

**DISTRICT OF COLUMBIA  
WATER AND SEWER AUTHORITY**

**Board of Directors**

*Finance and Budget Committee*

*Thursday, January 26, 2012*

11:00 a.m.

1. **Call to Order** ..... Timothy L. Firestine, Chairperson
2. **December 2011 Financial Report (Attachment 1)** ..... Yvette Downs and Robert Hunt
  - A. Operating Revenues & Expenditures
  - B. Cash Reserves & Investments
  - C. Capital Disbursements Summary
  - D. Investment Report
3. **FY 2012 Plan of Financing (Attachment 2)** ..... Robert Hunt
4. **Briefing on the FY 2011 Comprehensive Annual Financial Report and Audit Opinion (Attachment 3)** ..... John Madrid
5. **Combined Heat and Power Project – Financial Briefing** ..... George Hawkins/Olu Adebo
6. **Action Items** ..... Olu Adebo
  - A. Verizon Federal (Attachment 4)
7. **Agenda for February Committee Meeting (Attachment 5)** ..... Timothy L. Firestine
8. **Adjournment**

***FOLLOW-UP ITEMS – Finance & Budget Committee (Meeting held December 22, 2011)***

1. Staff will correct the statement on biosolids cost increases contained in two responses within the December 9, 2011 letter to the Board and circulate to all Board members **(Mr. Firestine) Status: Will be completed in January 2012**
2. Staff to modify the write-up in the Capital Book and future presentations to reflect the correct language regarding capital projects with changes to IMA shares **(Mr. Firestine) Status: Completed**



## DECEMBER 2011 FINANCIAL REPORT

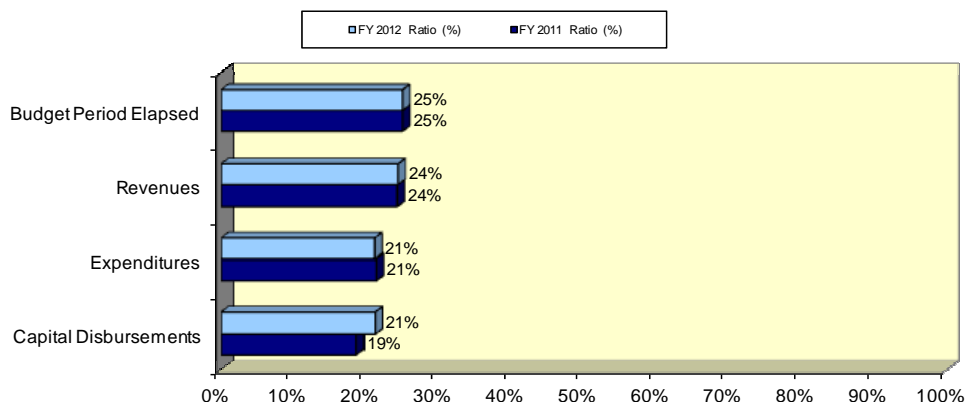
### FY 2012 FINANCIAL PERFORMANCE

The table below summarizes DC Water’s financial performance for the first quarter of FY 2012. At the end of December, we are on track with budgetary expectations. The table below summarizes detailed information discussed throughout this report.

**Financial Performance  
As of December 31, 2011  
(\$ in millions)**

	Approved	Revised Budget	YTD Budget	YTD	Variance		% Revised Budget
				Actual	Favorable (Unfavorable)	25% of Budget	
Revenues (Receipts)*	\$412.2	\$426.4	\$106.6	\$103.9	(\$2.7)	-2.5%	24.4%
Expenditures*	\$422.4	\$415.4	\$103.9	\$87.5	\$16.4	15.7%	21.1%
Capital Disbursements	\$555.8	\$531.7	\$132.2	\$112.4	\$19.8	15.0%	21.1%

\* Straight-lined (3/12 of revised budget)



### 120-day Operating Reserve Analysis (\$ in millions)

FY 2012 120-day Operating Reserve Objective	\$125.5
Actual Average Daily Balances	\$160.9
Difference	\$35.4

## OPERATING REVENUES & RECEIPTS

At the end of December 2011, cash receipts totaled \$103.9 million, or 24 percent of the revised FY 2012 budget. Several categories of customers make payments on a quarterly basis, including the federal and District governments and wholesale customers. The table below provides a summary of operating receipts at the end of December.

### REVENUE VARIANCE BY CATEGORY (In millions) As of December 31, 2011

Revenue Category	FY 2012	Actual Received	Year-End Variance	Variance		Actual % of Budget
	Revised Budget			Favorable	(Unfavorable)	
Residential, Commercial, and Multi-family	226.2	55.8	170.4	(0.7)	-1.3%	24.7%
Federal	47.5	11.9	35.6	0.0	0.0%	25.0%
District Government	11.1	2.2	8.9	(0.6)	-20.7%	19.8%
DC Housing Authority	6.4	2.0	4.4	0.4	25.0%	31.3%
Customer Metering Fee	10.8	2.7	8.1	0.0	0.0%	25.0%
Wholesale	74.4	18.6	55.8	0.0	0.0%	25.0%
Right-of-Way Fee/PILOT	22.5	6.0	16.5	0.4	6.5%	26.7%
<b>Subtotal (before Other Revenues)</b>	<b>\$398.9</b>	<b>\$99.2</b>	<b>\$299.7</b>	<b>(\$0.5)</b>	<b>-0.5%</b>	<b>24.9%</b>
Other Revenue without RSF						
IMA Indirect Cost Reimb. For Capital Projects	4.0	0.0	4.0	(1.0)	-100.0%	0.0%
DC Fire Protection Fee	6.2	1.5	4.7	0.0	0.0%	25.0%
Stormwater (MS4)	1.1	0.2	0.9	(0.1)	-28.7%	17.8%
Interest	0.8	0.5	0.3	0.3	141.5%	60.4%
Developer Fees (Water & Sewer)	6.0	1.5	4.5	0.0	0.0%	25.0%
Others	2.9	1.0	1.9	0.2	30.9%	33.1%
<b>Subtotal</b>	<b>\$21.0</b>	<b>\$4.7</b>	<b>16.31</b>	<b>(0.6)</b>	<b>-11.0%</b>	<b>22.3%</b>
Rate Stabilization Fund Transfer	\$6.5	\$0.0	\$6.5	(1.6)	-100.0%	0.0%
<b>Other Revenue Subtotal</b>	<b>\$27.5</b>	<b>\$4.7</b>	<b>22.81</b>	<b>(2.2)</b>	<b>-32.0%</b>	<b>17.0%</b>
<b>Grand Total</b>	<b>\$426.4</b>	<b>\$103.9</b>	<b>\$322.5</b>	<b>-\$2.7</b>	<b>-2.6%</b>	<b>24.4%</b>

### Discussion of Relevant Variance

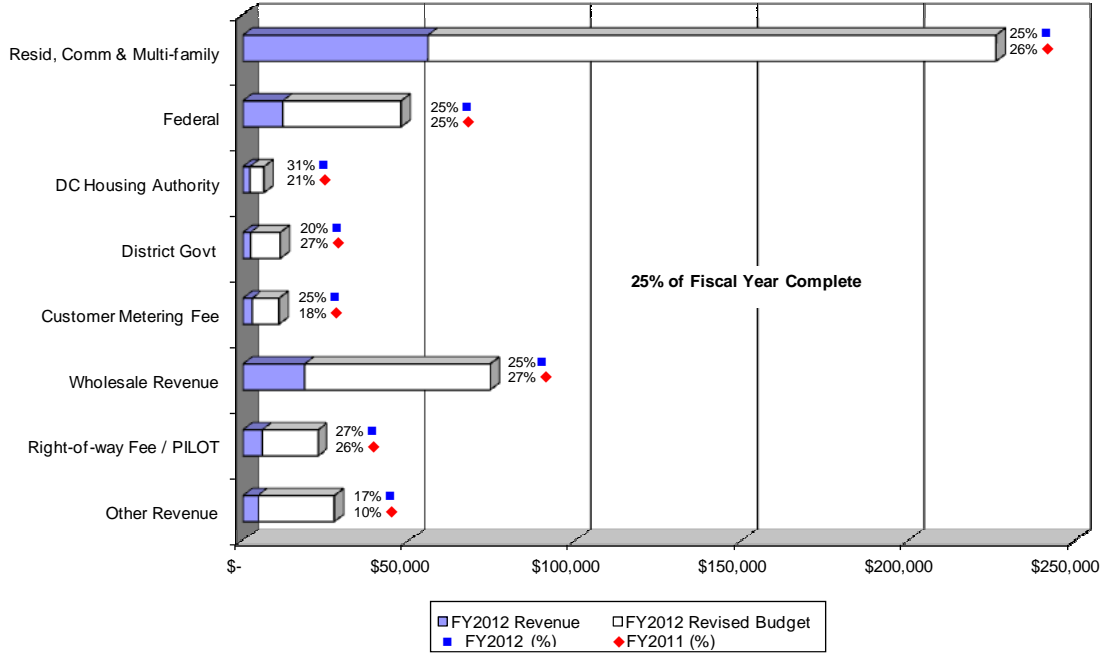
In general, revenues are on target with the exception of District Government, and Other Revenues.

District Government actual receipts for the first quarter total \$2.2 million or 19.8 percent of the revised FY 2012 budget. The District Government has disputed consumption on a large account, withholding a portion of their quarterly payment while the account is investigated. Staff is meeting with officials to complete the review.

Other Revenue receipts are lower than the straight-lined budget at \$4.7 million or 17 percent of the budgeted category primarily due to IMA Indirect Cost Reimbursement and transfer of Rate

Stabilization Fund. The IMA indirect capital reimbursement is not anticipated to be received until the fourth quarter of the fiscal year. The Rate Stabilization Fund transfer is anticipated in the fourth quarter of the fiscal year.

**FY 2012  
OPERATING RECEIPTS BY CUSTOMER CATEGORY  
As of December 31, 2011**



**BREAKDOWN OF RETAIL RECEIPTS BY CUSTOMER CATEGORY  
December 31, 2011  
(\$ in 000's)**

Customer Category	Water	Sewer	Clean Rivers		Total
			IAC	Metering Fee	
Residential	6,695	8,250	1,861	1,237	18,042
Commercial	11,093	11,376	2,313	821	25,605
Multi-family	6,128	7,370	690	293	14,481
Federal	5,175	5,196	1,513	237	12,120
District Govt	842	1,033	338	115	2,327
DC Housing Authority	871	1,068	83	34	2,056
<b>Total:</b>	<b>30,804</b>	<b>34,293</b>	<b>6,798</b>	<b>2,737</b>	<b>74,631</b>

Note: The breakdown of Collections into Residential, Commercial, & Multi-family and Water and Sewer is approximate as it is based on percentages of historical data and does not take into account adjustments and timing differences

**Clean Rivers IAC – Actual vs Budget  
December 31, 2011  
(\$ in 000's)**

Customer Category	FY 2011 Budget	Year-To-Date Budget	Actual Received	Variance		
				Favorable / <Unfavorable>	Variance % of YTD Budget	Actual % of Budget
Residential	8,178	2,044	1,861	(184)	-9%	23%
Commercial	9,714	2,429	2,313	(115)	-5%	24%
Multi-family	3,235	809	690	(119)	-15%	21%
Federal	6,052	1,513	1,513	(0)	0%	25%
District Govt	2,131	533	338	(195)	-37%	16%
DC Housing Authority	380	95	83	(12)	-12%	22%
<b>Total:</b>	<b>29,690</b>	<b>7,422</b>	<b>6,798</b>	<b>(625)</b>	<b>-8%</b>	<b>23%</b>

**OPERATING EXPENDITURES**

Total operating expenditures are in line with expectations for the first quarter of fiscal year 2012. At the end of December, operating expenditures (including debt service and the right of way and PILOT fees) totaled \$87.5 million, or 21 percent of the FY 2012 Board-revised budget of \$415.4 million. These numbers include estimated incurred but unpaid invoices.

**EXPENDITURE VARIANCE BY CATEGORY**  
 (\$ in 000's)  
 As of December 31, 2011

	FY 2011			FY 2012			FY 2013
	Board Revised Budget	Actual as of 09/30/2011	Percent of Budget	Board Revised Budget	YTD as of 12/31/2011	Percent of Budget	Board Approved Budget
Personnel Services	105,292	103,145	98%	111,114	25,629	23%	117,796
Contractual Services	79,114	71,067	90%	79,747	11,598	15%	82,350
Water Purchases	33,000	27,170	82%	31,517	6,792	22%	32,523
Chemicals and Supplies	29,234	26,412	90%	29,947	6,926	23%	31,360
Utilities	34,938	29,429	84%	37,446	7,362	20%	38,047
Small Equipment	1,095	694	63%	995	100	10%	993
<b>Subtotal O &amp; M Expenditures</b>	<b>282,674</b>	<b>257,917</b>	<b>91%</b>	<b>290,765</b>	<b>58,406</b>	<b>20%</b>	<b>303,069</b>
Debt Service	98,726	91,888	93%	102,613	23,614	23%	129,392
Payment in Lieu of Taxes	16,882	16,882	100%	16,882	4,221	25%	19,215
Right of Way	5,100	5,100	100%	5,100	1,275	25%	5,100
<b>Total O &amp; M Expenditures</b>	<b>403,382</b>	<b>371,787</b>	<b>92%</b>	<b>415,360</b>	<b>87,516</b>	<b>21%</b>	<b>456,775</b>
Personnel Services Charged to Capital Projects	(11,000)	(9,906)	98%	(14,000)	(3,229)	23%	(16,690)
<b>Total Net Operating Expenditures</b>	<b>392,382</b>	<b>361,881</b>	<b>92%</b>	<b>401,360</b>	<b>84,287</b>	<b>21%</b>	<b>440,085</b>

Note: Actuals include accruals

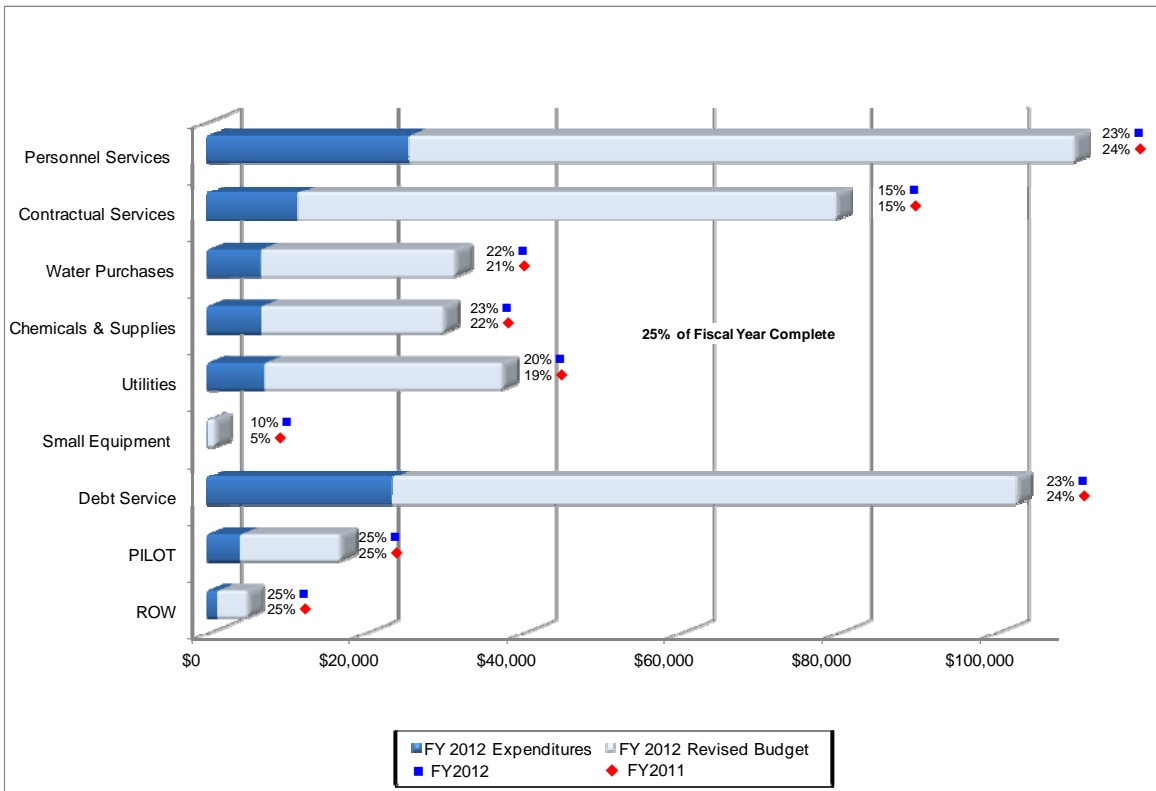
**Discussion**

*Personnel services (\$111.1 million annual budget; 38.2 percent of O&M budget)* – At the end of December, personnel costs total \$25.6 million or 23 percent of budget. Of the 1,171 positions budgeted (1,202 positions authorized), 1,034 positions were filled at the end of December. Overtime spending totals \$1.2 million of the annual budget of \$5.0 million, or 6 percent of regular payroll costs. We will continue to monitor and report overtime activities and risks.

*Utilities (\$37.4 million annual budget; 12.9 percent of O&M budget)* – Additional information concerning actual performance in this category can be found later in this report.

*Payment in Lieu of Taxes – (\$16.9 million annual budget)* – Payments and accrued expenses for the District's PILOT fee totaled \$4.2 million. Actual payment differs due to previous Board direction.

**FY 2012 Operating Expenditures  
by Category  
(\$ in 000's)  
As of December 31, 2011**





**CAPITAL SPENDING**

For the month of December 2011, actual disbursements totaled \$39.4 million, with year-to-date disbursements totaling \$112.4 million or 21 percent of the FY 2012 revised disbursements budget. Comparatively, planned capital disbursements through December 2011 were \$132.2 million, or 25 percent of the FY 2012 revised disbursements budget.

**Capital Disbursements Variance  
(\$ in 000's)  
As of December 31, 2011**

Description	FY 2012 Revised Disbursements Budget		Actual Disbursements		% of FY 2012 Revised Disbursements Budget	
	Annual	YTD	DEC. -'11	YTD	Variance Compared to Plan	Percent of Annual Budget
Wastewater Treatment	\$275,845	\$58,665	\$16,446	\$60,882	-4%	22%
Sanitary Sewer	39,922	9,162	1,226	5,377	41%	13%
Combined Sewer Overflow	132,016	40,127	16,317	26,079	35%	20%
Stormwater	2,775	545	878	1,037	-90%	37%
Water	54,461	16,848	2,727	12,331	27%	23%
Washington Aqueduct	11,373	3,000	917	917	69%	8%
Capital Equipment	15,349	3,837	925	5,758	-50%	38%
<b>Total Capital Projects</b>	<b>\$ 531,741</b>	<b>\$132,184</b>	<b>\$ 39,436</b>	<b>\$112,380</b>	<b>15%</b>	<b>21%</b>

**Discussion**

The majority of the variance, approximately 90 percent, between the Revised Disbursements Budget as compared to actual year-to-date disbursements, is related to the Combined Sewer Overflow (CSO) and Water Service Areas.

