year by \$278,455,722 for the Water Fund and \$251,501,381 for the WPC Fund. Of this amount \$5,378,517 for the Water Fund and \$10,712,432 for the WPC Fund are unrestricted net assets and may be used to meet the Authority's ongoing obligations to customers and creditors.
- The Authority signed a special order of consent with the Commonwealth of Virginia through the State Water Control Board and the Department of Environmental Quality. This long - term agreement will require the Authority to plan and commit to infrastructure improvements to its wastewater plant capacity and collection system.
- The billing functions of the City and County were combined resulting in a common standard of meter identification and customer billing methodology. The Authority began to bill customers on a monthly basis. In January 2005 the Authority revised its user rates to begin a six year equalization of customer rates.
- The Authority purchased a downtown office building to house its administrative and billing functions. The centralized facility will help streamline billing and customer service activities and is located along a public transportation route. The office building has leased space occupied by other business that will help offset the cost to the Authority.

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 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 fund 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 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 11 through 14 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 15 through 32 of this report.

Overview of the Financial Statements: (Continued)

Other information. In addition to the basic financial statements and accompanying notes, this report should also present certain required supplementary information concerning the Authority's progress in funding its obligation to provide pension benefits to its employees. Since the Authority only began operations on July 1, 2004, an actuarial valuation of the Authority's pension plan with the Virginia Retirement System has not yet been performed.

Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of an Authority's financial position. In the case of the Authority, assets exceeded liabilities by \$529,957,103 at the close of this fiscal year. In the Water fund, assets exceeded liabilities by \$278,455,722. For the WPC fund, assets exceeded liabilities by \$251,501,381.

By far the largest portion of the Water and Water Pollution Control (WPC) fund's net assets reflects its investment in capital assets, less any related debt used to acquire those assets that is still outstanding. For the Water fund, 97% is invested in capital assets net of related debt. For the WPC fund, the percentage is 96%. 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 its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Table A

Condensed Statement of Net Assets For the Year ended June 30, 2005

	Water Fund	WPC Fund	Total
Current and other assets	\$ 16,124,820	\$ 15,594,626	\$ 31,719,446
Capital assets	345,220,893	292,034,340	637,255,233
Total assets	<u>\$ 361,345,713</u>	<u>\$ 307,628,966</u>	<u>\$ 668,974,679</u>
Long-term liabilities outstanding	\$ 74,396,439	\$ 51,245,390	\$ 125,641,829
Other liabilities	8,493,552	4,882,195	13,375,747
Total liabilities	<u>\$ 82,889,991</u>	<u>\$ 56,127,585</u>	<u>\$ 139,017,576</u>
Net assets:			
Invested in capital assets, net of related debt	\$ 269,887,771	\$ 240,788,949	\$ 510,676,720
Restricted	3,189,434	-	3,189,434
Unrestricted	5,378,517	10,712,432	16,090,949
Total net assets	<u>\$ 278,455,722</u>	<u>\$ 251,501,381</u>	<u>\$ 529,957,103</u>
Total liabilities and net assets	<u><u>\$ 361,345,713</u></u>	<u><u>\$ 307,628,966</u></u>	<u><u>\$ 668,974,679</u></u>

Table A presents the Condensed Statement of Nets Assets for the year ended June 30, 2005 by fund. Since this was the first year of operations, a historical comparison is not available. At the end of the fiscal year, unrestricted net assets were 2% of total net assets for the Water fund and 4% for the WPC fund. The total outstanding debt to net plant assets is 21.5% for the Water fund and 17.5% for the WPC fund. This ratio shows the existing debt leverage of capital assets and indicates that the Authority is not heavily leveraged as it begins operations related to the size of its net capital assets.

Financial Analysis: (Continued)

The current ratio for the Water fund for the year ended June 30, 2005 is 1.19. For the WPC fund the current ratio is 2.49. The combined funds have a current ratio of 1.67. The current ratio compares current assets to current liabilities. This ratio is a liquidity ratio and shows the ability of the company to pay its current liabilities with its current assets.

Table B presents for the reader the Condensed Statement of Revenues, Expenses and Changes in Fund Net Assets for the year ended June 30, 2005 by each fund. No historical comparison is available for the first year of operations. Capital contributions & grants revenue reflect the transfer of assets from the City of Roanoke and Roanoke County at the formation of the Authority.

Table B

**Condensed Statement of Revenues, Expenses and
Changes in Fund Net Assets
For the Year ended June 30, 2005**

	<u>Water Fund</u>	<u>WPC Fund</u>	<u>Total</u>
Revenues:			
Operating revenues	\$ 21,320,023	\$ 18,919,178	\$ 40,239,201
Non - operating revenues	540,163	1,130,230	1,670,393
Capital contributions & grants	280,745,308	252,832,774	533,578,082
	<u>302,605,494</u>	<u>272,882,182</u>	<u>575,487,676</u>
Total revenues	\$	\$	\$
Expenses:			
Operating expenses	\$ 13,518,408	\$ 12,162,241	\$ 25,680,649
Depreciation expense	6,768,712	6,505,408	13,274,120
Interest expense	3,829,589	1,291,379	5,120,968
Other	33,063	1,421,773	1,454,836
	<u>24,149,772</u>	<u>21,380,801</u>	<u>45,530,573</u>
Total expenses	\$	\$	\$
Increase (decrease in net assets	278,455,722	251,501,381	529,957,103
Net assets - July 1	-	-	-
	<u>278,455,722</u>	<u>251,501,381</u>	<u>529,957,103</u>
Net assets - June 30	\$	\$	\$

Key events in fiscal year 2005 which are reflected in this statement include:

- Changes in user rates were made in January 2005 as part of the rate equalization process. Water rates increased for City residents while County residents saw a decrease in water rates. Sewer rates for all users increased in January.
- The water pollution control plant experienced significant flood damage from hurricane Jean in September 2004, which increased other expenses by \$1,388,710. Reimbursements were received for all associated costs except for \$424,376 which was absorbed by the Authority. Additional information on this event is covered under Note 8 of the Notes to the Financial Statements.

Financial Analysis: (Continued)

The operating margin for both the Water and WPC fund for the year ended June 30, 2005 was 36%. The operating margin indicates the financial margin by comparing operating expenses (less depreciation) with operating revenues. A healthy operating margin indicates that the organization has adequate funds to cover interest and capital requirements. Median operating margins typically range from 30% to 40% for water and sewer utilities.

The Supporting Schedules located in the Financial Section of this report present a comparison of the fund's budgets to actual revenues and expenses for the fiscal year. For both funds, operating revenues exceeded budgeted levels. At the formation of the Authority, no funds were budgeted for depreciation expense. Excluding depreciation expense, Water fund operating expenses exceeded budgeted expenses by \$31,059 for the year. Income from Water operations was \$1,032,903 for the year. Excluding depreciation expense, WPC fund operating expenses exceeded budgeted expenses by \$682,540 for the year. Income from WPC operations was \$251,529 for the year.

Capital Asset and Debt Administration

Capital Assets. The Authority's investment in capital assets totals \$637,255,233 (net of accumulated depreciation). Tables C and D present the Net Capital Assets by fund for the year ended June 30, 2005. As this is the first year of operations, no prior year comparison is available. Capital Assets were contributed by the City of Roanoke and Roanoke County at the formation of the Authority.

Table C

**Capital Assets - Water Fund
Net of Accumulated Depreciation
For the Year Ending June 30, 2005**

	<u>City Contribution</u>	<u>County Contribution</u>	<u>WVWA</u>	<u>Dedicated Facilities</u>	<u>Total</u>
Sources	\$ 25,643,708	\$ 39,858,838	\$ 68,800	\$ -	\$ 65,571,346
Treatment	33,474,863	15,959,215	-	-	49,434,078
Distribution system	114,970,938	85,485,068	875,959	1,072,981	202,404,946
Capital equipment	897,068	309,958	2,118,881	-	3,325,907
Less:					
Accumulated depreciation					(6,768,712)
Net depreciable assets	\$ 174,986,577	\$ 141,613,079	\$ 3,063,640	\$ 1,072,981	\$ 313,967,565
Construction in progress	5,786,355	1,154,624	3,031,249		9,972,228
Land	15,229,950	5,865,700	185,450		21,281,100
Net capital assets	<u>\$ 196,002,882</u>	<u>\$ 148,633,403</u>	<u>\$ 6,280,339</u>	<u>\$ 1,072,981</u>	<u>\$ 345,220,893</u>

Capital Asset and Debt Administration: (Continued)

Table D

**Capital Assets - Water Pollution Control Fund
Net of Accumulated Depreciation
For the Year Ending June 30, 2005**

	<u>City Contribution</u>	<u>County Contribution</u>	<u>WWWA</u>	<u>Dedicated Facilities</u>	<u>Total</u>
Collection facilities	\$ 125,090,910	\$ 66,693,117	\$ 3,402,978	\$ 1,016,088	\$ 196,203,093
Treatment plant	45,227,516		216,500		45,444,016
Capital equipment	1,106,320	230,197	1,736,050		3,072,567
Less:					
Accumulated depreciation					(6,505,408)
Net depreciable assets	\$ 171,424,746	\$ 66,923,314	\$ 5,355,528	\$ 1,016,088	\$ 238,214,268
Construction in progress	6,600,733	21,749,897	24,147,942		52,498,572
Land	1,099,650	36,900	184,950		1,321,500
Net capital assets	<u>\$ 179,125,129</u>	<u>\$ 88,710,111</u>	<u>\$ 29,688,420</u>	<u>\$ 1,016,088</u>	<u>\$ 292,034,340</u>

The capital assets contributed by the City of Roanoke and Roanoke County were valued by a consulting engineer prior to the formation of the Authority and were used to determine equity contributions of the two parties. The value represents the replacement cost less depreciated life of the assets. Land was valued at the current assessed value at the time of the transfer to the Authority.