With regards to the CSO Service Area, the scheduled closeout of the Outfall Sewer Rehabilitation (Project D2) will not occur until sometime in the second quarter of FY 2012 rather than the first quarter as originally planned. The Main & O Pump Station (Project K1), scheduled for the first quarter closeout will not occur until the end of FY 2012 or the beginning of FY 2013 due to some additional work that has been identified and is pending approval of a change order. The final aspect of the under run relates to the Blue Plains Tunnel (Division A) which achieved

only 74 percent of its FY 2012 to date planned disbursements, mainly as a result of the Blue Plains Tunnel falling behind its baseline schedule. However, it is noteworthy to mention that the majority of the Blue Plains Tunnel activities that are behind schedule are non critical to the project completion and are expected to be recovered during the fiscal year.

There are a number of factors that impacted the spending lag in the Water Services Area. One is the reduced level of planned activity associated with the Lead Service Replacement Program; another is the delayed closeout of Small Diameter Watermain Rehabilitation (2) - Project MU and Small Diameter Watermain Rehabilitation (3) - Project MV; and the last factor is the delayed starts related to the SCADA system at Bryant Street (Project M6) as well as Small Diameter Watermain Rehabilitation (8) – Project O0.

*Wastewater Treatment (Blue Plains):* Projects in the Wastewater Treatment service area led the capital disbursements at \$18.4 million. The Enhanced Nitrogen Removal Facilities program had the highest disbursements, \$11.4 million, driven, primarily by a payment for both Nitrogen Removal Facilities and Blue Plains Tunnel projects. Under the Solids program, \$4.3 million was disbursed largely for projects AM (Solids Processing Program Management-- \$0.8 million) and XA (New Digestion Facilities--\$2.3 million). Liquid Processing Program disbursements of \$1.7 million were for Liquid Processing Program Management, Nitrification/Denitrification Facility and Filtration/Disinfection Facility PH II projects.

*Combined Sewer Overflow (CSO) service area:* D.C. Clean Rivers Project (aka Long Term Control Plan, or LTCP) disbursements were \$12.7 million, all of which was for the Anacostia LTCP Projects. 'Combined Sewer Projects' Program disbursements, at \$0.7 million, were primarily for the Rock Creek CSO Projects and Poplar Point Pumping Station projects.

*Water Service area:* Water Distribution (Systems) program disbursements totaled \$2.5 million—mainly for the Small Diameter Watermain Rehabilitation, Large Valve Replacements and Crosstown Watermain Rehabilitation contracts. Water On-Going Projects Program disbursements, \$0.9 million, were entirely for the annual DWS Water Projects. Water Projects Program Management disbursements totaled \$0.3 million, mainly attributable Water System Program Management Services. The Automated Meter Reading (AMR) project disbursements were \$0.4 million.

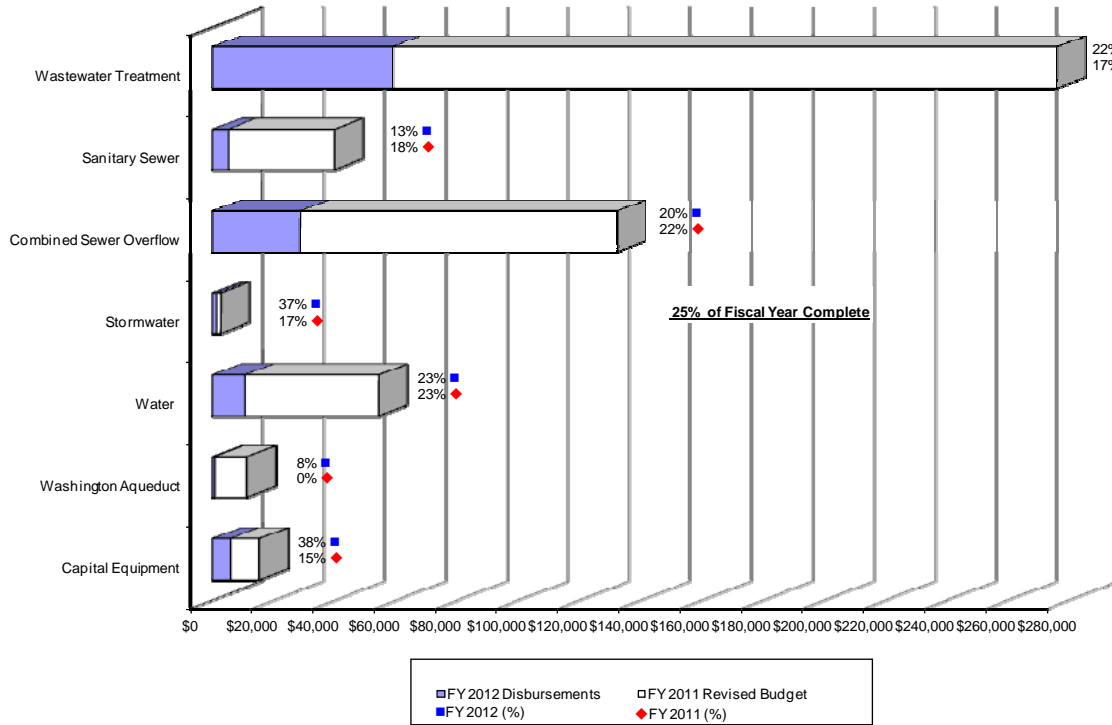
*Sanitary Sewer service area:* disbursements for Sanitary Interceptor/Trunk Force Sewers at, \$1.0 million were primarily for the Potomac Sewer System Rehabilitation, Future Sewer Systems Upgrades and Sanitary Sewer Under Buildings projects. Program Management related disbursements amounted to \$0.1 million while disbursements for the Sanitary On-Going were \$0.3 million entirely on the annual DSS Sanitary Sewer Projects.

*Washington Aqueduct service area:* disbursements of \$0.9 million were primarily for Fire Alarm System Improvements, Georgetown Reservoirs Building Improvements, McMillan East Shaft Pumping Station Renovation and McMillan Transformer/Switchgear Building Renovation projects.

*Capital Equipment service area:* disbursements totaled \$0.7 million--significant disbursements under this area were made for Centrifuge Rebuild/Replace, Infrastructure Asset Management System, Fleet Management and Facilities Improvements.

*Stormwater Service area:* disbursements of \$0.5 million were primarily for Stormwater On-Going and Stormwater Trunk Force Sewers.

**FY 2012 Capital Disbursements Compared to Plan  
By Service Area  
(\$ in 000's)  
As of December 31, 2011**



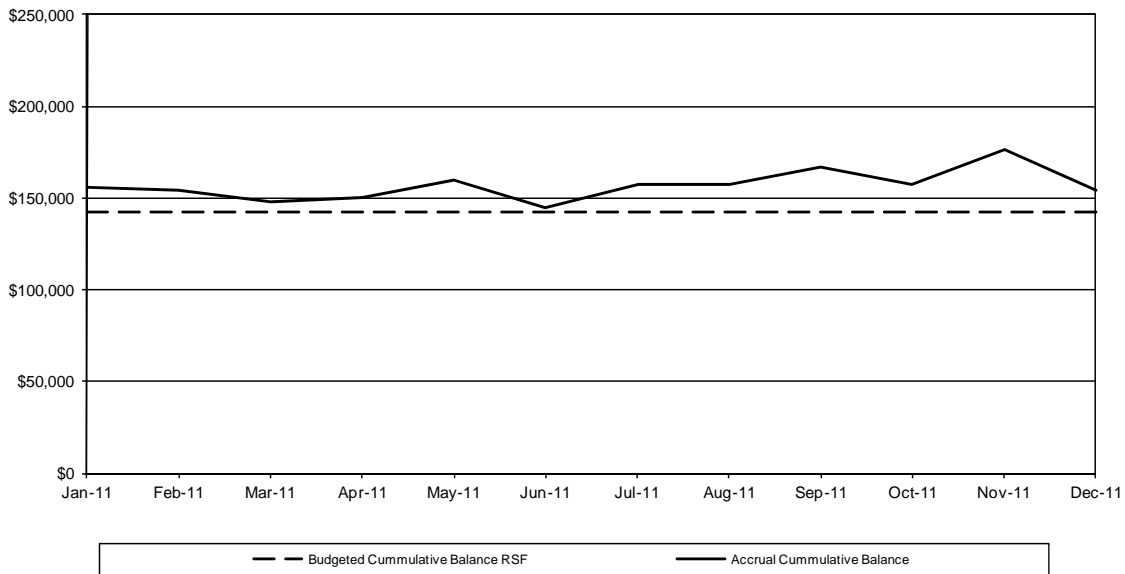
**CASH AND INVESTMENT BALANCES**

At the end of December, our operating reserve balance was \$137.2 million as compared to the FY 2012 operating reserve level objective of \$125.5 million. The following table provides a summary of all cash and investment account balances.

**Cash Balances  
As of December 31, 2011  
(\$ in millions)**

Rate Stabilization Fund Account (RSF)	\$16.7
Operating Reserve Accounts	137.2
DC PILOT Fund	<u>10.1</u>
<b>Operating Cash Balance Including RSF</b>	<b>164.0</b>
Debt Service Reserve - Series 98	24.3
Bond Construction Fund - Series 10	99.7
Capital Interest Fund - Series 10	7.6
CSO LTCP Appropriations Account	<u>58.2</u>
<b>Total All Funds</b>	<b>\$353.8</b>

**FY 2012 Operating Cash Balances  
(\$ in 000's)  
(Operating Reserve and RSF)**



### **Overall Portfolio Performance**

As of December 2011, DC Water's total investment portfolio continues to perform well and complies with the Authority's Investment Policy. Returns continue to exceed the established benchmarks for short term (less than one year) and core (one plus years) funds. Interest income for December (**on a cash basis**) was \$218,514, with year-to-date totals of \$372,989 as compared to the budget of \$535,376 for the year. A detailed investment performance report is attached.

### **2012 Bond Issuance**

In order to provide continued financing for our capital program, DC Water is planning to issue \$300 million in revenue bonds during March 2012. A working group consisting of DC Water staff, financial advisors, bond counsel and underwriters has been established. This group will provide an update on the financing plan at the January's Finance and Budget Committee meeting.

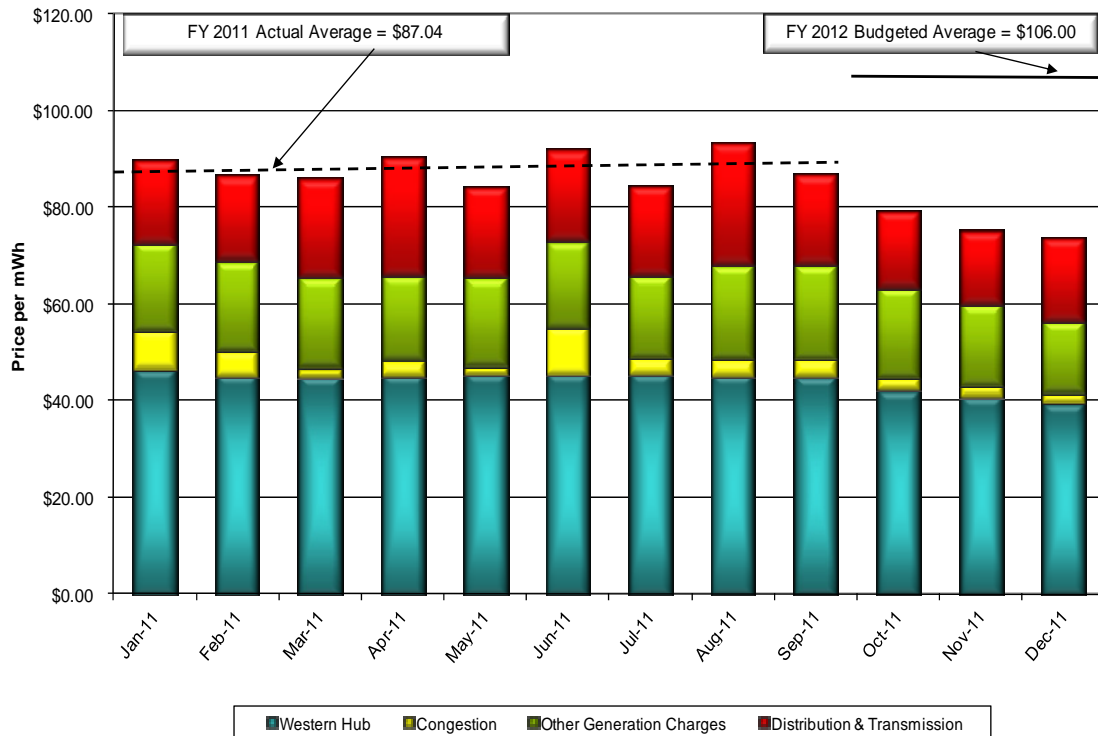
## OTHER STATUS REPORTS

### ELECTRICITY

In line with the adopted block strategy and Board’s directive, we have purchased approximately 69 percent, or 21MW, of our electricity load at Western Hub price of \$44.42/mWh. Staff continues to monitor the futures market with intent to lock up to 100 percent of DC Water’s electricity load when appropriate.

The chart below depicts the all-in-cost for the electricity purchased by DC Water. As indicated in the chart, electricity prices generally increase during the winter and summer peak months. The average all-in-cost paid for December 2011 was \$73.56/mWh, with the year-to-date average at \$75.89/mWh.

**MONTHLY ELECTRICITY PRICING  
(ALL-IN-COST)**



Notes: A) Other generation charges include the capacity charges, loss factor adjustments, ancillary costs, and other adder (administrative) fees associated with electricity procurement over the spot market  
 B) December 2011 prices include accruals for invoices not yet received.

### Electricity Costs

The revised FY 2012 electricity budget of \$29.2 million represents approximately 78 percent of the total utilities budget and assumes an average all-in-cost of \$106.00/mWh.

The current purchasing strategy can be compared to two benchmarks: the Standard Offer Service (S.O.S.) and spot market prices. As indicated in the chart below, DC Water’s average year-to-date actual price is higher than the spot market price and significantly below the S.O.S. price.

<b>All-In-Cost (\$/mWh)</b>			
<b>Unit Price</b>			
	Standard Offer Service (S.O.S.)	Spot Market	Actual <sup>1</sup>
Oct-11	\$127.42	73.69	79.12
Nov-11	\$120.67	68.86	74.99
Dec-11	\$125.98	67.77	73.56
<b>YTD Average</b>	<b>\$124.69</b>	<b>\$70.10</b>	<b>\$75.89</b>

<sup>1</sup> Actual prices are inclusive of the price mix of monthly block purchases and spot market unit prices.

<b>Electricity Budget (\$000)</b>			
<b>Amount</b>		<b>Variance</b>	
Budgeted	Actual	Budgeted vs Actual	
Oct-11	\$1,943	\$1,539	\$404
Nov-11	\$1,933	\$1,621	\$312
Dec-11	\$2,475	\$1,919	\$556
<b>YTD Total</b>	<b>\$6,351</b>	<b>\$5,080</b>	<b>\$1,272</b>
Remainder	\$22,866		
<b>Total Budget</b>	<b>\$29,218</b>		

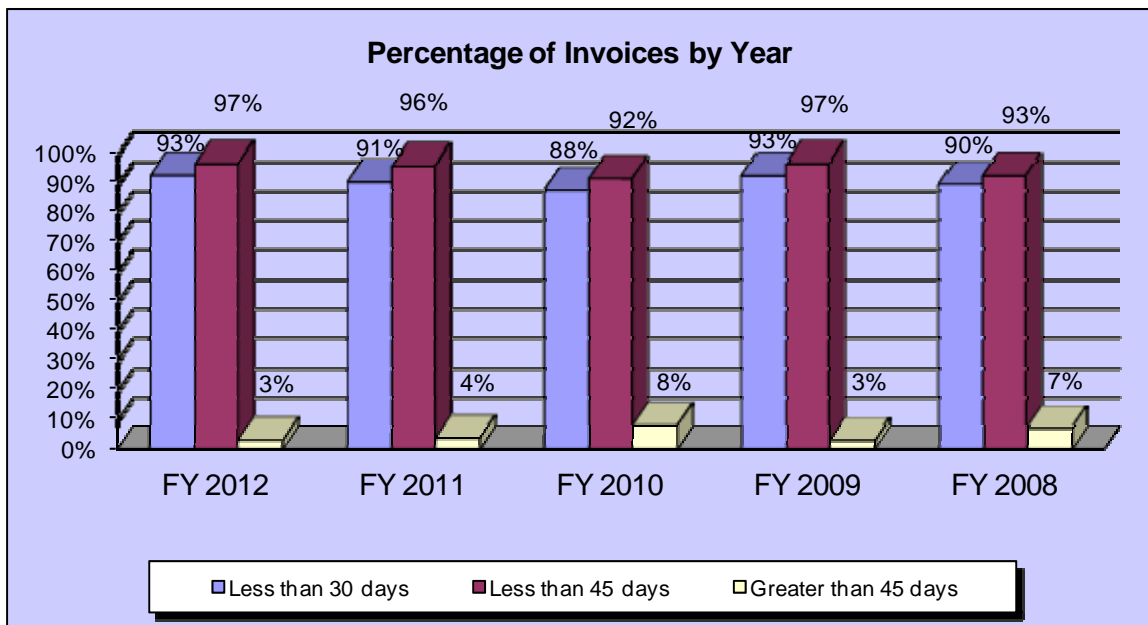
Overall, the FY 2012 electricity expenditure is tracking favorably to budget.

**ACCOUNTS PAYABLE PERFORMANCE**

During the first quarter of Fiscal Year 2012, a total of 2,851 invoices were processed and paid compared to 2,548 for the same period in FY 2011 (as shown in the table below) and with a dollar value of \$121 million compared to \$86.7 million for FY 2011. For FY 2012 year to date, approximately 93 percent of the invoices were paid within 30 days compared to 91 percent paid within 30 days during the same period in FY 2011. The percentages for October through December 2011 were 92%, 93.2% and 94.8% respectively. The Authority's goal is to pay 97 percent of all undisputed invoices within 30 days.

Accounts Payable Performance FY 2012 v. FY 2011				
Days	FY 2012		FY 2011	
	Number	Percent	Number	Percent
Less than 30	2,277	93%	2,256	91%
Less than 45	2,371	97%	2,391	96%
Greater than 45	75	3%	94	4%
<b>Subtotal</b>	<b>2,446</b>	<b>100%</b>	<b>2,485</b>	<b>100%</b>
Retainage/Dispute	405		63	
<b>Total</b>	<b>2,851</b>		<b>2,548</b>	

The chart below shows historical performance for fiscal year 2008 through fiscal year 2012.

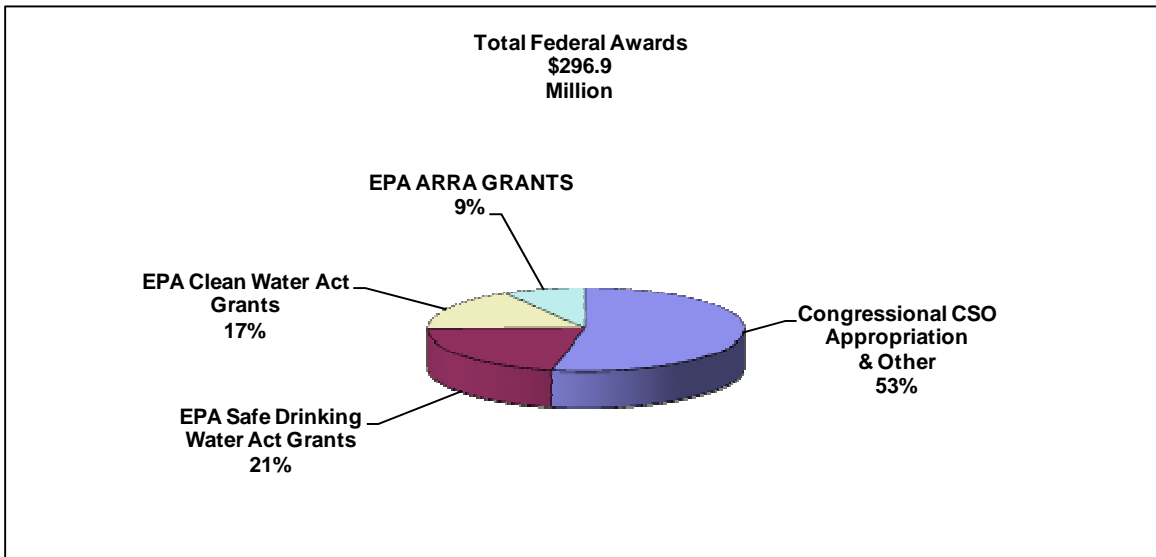


**GRANTS REPORT**



The Authority receives grants to fund a portion of its capital costs from the U.S. Environmental Protection Agency (EPA) under two acts, the Clean Water Act of 1972 and the Safe Drinking Water Act of 1974. DC Water also receives a limited amount of EPA grant funding for certain operating functions. Additionally, we have now received twelve (including \$2.4 million received on December 14, 2011 as part of the continuing resolution) federal appropriations for CSO projects.

As of December 2011, including the CSO appropriation, DC Water has a total of \$296.9 million awarded in federal funds for active projects.



We have not received notification on the EPA FY 2012 funding for the District. However, we have been notified that the District's share of the FY 2012 Safe Drinking Water Appropriation is increasing from 1% to 1.5%. During the first quarter of FY 2012, we have closed two of the ARRA grants and are on schedule to close a third grant during the second quarter.

The cumulative federal appropriation for CSO increased to \$155.9 million with the additional appropriation of \$2.4 million on December 14, 2011. The cumulative life-to-date cash disbursement for the CSO appropriation is \$115.9 million through December 31.

**RETAIL & WHOLESALE ACCOUNTS RECEIVABLE**

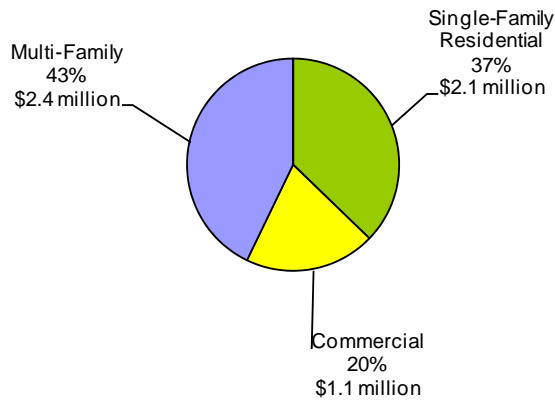
The following tables and chart show retail and wholesale accounts receivable over 90 days including a breakdown by customer class.

**Delinquent Accounts Receivable  
Greater Than 90 Days by Customer  
December 31, 2011**

	<b>RETAIL</b>		<b>WHOLESALE</b>		<b>TOTAL</b>	
	Greater than 90 Days		Greater than 90 Days		Greater than 90 Days	
	\$ in millions	# of accounts	\$ in millions	# of accounts	\$ in millions	# of accounts
September 30, 2006	\$7.4	14,762	\$0.0	0	\$7.4	14,762
September 30, 2007	\$7.1	14,917	\$0.0	0	\$7.1	14,917
September 30, 2008	\$6.1	15,635	\$0.0	0	\$6.1	15,635
September 30, 2009	\$4.9	10,211	\$0.0	0	\$4.9	10,211
September 30, 2010	\$5.1	13,441	\$0.0	0	\$5.1	13,441
September 30, 2011	\$5.5	13,039	\$0.0	0	\$5.5	13,039
October 31, 2011	\$5.5	12,831	\$0.0	0	\$5.5	12,831
November 30, 2011	\$5.4	12,629	\$0.0	0	\$5.4	12,629
December 31, 2011	\$5.6	13,549	\$0.0	0	\$5.6	13,549

*\*In June 09 the Authority wrote off approximately \$1.3M of bad debt*

**Retail Accounts  
Greater Than 90 Days by Customer Class  
December 31, 2011**



**Delinquent Accounts Receivable**

**Greater Than 90 Days by Customer  
December 31, 2011**

	Number of Accounts			Month of December (All Categories)				Total Delinquent			
				Active		Inactive					
	W & S a/c	Impervious Only a/c	Total No. of a/c	No. of a/c	Amount (\$)	No. of a/c	Amount (\$)	No. of a/c Nov.	Amount (\$)	No. of a/c Dec.	Amount (\$)
Commercial	11,795	3,404	15,199	1,841	985,355.71	144	135,449.47	1,437	1,050,413.77	1,985	1,120,805.18
Multi-family	7,379	475	7,854	1,018	2,181,002.60	125	225,477.65	1,087	2,334,704.68	1,143	2,406,480.25
Single-Family Residential	103,923	3,052	106,975	8,795	1,407,605.13	1,626	683,938.39	10,105	2,023,167.52	10,421	2,091,543.52
<b>Total</b>	<b>123,097</b>	<b>6,931</b>	<b>130,028</b>	<b>11,654</b>	<b>4,573,963.44</b>	<b>1,895</b>	<b>1,044,865.51</b>	<b>12,629</b>	<b>5,408,285.97</b>	<b>13,549</b>	<b>5,618,828.95</b>

-Included in the above \$4.57m (or 11,654 accounts) of the DC Water Over 90 days delinquent accounts, \$609,184.85 (or 3,194 accounts) represents Impervious only Accounts over 90 days delinquent.

-Reportable delinquencies do not include balances associated with long-standing disputes between DC Water and two large commercial customers.

**FY 2011 COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR) AND AUDIT RESULTS**

The FY 2011 financial audit was completed on December 15, 2011. The Authority received its fifteenth unqualified audit opinion from DC Water's external auditors Thompson, Cobb, Bazilio & Associates, PC (TCBA) with no audit adjustments. The external auditors briefed the Audit Committee at their meeting held on December 22, 2011. The Report titled "Communication of Internal Control Related Matters" issued by TCBA is currently under discussion and will be finalized in February 2012.

DC Water's fiscal year ended with operating income of \$89.0 million and strong cash and investment balance of \$182.7 million and established 2011 as a robust baseline year upon which the Authority positively launches forward with several major projects in January 2012.

The Authority's A-133 audit related to DC Water's federal programs is scheduled to be completed on February 3, 2012. We currently expect to receive an unqualified audit opinion from TCBA with no material or significant deficiencies cited. Our CAFR will be completed by January 31, 2012, distributed to all Board members, and posted on the DC Water website.

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to DC Water for its comprehensive annual financial report for the fiscal year ended September 30, 2010. DC Water has received this GFOA Award for every year of its existence. We plan to submit application for consideration of a similar award for the fiscal year 2011.

**D.C. WATER AND SEWER AUTHORITY**  
**FY 2012 CASH FLOW SUMMARY**  
 through December 31, 2011  
 (\$ in 000's)

	Annual Budget Cash Basis	YTD 25% Of Cash Budget	YTD Actual Cash Oct. 1, 2011 - Dec. 31, 2011	Variance Favorable (Unfavorable)	
<b>OPERATING BUDGET</b>					
<b>Cash Provided</b>					
Retail	302,041	75,510	74,631	(879)	-1%
Wholesale	74,361	18,590	18,604	14	0%
Other	43,259	10,815	10,574	(241)	-2%
Transfer from Rate Stabilization Fund	6,500	1,625		(1,625)	-100%
<b>Total Cash Provided</b>	<b>426,161</b>	<b>106,540</b>	<b>103,809</b>	<b>(2,732)</b>	<b>-3%</b>
<b>Operating Cash Used</b>					
Personnel Services	97,114	24,279	23,838	441	2%
Contractual Services	79,746	19,937	17,503	2,433	12%
Chemicals & Supplies	29,946	7,487	6,809	677	9%
Utilities	37,447	9,362	6,093	3,268	35%
Water Purchases	31,517	7,879	7,396	484	6%
Small Equipment	995	249	730	(481)	-193%
<b>Total Operating Cash Used</b>	<b>276,765</b>	<b>69,191</b>	<b>62,369</b>	<b>6,822</b>	<b>10%</b>
<b>Other Cash Used</b>					
Debt Service	100,776	25,194	23,614	1,580	6%
Payment In Lieu of Taxes/Right of Way	22,365	5,591	4,379	1,213	22%
Total Other Cash Used	123,141	30,785	27,993	2,792	9%
<b>Total Cash Used</b>	<b>399,906</b>	<b>99,976</b>	<b>90,362</b>	<b>9,615</b>	<b>10%</b>
<b>Net Cash Provided (Used) by Operating Act.</b>	<b>26,255</b>	<b>6,564</b>	<b>13,447</b>	<b>6,883</b>	
<b>CAPITAL BUDGET</b>					
<b>Cash Provided</b>					
Debt Proceeds	259,307	64,827	33,435	(31,392)	-48%
Capital Equipment Financing	8,184	2,046		(2,046)	-100%
EPA Grants	25,455	6,364	4,872	(1,491)	-23%
CSO Grants	31,332	7,833	5,599	(2,234)	-29%
Interest Income	93	23	60	36	155%
Wholesale Capital Contributions	175,242	43,811	42,298	(1,512)	-3%
<b>Total Cash Provided</b>	<b>499,613</b>	<b>124,903</b>	<b>86,265</b>	<b>(38,639)</b>	<b>-31%</b>
<b>Cash Used</b>					
WASA Capital Program	521,292	130,323	111,463	18,860	14%
Washington Aqueduct Projects	10,449	2,612	917	1,696	65%
<b>Total Cash Used</b>	<b>531,741</b>	<b>132,935</b>	<b>112,380</b>	<b>20,555</b>	<b>15%</b>
<b>Net Cash/PAYGO Provided (Used) by Cap. Act.</b>	<b>(32,128)</b>	<b>(8,032)</b>	<b>(26,115)</b>	<b>(18,084)</b>	
<b>Beginning Balance, October 1 (Net of Rate Stab. Fund)</b>	150,035		150,035		
Plus (Less) Operating Surplus	26,255	6,564	13,447		
Wholesale Customer Refunds from Prior Years	(5,250)	(1,313)	0		
Interest Earned From Bond Reserve	256	64	104		
Transfer to Rate Stabilization Fund	(12,250)	(3,063)	0		
Prior Year Federal Billing Reconciliation	(1,000)	(250)	(250)		
Cash Used for Capital	<u>(32,546)</u>	<u>(8,137)</u>	<u>(26,115)</u>		
<b>Balance Attributable to O&amp;M Reserve</b>	<b>125,500</b>	<b>31,375</b>	<b>137,221</b>		
	<b>Current Balance</b>				
<b>OTHER CASH RESERVES</b>					
Rate Stabilization Fund	16,700				
CSO Long-Term Control Plan Appropriation	58,241				
DC PILOT Reserve Fund	10,001				

**Comparative Statement of Expenditures**

as of December 31, 2011

(\$000's)

	FY 2011			FY 2012			FY 2013
	Board Revised Budget	Actual as of 09/30/2011	Percent of Budget	Board Revised Budget	YTD as of 12/31/2011	Percent of Budget	Board Approved Budget
Personnel Services	105,292	103,145	98%	111,114	25,629	23%	117,796
Contractual Services	79,114	71,067	90%	79,747	11,598	15%	82,350
Water Purchases	33,000	27,170	82%	31,517	6,792	22%	32,523
Chemicals and Supplies	29,234	26,412	90%	29,947	6,926	23%	31,360
Utilities	34,938	29,429	84%	37,446	7,362	20%	38,047
Small Equipment	1,095	694	63%	995	100	10%	993
<b>Subtotal O &amp; M Expenditures</b>	<b>282,674</b>	<b>257,917</b>	<b>91%</b>	<b>290,765</b>	<b>58,406</b>	<b>20%</b>	<b>303,069</b>
Debt Service	98,726	91,888	93%	102,613	23,614	23%	129,392
Payment in Lieu of Taxes	16,882	16,882	100%	16,882	4,221	25%	19,215
Right of Way	5,100	5,100	100%	5,100	1,275	25%	5,100
<b>Total O &amp; M Expenditures</b>	<b>403,382</b>	<b>371,787</b>	<b>92%</b>	<b>415,360</b>	<b>87,516</b>	<b>21%</b>	<b>456,775</b>
Personnel Services Charged to Capital Projects	(11,000)	(9,906)	98%	(14,000)	(3,229)	23%	(16,690)
<b>Total Net Operating Expenditures</b>	<b>392,382</b>	<b>361,881</b>	<b>92%</b>	<b>401,360</b>	<b>84,287</b>	<b>21%</b>	<b>440,085</b>

Note: Actuals include accruals

Percent of fiscal year complete: 25%

Finance and Budget Committee Meeting - 2. December 2011 Financial Report (Attachment 1) - Yvette Downs and Robert Hunt

FY 2012 Overtime  
Budget vs Actual  
Period Ended December 31, 2011

Department	FY 2011				FY 2012						
	Annual Budget	Actual	Percent of Budget Expended	Actual to Budget \$ Variance	Annual Budget	Percent of Annual Budget Expended	FY 2012 Year-to-Date				YTD Overtime as % of YTD Regular
							Straight-Line Budget 10/01/11 - 12/31/11	Actual 10/01/11 - 12/31/11	Actual to Straight-Line Budget Variance	Percentage YTD Straight-Line Budget Expended	
Office of the Secretary	4,000	1,854	46%	2,146	4,000	7%	1,005	262	743	26%	1%
General Manager	15,000	671	4%	14,329	13,000	1%	3,268	195	3,073	6%	0%
General Counsel	2,000	2,731	137%	(731)	2,000	24%	503	483	20	96%	0%
External Affairs	2,000	2,703	135%	(703)	2,000	9%	503	177	326	35%	0%
Internal Audit	-	-	0%	-	-	0%	0	0	0	0%	0%
Information Technology	25,000	15,471	62%	9,529	24,006	22%	6,034	5,343	691	89%	1%
Procurement	30,000	24,545	82%	5,455	30,000	24%	7,541	7,051	490	94%	1%
Customer Service	250,000	188,688	75%	61,312	240,000	15%	60,328	37,078	23,250	61%	2%
Finance & Budget	30,000	28,140	94%	1,860	30,000	32%	7,541	9,487	(1,946)	126%	1%
Risk Management	1,000	94	9%	906	1,000	0%	251	0	251	0%	0%
Assistant General Manager	1,000	222	22%	778	1,000	20%	251	199	53	79%	0%
Human Capital Management	5,000	2,852	57%	2,148	5,000	1%	1,257	39	1,218	3%	0%
Occupational Safety & Health	2,000	154	8%	1,846	2,000	0%	503	0	503	0%	0%
Facilities & Security	150,000	203,883	136%	(53,883)	150,000	37%	37,705	55,746	(18,041)	148%	6%
Water / Sewer Pump Maintenance	200,000	110,681	55%	89,319	200,000	11%	50,273	22,552	27,721	45%	4%
Engineering & Technical Services	549,960	611,204	111%	(61,244)	548,481	29%	137,870	160,826	(22,957)	117%	6%
Water Services	1,080,000	1,111,758	103%	(31,758)	1,080,000	20%	271,475	218,186	53,290	80%	8%
Clean Rivers	10,000	3,745	37%	6,255	25,000	5%	6,284	1,276	5,008	20%	0%
Sewer Services	900,000	1,063,680	118%	(163,680)	900,000	26%	226,230	237,715	(11,485)	105%	10%
Wastewater Treatment	956,000	1,010,473	106%	(54,473)	956,000	29%	240,306	278,659	(38,353)	116%	13%
Maintenance Services	800,000	880,595	110%	(80,595)	800,000	24%	201,093	188,450	12,643	94%	8%
Permit Operations	1,000	1,503	150%	(503)	2,500	28%	628	694	(65)	110%	0%
Fleet Management	1,000	926	93%	74	1,000	7%	251	66	185	26%	0%
<b>Total DC WATER</b>	<b>\$5,014,960</b>	<b>\$5,266,573</b>	<b>105%</b>	<b>\$ (251,613)</b>	<b>\$5,016,987</b>	<b>24%</b>	<b>\$1,261,101</b>	<b>\$1,224,482</b>	<b>\$36,618</b>	<b>97%</b>	<b>6%</b>

Notes:

- (1) "Budget 10/01/11 - 12/31/11 " reflects annual budget straight-lined
- (2) " % YTD Budget Expended" reflects variance between straight-lined budget to-date and actual overtime
- (3) YTD payroll does not include fringe benefits

**DC WATER  
LISTING OF EPA/MISC OPEN GRANTS  
DECEMBER 31, 2011**

Name	Period	Total EPA Allowable Project Budget	% of Federal Funding	Federal Grant Award Amount	Cumulative Federal Expenditures as of 9/30/11	Current Quarter Expenditures	Cumulative Federal Expenditures as of 12/31/11	Remaining Federal Balance
<b><u>CLEAN WATER ACT GRANTS</u></b>								
Nitrification Facilities Upgrade	9/04 - 02/13	51,858,033	55%	28,521,918	18,091,800	1,346,700	19,438,500	9,083,418
Filtration and Disinfection Facility Upgrade Phase 2	9/06 - 12/11	9,872,426	55%	5,429,834	4,887,700		4,887,700	542,134
Raw Wastewater Pump Station 1 Upgrade	09/08 - 06/12	3,834,893	55%	2,109,191	1,581,900		1,581,900	527,291
Biological Sludge Thickening Facility Rehabilitation	8/10 - 06/13	14,060,069	55%	7,733,038	6,921,900		6,921,900	811,138
Area Substation 6	9/10 - 12/13	6,829,465	53%	3,626,566	1,907,200	319,400	2,226,600	1,399,966
Rehabilitation of Sewers, Various Locations Companion	9/10 - 12/13	447,397	23%	101,752			0	101,752
Rock Creek Combined Sewer Separation	5/06 - 11/11	1,576,909	55%	867,300	700,500		700,500	166,800
Filtration/Disinfection Facilities Upgrade, Phase 3	11/10 - 11/13	2,116,364	55%	1,164,000			0	1,164,000
Nit/Denit Sedimentation Basin Replacement Actuators	7/11 - 4/14	529,144	55%	291,000			0	291,000
<b>TOTAL OPEN CLEAN WATER ACT GRANTS</b>		<b>\$ 91,124,700</b>		<b>\$ 49,844,599</b>	<b>\$ 34,091,000</b>	<b>\$ 1,666,100</b>	<b>\$ 35,757,100</b>	<b>\$ 14,087,499</b>
<b><u>SAFE-DRINKING WATER GRANTS</u></b>								
Large Valve Replacements, Contract 7	09/08 - 09/13	3,458,000	80%	2,766,400			0	2,766,400
Small Diameter Water Main Replacements 2008	09/08 - 03/12	12,560,176	80%	10,048,141	6,214,800		6,214,800	3,833,341
Anacostia Pumping Station Replacement	08/07 - 03/12	21,988,000	80%	17,590,400	14,993,800		14,993,800	2,596,600
Bryant Street Pumping Discharge Piping Replacement	9/10 - 4/14	10,180,000	80%	8,144,000			0	8,144,000
Fort Reno Pumping Station Rehabilitation & Upgrade	9/10 - 8/12	7,300,000	80%	5,840,000			0	5,840,000
Small Diameter Water Main Replacements for 2010	9/10 - 9/11	2,648,917	80%	2,119,134			0	2,119,134
Cross-Town Tunnel Water Main Rehabilitation	6/11 - 9/12	6,064,214	80%	4,851,371			0	4,851,371
Small Diameter Water Main Rehabilitation Contract	6/11 - 5/14	14,978,250	80%	11,982,600			0	11,982,600
<b>TOTAL SAFE DRINKING WATER GRANTS</b>		<b>\$ 79,177,557</b>		<b>\$ 63,342,046</b>	<b>\$21,208,600</b>		<b>\$21,208,600</b>	<b>\$42,133,446</b>
<b>TOTAL EPA GRANTS (SRF)</b>		<b>\$ 170,302,257</b>		<b>\$ 113,186,645</b>	<b>\$ 55,299,600</b>	<b>\$ 1,666,100</b>	<b>\$ 56,965,700</b>	<b>\$ 56,220,945</b>