Major capital asset events during the current fiscal year included the following:

- Construction continued on the regional water pollution control plant during fiscal year 2005.
- Developer dedications of \$1,072,979 to the water distribution system and \$1,016,088 to the collection facilities of the wastewater system.
- Purchase of the Coulter building serves as the Authority's administrative offices.

Additional information on the Authority's capital assets can be found in Note 3.

Debt Administration. The Water Authority assumed the long term obligations of the City of Roanoke and Roanoke County on July 1, 2004 as required in the 2004 Assumption Agreements with the above mentioned parties. Table E presents the initial debt assumed by the Authority from each entity on July 1, 2004. Note 4 of the Notes to Financial Statements provides additional information about the activity during the fiscal year and balances at June 30, 2005.

During the fiscal year, the Authority sold a water revenue bond in the amount of \$1,800,000 to finance water construction projects. The Authority also sold a sewer revenue bond in the amount of \$1,800,000 to finance wastewater construction projects. These 20 year tax exempt bonds were competitively bid by the Authority and have an interest rate of 3.79%.

**Initial Long Term Debt Assumed
As of July 1, 2004**

	<u>City Assumed Debt</u>	<u>County Assumed Debt</u>	<u>Total Assumed Debt</u>
Water Fund			
Revenue Bonds	\$ -	\$ 54,392,787	\$ 54,392,787
Locality Compensation Payments	20,565,000	395,000	20,960,000
Long Term Debt	<u>\$ 20,565,000</u>	<u>\$ 54,787,787</u>	<u>\$ 75,352,787</u>
WPC Fund			
Revenue Bonds	\$ 1,688,203	\$ 16,047,451	\$ 17,735,654
Locality Compensation Payments	15,080,000	1,460,000	16,540,000
Long Term Debt	<u>\$ 16,768,203</u>	<u>\$ 17,507,451</u>	<u>\$ 34,275,654</u>

The Authority continued to draw funds on its Virginia Resource Authority sewer revenue bonds issues sold to fund capacity improvements at the regional water pollution control plant. The amounts drawn for the fiscal year on these bonds was \$16,652,077.

The Authority has adopted a debt policy which sets forth comprehensive guidelines for the financing of capital expenditures. The policy details a number of ratios to be monitored throughout the year and in the five year budget plan to ensure that the debt level and creditworthiness of the Authority remain sound.

The Authority's debt service coverage for the year ended June 30, 2005 is 1.3 times for the Water Fund. The Authority's bond issues require a minimum coverage of 1.15 times for its water revenue bonds. Locality compensation debt of the Water Fund requires only 1.0 times. The debt service coverage for the WPC Fund is 2.58 times for the year ended June 30, 2005. The Authority's bond issues require a minimum coverage of 1.15 times for its wastewater revenue bonds. Locality compensation debt of the WPC Fund requires only 1.0 times. The Authority has met its debt service coverage for the fiscal year.

Net take down is a ratio to measure the share of revenues remaining after payment of operating expenses. The net take down for the Water Fund for the year ended June 30, 2005 is 41% and 35% for the WPC Fund. The ratio for the combined funds is 38%. The median for water and sewer utilities is 40%.

Total outstanding long - term debt per customer is a measurement that indicates the existing debt burden attributable to each customer. The total outstanding long - term debt at year end per customer is \$1,328 for the water fund and \$1,114 for the WPC fund. It is anticipated in the next several years that the amount per customer for the Water fund will decrease and the amount per customer for WPC fund will increase as the water pollution control plant construction continues.

Additional information on the Authority's long-term debt can be found in Note 4.

Requests for Information

This financial report is designed to provide a general overview of the Authority's finances for the reader. Questions concerning information provided in this report or requests for additional financial information should be addressed to the Western Virginia Water Authority, Finance Department, 601 South Jefferson St., Suite 210, Roanoke, VA 24011.

Basic Financial Statements

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Statement of Net Assets
At June 30, 2005

	<u>Water Fund</u>	<u>Water Pollution Control Fund</u>	<u>Total</u>
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 7,381,327	\$ 7,804,539	\$ 15,185,866
Restricted cash, cash equivalents and investments:			
Cash and cash equivalents with fiscal agents	2,725,711	1,112,562	3,838,273
Accounts receivable (net of allowance for uncollectibles)	2,353,807	4,198,533	6,552,340
Accrued interest receivable	20,543	15,470	36,013
Inventory of materials and supplies, at cost	423,694	701,322	1,125,016
Other receivables	48,111	1,762,200	1,810,311
 Total current assets	 <u>\$ 12,953,193</u>	 <u>\$ 15,594,626</u>	 <u>\$ 28,547,819</u>
Noncurrent Assets:			
Restricted Assets:			
Cash & cash equivalents	\$ 44,497	\$ -	\$ 44,497
Investments with fiscal agents	3,119,138	-	3,119,138
Accrued interest receivable	7,992	-	7,992
Total restricted assets	<u>\$ 3,171,627</u>	<u>\$ -</u>	<u>\$ 3,171,627</u>
Capital Assets:			
Land	\$ 21,281,100	\$ 1,321,500	\$ 22,602,600
Buildings and system	320,736,276	244,719,676	565,455,952
Less accumulated depreciation	<u>(6,768,712)</u>	<u>(6,505,408)</u>	<u>(13,274,120)</u>
 Sub-total	 <u>\$ 335,248,664</u>	 <u>\$ 239,535,768</u>	 <u>\$ 574,784,432</u>
Construction work in progress	9,972,229	52,498,572	62,470,801
 Total capital assets	 <u>\$ 345,220,893</u>	 <u>\$ 292,034,340</u>	 <u>\$ 637,255,233</u>
 Total noncurrent assets	 <u>\$ 348,392,520</u>	 <u>\$ 292,034,340</u>	 <u>\$ 640,426,860</u>
 Total assets	 <u>\$ 361,345,713</u>	 <u>\$ 307,628,966</u>	 <u>\$ 668,974,679</u>

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

Statement of Net Assets
At June 30, 2005 (Continued)

	<u>Water Fund</u>	<u>Water Pollution Control Fund</u>	<u>Total</u>
LIABILITIES AND EQUITY			
Liabilities:			
Current liabilities:			
Payable from restricted assets:			
Accrued interest payable	\$ 1,010,048	\$ -	\$ 1,010,048
Other current liabilities:			
Accounts payable and accrued expenses	1,572,049	3,681,356	5,253,405
Compensated absences	307,864	220,019	527,883
Customers' deposits	560,040	7,405	567,445
Accrued interest payable	4,486,670	607,256	5,093,926
Claims payable	180,602	97,247	277,849
Revenue bonds payable-current portion	889,229	876,085	1,765,314
Locality compensation payments payable-current portion	<u>1,860,000</u>	<u>780,000</u>	<u>2,640,000</u>
Total current liabilities	<u>\$ 10,866,502</u>	<u>\$ 6,269,368</u>	<u>\$ 17,135,870</u>
Noncurrent liabilities:			
Compensated absences	\$ 376,279	\$ 268,911	\$ 645,190
Revenue bonds payable-net of current portion	54,417,210	34,529,306	88,946,516
Locality compensation payments payable-net of current portion	<u>17,230,000</u>	<u>15,060,000</u>	<u>32,290,000</u>
Total noncurrent liabilities	<u>\$ 72,023,489</u>	<u>\$ 49,858,217</u>	<u>\$ 121,881,706</u>
Total liabilities	<u>\$ 82,889,991</u>	<u>\$ 56,127,585</u>	<u>\$ 139,017,576</u>
Net Assets:			
Invested in capital assets, net of related debt	\$ 269,887,771	\$ 240,788,949	\$ 510,676,720
Restricted for debt service and rate stabilization	3,189,434	-	3,189,434
Unrestricted	<u>5,378,517</u>	<u>10,712,432</u>	<u>16,090,949</u>
Total net assets	<u>\$ 278,455,722</u>	<u>\$ 251,501,381</u>	<u>\$ 529,957,103</u>

Statement of Revenues, Expenses and Changes in Net Assets
Year Ended June 30, 2005