**DC WATER  
LISTING OF EPA/MISC OPEN GRANTS  
DECEMBER 31, 2011**

<b>ARRA FUNDING--SAFE DRINKING WATER</b>								
Small Valve Replacements Contract 5	10/09 - 09/11	\$ 451,150	100%	\$451,150	\$345,500	\$105,650	451,150	0
Large Valve Replacement Contract 8	12/09 - 7/11	1,997,348	100%	1,997,348	1,270,900	189,400	1,460,300	537,048
Small Diameter Distrib. Main Rehab., Contract 6	12/09 - 7/11	5,789,629	100%	5,789,629	1,294,200	209,100	1,503,300	4,286,329
Small Diameter Water Main Replacements 2010	12/09 - 9/11	7,164,058	100%	7,164,058	4,007,300	1,274,900	5,282,200	1,881,858
Rock Creek Water Main Replacement	3/09 - 11/11	2,471,135	100%	2,471,135	1,458,800	531,400	1,990,200	480,935
Fort Stanton Site Work & Joint Seals	9/09 - 05/12	1,626,680	100%	1,626,680	519,900	162,000	681,900	944,780
<b>TOTAL ARRA SAFE DRINKING GRANTS</b>		<b>\$ 19,500,000</b>		<b>\$19,500,000</b>	<b>\$8,896,600</b>	<b>\$2,472,450</b>	<b>\$11,369,050</b>	<b>\$8,130,950</b>
<b>ARRA FUNDING CLEAN WATER GRANTS</b>								
Watts Branch Sewer Rehab, Phase 2	10/09 - 12/12	\$ 680,511		\$680,511	\$613,400		\$613,400	\$67,111
Rehabilitation of Sewers, Various Locations	02/10 - 10/12	3,558,379		3,558,379	1,541,400	630,500	2,171,900	1,386,479
Rehabilitation of Sewers, Various Locations/MOU-DDOE	02/10 - 10/12	935,000		935,000	935,000		935,000	0
Additional Tide Gate Improvements	08/09 - 09/11	621,552		621,552	518,200	103,352	621,552	0
<b>TOTAL ARRA CLEAN WATER GRANTS</b>		<b>\$ 5,795,442</b>		<b>\$ 5,795,442</b>	<b>\$ 3,608,000</b>	<b>\$ 733,852</b>	<b>\$ 4,341,852</b>	<b>\$ 1,453,590</b>
<b>GRAND TOTAL ARRA GRANTS</b>		<b>\$ 25,295,442</b>		<b>\$ 25,295,442</b>	<b>\$ 12,504,600</b>	<b>\$ 3,206,302</b>	<b>\$ 15,710,902</b>	<b>\$ 9,584,540</b>
<b>GRAND TOTAL ALL EPA GRANTS</b>		<b>\$ 195,597,699</b>		<b>\$ 138,482,087</b>	<b>\$ 67,804,200</b>	<b>\$ 4,872,402</b>	<b>\$ 72,676,602</b>	<b>\$ 65,805,485</b>
<b>MISC. GRANTS</b>								
DC Office of Deputy Mayor for Planning & Economic Dev	12/07 - 05/09		50%	1,100,000	581,935		581,935	518,065
DC Dept. Parks & Rec., DDOE and DCWASA	06/06 - 06/10		48%	921,000	233,226		233,226	687,774
FTSS-DDOE, DCOP, GSA, SI, DCHSEMA/DCWASA	10/09 - 3/10			545,000	459,243		459,243	85,757
<b>BOLD = NEW GRANTS</b>								



**DC WATER  
LISTING OF CSO CONGRESSIONAL FUNDING AND PROJECTS  
AS OF  
DECEMBER 31, 2011**

Footnote	Name	Period	Federal Award Amount	Cumulative Federal Expenditures as of 09/30/11	Current Quarter Expenditures	Cumulative Federal Expenditures as of 12/31/11	Remaining Federal Balance
<b>1</b>	<b><u>CONGRESSIONAL CSO APPROPRIATION BUDGET</u></b>	<b>02/03 -</b>					
	<b><u>LTCP Projects</u></b>						
	Anacostia CSS LTCP - Facility Plan Phase		36,650,222	31,628,048	4,529,940	36,157,988	492,234
	Potomac CSS LTCP Facility Plan		1,753,000	355,261		355,261	1,397,739
	CSO LTCP Rock Creek Projects		1,753,000	149,404		149,404	1,603,596
	<b>Total LTCP Projects</b>		<b>40,156,222</b>	<b>32,132,713</b>	<b>4,529,940</b>	<b>36,662,653</b>	<b>3,493,569</b>
	<b><u>Program Management</u></b>						
	CSO Program Management		400,000	234,081		234,081	165,919
	CSO Long Term Control Plan		5,120,155	251,439		251,439	4,868,716
	<b>Total Program Management</b>		<b>5,520,155</b>	<b>485,520</b>		<b>485,520</b>	<b>5,034,635</b>
	<b><u>Nine Minimum Control Projects</u></b>						
	WASA Low Impact Development Projects		1,500,000	155,914		155,914	1,344,086
	Potomac Pumping Station Rehabilitation		8,737,500	5,019,377	8,251	5,027,628	3,709,872
	Rock Creek CSO Projects		4,776,214	3,829,494	642,209	4,471,703	304,511
	CSO Nine Minimum Control Projects		575,000	574,226		574,226	774
	Outfall Sewer Rehabilitation		22,970,002	19,154,155	253,577	19,407,732	3,562,270
	Potomac Pumping Station Phase III		9,469,599	40,457	143,839	184,296	9,285,303
	Swirl Facilitation Rehabilitation		1,830,000	61,425		61,425	1,768,575
	CSO Fabridam Replacement		4,479,579	4,479,579		4,479,579	0
	Main and O Pumping Station		37,838,285	35,534,600	13,440	35,548,040	2,290,245
	East Side Pumping Station		9,227,822	7,761,444		7,761,444	1,466,378
	Poplar Point Pumping Station		3,178,000	873,056	4,087	877,143	2,300,857
	Dry Weather Overflow Elimination		5,690,636	154,912	0	154,912	5,535,724
	CSO Wet Weather Water Quality Monitoring		24,657	24,657	0	24,657	0
	<b>Total Nine Minimum Control Projects</b>		<b>110,297,293</b>	<b>77,663,296</b>	<b>1,065,403</b>	<b>78,728,699</b>	<b>31,568,594</b>
	<b>TOTAL CSO APPROPRIATION</b>		<b>\$155,973,670</b>	<b>\$110,281,529</b>	<b>\$5,595,343</b>	<b>\$115,876,872</b>	<b>\$40,096,798</b>

**DC WATER  
LISTING OF CSO CONGRESSIONAL FUNDING AND PROJECTS  
AS OF  
DECEMBER 31, 2011**

Footnote	Name	Period	Federal Award Amount	Cumulative Federal Expenditures as of 09/30/11	Current Quarter Expenditures	Cumulative Federal Expenditures as of 12/31/11	Remaining Federal Balance
							5,595,343
							12,548,417
							<b>\$58,240,558</b>

Plus Unreimbursed 1st Quarter Expenditures  
Interest Earned  
**Grand Total CSO Remaining Balance**

**FOOTNOTES**

1	Appropriation on February 20, 2003	\$49,675,000
	Appropriation on January 22, 2004	29,823,000
	Appropriation on November, 2004	4,800,000
	Less Federal Recission	(38,400)
	Appropriation on December 15, 2005	7,000,000
	Less Federal Recission	(70,000)
	Appropriation on April 5, 2007 (\$7,000,000 less recission)	7,000,000
	Less Federal Recission	(70,000)
	Appropriation on March 25, 2008	8,000,000
	Appropriation on April 3, 2009	16,000,000
	Appropriation on February 17, 2010	20,000,000
	Appropriation on November 3, 2010	3,506,000
	Appropriation on February 2, 2011	4,986,000
	Appropriation on June 8, 2011	2,984,002
	Appropriation on December 14, 2011	2,378,068
	<b>Total Appropriation</b>	<b>155,973,670</b>



**DC Water**  
*Investment Performance Report – December 2011*



dc water is life

DC Water  
Finance Division  
Economic Update

**ECONOMIC COMMENTARY**

- In December, the economy added 200,000 new jobs bringing the total number of jobs created in 2011 to 1.6 million. The unemployment rate improved to 8.5%.
- Consumer confidence jumped quite dramatically over the last two months increasing from 40.9 in October to 64.5 in December. Despite this improvement, consumer confidence remains at depressed levels.
- Yields on intermediate-term bonds fell only slightly during the month by 0.01% to 0.04%. Meanwhile, longer 10 to 30 year securities fell by more than 0.15%.
- Spreads between U.S. Treasuries and Federal Agencies narrowed making Federal Agencies less attractive. This may have been a function of year-end market factors.

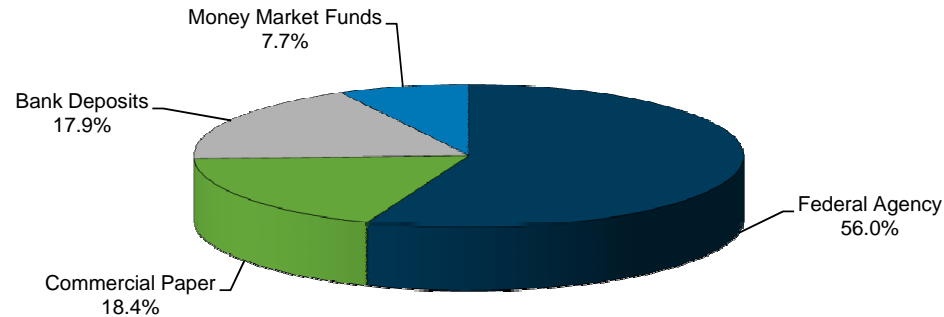
**PORTFOLIO RECAP**

- The portfolio is diversified among Bank Deposits, Commercial Paper, Federal Agencies and SEC registered money market funds.
- The overall yield-to-cost of the portfolio is 0.55%.
- The portfolio is in compliance with the Authority's Investment Policy.
- No trades were executed in December.



Investment Performance Report - December 2011

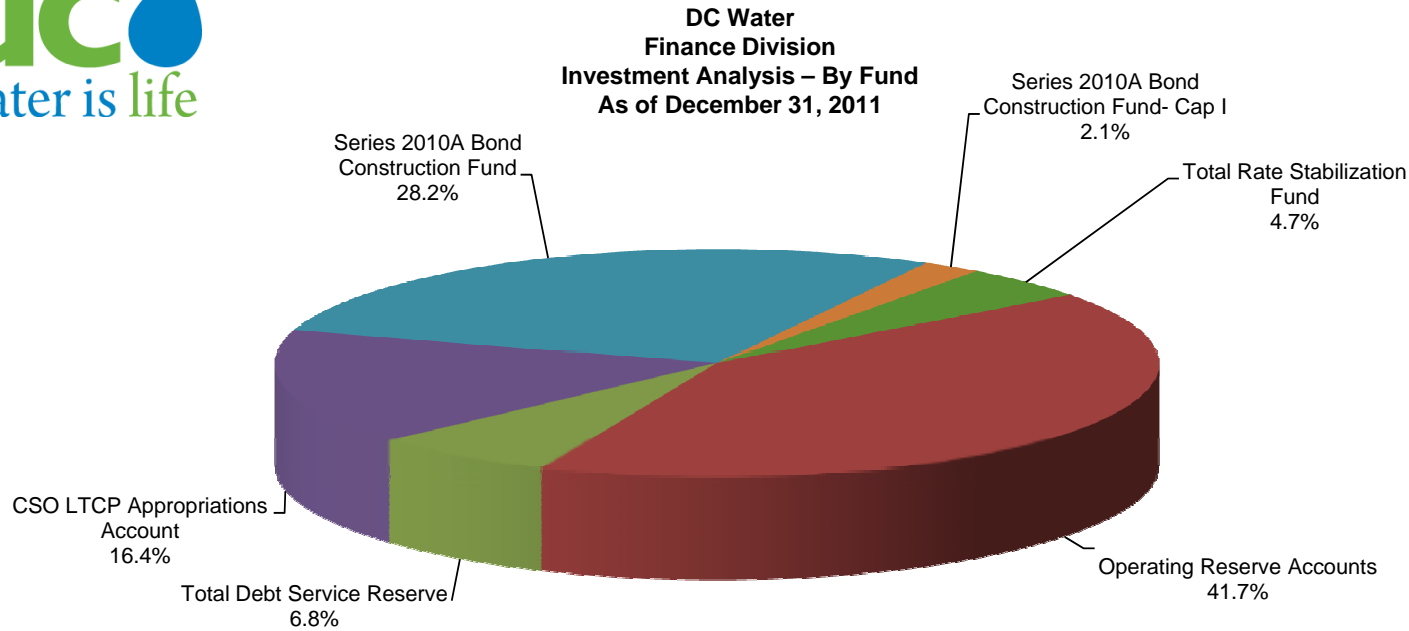
DC Water  
Finance Division  
Investments - By Security Type  
As of December 31, 2011



Security Type	Book Value + Accrued Interest	Asset Allocation	Permitted By Policy
Bank Deposits	\$ 62,976,108	17.9%	100.0%
Money Market Funds	27,202,995	7.7%	100.0%
Bankers Acceptances	-	0.0%	40.0%
Commercial Paper	64,734,808	18.4%	35.0%
U.S. Treasuries	-	0.0%	100.0%
Federal Agency	197,291,221	56.0%	80.0%
Negotiable CDs	-	0.0%	30.0%
Municipal Obligations	-	0.0%	20.0%
<b>Total</b>	<b>\$ 352,205,131</b>	<b>100.0%</b>	



Investment Performance Report - December 2011



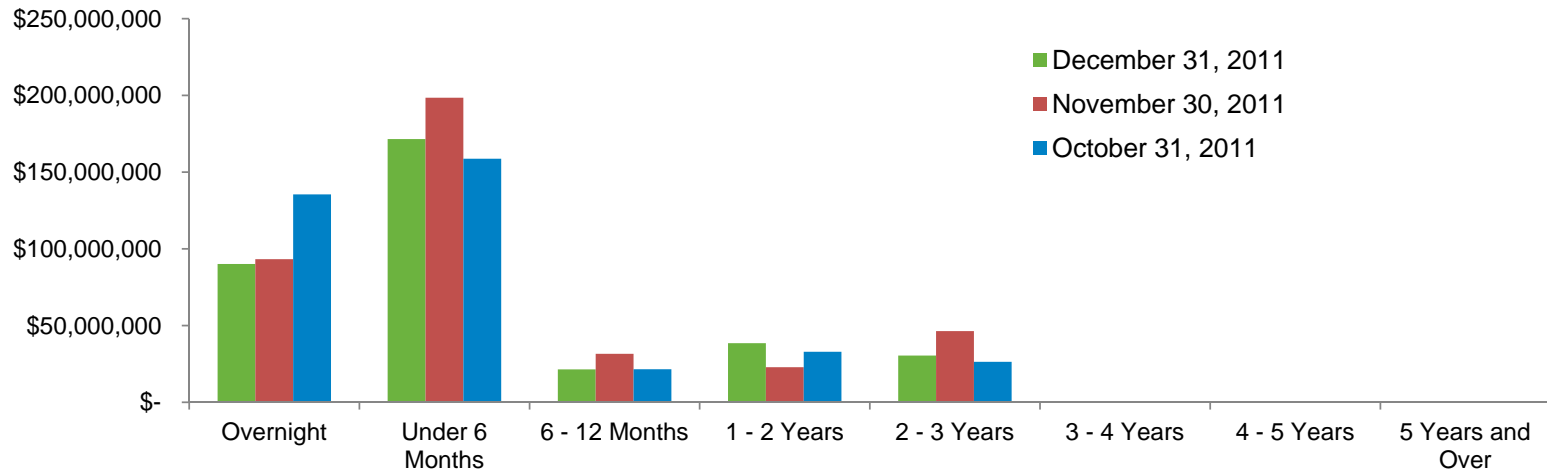
Fund Name	Book Value + Accrued Interest	Yield-to- Maturity at Cost	Effective Duration (years)	Weighted Average Maturity (days)
Total Rate Stabilization Fund	\$ 16,704,792	0.56%	0.10	36.3
Operating Reserve Accounts	146,943,451	0.71%	0.77	358.1
Total Debt Service Reserve	23,889,220	0.62%	0.83	308.2
Series 2010A Bond Construction Fund	99,247,747	0.24%	0.09	33.6
Series 2010A Bond Construction Fund- Cap I	7,568,280	0.67%	1.13	418.4
Total CSO LTCP Appropriations Account	57,851,642	0.62%	0.16	59.2
<b>Total</b>	<b>\$ 352,205,131</b>	<b>0.55%</b>	<b>0.46</b>	<b>200.2</b>



Investment Performance Report - December 2011

DC Water  
Finance Division  
Investment Analysis – By Maturity

Maturity Distribution	December 31, 2011	November 30, 2011	October 31, 2011
Overnight \$	90,179,102.32 \$	93,311,059.10 \$	135,448,576.09
Under 6 Months	171,525,703.67	198,492,179.32	158,708,940.77
6 - 12 Months	21,463,890.75	31,563,362.89	21,564,135.42
1 - 2 Years	38,542,986.76	22,878,057.86	32,911,736.06
2 - 3 Years	30,493,447.65	46,348,239.68	26,332,064.48
3 - 4 Years	-	-	-
4 - 5 Years	-	-	-
5 Years and Over	-	-	-
<b>Totals \$</b>	<b>352,205,131.15 \$</b>	<b>392,592,898.85 \$</b>	<b>374,965,452.82</b>





Investment Performance Report - December 2011

**DC Water  
Finance Division  
Investments – Issuer Allocation**

	Credit Ratings S&P / Moody's	Book Value		Investment Policy Limit	Compliance with Investment Policy
<b>Bank Deposits</b>					
TD Bank		\$ 52,951,461.24	15.0%	100.0%	Yes
Premier Bank		5,016,842.10	1.4%	100.0%	Yes
Capital One Bank		5,007,804.25	1.4%	100.0%	Yes
<b>Sub-Total Money Market Mutual Funds</b>		<b>62,976,107.59</b>	<b>17.9%</b>	100.0%	Yes
<b>Money Market Mutual Funds</b>					
American Beacon MMF	AAA	1,481,949.21	0.4%	50.0%	Yes
Williams Capital Money Market Fund	AAA	2,500,049.61	0.7%	50.0%	Yes
Merrill Lynch MMF	AAA	3,500,606.14	1.0%	50.0%	Yes
Wells Fargo Advantage Treasury Plus	AAA	11,206,123.87	3.2%	50.0%	Yes
Wells Fargo Government MMF	AAA	8,514,265.90	2.4%	50.0%	Yes
<b>Sub-Total Money Market Mutual Funds</b>		<b>27,202,994.73</b>	<b>7.7%</b>	100.0%	Yes
<b>Commercial Paper</b>					
American Honda Finance Comm Paper	A-1 / P-1	9,997,544.40	2.8%	5.0%	Yes
General Elec Cap Corp Comm Paper	A-1+ / P-1	9,996,230.60	2.8%	5.0%	Yes
Inova Health Systems Comm Paper	A-1+ / P-1	4,748,931.25	1.3%	5.0%	Yes
Northwest University Comm Paper	A-1+ / P-1	9,998,879.15	2.8%	5.0%	Yes
Private Export Fund Comm Paper	A-1 / P-1	9,998,155.55	2.8%	5.0%	Yes
Sumitomo Corp Of America Comm Paper	A-1 / P-1	9,997,361.10	2.8%	5.0%	Yes
Toyota Motor Credit Corp Comm Paper	A-1+ / P-1	9,997,705.60	2.8%	5.0%	Yes
<b>Sub-Total Commercial Paper</b>		<b>64,734,807.65</b>	<b>18.4%</b>	35.0%	Yes
<b>Federal Agencies</b>					
Fannie Mae	AA+ / Aaa	40,587,232.54	11.5%	40.0%	Yes
Freddie Mac	AA+ / Aaa	74,144,633.10	21.1%	40.0%	Yes
Federal Home Loan Bank	AA+ / Aaa	82,559,355.54	23.4%	40.0%	Yes
Federal Farm Credit Bank	AA+ / Aaa	-	0.0%	40.0%	Yes
<b>Sub-Total Federal Agencies</b>		<b>197,291,221.18</b>	<b>56.0%</b>	80.0%	Yes
<b>Total</b>		<b>\$ 352,205,131.15</b>	<b>100.0%</b>		





Investment Performance Report - December 2011

**DC Water  
Finance Division  
Book Value Performance  
As of December 31, 2011**

*The portfolio is in compliance with the Authority's Investment Policy*

	Trailing 1 Months		Trailing 3 Months		Trailing 6 Months		Trailing 12 Months	WAM* (days)	WAM* (years)
	Periodic	Annualized	Periodic	Annualized	Periodic	Annualized			
Total Rate Stabilization Fund	0.05%	0.56%	0.16%	0.65%	0.35%	0.70%	0.45%	36.3	0.10 years
Operating Reserve Accounts	0.05%	0.55%	0.14%	0.57%	0.27%	0.55%	0.52%	358.1	0.98 years
Total Debt Service Reserve	0.05%	0.63%	0.16%	0.62%	0.31%	0.62%	0.62%	308.2	0.84 years
Total CSO LTCP Appropriations Account	0.03%	0.41%	0.12%	0.47%	0.23%	0.45%	0.38%	59.2	0.16 years
2010A Construction Fund	0.02%	0.23%	0.06%	0.25%	0.12%	0.24%	0.25%	33.6	0.09 years
2010A Capitalized Interest Fund	0.06%	0.67%	0.17%	0.66%	0.31%	0.62%	0.46%	418.4	1.15 years
<b>Short-Term</b>	<b>0.04%</b>	<b>0.46%</b>	<b>0.13%</b>	<b>0.50%</b>	<b>0.25%</b>	<b>0.49%</b>	<b>0.38%</b>		
Merrill Lynch 3-Month Treasury Index (Book Value) <sup>1</sup>	0.00%	0.01%	0.00%	0.01%	0.02%	0.03%	0.07%	90.0	0.25 years
<b>Core (1+ Years)</b>	<b>0.08%</b>	<b>0.91%</b>	<b>0.23%</b>	<b>0.90%</b>	<b>0.46%</b>	<b>0.91%</b>	<b>0.85%</b>		
Merrill Lynch 1-3 Year Treasury Index (Book Value) <sup>2</sup>	0.02%	0.27%	0.07%	0.28%	0.16%	0.31%	0.45%	-	1.79 years

(1) The Merrill Lynch 3-Month Treasury Bill is an unmanaged index tracking the on-the-run 3-month Treasury Bill. The index is produced and maintained by Merrill Lynch & Co. Performance for this index is shown on a book value basis.

(2) The Merrill Lynch 1-3 Year Treasury Index is an unmanaged index tracking a basket of U.S. Treasuries with 1 to 3 year maturities. The index is produced and maintained by Merrill Lynch & Co. Performance for this index is shown on a book value basis.

(3) Performance prior to February 2011 provided by the Authority.

\*Weighted average maturity



Investment Performance Report - December 2011

DC Water  
Finance Division  
Portfolio Holdings by Fund

DESCRIPTION	PAR AMOUNT	COUPON RATE	MATURITY DATE	SETTLEMENT DATE	YTM AT COST	ORIGINAL COST	MARKET VALUE + ACCRUED INTEREST	AMORTIZED COST + ACCRUED INTEREST	TOTAL VALUE
<b>Total Rate Stabilization Fund</b>									
TD BANK BANK DEPOSIT	\$ 6,708,561		1/1/2012		1.05%	\$ 6,708,561	\$ 6,708,561	\$ 6,708,561	
GENERAL ELEC CAP CORP COMM PAPER	10,000,000	-	2/29/2012	10/18/2011	0.23%	9,991,439	9,998,630	9,996,231	\$ 16,704,791.71
<b>Operating Reserve Accounts</b>									
TD BANK BANK DEPOSIT	\$ 30,080,415		1/1/2012		1.05%	\$ 30,080,415	\$ 30,080,415	\$ 30,080,415	
CAPITAL ONE BANK	5,007,804		1/1/2012		0.50%	5,007,804	5,007,804	5,007,804	
WILLIAMS CAPITAL MONEY MARKET FUND	2,500,050		1/1/2012		0.01%	2,500,050	2,500,050	2,500,050	
FHLB NOTES	10,000,000	0.625	1/13/2012	12/16/2010	0.37%	10,053,892	10,030,347	10,030,015	
FHLMC DISC NOTE	10,000,000	-	1/20/2012	1/26/2011	0.30%	9,970,582	9,999,852	9,998,443	
INOVA HEALTH SYSTEMS COMM PAPER	4,750,000	-	2/15/2012	11/17/2011	0.18%	4,747,863	4,747,863	4,748,931	
NORTHWEST UNIVERSITY COMM PAPER	5,000,000	-	2/16/2012	11/21/2011	0.15%	4,998,188	4,998,188	4,999,042	
PRIVATE EXPORT FUND COMM PAPER	5,000,000	-	2/21/2012	11/22/2011	0.11%	4,998,610	4,998,060	4,999,221	
PRIVATE EXPORT FUND COMM PAPER	5,000,000	-	2/29/2012	11/17/2011	0.13%	4,998,122	4,997,340	4,998,935	
FHLMC NOTES	10,000,000	1.000	8/28/2012	7/27/2010	0.73%	10,068,578	10,086,357	10,051,861	
FHLB NOTES	10,000,000	0.750	8/28/2013	5/18/2011	0.72%	10,008,025	10,068,775	10,014,931	
FREDDIE MAC (CALLABLE) GLOBAL NOTES	10,000,000	0.500	10/18/2013	10/18/2011	0.56%	9,987,200	10,000,069	9,998,631	
FHLB TAP BONDS	10,000,000	3.125	12/13/2013	5/19/2011	0.99%	10,675,134	10,494,665	10,426,927	
FHLB NOTES (CALLABLE)	9,000,000	2.000	4/25/2014	4/27/2011	1.49%	9,134,740	9,081,501	9,075,641	
FHLMC NOTES (CALLABLE)	10,000,000	0.875	11/14/2014	11/18/2011	0.87%	10,000,972	10,018,814	10,011,424	
FNMA NOTES (CALLABLE)	10,000,000	0.800	11/21/2014	11/21/2011	0.83%	9,992,000	10,008,379	10,001,182	\$ 146,943,451.44
<b>Total Debt Service Reserve</b>									
WELLS FARGO GOVERNMENT MMF	\$ 461,270		1/1/2012		0.01%	\$ 461,270	\$ 461,270	\$ 461,270	
MERRILL LYNCH MMF	3,500,606		1/1/2012		0.06%	3,500,606	3,500,606	3,500,606	
FHLB TAP BONDS	4,600,000	5.000	3/9/2012	6/22/2010	0.76%	4,997,236	4,712,684	4,708,257	
FHLMC NOTES	10,000,000	0.515	11/26/2012	11/22/2010	0.64%	9,981,294	10,031,517	9,993,746	
FHLB TAP BONDS	5,000,000	3.125	12/13/2013	5/25/2011	0.87%	5,354,034	5,247,333	5,225,341	\$ 23,889,219.90



Investment Performance Report - December 2011

DC Water  
Finance Division  
Portfolio Holdings by Fund

DESCRIPTION	PAR AMOUNT	COUPON RATE	MATURITY DATE	SETTLEMENT DATE	YTM AT COST	ORIGINAL COST	MARKET VALUE + ACCRUED INTEREST	AMORTIZED COST + ACCRUED INTEREST	TOTAL VALUE
<b>Series 2010A Bond Construction Fund</b>									
WELLS FARGO ADVANTAGE TREASURY PLUS	\$ 7,815,674		1/1/2012		0.01%	\$ 7,815,674	\$ 7,815,674	\$ 7,815,674	
WELLS FARGO GOVERNMENT MMF	10,989,801		1/1/2012		0.01%	10,989,801	10,989,801	10,989,801	
FNMA GLOBAL NOTES	27,500,000	2.000	1/9/2012	1/26/2011	0.30%	27,969,272	27,771,523	27,773,125	
SUMITOMO CORP OF AMERICA COMM PAPER	10,000,000	-	1/26/2012	10/18/2011	0.38%	9,989,444	9,998,050	9,997,361	
AMERICAN HONDA FINANCE COMM PAPER	10,000,000	-	2/22/2012	11/17/2011	0.17%	9,995,419	9,994,510	9,997,544	
TOYOTA MOTOR CREDIT CORP COMM PAPER	10,000,000	-	2/29/2012	11/21/2011	0.14%	9,996,111	9,997,780	9,997,706	
FHLMC NOTES	22,500,000	1.720	3/14/2012	1/26/2011	0.37%	22,985,250	22,687,318	22,676,536	
									\$ 99,247,746.58
<b>Series 2010A Bond Construction Fund- Cap I</b>									
WELLS FARGO ADVANTAGE TREASURY PLUS	\$ 237,322		1/1/2012		0.01%	\$ 237,322	\$ 237,322	\$ 237,322	
WELLS FARGO GOVERNMENT MMF	216,322		1/1/2012		0.01%	216,322	216,322	216,322	
FHLMC GLOBAL NOTES	1,400,000	2.125	3/23/2012	3/16/2011	0.27%	1,440,656	1,414,364	1,413,992	
FHLB GLOBAL BONDS	1,400,000	1.625	9/26/2012	3/16/2011	0.43%	1,436,191	1,420,054	1,418,284	
FHLB TAP BONDS	1,400,000	3.875	3/8/2013	3/16/2011	0.70%	1,488,359	1,475,896	1,469,433	
FNMA NOTES	1,400,000	1.125	9/30/2013	3/16/2011	0.97%	1,412,681	1,422,057	1,407,724	
FNMA NOTES (EX-CALLABLE)	1,400,000	1.250	3/14/2014	3/16/2011	1.19%	1,402,617	1,428,639	1,405,201	
									\$ 7,568,279.50
<b>Total CSO LTCP Appropriations Account</b>									
TD BANK BANK DEPOSIT	\$ 16,162,485		1/1/2012		1.05%	\$ 16,162,485	\$ 16,162,485	\$ 16,162,485	
PREMIER BANK DEPOSIT	5,016,842		1/1/2012		0.24%	5,016,842	5,016,842	5,016,842	
AMERICAN BEACON MMF	1,481,949		1/1/2012		0.03%	1,481,949	1,481,949	1,481,949	
NORTHWEST UNIVERSITY COMM PAPER	5,000,000	-	1/10/2012	10/18/2011	0.13%	4,998,483	4,999,850	4,999,838	
FHLB TAP BONDS	10,000,000	1.125	3/9/2012	6/21/2010	0.84%	10,080,075	10,053,410	10,040,334	
FHLB GLOBAL BONDS	10,000,000	2.250	4/13/2012	3/7/2011	0.32%	10,301,743	10,107,880	10,103,346	
FHLB TAP BONDS	10,000,000	1.375	6/8/2012	11/22/2010	0.50%	10,197,461	10,062,035	10,046,848	
									\$ 57,851,642.02
						\$ 353,830,773.74	\$ 352,532,837.44	\$ 352,205,131.15	\$ 352,205,131.15



Investment Performance Report - December 2011

DC Water  
Finance Division  
Security Transactions  
Last 6 Months

ACCOUNT	CUSIP	DESCRIPTION	PAR	COUPON	MATURITY DATE	SETTLE DATE	YTM	TRANSACTION AMOUNT
<b>Purchases</b>								
DC WASA 2010A CONSTRUCTION FUND	25153KV F1	DEUTSCHE BANK FINL LLC COMM PAPER	5,000,000	-	08/15/11	07/14/11	0.081	\$ 4,999,644.44
DC WASA 2010A CONSTRUCTION FUND	86561AA S6	SUMITOMO CORP OF AMERICA COMM PAPER	10,000,000	-	01/26/12	10/18/11	0.386	\$ 9,989,444.44
DC WASA 2010A CONSTRUCTION FUND	02665JBN9	AMERICAN HONDA FINANCE COMM PAPER	10,000,000	-	02/22/12	11/17/11	0.172	\$ 9,995,419.44
DC WASA 2010A CONSTRUCTION FUND	89233GBV7	TOYOTA MOTOR CREDIT CORP COMM PAPER	10,000,000	-	02/29/12	11/21/11	0.142	\$ 9,996,111.11
DC WASA OPERATING RESERVE ACCOUNTS	6323A1XB7	NATIXIS COMM PAPER	5,000,000	-	10/11/11	07/06/11	0.284	\$ 4,996,227.78
DC WASA OPERATING RESERVE ACCOUNTS	45778NBF0	NOVA HEALTH SYSTEMS COMM PAPER	4,750,000	-	02/15/12	11/17/11	0.183	\$ 4,747,862.50
DC WASA OPERATING RESERVE ACCOUNTS	66844CBG8	NORTHWEST UNIVERSITY COMM PAPER	5,000,000	-	02/16/12	11/21/11	0.152	\$ 4,998,187.50
DC WASA OPERATING RESERVE ACCOUNTS	7426M2BM2	PRIVATE EXPORT FUND COMM PAPER	5,000,000	-	02/21/12	11/22/11	0.112	\$ 4,998,609.72
DC WASA OPERATING RESERVE ACCOUNTS	7426M4BV8	PRIVATE EXPORT FUND COMM PAPER	5,000,000	-	02/29/12	11/17/11	0.132	\$ 4,998,122.22
DC WASA OPERATING RESERVE ACCOUNTS	3134G2W73	FREDDIE MAC (CALLABLE) GLOBAL NOTES	10,000,000	0.500	10/18/13	10/18/11	0.565	\$ 9,987,200.00
DC WASA OPERATING RESERVE ACCOUNTS	3134G24Y5	FHLMC NOTES (CALLABLE)	10,000,000	0.875	11/14/14	11/18/11	0.875	\$ 10,000,972.22
DC WASA OPERATING RESERVE ACCOUNTS	3135G0FT5	FNMA NOTES (CALLABLE)	10,000,000	0.800	11/21/14	11/21/11	0.827	\$ 9,992,000.00
DC WASA TOTAL CSO LTCP APPROPRIATIONS	86561BX75	SUMITOMO CORP OF AMERICA COMM PAPER	5,000,000	-	10/07/11	07/07/11	0.193	\$ 4,997,572.22
DC WASA TOTAL CSO LTCP APPROPRIATIONS	3024A7XH8	FCA R OWNER TRUST COMM PAPER	5,000,000	-	10/17/11	07/06/11	0.193	\$ 4,997,281.94
DC WASA TOTAL CSO LTCP APPROPRIATIONS	66844CAA2	NORTHWEST UNIVERSITY COMM PAPER	5,000,000	-	01/10/12	10/18/11	0.132	\$ 4,998,483.33
DC WASA RATE STABILIZATION FD	36959HBV8	GENERAL ELEC CAP CORP COMM PAPER	10,000,000	-	02/29/12	10/18/11	0.233	\$ 9,991,438.89

Securities highlighted in **blue font** denote trades executed during the current month.