	<u>Water Fund</u>	<u>Water Pollution Control Fund</u>	<u>Total</u>
Operating Revenues:			
Customer charges	\$ 18,643,433	\$ 15,543,664	\$ 34,187,097
Connection fees	652,345	304,787	957,132
Bulk sales	330,289	2,470,577	2,800,866
Fire service	1,155,891	-	1,155,891
Other revenues	538,065	600,150	1,138,215
	<u>21,320,023</u>	<u>18,919,178</u>	<u>40,239,201</u>
Total operating revenues	\$ 21,320,023	\$ 18,919,178	\$ 40,239,201
Operating Expenses:			
Operating expenses	\$ 6,703,261	\$ 8,414,496	\$ 15,117,757
Utility line services	3,727,660	2,055,716	5,783,376
Administration	3,087,487	1,692,029	4,779,516
Depreciation and amortization	6,768,712	6,505,408	13,274,120
	<u>20,287,120</u>	<u>18,667,649</u>	<u>38,954,769</u>
Total operating expenses	\$ 20,287,120	\$ 18,667,649	\$ 38,954,769
Operating income (loss)	<u>\$ 1,032,903</u>	<u>\$ 251,529</u>	<u>\$ 1,284,432</u>
Nonoperating Revenues (Expenses):			
Interest earned	\$ 241,830	\$ 120,824	\$ 362,654
Flood damage recoveries	-	964,334	964,334
Rental income	222,308	45,072	267,380
Gain on sale of assets	76,025	-	76,025
Rental expenses	(33,063)	(33,063)	(66,126)
Flood damage expenses	-	(1,388,710)	(1,388,710)
Interest expense	(3,829,589)	(1,291,379)	(5,120,968)
	<u>(3,322,489)</u>	<u>(1,582,922)</u>	<u>(4,905,411)</u>
Total nonoperating revenue (expenses)	\$ (3,322,489)	\$ (1,582,922)	\$ (4,905,411)
Income (loss) before contributions	\$ (2,289,586)	\$ (1,331,393)	\$ (3,620,979)
Capital contributions and construction grants	<u>280,745,308</u>	<u>252,832,774</u>	<u>533,578,082</u>
Change in net assets	\$ 278,455,722	\$ 251,501,381	\$ 529,957,103
Net assets, beginning of year	<u>-</u>	<u>-</u>	<u>-</u>
Net assets, end of year	<u>\$ 278,455,722</u>	<u>\$ 251,501,381</u>	<u>\$ 529,957,103</u>

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

Statement of Cash Flows
Year Ended June 30, 2005

	<u>Water Fund</u>	<u>Water Pollution Control Fund</u>	<u>Total</u>
Operating activities:			
Receipts from customers and users	\$ 21,009,031	\$ 18,069,263	\$ 39,078,294
Payments to suppliers	(7,519,631)	(7,686,069)	(15,205,700)
Payments to employees	(4,629,730)	(3,793,273)	(8,423,003)
Net cash provided by operating activities	<u>\$ 8,859,670</u>	<u>\$ 6,589,921</u>	<u>\$ 15,449,591</u>
Noncapital financing activities:			
Flood damage recoveries	\$ -	\$ 964,334	\$ 964,334
Flood damage outlays	-	(1,388,710)	(1,388,710)
Net cash provided (used) by noncapital financing activities	<u>\$ -</u>	<u>\$ (424,376)</u>	<u>\$ (424,376)</u>
Capital and related financing activities:			
Additions to utility plant	\$ (5,781,999)	\$ (28,231,094)	\$ (34,013,093)
Proceeds from the sale of assets	76,025	-	76,025
Principal payments on bonds	(886,348)	(782,340)	(1,668,688)
Principal payments on locality compensation payments	(1,870,000)	(700,000)	(2,570,000)
Contributions in aid of construction	11,610,548	14,950,798	26,561,346
Proceeds from indebtedness	1,800,000	18,452,077	20,252,077
Interest payments	(4,058,901)	(1,055,248)	(5,114,149)
Net cash provided by (used in) capital and related financing activities	<u>\$ 889,325</u>	<u>\$ 2,634,193</u>	<u>\$ 3,523,518</u>
Investing activities:			
Rental income	\$ 222,308	\$ 45,072	\$ 267,380
Rental expenses	(33,063)	(33,063)	(66,126)
Interest received	213,295	105,354	318,649
Net cash provided by (used in) investing activities	<u>\$ 402,540</u>	<u>\$ 117,363</u>	<u>\$ 519,903</u>
Increase (decrease) in cash and cash equivalents	\$ 10,151,535	\$ 8,917,101	\$ 19,068,636
Cash and cash equivalents at beginning of year	-	-	-
Cash and cash equivalents at end of year (including \$2,770,208 and \$1,112,562, respectively reported in restricted accounts)	<u>\$ 10,151,535</u>	<u>\$ 8,917,101</u>	<u>\$ 19,068,636</u>
Reconciliation of operating income to net cash provided (used) by operating activities:			
Operating income	\$ 1,032,903	\$ 251,529	\$ 1,284,432
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation and amortization	6,768,712	6,505,408	13,274,120
Changes in operating assets and liabilities:			
(Increase) decrease in receivables	(211,689)	(849,980)	(1,061,669)
(Increase) decrease in inventories	120,010	72,068	192,078
Increase (decrease) in payables and accrued expenses	1,197,812	610,831	1,808,643
Increase (decrease) in customer deposits	(15,015)	65	(14,950)
Net cash provided by operating activities	<u>\$ 8,859,670</u>	<u>\$ 6,589,921</u>	<u>\$ 15,449,591</u>
Noncash investing, capital and financing activities:			
Contributions of capital assets	\$ 345,709,264	\$ 268,850,828	\$ 614,560,092

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

WESTERN VIRGINIA WATER AUTHORITY

Notes to Financial Statements
as of June 30, 2005

Note 1—Significant Accounting Policies:

A. Formation of the Authority

The Western Virginia Water Authority was formed in early 2004 by the Board of Supervisors of Roanoke County, Virginia and the Council of the City of Roanoke, Virginia pursuant to the Virginia Water and Waste Water Authorities Act (Chapter 51, Title 15.2 of the 1950 Code of Virginia, as amended) ("Act"). The purposes for which the Authority was formed are to exercise all powers granted to the Authority to acquire, finance, construct, operate, manage and maintain a water, wastewater, sewage disposal and storm water control system and related facilities pursuant to the Act. The Authority shall have all of the rights, powers, and duties of an authority under the Act. The Authority services the County of Roanoke, the City of Roanoke, and to the extent permitted by the Act and by the terms of the Articles of Incorporation and the Western Virginia Water Authority Operating Agreement, such other public or private entities as the Authority may determine upon the terms and conditions established pursuant to such contracts. The Authority began operations on July 1, 2004.

Determination of the Reporting Entity

The Authority's governing body is composed of three members appointed by Roanoke County, three members appointed by the City of Roanoke, 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 formed for a term of fifty years. No participating government has access to its resources or surpluses, nor is any participant liable for the Authority's debts or deficits with the exception of the participants' continuing obligations under their water and sewer general obligation bonds. 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 and in accordance with Governmental Accounting Standards Board (GASB) Statement Number 14, the Western Virginia Water Authority has been determined to be a joint venture of the City of Roanoke and the County of Roanoke. 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.

B. Basis of Accounting

The Western Virginia Water Authority operates as an enterprise activity, and its accounts are maintained on the accrual basis of accounting. Under this method, revenues are recognized when earned, and expenses are recorded as liabilities when incurred, without regard to receipt or payment of cash. The Authority accrues revenue for services rendered but not yet billed at the end of the fiscal year. The Authority follows all applicable GASB pronouncements and FASB pronouncements issued before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements.

The Authority prepares its financial reports utilizing two funds. The Water Fund is used to account for water services and the Water Pollution Control Fund is used to account for wastewater treatment services.

WESTERN VIRGINIA WATER AUTHORITY

Notes to Financial Statements
as of June 30, 2005 (Continued)

Note 1—Significant Accounting Policies:

B. 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.

C. Allowance for Doubtful Accounts

Accounts receivable are stated at book value net of the allowance for uncollectible accounts. The allowance for uncollectible accounts amounted to \$213,732 and \$345,173 at June 30, 2005 for water and water pollution control, respectively.

D. Basic Financial Statements

In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis-For State and Local Governments. As a result, the financial statements now include a Management Discussion and Analysis (MD&A) section, providing an analysis of the Authority's overall financial position and results of operations.

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

E. 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. The capital assets donated to the Authority by the organizing localities were valued by a consulting engineer.

WESTERN VIRGINIA WATER AUTHORITY

Notes to Financial Statements
as of June 30, 2005 (Continued)

Note 1—Significant Accounting Policies: (Continued)

E. Capital Assets: (Continued)

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend 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. Interest in the amount of \$251,737 was capitalized during the current year on the water pollution control plant projects.

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

<u>Assets</u>	<u>Years</u>
Structures lines and accessories	10 to 66
Vehicles and equipment	5 to 15

F. Interest on Indebtedness

Interest expense applicable to that portion of indebtedness, the proceeds of which are used to construct new facilities, is capitalized during the period of construction as part of the cost of such facilities. Other interest costs of the Authority are treated as nonoperating expenses.