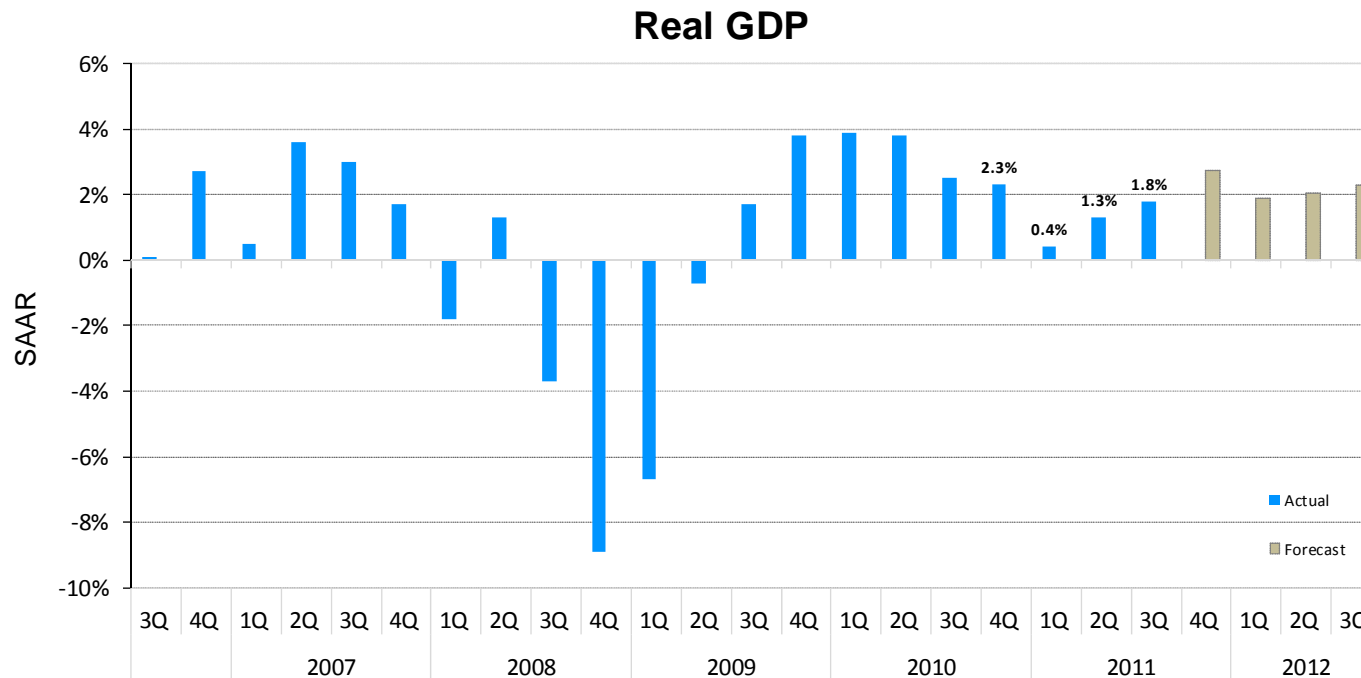


# Appendix: Economic Update



## Economic Growth Revised Lower

- GDP growth for the 3<sup>rd</sup> quarter was revised lower from an initial reading of 2.5% to 1.8%.
- Economists have raised their 4<sup>th</sup> quarter estimates for GDP to 2 ¾%.

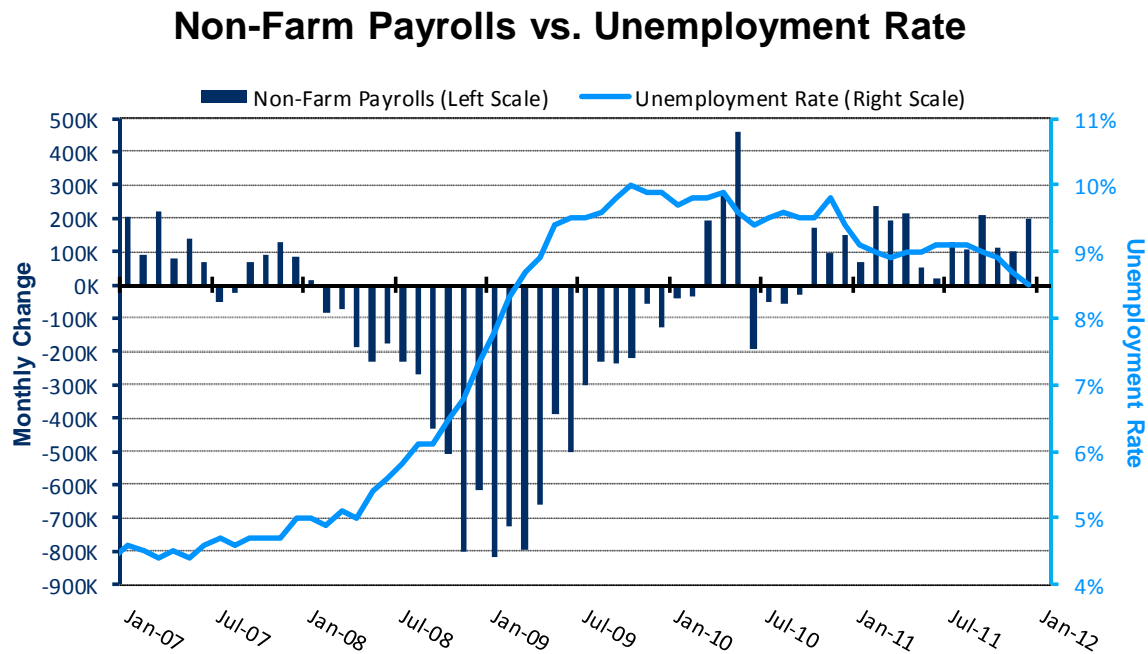


Source: Bloomberg



## Job Creation Continues Its Steady Pace

- In December, the economy added 200,000 new jobs bringing the total number of new jobs in 2011 to 1.6 million.
- The unemployment rate improved to 8.5%.



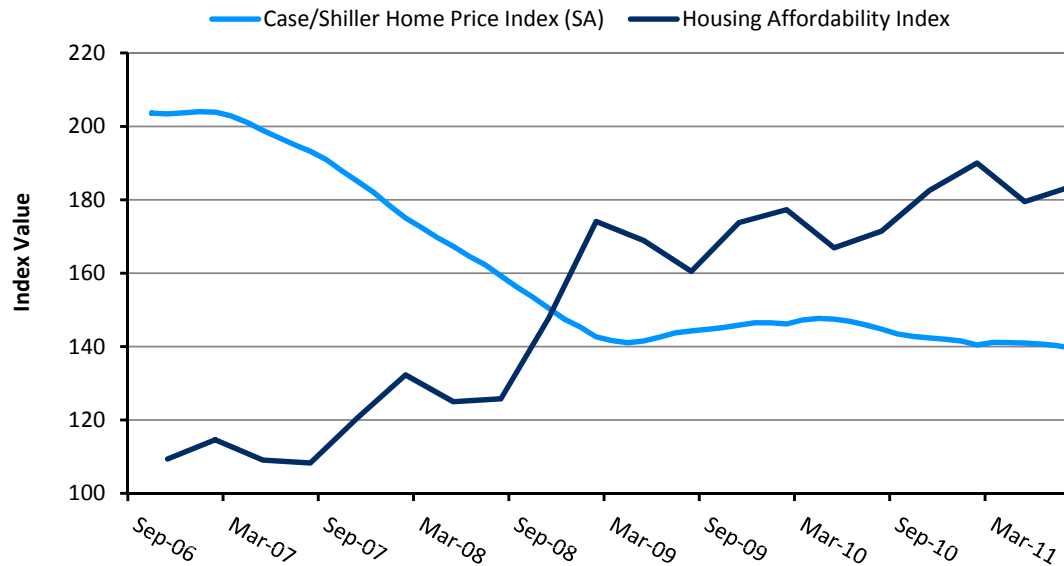
Source: Bloomberg



## Declining Prices and Low Rates Make Housing Affordable

- Since the housing peak in 2006, falling home prices and low mortgage rates have made homes more affordable.
- However, elevated unemployment, stagnating household incomes, strict lending standards, and large amounts of consumer debt continue to hamper home sales.

### Home Prices vs. Housing Affordability



Source: Bloomberg

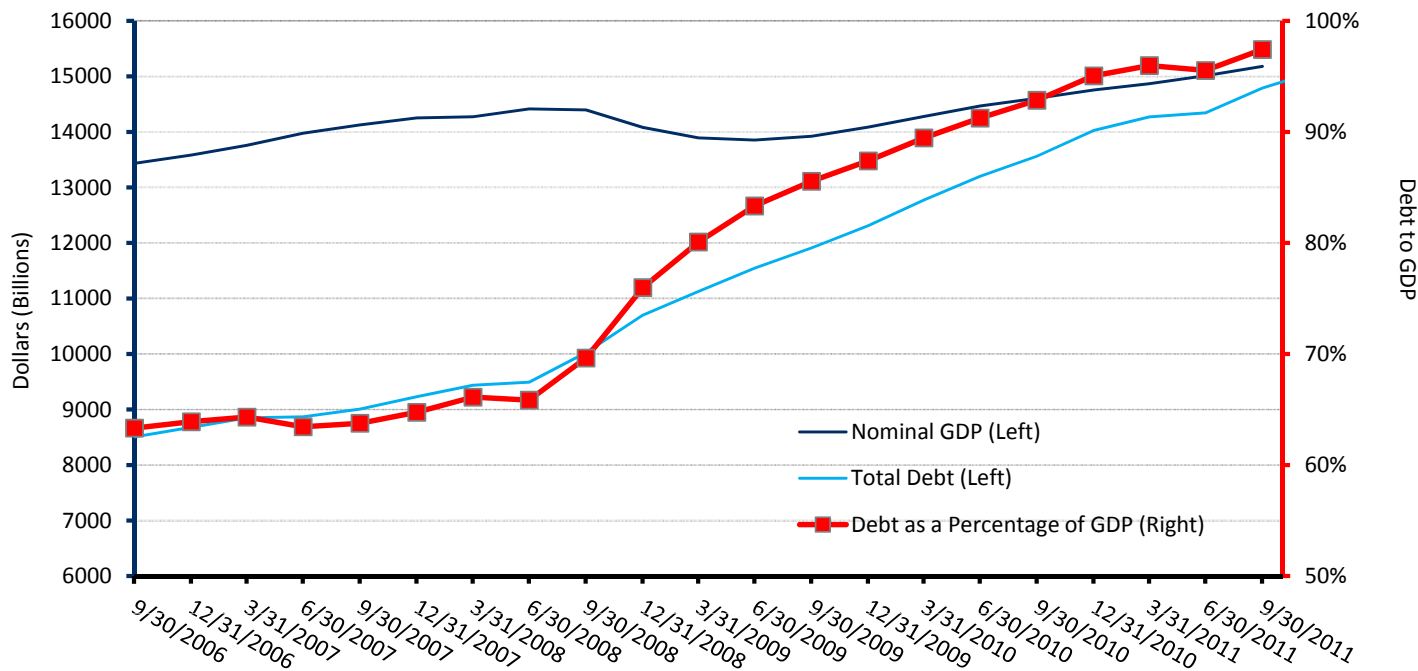




## Total Federal Debt Reaches Annual GDP

- On January 9<sup>th</sup>, total U.S. Federal Debt was \$15.23 trillion, when the \$4.7 trillion owed to Social Security and other government beneficiaries is included.
- The U.S. Federal Debt is now higher than the annual GDP for the United States.

### US Debt as a Percentage of GDP



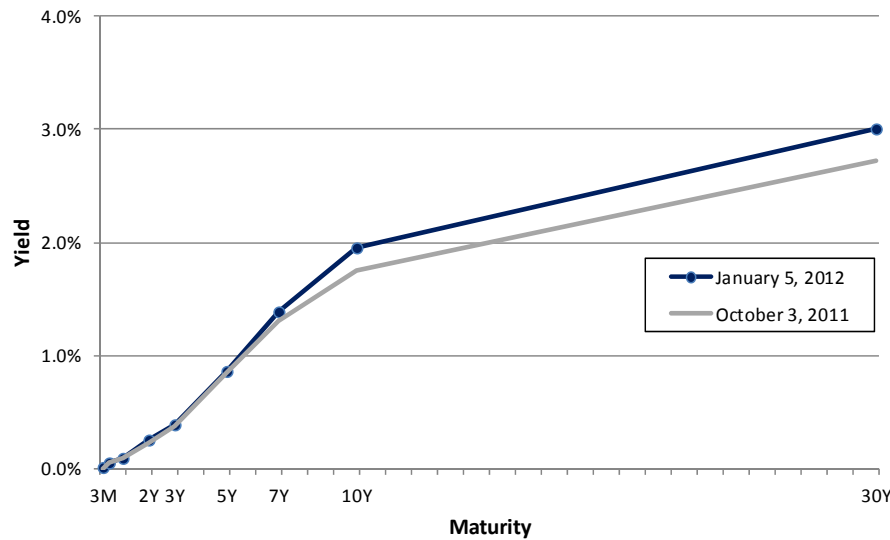
Source: Bloomberg, USA Today



## Continued Low Interest Rates

- Interest rates remain at historically low levels.
- The Federal Reserve continues to reiterate that economic conditions are likely to warrant “exceptionally low” rates through mid-2013.

U.S. Treasury Yield Curve



	10/3/11	1/5/12	Change
3 month	-0.01%	0.01%	0.02%
6 month	0.05%	0.05%	0.01%
1 year	0.10%	0.10%	0.00%
2 year	0.23%	0.26%	0.02%
3 year	0.37%	0.38%	0.02%
5 year	0.85%	0.86%	0.00%
10 year	1.76%	1.95%	0.20%
30 year	2.72%	3.01%	0.28%

Source: Bloomberg

# DC Water

## 2012 Revenue Bonds Update to Finance and Budget Committee

January 26, 2012





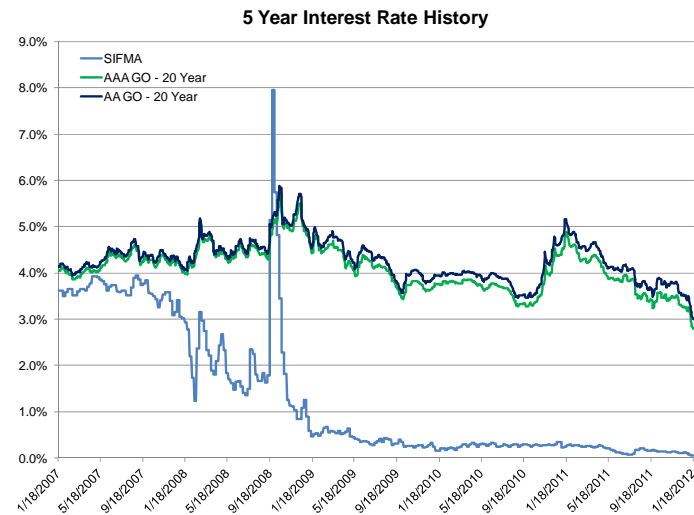
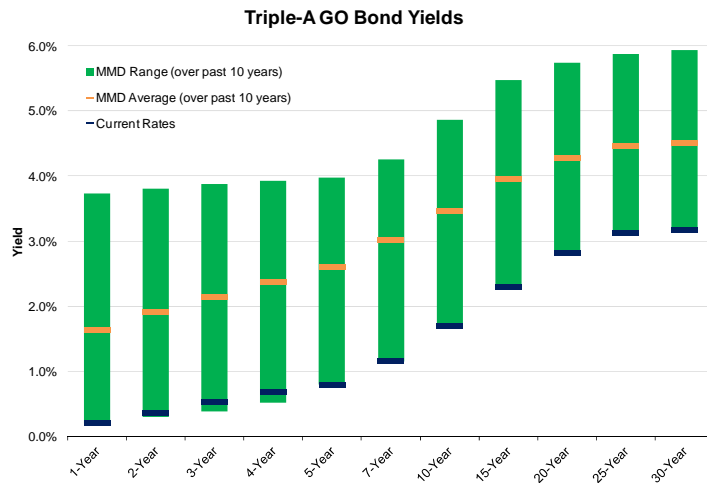
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# Historical Tax-Exempt Interest Rates

- Short-term and Long-term tax-exempt interest rates are now at all-time historical lows

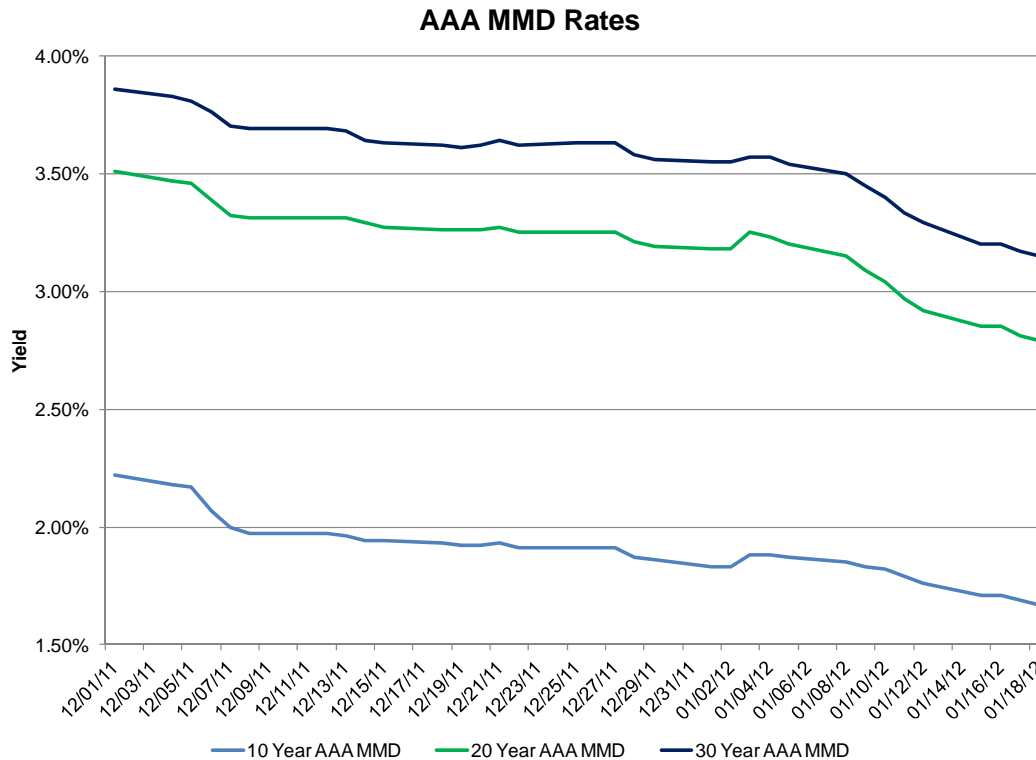


Source: Thomson Municipal Market Monitor, as of 1/18/12.



## Recent Interest Rate Movements

- Tax-exempt rates have rallied significantly since December, falling over 50 bps throughout the yield curve



- Flight to quality of US Treasuries from Europe also bolstering the bond market
- Demand for municipal bonds continues to outstrip supply
- Significant bond redemptions and mutual fund inflows pushing tax-exempt rates lower

Source: Thomson Municipal Market Monitor, as of 1/18/12.