G. Cash and Cash Equivalents

The Authority's cash and cash equivalents consist of demand deposits, certificates of deposit, overnight repurchase agreements, amounts held by the Roanoke County Treasurer's pool 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.

H. Investments

Investments are stated at fair value.

I. Budgets and Budgetary Accounting

A budget is prepared for information, fiscal planning purposes, and to provide the basis for setting user rates. 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.

J. Inventory

Inventories of material and supplies are recorded at cost, using the first-in, first-out method of valuation.

WESTERN VIRGINIA WATER AUTHORITY

Notes to Financial Statements
as of June 30, 2005 (Continued)

Note 1—Significant Accounting Policies: (Continued)

K. 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.

L. 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. Net assets are reported as restricted when there are limitations imposed on their use through enabling legislation adopted by the Authority or through external restrictions imposed by creditors, grantors, laws or regulations of other governments. The Authority applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

M. 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 restricted assets of the Authority consist of certain trust accounts required to be maintained by bond covenants which include a bond interest account, debt service reserve account, rate stabilization account and bond proceeds accounts. The bond interest account is used to segregate resources accumulated for debt service payments over the next twelve months. The debt service reserve account is used to report resources set aside to make up potential future deficiencies in the bond interest account. The rate stabilization account is used to report resources set aside to subsidize potential deficiencies from the Water Fund's operation that could adversely affect debt service payments. The bond proceeds account receives proceeds from Authority debt issuances and hold the proceeds until project costs are incurred. These assets are held by a trustee financial institution in separate accounts and consist of cash equivalents and long-term investments in U.S. government securities. These long-term investments are recorded at fair value with any net appreciation or depreciation in fair value reflected as a component of investment income.

N. Long-Term Obligations

The Authority assumed existing revenue bond obligations of both the County and the City upon the formation of the Authority. The obligations of the County and the City which could not be assumed by the Authority are reported as locality compensation payments. These amounts are paid to the locality in accordance with the locality's existing debt service requirements.

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.

WESTERN VIRGINIA WATER AUTHORITY

Notes to Financial Statements
as of June 30, 2005 (Continued)

Note 1—Significant Accounting Policies: (Continued)

O. Self Insurance

The Authority is self-insured for health insurance. Estimates for the accrued liability at the end of the year have been recorded.

P. Compensated Absences

The liability for compensated absences reported in the financial statements consists of unpaid accumulated leave balances. The liability is based on the leave accumulated at June 30. Limited leave may be accumulated until retirement or termination. Accumulated leave is paid at the employee’s current wage upon retirement or termination.

Note 2—Deposits and Investments:

A summary of the Authority's deposit and investments at year end is as follows:

	<u>Water</u>	<u>Water Pollution Control</u>	<u>Total</u>
Petty cash	\$ 1,886	\$ 908	\$ 2,794
Roanoke County Treasurer's investment pool	7,379,442	7,803,631	15,183,073
United States Treasury money market mutual funds	2,770,207	1,112,562	3,882,769
United States Government and Agency Bonds	3,119,138	-	3,119,138
	<u>\$ 13,270,673</u>	<u>\$ 8,917,101</u>	<u>\$ 22,187,774</u>

The Authority's deposits and investments are reported on the Statement of Net Assets as follows:

	<u>Water</u>	<u>Water Pollution Control</u>	<u>Total</u>
Current assets:			
Cash and cash equivalents	\$ 7,381,327	\$ 7,804,539	\$ 15,185,866
Restricted current assets:			
Cash and cash equivalents with fiscal agents	2,725,711	1,112,562	3,838,273
Noncurrent assets - restricted assets:			
Cash and cash equivalents with fiscal agents	44,497	-	44,497
Investments with fiscal agents	3,119,138	-	3,119,138
	<u>\$ 13,270,673</u>	<u>\$ 8,917,101</u>	<u>\$ 22,187,774</u>

WESTERN VIRGINIA WATER AUTHORITY

Notes to Financial Statements
as of June 30, 2005 (Continued)

Note 2—Deposits and Investments: (Continued)

Roanoke County serves as fiscal agent for the Authority pursuant to the terms of the Operating Agreement. All cash of the Authority, not segregated for bond indentures, is in the pooled cash of the Treasurer of Roanoke County. The Authority's funds are not separately invested and are available to the Authority with little advance notice. The funds deposited with the Roanoke County Treasurer in this external investment pool are considered cash and cash equivalents. The fair value of the position in this external investment pool is the same as the value of the assets. As this pool is not SEC registered, regulatory oversight of the pool rests with the Roanoke County Treasurer. Details of the investments held by the County of Roanoke, Virginia are available in the County's Comprehensive Annual Financial Report. Statutes authorize a Virginia local government treasurer to invest public funds as discussed below.

Deposits

Cash of Virginia local governments is maintained in accounts collateralized in accordance with the Virginia Security for Public Deposits Act (a multiple financial institution collateral pool), Section 2.2-4400 et. seq. of the Code of Virginia or covered by federal depository insurance. Under the Act, banks holding public deposits in excess of the amounts insured by FDIC must pledge collateral in the amount of 50% of excess deposits to a collateral pool in the name of the State Treasury Board. Savings and Loan institutions are required to collateralize 100% of deposits in excess of FDIC limits. Deposits covered by the Act are considered insured since the Treasury Board is authorized to make additional assessments.

Investments

Statutes authorize the Authority and Roanoke County Treasurer 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).

Custodial Credit Risk (Investments)

The Authority's investment policy provides that securities purchased for the Authority shall be held by the Authority Treasurer or by the Treasurer's custodian. If held by a custodian, the securities must be in the Authority's name or in the custodian's nominee name and identifiable on the custodian's books as belonging to the Authority. Further, if held by a custodian, the custodian must be a third party, not a counterparty (buyer or seller) to the transaction. At June 30, 2005 all of the Authority's investments were held in accordance with this policy.

Credit Risk of Debt Securities

The Authority's investment policy for credit risk is consistent with the investments allowed by statute as detailed above.

WESTERN VIRGINIA WATER AUTHORITY

Notes to Financial Statements
as of June 30, 2005 (Continued)

Note 2—Deposits and Investments: (Continued)

Credit Risk of Debt Securities: (Continued)

The Authority's rated debt investments as of June 30, 2005 were rated by Standard & Poor's and the ratings are presented below using the Standard & Poor's rating scale.

Authority's Rated Debt Investments' Values

	Fair Quality Ratings				
	AAA	AA	A	A1	Unrated
Roanoke County Treasurer's Investment Pool	\$ -	\$ -	\$ -	\$ -	\$ 15,183,073
U.S. Agencies	3,119,138	-	-	-	-
Money Market Mutual Fund	3,882,769	-	-	-	-
Total	<u>\$ 7,001,907</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Concentration of Credit Risk

The Authority's investment policy limits the investment in bankers' acceptances to 40% of total funds available for investment. Not more than 35% of the Authority's total investments may be in commercial paper and not more than 5% of commercial paper investments in the obligations of any one issuer in commercial paper.

The Authority had investments at June 30, 2005, with more than 5 percent of the total in securities of the Federal Home Loan Bank and the Federal National Mortgage Corporation. These investments represented 8 percent and 6 percent, respectively, of total investments.

Interest Rate Risk

All Authority investments must be in securities maturing within five years.

Investment Maturities (in years)

Investment Type	Fair Value	1 Year	1-5 Years	6-10 Years	Greater Than 10 Years
U.S. Agencies	<u>\$ 3,119,138</u>	<u>\$ 1,344,138</u>	<u>\$ 1,775,000</u>	<u>\$ -</u>	<u>\$ -</u>

WESTERN VIRGINIA WATER AUTHORITY

Notes to Financial Statements
as of June 30, 2005 (Continued)

Note 3—Capital Assets:

Capital asset activity for the year ended June 30, 2005 was as follows:

	Initial Contribution from Localities	Increases	Decreases	Ending Balance
Water Fund:				
Capital assets, not being depreciated:				
Land	\$ 21,095,650	\$ 185,450	\$ -	\$ 21,281,100
Construction in progress	<u>6,940,978</u>	<u>5,160,187</u>	<u>2,128,936</u>	<u>9,972,229</u>
Total capital assets, not being depreciated	<u>\$ 28,036,628</u>	<u>\$ 5,345,637</u>	<u>\$ 2,128,936</u>	<u>\$ 31,253,329</u>
Capital assets, being depreciated:				
Structures, lines and accessories	\$ 315,407,673	\$ 3,652,125	\$ -	\$ 319,059,798
Machinery and equipment	<u>1,191,984</u>	<u>484,494</u>	<u>-</u>	<u>1,676,478</u>
Total capital assets, being depreciated	<u>\$ 316,599,657</u>	<u>\$ 4,136,619</u>	<u>\$ -</u>	<u>\$ 320,736,276</u>
Less accumulated depreciation for:				
Structures, lines and accessories	\$ -	\$ (6,552,725)	\$ -	\$ (6,552,725)
Machinery and equipment	<u>-</u>	<u>(215,987)</u>	<u>-</u>	<u>(215,987)</u>
Total accumulated depreciation	<u>\$ -</u>	<u>\$ (6,768,712)</u>	<u>\$ -</u>	<u>\$ (6,768,712)</u>
Total capital assets, being depreciated, net	<u>\$ 316,599,657</u>	<u>\$ (2,632,093)</u>	<u>\$ -</u>	<u>\$ 313,967,564</u>
Total Water Fund	<u>\$ 344,636,285</u>	<u>\$ 2,713,544</u>	<u>\$ 2,128,936</u>	<u>\$ 345,220,893</u>
Water Pollution Control Fund:				
Capital assets, not being depreciated:				
Land	\$ 1,136,050	\$ 185,450	\$ -	\$ 1,321,500
Construction in progress	<u>28,350,629</u>	<u>29,327,569</u>	<u>5,179,626</u>	<u>52,498,572</u>
Total capital assets, not being depreciated	<u>\$ 29,486,679</u>	<u>\$ 29,513,019</u>	<u>\$ 5,179,626</u>	<u>\$ 53,820,072</u>
Capital assets, being depreciated:				
Structures, lines and accessories	\$ 237,011,543	\$ 6,270,025	\$ -	\$ 243,281,568
Machinery and equipment	<u>1,336,518</u>	<u>101,590</u>	<u>-</u>	<u>1,438,108</u>
Total capital assets, being depreciated	<u>\$ 238,348,061</u>	<u>\$ 6,371,615</u>	<u>\$ -</u>	<u>\$ 244,719,676</u>
Less accumulated depreciation for:				
Structures, lines and accessories	\$ -	\$ (5,907,490)	\$ -	\$ (5,907,490)
Machinery and equipment	<u>-</u>	<u>(597,918)</u>	<u>-</u>	<u>(597,918)</u>
Total accumulated depreciation	<u>\$ -</u>	<u>\$ (6,505,408)</u>	<u>\$ -</u>	<u>\$ (6,505,408)</u>
Total capital assets, being depreciated, net	<u>\$ 238,348,061</u>	<u>\$ (133,793)</u>	<u>\$ -</u>	<u>\$ 238,214,268</u>
Total Water Pollution Control Fund	<u>\$ 267,834,740</u>	<u>\$ 29,379,226</u>	<u>\$ 5,179,626</u>	<u>\$ 292,034,340</u>
Total Capital Assets	<u>\$ 612,471,025</u>	<u>\$ 32,092,770</u>	<u>\$ 7,308,562</u>	<u>\$ 637,255,233</u>

WESTERN VIRGINIA WATER AUTHORITY

Notes to Financial Statements
as of June 30, 2005 (Continued)

Note 3—Capital Assets: (Continued)

Construction Commitments:

The Authority has active construction projects as of June 30, 2005. The projects include improvements to the water pollution control treatment plant and various water system improvements.

	<u>Contract Amount</u>	<u>Spent- to-Date</u>	<u>Remaining Commitment</u>
Water Fund:			
Flow metering	\$ 633,476	\$ 58,716	\$ 574,760
Orange Avenue water	512,120	482,608	29,512
Mill Mountain water line	610,282	609,282	1,000
Grandin Road streetscape	942,115	292,913	649,202
Others	1,043,540	786,114	257,426
Water Pollution Control Fund:			
Wet weather improvements	22,409,539	12,899,706	9,509,833
Process train improvements	21,621,968	9,863,016	11,758,952
Engineering and management for construction	<u>11,108,532</u>	<u>9,148,102</u>	<u>1,960,430</u>
Total	<u>\$ 58,881,572</u>	<u>\$ 34,140,457</u>	<u>\$ 24,741,115</u>

The above projects are to be funded from the proceeds of revenue bonds and funds generated from operations.

Note 4—Long-Term Debt:

Annual requirements to amortize long-term obligations and the related interest are as follows:

<u>Year Ending June 30</u>	<u>Water Fund</u>		<u>Water Pollution Control Fund</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2006	\$ 2,749,229	\$ 4,373,196	\$ 1,656,085	\$ 1,783,595
2007	2,693,387	4,337,526	1,714,731	1,797,275
2008	2,645,216	4,291,553	3,020,158	1,728,536
2009	3,829,906	4,224,031	3,119,640	1,628,404
2010	4,242,376	4,115,681	2,917,124	1,521,807
2011-2015	18,162,647	11,944,232	16,346,575	5,841,515
2016-2020	15,328,181	8,180,995	14,010,460	2,708,517
2021-2025	17,070,497	4,064,711	7,568,052	864,365
2026-2027	<u>7,675,000</u>	<u>385,794</u>	<u>892,565</u>	<u>26,909</u>
Totals	<u>\$ 74,396,439</u>	<u>\$ 45,917,719</u>	<u>\$ 51,245,390</u>	<u>\$ 17,900,923</u>

WESTERN VIRGINIA WATER AUTHORITY

Notes to Financial Statements
as of June 30, 2005 (Continued)

Note 4—Long-Term Debt: (Continued)

Changes in long-term indebtedness for the year are as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Water Fund:					
Bonds payable:					
Revenue bonds	\$ 54,392,787	\$ 1,800,000	\$ 886,348	\$ 55,306,439	\$ 889,229
Locality compensation payments	<u>20,960,000</u>	-	<u>1,870,000</u>	<u>19,090,000</u>	<u>1,860,000</u>
Total bonds	\$ 75,352,787	\$ 1,800,000	\$ 2,756,348	\$ 74,396,439	\$ 2,749,229
Claims	-	842,381	661,779	180,602	180,602
Compensated absences	<u>379,614</u>	<u>304,529</u>	-	<u>684,143</u>	<u>307,864</u>
 Total Water Fund	 <u>\$ 75,732,401</u>	 <u>\$ 2,946,910</u>	 <u>\$ 3,418,127</u>	 <u>\$ 75,261,184</u>	 <u>\$ 3,237,695</u>
Water Pollution Control Fund:					
Bonds payable:					
Revenue bonds	\$ 17,735,654	\$ 18,452,077	\$ 782,340	\$ 35,405,391	\$ 876,085
Locality compensation payments	<u>16,540,000</u>	-	<u>700,000</u>	<u>15,840,000</u>	<u>780,000</u>
Total bonds	\$ 34,275,654	\$ 18,452,077	\$ 1,482,340	\$ 51,245,391	\$ 1,656,085
Claims	-	453,590	356,343	97,247	97,247
Compensated absences	<u>190,653</u>	<u>298,277</u>	-	<u>488,930</u>	<u>220,019</u>
 Total Water Pollution Control Fund	 <u>\$ 34,466,307</u>	 <u>\$ 19,203,944</u>	 <u>\$ 1,838,683</u>	 <u>\$ 51,831,568</u>	 <u>\$ 1,973,351</u>
 Grand Total	 <u><u>\$ 110,198,708</u></u>	 <u><u>\$ 22,150,854</u></u>	 <u><u>\$ 5,256,810</u></u>	 <u><u>\$ 127,092,752</u></u>	 <u><u>\$ 5,211,046</u></u>

WESTERN VIRGINIA WATER AUTHORITY

Notes to Financial Statements
as of June 30, 2005 (Continued)

Note 4—Long-Term Debt: (Continued)

Details of the Authority's outstanding long-term indebtedness at June 30, 2005 are as follows:

Water Fund:

Bonds payable:

\$674,269 VRA Revolving Water Loan due in semi-annual installments of \$22,962 through September 1, 2020, payments include interest at 3%	\$ 565,924
\$178,340 VRA Revolving Water Loan due in semi-annual installments of \$6,629 through September 1, 2020, payments include interest at 4%	152,057
\$49,515,000 2003 VRA Water Revenue Refinancing bonds due in annual installments of \$1,225,000 to \$3,930,000 to start October 1, 2008 through October 1, 2026, interest at 2.8% to 5.9%	49,515,000
\$12,116,874 1991 Water Revenue Bonds due in annual installments of \$1,775,000 through July 1, 2009, payments include interest at 2.5% to 5.1%	3,304,660
\$1,800,000 Water System Revenue Bond, Series 2005A, due in monthly installments of \$13,116 through February 15, 2020, payments include interest at 3.79%	1,768,798
Locality Compensation Payment payable to Roanoke County due in annual installments ranging from \$75,000 to \$80,000 through June 1, 2009, interest at 3%	315,000
Locality Compensation Payment payable to the City of Roanoke due in annual installments ranging from \$1,460,000 to \$1,620,000 through August 1, 2013, interest at 4.5% to 5%	13,815,000
Locality Compensation Payment payable to the City of Roanoke due in annual installments ranging from \$170,000 to \$435,000 through October 1, 2021, interest at 4% to 5.25%	<u>4,960,000</u>
Total Water Fund bonds	\$ 74,396,439
Compensated absences payable	684,143
Claims payable	<u>180,602</u>
Total Long-Term Obligations Payable from the Water Fund	<u>\$ 75,261,184</u>