# Structuring of the Series 2012 Bonds

## Current Finance Plan

### Size of Borrowing

- \$300 million of net new money proceeds to fund next 12-18 months of capital needs
- At least \$200 million in fixed rate mode, with up to \$100 million of variable rate issuance

### Expected Structuring Parameters for New Money

- Use of subordinate lien, which has been working lien for DC Water
- Benefits of subordinate lien are:
  - Historically low spread to senior lien, with no investor issues at this time
  - Provides future flexibility to issue senior lien when credit spreads are wider
  - No DSRF required, with no associated negative arbitrage
- Variable rate debt in the form of multi-modal bonds, initially in SIFMA indexed note mode

### Refinancing Opportunity

- Authorize up to \$180 million of refunding bonds to refinance Series 2003 Bonds
- Evaluating present value savings, option value, and negative arbitrage to make final decision on the refunding candidates



## Structuring of the Series 2012 Bonds

	Fixed Rate (New Money)	SIFMA Notes (New Money)	Fixed Rate (Refunding)
<b>Series</b>	2012A	2012B	2012C
<b>Par Amount (\$)</b>	181,965,000	101,310,000	164,980,000
<b>Proceeds (\$)</b>	200,000,000	100,000,000	193,531,196
<b>Debt Service in Years</b>	2013 - 2038	2012 - 2045	2013 - 2034
<b>Average Life (years)</b>	15.56	29.36	17.18
<b>All-In-TIC*</b>	3.55%	Variable*	3.63%
<b>Average Annual Debt Service*</b>	12,524,850	4,510,722*	N/A
<b>Average Annual Savings</b>	N/A	N/A	1,154,386

Rates as of 1/18/12

\*Assumes 10 year average SIFMA Index for SIFMA Notes at 1.62%





# Structuring of the Series 2012 Bonds

## Refunding Opportunities

- DC Water has refunding opportunities in several maturities of the Series 2003 bonds
- Although savings as a percentage of refunded par are high, option value remains relatively low
- Refunding savings are approximately \$15.1 million on a net present value basis
- Savings and option value thresholds for refunding the bonds will be set at a high threshold to reflect the significant negative arbitrage
- Negative Arbitrage associated with the advance refunding is ~\$7.9 million

Description	Dates	Issue	Issue	Call Provisions	Savings			Option Value	Cumulative Results			
Series	Maturity	Par Amount	Coupon	Date	Gross	PV	% of Par	% of Par	Refunded Par	Refunding Par	PV Savings	% of Par
Series 2003	10/1/2024	25,000,000	5.13%	10/1/2013	4,203,228	3,416,839	13.67%	68.82%	25,000,000	23,044,074	3,416,839	13.67%
Series 2003	10/1/2025	13,730,000	5.13%	10/1/2013	2,189,656	1,747,398	12.73%	64.74%	38,730,000	35,813,073	5,164,238	13.33%
Series 2003	10/1/2026	14,330,000	5.13%	10/1/2013	2,137,392	1,676,111	11.70%	60.43%	53,060,000	49,265,281	6,840,349	12.89%
Series 2003	10/1/2029	5,000,000	5.25%	10/1/2013	697,938	529,765	10.60%	53.47%	58,060,000	54,079,001	7,370,114	12.69%
Series 2003	10/1/2027	12,185,000	5.00%	10/1/2013	1,493,805	1,142,598	9.38%	53.37%	70,245,000	65,592,238	8,512,712	12.12%
Series 2003	10/1/2028	12,795,000	5.00%	10/1/2013	1,426,736	1,076,617	8.41%	49.12%	83,040,000	77,778,885	9,589,329	11.55%
Series 2003	10/1/2029	12,760,000	5.00%	10/1/2013	1,311,284	978,619	7.67%	45.80%	95,800,000	90,007,855	10,567,948	11.03%
Series 2003	10/1/2030	18,660,000	5.00%	10/1/2013	1,742,564	1,290,846	6.92%	42.37%	114,460,000	108,002,368	11,858,795	10.36%
Series 2003	10/1/2031	19,590,000	5.00%	10/1/2013	1,603,541	1,187,593	6.06%	38.42%	134,050,000	127,025,747	13,046,388	9.73%
Series 2003	10/1/2032	20,570,000	5.00%	10/1/2013	1,431,312	1,071,039	5.21%	34.42%	154,620,000	147,140,118	14,117,427	9.13%
Series 2003	10/1/2033	21,600,000	5.00%	10/1/2013	1,211,472	934,277	4.33%	29.85%	176,220,000	168,413,669	15,051,704	8.54%

- DC Water may generate additional savings by waiting to refund these maturities in the future
- PFM recommends continuing to monitor and update analysis as pricing approaches



# Structuring of the Series 2012 Bonds

## Assets and Liabilities Matching Program and Potential Variable Rate Debt

- Facts and Assumptions
  - Reduce risk and lower costs by matching the amount of DC Water’s permanent assets earning short-term interest rates with an equal amount of Bonds paying tax-exempt variable rates
  - Variable rate debt in the form of SIFMA index notes, pending further analysis
- Current short-term rates near historical lows
  - Limits the amount of investment income
  - Creates significant cost/risk to DC Water, as nearly all of DC Water’s debt is fixed-rate and long-term

Assets
<ul style="list-style-type: none"> <li>• Approximately \$225 million in cash</li> <li>• Rate Stabilization Fund of \$16 million</li> <li>• Bond proceeds of ~\$100-200 million</li> </ul>

Liabilities
<ul style="list-style-type: none"> <li>• \$35.2 million Commercial Paper debt outstanding</li> <li>• \$225 million Commercial Paper Program (\$150 million tax-exempt, \$125 million taxable)</li> <li>• Estimate for additional draws on CPs</li> </ul>



# Overview of Alternative Variable-Rate Products

	VRDBs with Bank Facility	SIFMA-Index Bonds (Hard or Soft Put)	Fixed-Rate Put Bonds (Hard Put or Soft Put)
Interest Rate:	Remarketed at a new rate weekly or daily	Fixed spread to SIFMA determined at pricing	Fixed rate until mandatory tender when bonds may be remarketed with fixed or variable-rate bonds
Maturity/Tender Period:	Long nominal maturity with investor right to tender	Long nominal maturity; mandatory tenders in 1 -7 years	Long nominal maturity; mandatory tenders in 1 -10 years
Investor Right To Tender:	Daily or weekly investor tenders	Mandatory tender on pre-determined dates	Mandatory tender on pre-determined dates
Extension Rate or Failed Remarketing Rate (Bank Bond Rate)	By formula, at Bank Bond rates for an extension period	Remarketing rate or a fail rate in the event of a failed remarketing	9 -12% for soft puts
Optional Redemption:	Anytime	Six months prior to mandatory tender date	None prior to mandatory tender date
Minimum Ratings:	Generally, Single-A or better	Generally, Single-A or better	N/A
Mechanics:	Stated long nominal maturity with rates reset on a daily or weekly basis	Bonds must be paid or refinanced prior to or on the mandatory tender date. If there is a failed remarketing, investors receive a pre-specified penalty rate (soft put) or there is an event of default (hard put)	Fixed rate bond until mandatory tender. At the mandatory tender date, the bonds may be remarketed with any mode of new bonds. If there is a failed remarketing investors receive a pre-specified penalty rate (soft put) or there is an event of default



# Basic Mechanics of SIFMA Indexed Bonds

- Variable rate bonds would be long-term multi-modal bonds (including the SIFMA indexed rate mode, as well as traditional weekly and fixed rate modes)
- In the SIFMA Indexed rate mode, interest is determined by weekly SIFMA resets plus the fixed spread
  - Interest rate is calculated every Wednesday (based on that day's SIFMA rate reset) and effective Thursday through the following Wednesday
  - Interest is paid monthly
  - Maximum interest rate is 12%
- The initial term of the SIFMA indexed rate mode is set for 2-5 years
  - The spread to the SIFMA index increases as the final term does, but is set through negotiation with investors
  - The key consideration is the requirement for DC Water to remarket the bonds when the initial term comes due:
    - Either penalty rate (soft put) or event of default (hard put) occurs if DC Water cannot remarket bonds
    - DC Water will use two separate put dates, and will maintain significant cash reserves, CP capacity and market access to greatly minimize this risk

**NEW ISSUE INFORMATION**

Bond Rating: AAA  
 Moody's: A++  
 Fitch: AA+

See "Market Access"

In the opinion of Citicorp, Managers of Morgan Stanley ("Morgan Stanley"), based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of the information and conditions set forth herein, interest on the Series 2011B and 2011C Bonds is subject to the provisions of the Internal Revenue Code, including Section 1031 of the Internal Revenue Code of 1986 (the "Code"). In the further opinion of Morgan Stanley, interest on the Series 2011B and 2011C Bonds is not a taxable preference item for purposes of the federal estate tax or corporate alternative minimum tax. Bond Covenants, however, do not constitute a contract for the Series 2011B and 2011C Bonds is included in adjusted taxable income when calculating corporate alternative minimum taxable income. Bond Covenants also state that interest on the Series 2011B and 2011C Bonds is exempt from all taxation of the District of Columbia, except sales, inheritance and gift taxes. Bond Covenants require an opinion regarding any other tax consequences related to the ownership or disposition of or the receipt or receipt of interest on, the Series 2011B and 2011C Bonds. See "TAX CONSEQUENCES."

**\$241,750,000**

**DISTRICT OF COLUMBIA**

(Washington, D.C.)

Series	Issue Size	Interest Rate	Term
Series 2011B	\$120,875,000	5.00%	5 Years
Series 2011C	\$120,875,000	5.00%	5 Years

Issue Date: 10/1/11

Final Payment: 1, subject to the table above page

This issue page contains certain information for your reference only. It is not a summary of the Official Statement and is not intended to constitute an offer of securities. It is not intended to be relied upon in making an investment decision.

The names of existing bonds, tax-exempt bonds, revenue bonds, Series 2011B (the "Series 2011B Bonds"), Series 2011C (the "Series 2011C Bonds") and Series 2011D (the "Series 2011D Bonds"), are listed in the Series 2011B and 2011C Bonds. The Series 2011B and 2011C Bonds are subject to the provisions of the Internal Revenue Code, including Section 1031 of the Internal Revenue Code of 1986 (the "Code"). In the further opinion of Morgan Stanley, interest on the Series 2011B and 2011C Bonds is not a taxable preference item for purposes of the federal estate tax or corporate alternative minimum tax. Bond Covenants, however, do not constitute a contract for the Series 2011B and 2011C Bonds is included in adjusted taxable income when calculating corporate alternative minimum taxable income. Bond Covenants also state that interest on the Series 2011B and 2011C Bonds is exempt from all taxation of the District of Columbia, except sales, inheritance and gift taxes. Bond Covenants require an opinion regarding any other tax consequences related to the ownership or disposition of or the receipt or receipt of interest on, the Series 2011B and 2011C Bonds. See "TAX CONSEQUENCES."

The proceeds of the Series 2011B Bonds will be used to repay with interest other bonds of the District, to (i) currently valued \$10,000,000 of the outstanding principal amount of the District's Series 2011B (the "Series 2011B Bonds") and Series 2011C (the "Series 2011C Bonds") and Series 2011D (the "Series 2011D Bonds") and (ii) use the cash and proceeds of sales and discounts of the Series 2011B Bonds, Series 2011C Bonds and Series 2011D Bonds will be used, together with certain other funds of the District, to (i) address certain of the needs of the District's General Obligation Bonds, Series 2011B, Series 2011C, Series 2011D, Series 2011E, Series 2011F, Series 2011G, Series 2011H, Series 2011I, Series 2011J, Series 2011K, Series 2011L, Series 2011M, Series 2011N, Series 2011O, Series 2011P, Series 2011Q, Series 2011R, Series 2011S, Series 2011T, Series 2011U, Series 2011V, Series 2011W, Series 2011X, Series 2011Y, Series 2011Z, Series 2011AA, Series 2011AB, Series 2011AC, Series 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2011ZY, Series 2011ZZ

**Morgan Stanley**  
Investment Banker

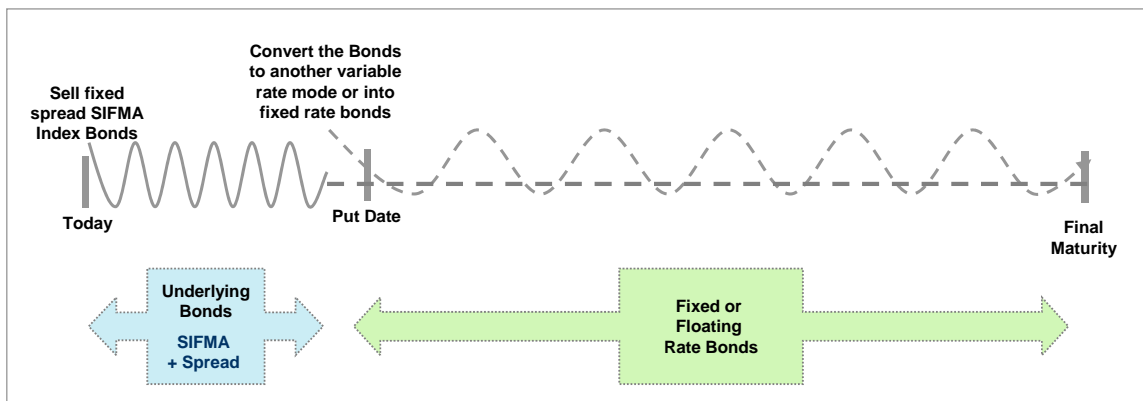
**Loop Capital Markets**  
Investment Banker



## Call Feature for the SIFMA Indexed Mode

- During the SIFMA index mode, the bonds are subject to optional redemption 6 months prior to put date
  - 6 month window to refinance
  - Minimizes risk of lack of market access, given larger refinancing window
  - If DC Water cannot remarket the bonds in another mode or refinance the bonds at the put date of the initial mode, then DC Water could use its cash or CP capacity to purchase the bonds temporarily

### SIFMA Indexed Bonds – Mechanics





# Balancing Variable-Rate Risks and Costs

## Risk Comparison of Variable Rate Alternatives

	Bank Facility-Backed VRDBs	SIFMA Index Bonds (Hard or Soft Put)	Soft Put Fixed-Rate Bonds
Interest Rate Risk	✓	✓	✓ <sup>(1)</sup>
Issuer Credit Risk	✓	✓ <sup>(1)</sup>	✓ <sup>(1)</sup>
Refinancing Risk	✓	✓ <sup>(1)</sup>	✓
Put Risk	✓	✓	✓
Availability of Bank Facility Capacity	✓		
Bank Renewal/Rollover Risk	✓		
Bank Credit Risk	✓		

- DC Water and its advisors have evaluated the risk of each variable-rate product
- The bonds in SIFMA indexed note mode fully remove bank facility risks
- The rate for SIFMA Index Bonds is reset each week “passively” by the changes in the SIFMA Index together with the fixed spread and no remarketing agent is required; Put Bond rates reset only at the mandatory tender Date

## Principal Cost and Structure Considerations

- SIFMA Index mode Bonds structured with put features will require “balloon indebtedness” or short-term indebtedness features to comply the Indenture indenture
- Put bonds (hard or soft puts) will have a fixed coupon/yield until the mandatory tender date and must be remarketed in the future into another mode or new put bonds
- SIFMA Index Bonds structured with bullet maturities will have a slightly lower fixed spread than SIFMA Index Bonds structured with put features

(1) Only upon refinancing on the maturity date or mandatory tender date



## Considerations for Variable Rate Component

**There are a number of technical and policy considerations that DC Water has considered in setting up the variable rate component:**

- Variable rate debt capacity:
  - Match with short-term assets to achieve risk-reducing asset/liability match
  - Rating agency allowances in their credit criteria
- Legal Considerations:
  - Indenture Treatment of put bonds (Balloon Indebtedness)
  - Additional Bonds Test and Rate Covenant calculations for variable rate debt
- Rating Agency Treatment:
  - Ability to show rating agencies that DC Water has sufficient liquidity and market access to limit hard put risk
  - Must have a positive or neutral impact to DC Water rating calculus
- Application to finance plan:
  - Lowers cost of the overall debt, given the short term rates near 0%
  - Optimized the financial structure with regard to placement of the fixed rate debt



## Marketing Plan

### **DC Water has a multifaceted plan to bolster ratings and enhance investor outreach:**

- Rating Agency Strategy:
  - Focus rating meetings on DC Water’s credit strengths
  - Highlight improvements since last meeting during 2010 BABs issuance
  - Rating meetings are tentatively set for February 21-22 at DC Water with all three rating agencies
- Investor Relations:
  - Investor Meetings – One-on-one meetings with potential institutional investors in New York in early February
  - NetRoadshow – Online presentation that can be accessed by investors during the marketing period of the 2012 Bonds
- Media Campaign (under consideration):
  - Print advertisements in Washington Post and Express newspapers
  - Radio commercials
  - Targeted online advertising campaign





## Documentation

### **DC Water's Budget and Finance Committee will be asked to approve the following documents in February:**

- Authorizing resolution, including parameters for the new money and refunding bonds
- Supplemental Indenture(s) of Trust relating to the fixed rate, multi-modal variable rate, and refinancing bonds
- Preliminary Official Statement (one for all series)
- Bond Purchase Agreement(s) relating to the three series of bonds
- Escrow Agreement
- Continuing Disclosure Agreement

**DC Water's Board will vote on these documents at the March meeting, assuming approval at the F&B Committee. DC Water will not release the POS prior to approval of the legal documents.**



## Preliminary Financing Schedule

Date	Activity
December – early February	Structuring and Documentation
Friday, February 17 <sup>th</sup>	Investor meetings in New York
February 21 <sup>st</sup> and 22 <sup>nd</sup>	Rating Agency Meetings at DC Water
Thursday, February 23 <sup>rd</sup>	Budget and Finance Committee Approval of financing documents and structure for 2012 Bonds
Week of February 27 <sup>th</sup>	Receive DC Auditor certification
Thursday, March 1 <sup>st</sup>	Board approval of bond documents
Week of March 5 <sup>th</sup>	POS and NetRoadshow Posted
Wednesday, March 14 <sup>th</sup>	Bond Pricing
Wednesday, March 28 <sup>th</sup>	Bond Closing





District of Columbia  
Water and Sewer Authority

Financial Statements and  
Independent Auditor's Report  
Years Ended September 30, 2011  
and 2010

**TCBA**

**THOMPSON, COBB, BAZILIO & ASSOCIATES, PC**  
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**DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY**

**Financial Statements With Independent Auditor's Report**

**September 30, 2011 and 2010**

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1101 15<sup>th</sup> Street, NW • Suite 400 • Washington, DC 20005 • (202)737-3300 • (202)737-2684 Fax

### **Independent Auditor's Report**

Board of Directors

District of Columbia Water and Sewer Authority:

We have audited the accompanying statements of net assets of the District of Columbia Water and Sewer Authority (the Authority), a component unit of the District of Columbia as of September 30, 2011 and 2010, and the related statements of revenues, expenses and change in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 audits provide 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 Authority as of September 30, 2011 and 2010, and changes in its financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages two through thirteen is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Washington, DC  
December 15, 2011

*Thompson, Cobb, Bazilio & Associates, PC*

## DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

### Management's Discussion and Analysis

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This section of the District of Columbia Water and Sewer Authority's ("DC Water" or the "Authority") annual financial report presents the analysis of the Authority's financial performance during the fiscal year that ended on September 30, 2011. The Management's Discussion and Analysis ("MD&A") should be read in conjunction with the Authority's basic financial statements, beginning on page 14.

#### HIGHLIGHTS

##### Financial Highlights – 2011

- The Authority's net assets increased by \$44.7 million to \$1.1 billion, or 4.4 percent, as a result of fiscal year 2011 operations and capital contributions (see "Analysis of Net Assets" on page 5).
- Operating expenses increased by \$10.6 million to \$319.3 million, or 3.5 percent due to increases in: personnel services, contractual services, and depreciation and amortization expense, partially offset by reductions in chemicals and water purchases (see "Expenses" on pages 9 and 10).
- Operating revenues increased by \$44.5 million to \$408.3 million or 12.2 percent primarily due to increased revenues from residential and commercial customers, Federal government and wholesale wastewater charges.
- Current assets increased by \$18.8 million to \$266.1 million, or 7.6 percent, primarily due to an increase in cash and cash equivalents and receivables from other jurisdictions, partially offset by a decrease in receivables from the Federal government.
- Restricted assets increased by \$124.4 million to \$281.2 million, or 79.3 percent, primarily due to proceeds from issuance of the 2010 revenue bonds.
- Net utility plant (capital assets) increased by \$275.2 million to \$3.1 billion, or 9.9 percent due to a planned increase in capital expenditures in line with the Authority's approved \$3.8 billion, 10-year capital improvement program.
- The Authority's long-term debt, including current maturities, increased \$282.2 million to \$1.5 billion, or 22.7 percent, primarily due to the \$300.0 million bond issuance in October 2010.