WESTERN VIRGINIA WATER AUTHORITY

Notes to Financial Statements
as of June 30, 2005 (Continued)

Note 4—Long-Term Debt: (Continued)

Water Pollution Control Fund:

Bonds payable:

\$13,100,000 VRA Revolving Sewer Loan due in semi-annual installments of \$518,842 through December 1, 2018, payments include interest at 4.75%	\$ 10,254,588
\$5,357,725 VRA Revolving Sewer Loan due in semi-annual installments of \$189,600 through March 1, 2020, payments include interest at 3.5%	4,396,027
\$9,000,000 VRA Sewer Revenue bond due in semi-annual installments to start October 1, 2007 to \$301,962 through October 1, 2026, interest at 3%	9,000,000
\$17,511,501 VRA Sewer Revenue bond due in semi-annual installments to start October 1, 2007 of combined principal and interest in the amount of \$596,348, including interest at 3%. Interest only due semi-annually until October 1, 2007. Advances to date total	9,985,978
\$1,800,000 Sewer System Revenue Bond, Series 2005B, due in monthly installments of \$13,116 through February 15, 2020, payments include interest at 3.79%	1,768,798
Locality Compensation Payment payable to Roanoke County due in annual installments ranging from \$280,000 to \$305,000 through June 1, 2009, interest at 3%	1,180,000
Locality Compensation Payment payable to the City of Roanoke due in one annual installment of \$395,000 on August 1, 2005, interest at 4.7%	395,000
Locality Compensation Payment payable to the City of Roanoke due in annual installments ranging from \$45,000 to \$1,055,000 through August 1, 2024, interest at 2% to 5%	<u>14,265,000</u>
Total Water Pollution Control Fund bonds	\$ 51,245,391
Compensated absences payable	488,930
Claims payable	<u>97,247</u>
Total Long-Term Obligations Payable from the Water Pollution Control Fund	<u>\$ 51,831,568</u>
Grand Total	<u><u>\$ 127,092,752</u></u>

The 1991 Water System Revenue Bonds are governed by a number of general covenants relating to debt service requirements and other restrictions on assets which have been complied with through June 30, 2005. The loans from the Virginia Resources Authority (VRA) are also governed by covenants which have been complied with through June 30, 2005.

WESTERN VIRGINIA WATER AUTHORITY

Notes to Financial Statements
as of June 30, 2005 (Continued)

Note 5—Capital Contributions:

The Authority received capital contributions from the following sources during the year, as follows:

	<u>Water Fund</u>	<u>Water Pollution Control Fund</u>	<u>Total</u>
From Participating Localities, at formation:			
Cash and investments	\$ 14,355,289	\$ 9,712,222	\$ 24,067,511
Receivables	2,190,229	1,644,447	3,834,676
Inventory	543,704	773,390	1,317,094
Capital assets	344,636,285	267,834,740	612,471,025
Less liabilities assumed:			
Accounts payable and accrued expenses	(7,676,266)	(1,638,509)	(9,314,775)
Long term indebtedness	(75,352,787)	(34,275,654)	(109,628,441)
Net contributions from participating localities, at formation	\$ 278,696,454	\$ 244,050,636	\$ 522,747,090
Availability fees	975,875	725,508	1,701,383
Developer contributions	1,072,979	1,016,088	2,089,067
Contributions from other local governments	-	7,040,542	7,040,542
Total Capital Contributions	<u>\$ 280,745,308</u>	<u>\$ 252,832,774</u>	<u>\$ 533,578,082</u>

Note 6—Defined Benefit Pension Plans:

Virginia Retirement System

A. Plan Description

The Western Virginia Water Authority contributes to the Virginia Retirement System (VRS), an agent multiple-employer defined benefit pension plan that acts as a common investment and administrative agent for political subdivisions in the Commonwealth of Virginia.

All covered full-time, salaried permanent employees of participating employers must participate in the VRS. Benefits vest after five years of service. Employees are eligible for an unreduced retirement benefit at age 65 with 5 years of service or at age 50 with 30 years of service for participating employers payable monthly for life in an amount equal to 1.7 percent of their average final compensation (AFC) for each year of credited service. Benefits are actuarially reduced for retirees who retire prior to becoming eligible for full retirement benefits. In addition, retirees qualify for an annual cost-of-living adjustment (COLA) beginning in their second year of retirement. The COLA is limited to 5% per year. AFC is defined as the highest consecutive 36 months of reported compensation. 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.

WESTERN VIRGINIA WATER AUTHORITY

Notes to Financial Statements
as of June 30, 2005 (Continued)

Note 6—Defined Benefit Pension Plans: (Continued)

Virginia Retirement System: (Continued)

A. Plan Description: (Continued)

The VRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for VRS. A copy of that report may be downloaded from the VRS website at <http://www.varetire.org/PDF/2004AnnuRept.pdf> or obtained by writing the VRS 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% of their annual salary to the VRS. This 5% member contribution has been 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 statute and approved by the VRS Board of Trustees. The Authority contribution rate for the fiscal year ended June 30, 2005 was 6.5% of the annual covered payroll.

C. Annual Pension Cost

	Western Virginia Water Authority Retirement Plan
Contribution rates:	
Employer	6.50%
Plan members ¹	5.00%
Annual pension cost	\$229,134
Contributions made	\$229,134

¹ This member contribution has been assumed by the employer.

The Authority began operations on July 1, 2004. VRS has not prepared an actuarial valuation; accordingly, information for additional disclosures is not available.

WESTERN VIRGINIA WATER AUTHORITY

Notes to Financial Statements
as of June 30, 2005 (Continued)

Note 6—Defined Benefit Pension Plans: (Continued)

City of Roanoke Pension Plan

Employees of the Authority who transferred their employment from the City of Roanoke are eligible to continue their participation in the City's Pension Plan.

A. Plan Description

The Pension Plan is a cost-sharing multiple-employer defined plan established by City Council. The Pension Plan was established by City Ordinance No. 8550 dated May 27, 1946, effective July 1, 1946. The Pension Plan covers all employees of the Roanoke Regional Airport Commission and the Roanoke Valley Juvenile Detention Commission, certain employees of the Roanoke Valley Resource Authority, certain employees of the Western Virginia Water Authority, substantially all employees of the City, and non-professional City of Roanoke School Board employees. The City is the major contributor of employer contributions to the Pension Plan. City Council appoints the members of the Pension Plan Board of Trustees to administer the Pension Plan. The Pension Plan is not subject to the provisions of the Employee Retirement Income Security Act (ERISA) of 1974.

Effective July 1, 1984, the Pension Plan changed its name from Employees' Retirement System of the City of Roanoke, Virginia (ERS) to City of Roanoke Pension Plan. This change provided for an Employees' Supplemental Retirement System (ESRS) which modified certain benefits as defined by the ERS. All employees covered under the provisions of the ERS at June 30, 1984, could elect to remain with the ERS or be covered under the provisions of the ESRS. Coverage under the ESRS was mandatory for all employees hired or rehired on or after July 1, 1984. On November 28, 1994, June 1, 1998, November 2, 1998 and June 5, 2000, City Council authorized the Pension Plan to offer members of the ERS an opportunity to transfer to the ESRS. The option was available from February 1, 1995 to May 16, 1995, July 1, 1998 through August 31, 1998, December 1, 1998 through December 31, 1998 and July 1, 2000 through July 31, 2000. Both the ERS and the ESRS share a common trust fund from which all benefits are paid without distinction as to the source of funds and are administered by the Board of Trustees. The Pension Plan provides retirement benefits as well as death and disability benefits.

Employees who are members of the ERS with 30 years of service or age 60 (normal retirement age) are entitled to an annual benefit equal to 1/70 (1.429%) of their average final salary compensation (highest consecutive 12 months), excluding overtime, for each year of service. Employees may retire with 20 years of service and receive a reduced retirement benefit. For employees who are married at their retirement date, a joint and survivor annuity is payable monthly. If employees under age 60 terminate before rendering ten years of service they forfeit the right to receive any Pension Plan benefits. There is no mandatory retirement age.

WESTERN VIRGINIA WATER AUTHORITY

Notes to Financial Statements
as of June 30, 2005 (Continued)

Note 6—Defined Benefit Pension Plan: (Continued)

City of Roanoke Pension Plan: (Continued)

A. Plan Description: (Continued)

Employees who are members of the ESRS with 5 years or more of credited service and age 65 or over, general employees who have attained age 50 with age plus service equal to 80 and police officers and firefighters who have attained age 45 with age plus service equal to 70, are entitled to an annual retirement benefit, payable monthly for life in an amount equal to 2.1 percent of their final average compensation for each year of credited service up to a maximum of 63 percent. Final average compensation is the employee's average salary, excluding overtime, over the highest 36 consecutive months of credited service. Employees with 5 years of credited service may retire at age 55 and receive a reduced retirement benefit. Employees may elect to receive their retirement benefits in the form of a single life annuity or a joint and survivor annuity payable monthly from retirement. If employees under age 65 terminate before rendering five years of service they forfeit the right to receive any Pension Plan benefits. There is no mandatory retirement age.

Effective July 1, 2000, an additional monthly supplement equal to the greater of (a) \$159; or (b) 75% of the amount the City contributes toward the cost of a single active employee's health insurance shall be paid for eligible retirees until the month in which the retiree attains age 65. Any member of the City of Roanoke Pension who was an employee of one of the participating employers of the Plan (not including employees of the City of Roanoke School Board) and who retired after earning 20 or more years of creditable service but prior to attaining the age of 65 is eligible for this supplement. This supplement is not available to retirees receiving the early retiree incentive plan supplement granted in 1991.

The City of Roanoke Pension Plan issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the City of Roanoke Retirement Office, Attention: Retirement Administrator, P.O. Box 1220, Roanoke, Virginia 24006.

B. Funding Policy

The Pension Plan is noncontributory for employees. Employer contributions to the Pension Plan are based on a percentage of the annual compensation of the active members. The City's contribution rate for the fiscal year ended June 30, 2005 was 9.56% of annual covered payroll.

C. Annual Pension Cost

For fiscal year 2005, the Authority's annual pension cost of \$387,324 was equal to the required and actual contributions. As stipulated by City Code, the required contribution was determined as part of the June 30, 2003 actuarial valuation using the projected unit credit actuarial cost method. Any unfunded/(overfunded) actuarial liability is amortized using the level percentage of pay amortization method over a 20-year closed amortization period. The actuarial assumptions included (a) 7.75% investment rate of return, (b) projected salary increases ranging from 4.5% to 8.5% per year, and (c) 2.6% cost-of-living adjustment effective July 1, 2001. Projected salary increases include an inflation component of 3.75%. The actuarial value of the assets is determined using a method designed to smooth the impact of market fluctuations. The actuarial value recognizes annual appreciation and depreciation over a five-year period.

WESTERN VIRGINIA WATER AUTHORITY

Notes to Financial Statements
as of June 30, 2005 (Continued)

Note 7—Risk Management:

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 State to form the Virginia Association of Counties Group Self Insurance Risk Pool, 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, general liability, automobile liability, property, crime and public official's insurance coverages. The Agreement for Formation of the pool provides that the pool will be self-sustaining through member premiums. Settled claims have not exceeded pool coverage in any of the past three fiscal years.

Health Insurance - The Authority established a self-insured health insurance program July 1, 2004. Monthly contributions are established based upon estimates from the claims processor that should cover administrative expenses, stop loss insurance premiums, and claims. At June 30, 2005, incurred but not yet reported claims are estimated to be \$277,849.

Changes in claims liability for the year ended June 30, 2005 are as follows:

Unpaid claims, July 1, 2004	\$	-
Incurred claims (including IBNR and changes in estimates)		1,295,971
Claim payments		<u>(1,018,122)</u>
Unpaid claims, June 30, 2005	\$	<u><u>277,849</u></u>

Note 8—Flood Damage:

The Authority's Water Pollution Control plant experienced significant flooding during the month of September 2004. The Authority's total cost to mitigate damages and restore operations was \$1,388,710. Of this cost, \$154,186 was covered by insurance, \$630,000 was reimbursed by a grant from the Commonwealth of Virginia and \$180,148 was reimbursed by user jurisdictions. These amounts are recorded as nonoperating revenues and expenses in the accompanying financial statements. The remaining cost of \$424,376 was borne by the Authority.

Note 9—Contingencies:

The Authority is contingently liable with respect to lawsuits and other claims that arise in the ordinary course of its operations. At the time the Authority was formed two material cases were pending or asserted against the City of Roanoke. The payment for any resulting damages from the cases has been assumed by the Authority pursuant to the Operating Agreement. One claim is for property damage in the amount of \$350,000 resulting from a sewer back up. The City Attorney's office is defending the claim vigorously. Management of the Authority anticipates a settlement will be negotiated. The second claim is for personal injuries involving a claimant who alleges he was injured when he fell into a sinkhole formed by a broken water main. The City Attorney's office is vigorously defending this claim in the amount of \$5,000,000. No estimate exists of the amount or range of potential loss. Management has determined that there is no necessity at this time to establish reserves for either case.

WESTERN VIRGINIA WATER AUTHORITY

Notes to Financial Statements
as of June 30, 2005 (Continued)

Note 9—Contingencies: (Continued)

Authority officials estimate that no other claims, not covered by insurance, would have a material effect on the Authority's financial position.

The Authority is operating under the terms of a Consent Special Order dated March 18, 2005 issued by the Virginia State Water Control Board requiring certain improvements to the Authority's water pollution control plant. The Authority intends to comply with the provisions of this consent order through projects already started or future improvements.

Supporting Schedules

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Schedule of Income and Expenses - Budget and Actual - Water Fund
 Year Ended June 30, 2005

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Operating Income:			
Water sales	\$ 19,022,813	\$ 18,643,433	\$ (379,380)
Water connection charges	559,600	652,345	92,745
Bulk sales	316,000	330,289	14,289
Fire service	992,000	1,155,891	163,891
Other fees	85,232	538,065	452,833
	<u>20,975,645</u>	<u>21,320,023</u>	<u>344,378</u>
Operating Expenses:			
Water treatment administration	\$ 519,224	\$ 511,675	\$ 7,549
Water treatment plants:			
Carvins Cove	1,863,244	1,947,572	(84,328)
Spring Hollow	1,494,753	1,326,387	168,366
Crystal Spring	249,927	276,499	(26,572)
Falling Creek	269,534	270,011	(477)
Pump and storage operations	655,672	629,342	26,330
Well operations	238,487	178,894	59,593
Meter operations	1,376,758	1,259,146	117,612
Reservoir operations	334,883	303,735	31,148
Utility administration	2,146,781	2,297,073	(150,292)
Utility Engineering	643,607	771,758	(128,151)
Water distribution service	3,694,479	3,727,660	(33,181)
Occupancy costs	-	18,656	(18,656)
Depreciation	-	6,768,712	(6,768,712)
	<u>13,487,349</u>	<u>20,287,120</u>	<u>(6,799,771)</u>
Income from Operations	\$ 7,488,296	\$ 1,032,903	\$ (6,455,393)
Non-Operating Income (Expenses):			
Interest earned	\$ 340,000	\$ 241,830	\$ (98,170)
Rental income	-	5,000	5,000
Tower site rental	176,000	172,236	(3,764)
Office building lease income	45,051	45,072	21
Gain on sale of assets	-	76,025	76,025
Miscellaneous	(23,732)	-	23,732
Office building maintenance expense	-	(33,063)	(33,063)
Interest expense	(4,415,513)	(3,829,589)	585,924
	<u>(3,878,194)</u>	<u>(3,322,489)</u>	<u>555,705</u>
Income (loss) before contributions	\$ 3,610,102	\$ (2,289,586)	\$ (5,899,688)
Capital contributions	1,070,963	280,745,308	279,674,345
Change in net assets	<u>\$ 4,681,065</u>	<u>278,455,722</u>	<u>273,774,657</u>

Schedule of Income and Expenses - Budget and Actual - Water Pollution Control Fund
 Year Ended June 30, 2005

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Operating Income:			
Water pollution control charges	\$ 14,163,544	\$ 15,543,664	\$ 1,380,120
Sewer connection charges	50,000	304,787	254,787
Bulk sales	1,485,000	2,470,577	985,577
Septic disposal fees	280,000	492,553	212,553
Other fees	90,200	107,597	17,397
Total Operating Income	\$ 16,068,744	\$ 18,919,178	\$ 2,850,434
Operating Expenses:			
Water pollution control:			
Administration	\$ 1,602,377	\$ 1,725,350	\$ (122,973)
Operations	3,247,126	3,805,640	(558,514)
Maintenance	1,594,336	1,736,895	(142,559)
Inflow and infiltration control	1,231,492	962,139	269,353
Metering and lift stations	180,000	184,472	(4,472)
Utility administration	1,177,716	1,236,960	(59,244)
Occupancy costs	-	18,656	(18,656)
Utility engineering	346,558	436,413	(89,855)
Water pollution control distribution service	2,100,096	2,055,716	44,380
Depreciation	-	6,505,408	(6,505,408)
Total Operating Expenses	\$ 11,479,701	\$ 18,667,649	\$ (7,187,948)
Income from Operations	\$ 4,589,043	\$ 251,529	\$ (4,337,514)
Non-Operating Income (Expenses):			
Interest earned	\$ 270,000	\$ 120,824	\$ (149,176)
Flood damage recoveries	-	964,334	964,334
Office building lease income	45,051	45,072	21
Rental expenses	-	(33,063)	(33,063)
Flood damage expenses	-	(1,388,710)	(1,388,710)
Miscellaneous	(10,000)	-	10,000
Internal service	160,000	-	(160,000)
Interest expense	(1,878,506)	(1,291,379)	587,127
Total non-operating income	\$ (1,413,455)	\$ (1,582,922)	\$ (169,467)
Income (loss) before contributions	\$ 3,175,588	\$ (1,331,393)	\$ (4,506,981)
Capital contributions	562,500	252,832,774	252,270,274
Change in net assets	\$ 3,738,088	\$ 251,501,381	\$ 247,763,293

STATISTICAL SECTION

Net Assets By Component
 Fiscal Year Ended June 30, 2005 (1)

Water Fund

Invested in capital assets, net of related debt	\$ 269,887,771
Restricted	3,189,434
Unrestricted	<u>5,378,517</u>
 Total net assets	 \$ <u><u>278,455,722</u></u>

WPC Fund

Invested in capital assets, net of related debt	\$ 240,788,949
Restricted	
Unrestricted	<u>10,712,432</u>
 Total net assets	 \$ <u><u>251,501,381</u></u>

(1) Fiscal year 2005 was the first year of operations for the Authority

Changes in Net Assets - Water Fund
 Fiscal Year Ended June 30, 2005 (1)

Operating Revenues:	
Customer charges	\$ 18,643,433
Connection fees	652,345
Bulk sales	330,289
Fire Service	1,155,891
Other revenues	<u>538,065</u>
Total operating revenues	\$ 21,320,023
Operating Expenses:	
Operating expenses	6,703,261
Utility line services	3,727,660
Administration	3,087,487
Depreciation and amortization	<u>6,768,712</u>
Total operating expenses	\$ <u>20,287,120</u>
Operating income (loss)	\$ 1,032,903
Nonoperating Revenues (Expenses)	
Interest earned	241,830
Rental income	222,308
Gain on sale of assets	76,025
Rental expenses	(33,063)
Interest expense	<u>(3,829,589)</u>
Total nonoperating revenue (expenses)	\$ <u>(3,322,489)</u>
Income (Loss) before contributions	\$ (2,289,586)
Capital contributions and construction grants	<u>280,745,308</u>
Change in net assets	\$ <u><u>278,455,722</u></u>

(1) Fiscal year 2005 was the first year of operations for the Authority

Changes in Net Assets - Water Pollution Control Fund
Fiscal Year Ended June 30, 2005 (1)

Operating Revenues:	
Customer charges	\$ 15,543,664
Connection fees	304,787
Bulk sales	2,470,577
Other revenues	<u>600,150</u>
Total operating revenues	\$ 18,919,178
Operating Expenses:	
Operating expenses	8,414,496
Utility line services	2,055,716
Administration	1,692,029
Depreciation and amortization	<u>6,505,408</u>
Total operating expenses	\$ <u>18,667,649</u>
Operating income (loss)	\$ 251,529
Nonoperating Revenues (Expenses)	
Interest earned	120,824
Flood damage recoveries	964,334
Rental income	45,072
Rental expenses	(33,063)
Flood damage expenses	(1,388,710)
Interest expense	<u>(1,291,379)</u>
Total nonoperating revenue (expenses)	\$ <u>(1,582,922)</u>
Income (Loss) before contributions	\$ (1,331,393)
Capital contributions and construction grants	<u>252,832,774</u>
Change in net assets	<u>\$ 251,501,381</u>

(1) Fiscal year 2005 was the first year of operations for the Authority

Principal Customers
Fiscal Year Ended June 30, 2005 (1)

	<u>in 000/gals</u>	<u>% of System</u>
Ten Largest Users of the Water System Annual Consumption		
Carilion Hospitals	183,187	3.0%
Wometco Coca Cola	130,732	2.1%
Norfolk Southern Corporation	125,884	2.1%
City of Roanoke Redevelopment Housing	103,055	1.7%
Roanoke Electric Steel	76,374	1.2%
Synder Hunt Corporation	58,802	1.0%
Pepsi Cola Bottlers of Roanoke	55,391	0.9%
Friendship Manor	41,583	0.7%
Hotel Roanoke	31,368	0.5%
F & W Mangement Co.	16,352	0.3%
	<u>822,728</u>	<u>13.4%</u>
Total consumption	<u>822,728</u>	<u>13.4%</u>
Total system annual consumption	<u><u>6,133,340</u></u>	

Ten Largest Users of the Sewer System Annual Flow

Carilion Hospitals	183,187	3.5%
Norfolk Southern Corporation	125,884	2.4%
City of Roanoke Redevelopment Housing	103,055	2.0%
Synder Hunt Corporation	58,802	1.1%
Friendship Manor	41,583	0.8%
Hotel Roanoke	31,368	0.6%
F & W Mangement Co.	16,352	0.3%
Roanoke Electric Steel	15,275	0.3%
Wometco Coca Cola	13,073	0.2%
Pepsi Cola Bottlers of Roanoke	5,539	0.1%
	<u>594,118</u>	<u>11.3%</u>
Total consumption	<u>594,118</u>	<u>11.3%</u>
Total system annual consumption	<u><u>5,280,551</u></u>	

Consumption by Customer Group (1)
 Fiscal Year Ended June 30, 2005 (2)

Water Fund

Type of Customer:

Residential consumption	3,394,950
Commercial consumption	2,219,440
Industrial consumption	<u>518,951</u>

Total	<u><u>6,133,341</u></u>
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WPC Fund

Type of Customer:

Residential consumption	2,784,507
Commercial consumption	2,106,677
Industrial consumption	<u>389,367</u>

Total	<u><u>5,280,551</u></u>
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(1) Consumption in thousands of gallons

(2) Fiscal year 2005 was the first year of operations for the Authority

Schedule of User Rates (1)
 Fiscal Year Ended June 30, 2005 (1)

Water Rates

City Residents		
Water Fixed Rate		\$3.50
Water Variable Rate		\$2.30
Average monthly residential bill		\$15.00
County Residents		
Water Fixed Rate		\$6.25
Water Variable Rate		\$2.90
Average monthly residential bill		\$20.75

Sewer Rates

City Residents		
Sewer Fixed Rate		\$1.65
Sewer Variable Rate		\$2.59
Average monthly residential bill		\$14.60
County Residents		
Sewer Fixed Rate		\$9.00
Sewer Variable Rate		\$1.80
Average monthly residential bill		\$18.00

Residential bill based on 5/8 inch meter using 5,000 gallons

(1) Rates effective January 1, 2005

(2) Fiscal year 2005 was the first year of operations for the Authority

Schedule of New Connections
Fiscal Year Ended June 30, 2005 (1)

<u>Fiscal Year Ended June 30</u>	<u>Water Connections</u>	<u>Cumulative Connections</u>	<u>% Water Growth</u>	<u>Sewer Connections</u>	<u>Cumulative Connections</u>	<u>% Sewer Growth</u>	<u>Total Services</u>
2005	665	55,981	n/a	640	46,809	n/a	102,790

(1) Fiscal year 2005 was the first year of operations for the Authority

Schedule of Debt Service & Coverage
 Fiscal Year Ended June 30, 2005 (1)

	<u>Fiscal Year Ended June 30</u>	<u>Principal Payments</u>	<u>Interest Expense</u>	<u>Total Debt Service</u>	<u>Debt Service Coverage</u>
Water Fund	2005	\$ 2,756,348	\$ 4,411,737	\$ 7,168,085	1.3
Water Pollution Control Fund	2005	\$ 1,482,340	\$ 130,452	\$ 1,612,792	2.58

(1) Fiscal year 2005 was the first year of operations for the Authority

Demographic Statistics
 Fiscal Year Ended June 30, 2005 (1)

<u>Fiscal Year Ended June 30</u>	<u>City of Roanoke Population (2)</u>	<u>City Per Capita Income (2)</u>	<u>County of Roanoke Population (3)</u>	<u>County Per Capita Income (3)</u>	<u>Local Unemployment Rate (4)</u>
2005	92,600 (est)	\$28,814 (est)	88,200 (est)	\$32,951(est)	3.7%

- (1) Fiscal year 2005 was the first year of operations for the Authority
- (2) Estimate from City of Roanoke
- (3) Estimate from County of Roanoke
- (4) City of Roanoke

Operating Statistics
 Fiscal Year Ended June 30, 2005 (1)

Water System

Number of service connections	55,981
Number of treatment plants	4
Treatment capacity (mgd)	56
Average production (mgd)	23
Number of storage tanks	48
Number of pump stations	50
Miles of water mains	960

Wastewater System

Number of service connections	46,809
Number of treatment plants	1
WPC plant permit (mgd)	42
Average annual daily flow (mgd)	37
Number of lift stations	21
Miles of sewer mains	900

(1) Fiscal year 2005 was the first year of operations for the Authority

COMPLIANCE SECTION

ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

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

To the Board of Directors
Western Virginia Water Authority
Roanoke, Virginia

We have audited the financial statements of the Western Virginia Water Authority as of and for the year ended June 30, 2005 and have issued our report thereon dated November 2, 2005. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Western Virginia Water Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Western Virginia Water Authority's financial statements are free of material misstatements, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under Government Auditing Standards.

However, we noted other matters that we have reported to management in a separate letter dated November 2, 2005.

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

Robinson, Farmer, Cox Associates

Charlottesville, Virginia
November 2, 2005

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