##### Financial Highlights - 2010

- The Authority's net assets increased by \$8.2 million to \$1.0 billion, or 0.8 percent, as a result of fiscal year 2010 operations and capital contributions (see "Analysis of Net Assets" on page 5).
- Operating expenses increased by \$15.3 million to \$308.7 million, or 5.2 percent due to increases in: personnel services, contractual services, water purchases and depreciation and amortization expense (see "Expenses" on pages 9 and 10).
- Operating revenues increased by \$31.4 million to \$363.7 million or 9.4 percent primarily due to increased revenues from residential and commercial customers, Federal government and wholesale wastewater charges.
- Current assets decreased by \$64.1 million to \$247.4 million, or 20.6 percent, primarily due to decrease in investment balances and decrease in receivables from the Federal government and other jurisdictions.
- Restricted assets decreased by \$120.5 million to \$156.8 million, or 43.5 percent, primarily due to planned draw downs on the 2009 construction fund account during the year.
- Net utility plant (capital assets) increased by \$196.5 million to \$2.8 billion, or 7.6 percent due to a planned increase in capital expenditures in line with the Authority's approved \$3.8 billion, 10-year capital improvement program.
- The Authority's long-term debt, including current maturities, decreased by \$14.1 million to \$1.253 billion, or 1.1 percent, primarily due to principal payments of \$13.1 million on the series 1998 bonds and the general obligation bonds.

## DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

### Management's Discussion and Analysis

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#### Authority Highlights - 2011

*Bond Issuance* – On October 20, 2010, DC Water completed a successful launch of its \$300.0 million Build America taxable bonds. These bonds were issued at total net interest rate of approximately 3.6 percent. This is the lowest rate ever issued in the Authority's history for long-term bonds and will save our rate payers approximately \$2.7 million annually compared to issuing traditional tax exempt bonds.

*Senior Service Debt Coverage* – DC Water's policy requires that senior debt service coverage be maintained at a minimum of 140 percent, 20 percent higher than indenture requirements. DC Water's senior debt service coverage in 2011 was 319 percent. Combined debt service coverage was at 144 percent.

*Rate Increase* – Effective October 1, 2010, the Board approved an increase of the Authority's retail water and sewer rates by 12.5 percent. This increase was in line with the Board's rate setting policy which strives to set rates so that each customer is charged for those costs necessary to provide each service, and rate increases are predictable and gradual.

*Accounts Receivable* – In fiscal year 2011, retail accounts receivable over 90 days were aggressively managed to maintain a low level at \$5.5 million, \$0.6 million above the all-time low level, despite a difficult economic environment and the retail water and sewer rate increase of 12.5 percent in fiscal year 2011.

#### Authority Highlights - 2010

*Commercial Paper Program* – In June 2010, the Authority closed on its \$225 million Commercial Paper Program. The program consists of three series - Series A \$100 million tax-exempt, Series B \$50 million tax-exempt and Series C \$75 million taxable for purposes of interim financing designed to provide flexibility between longer term bond issuance cycles. Under this program, the Authority issues fixed rate, short-term (no greater than 270 days) notes to provide liquidity and credit support for the notes. The Authority has entered into an irrevocable letter of credit with J. P. Morgan Chase Bank for Series A and B, and with U.S. Bank for Series C.

*Bond Rating Upgrade* – In October 2010, Fitch Ratings and Standard & Poor's Corporation reaffirmed the Authority's AA senior bond rating and Moody's Investors Service reaffirmed the Authority's Aa2 senior bond rating. This rating reaffirms the Authority's record of sound financial performance and serves to reduce the cost of future borrowings, resulting in lower customer bills.

*Rate Increase* – Effective October 1, 2009, DC Water implemented a retail water and sewer rate increase of 9.0 percent. Effective October 1, 2010, the Board approved an increase of the Authority's retail water and sewer rates by 12.5 percent. These increases were in line with the Board's rate setting policy which strives to set rates so that each customer is charged for those costs necessary to provide each service, and rate increases are predictable and gradual.

In April 2009, the Authority launched an impervious area charge ("IAC") billing program to more equitably recover the \$2.6 billion cost associated with the federally mandated Combined Sewer Overflow ("CSO") Long Term Control Plan. The Authority unbundled its retail sewer rate structure and implemented a separate charge to distribute the cost of maintaining storm sewers and protecting area waterways. In fiscal year 2010, the Authority modified the program through the introduction of a six-tier impervious area charge residential rate structure designed to more equitably distribute the cost recovery needed for the CSO Long Term Control Plan. It is expected that over 90 percent of the Authority's customers will have no increase or a lower IAC under the new structure.

## DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

### Management's Discussion and Analysis

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*Accounts Receivable* – In fiscal year 2010, “Retail Accounts Receivable over 90 Days” continued on its excellent low trend to \$5.1 million, \$0.2 million above the all-time low level of \$4.9 million achieved at September 30, 2009. Continued focus on improvements in the customer billing system and several customer service and collections initiatives have directly contributed to this result.

*Rate Stabilization Fund* – The Authority decreased its rate stabilization fund to \$16.7 million at the end of fiscal year 2010, with a drawdown of approximately \$11.9 million during fiscal year 2010. The Board's rate setting policy and the Authority's indenture allow for contributions to this account annually as cash reserves and debt service coverage permit. The balance in this account will be used in future years to smooth out peak rate increases at the Authority's discretion. The Rate Stabilization Fund is in addition to the Board-required six-month operating and maintenance reserve.

### USING THIS ANNUAL REPORT

This annual report consists of three sections: Management's Discussion and Analysis; the Financial Statements; and Notes to the Financial Statements that explain in more detail some of the information in the Financial Statements.

### Required Financial Statements

- The Statement of Net Assets is the first required statement; it includes the Authority's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and nature and extent of obligations (liabilities) with the difference between them being reported as net assets. It also provides the basis for computing the rates of return, evaluating the capital structure of the Authority, and assessing the liquidity and financial flexibility of the Authority.
- The Statement of Revenues, Expenses, and Change in Net Assets is the second required financial statement which demonstrates the changes in net assets from one fiscal period to another by accounting for revenues and expenditures and measuring the financial results of operations. This statement measures the profitability (i.e. change in net assets) of the Authority's operations over the past year and can be used to determine whether the Authority has successfully recovered all of its costs through its user fees and other charges.
- The final required financial statement is the Statement of Cash Flows. The primary purpose of this statement is to provide information about the Authority's cash receipts, cash payments, and net changes in cash and cash equivalents resulting from operations, investing, and capital and non-capital financing activities. It also provides information regarding sources of cash, uses of cash, and changes in cash balances during the reporting period.
- Notes to the audited financial statements contain information essential to understanding them, such as the Authority's significant accounting policies and information about certain financial statement account balances.



**DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY****Management's Discussion and Analysis****FINANCIAL ANALYSIS OF THE AUTHORITY AS A WHOLE**

The Statement of Net Assets and the Statement of Revenues, Expenses and Change in Net Assets report information about the Authority's financial condition. The Authority's net assets, i.e., the difference between assets and liabilities, are a measure of financial health or financial position. Over time, increases or decreases in the Authority's net assets are one indicator of whether its financial health is improving or deteriorating. However, other non-financial factors such as changes in economic conditions, population growth, and new or changed legislation also need to be considered in assessing the Authority's financial condition.

**Table 1**  
**Condensed Statements of Net Assets**  
**(\$ in 000's)**

	FY 2011	FY 2010	FY 2009
Utility plant, net	\$ 3,052,296	\$ 2,777,125	\$ 2,580,669
Current and other assets	818,429	651,590	804,513
Total assets	<u>3,870,725</u>	<u>3,428,715</u>	<u>3,385,182</u>
Current liabilities	274,512	215,377	209,959
Long-term debt outstanding	1,530,174	1,250,442	1,269,391
Long-term liabilities	993,821	935,421	886,574
Total liabilities	<u>2,798,507</u>	<u>2,401,240</u>	<u>2,365,924</u>
Net assets			
Invested in utility plant, net of debt	946,868	880,934	806,276
Restricted	62,505	44,333	44,710
Unrestricted	62,845	102,208	168,272
Total net assets	<u>\$ 1,072,218</u>	<u>\$ 1,027,475</u>	<u>\$ 1,019,258</u>

**Analysis of Net Assets**

The Authority's total assets exceeded liabilities by \$1.1 billion and \$1.0 billion for the fiscal years ended September 30, 2011 and 2010, respectively. The Authority's net assets include its investment of \$946.7 million and \$880.9 million in utility plant (e.g., infrastructure, buildings, equipment and fleet) for the fiscal years ended September 30, 2011 and 2010, respectively; less any related outstanding debt used to acquire those assets. The Authority uses these capital assets to provide services to its customers. Although the Authority's investment in its utility plant 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 liquidated for these liabilities. An additional portion of the Authority's net assets, \$62.5 million and \$44.3 million represents resources that are subject to external restrictions (primarily related to the Authority's bond indentures) on how they may be used. The remaining balance of \$62.8 million and \$102.2 million for the fiscal years ended September 30, 2011 and 2010, respectively, are unrestricted.

## DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

## Management's Discussion and Analysis

**Table 2**  
**Statements of Revenues,**  
**Expenses, and Change in Net Assets**  
**(\$ in 000's)**

	FY 2011	FY 2010	FY 2009
Revenues			
Operating revenues:			
Residential, commercial and multi-family customers	\$ 241,475	\$ 209,796	\$ 191,543
Federal government	43,033	37,845	35,195
District government and D.C. Housing Authority	25,123	21,947	16,804
Charges for wholesale wastewater treatment	90,414	87,505	85,519
Other	8,210	6,655	3,337
	<u>408,255</u>	<u>363,748</u>	<u>332,398</u>
Non-operating revenues:			
Interest income	2,008	1,561	2,285
Total revenues	<u>410,263</u>	<u>365,309</u>	<u>334,683</u>
Expenses			
Operating expenses:			
Personnel services	93,240	88,210	82,248
Contractual services	68,286	66,747	61,277
Chemicals, supplies and small equipment	28,188	29,003	29,074
Utilities and rent	29,429	29,929	32,813
Depreciation and amortization	70,209	64,425	59,291
Water purchases	27,170	27,587	25,371
Other	2,769	2,750	3,236
Total operating expenses	<u>319,291</u>	<u>308,651</u>	<u>293,310</u>
Non-operating expenses			
Interest expense and fiscal charges	71,613	58,370	51,431
Payment in lieu of taxes and right of way fee	21,990	20,474	19,183
Total non-operating expenses	<u>93,603</u>	<u>78,844</u>	<u>70,614</u>
Total expenses	<u>412,894</u>	<u>387,495</u>	<u>363,924</u>
Income before Federal grants and contributions	(2,631)	(22,186)	(29,241)
Federal grants and contributions	<u>47,374</u>	<u>30,403</u>	<u>27,752</u>
Change in net assets	44,743	8,217	(1,489)
Net assets, beginning of year	<u>1,027,475</u>	<u>1,019,258</u>	<u>1,020,747</u>
Net assets, end of year	<u>\$ 1,072,218</u>	<u>\$ 1,027,475</u>	<u>\$ 1,019,258</u>

## DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

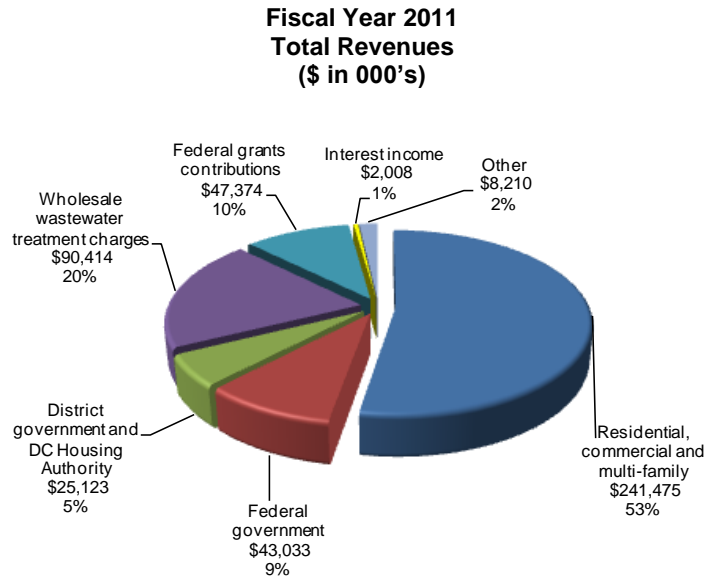
### Management's Discussion and Analysis

#### Analysis of Change in Net Assets

The Authority's financial performance remained stable in fiscal year 2011 with net assets exceeding \$1.1 billion, an increase of \$44.7 million over fiscal year 2010, including Federal grants and contributions. Excluding non-operating revenues (expenses) and Federal grants and contributions, which can vary significantly from year to year based on capital spending and other factors, operating income was \$89.0 million, an increase of \$33.9 million compared to fiscal year 2010 (see Statements of Revenues, Expenses and Change in Net Assets on page 15).

#### Total Revenues

Total revenues (including federal grants and interest income) were \$457.6 million in fiscal year 2011, an increase of \$61.9 million, or 15.6 percent over fiscal year 2010. This is primarily due to increases of \$31.7 million from retail customers, \$5.2 million from the federal government, \$3.2 million from the district government, \$2.9 from wholesale wastewater charges, and \$1.6 million from other revenue sources, and \$17.0 million from Federal grant contributions.



A detailed analysis of operating and non-operating revenue variances follows:

- Water and wastewater user charges from residential, commercial and multi-family customers increased by \$31.7 million to \$241.5 million, or 15.1 percent over fiscal year 2010, primarily due to a rate increase in fiscal year 2011.
- Water and wastewater user charges from Federal government customers were \$43.0 million in fiscal year 2011, an increase of \$5.2 million or 13.7 percent, primarily due to a rate increase in fiscal year 2011.
- Water and wastewater user charges from the District government and the District of Columbia Housing Authority were \$25.1 million, an increase of \$3.2 million, or 14.5 percent primarily due to a rate increase in fiscal year 2011.

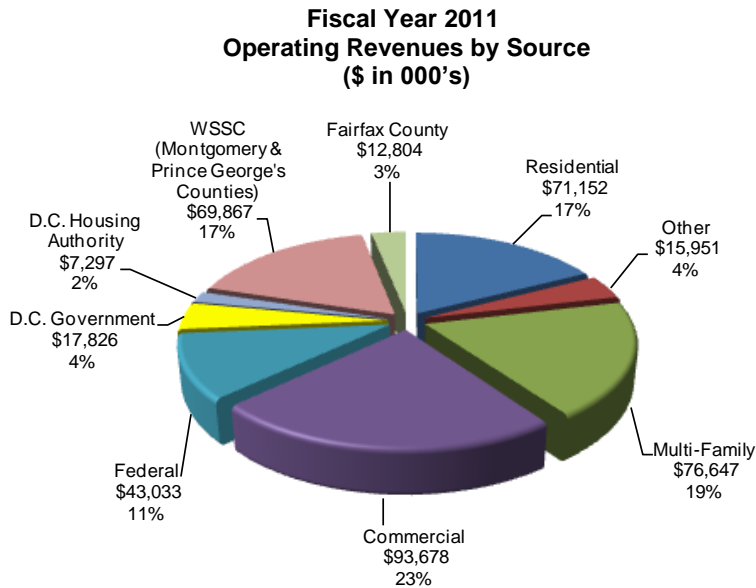
## DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

### Management's Discussion and Analysis

- Wholesale wastewater treatment charges were \$90.4 million, an increase of \$2.9 million, or 3.3 percent over fiscal year 2010, primarily due to increased revenues from IMA participants. According to the Blue Plains Intermunicipal Agreement ("IMA") (see Note 1), wholesale customers pay a share of both the operating and capital costs of the plant. The payments for capital costs are amortized and recognized as income over the depreciable life of assets purchased (i.e., 60 years).
- Interest income, a non-operating revenue item, was \$2.0 million, an increase of \$0.4 million, or 28.6 percent over the prior year, primarily due to increased holdings of cash and investments.
- Federal grant contributions were \$47.4 million, an increase of \$17.0 million, or 55.8 percent compared to last year, primarily due to increased capital construction spending in fiscal year 2011 on grant-eligible combined sewer overflow projects.

### Diversity and Stability of Operating Revenues

The Authority's operating revenue base is very diverse, including established customers such as the Federal government, the District government, surrounding jurisdictions in Maryland and Virginia, and commercial and residential customers within the District. As shown on the chart below, no one category accounts for more than 23 percent of total revenues.



(a) Other revenues include \$5.3 million from Loudoun County, \$1.5 million for special billing projects and \$2.5 from Potomac interceptor billings.

A description of each revenue source as well as a discussion of recent trends in each category follows:

- Revenues from commercial and multi-family customers in the District comprise approximately 42.0 percent of the Authority's total operating revenues. Commercial revenues are reliable due to the presence of many national associations, government consulting firms, and colleges and universities in the District. The commercial customer category also includes multi-family dwellings.

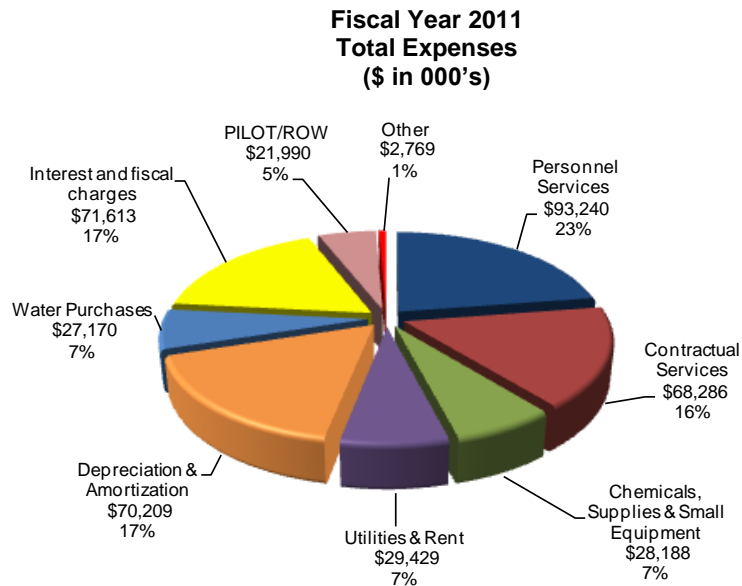
## DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

### Management's Discussion and Analysis

- The Authority provides wastewater conveyance and treatment services to Montgomery and Prince George's Counties in Maryland through the Washington Suburban Sanitary Commission ("WSSC") and Fairfax and Loudoun Counties in Northern Virginia. Operating revenues from WSSC and Fairfax County account for 20.0 percent of the Authority's revenues and are based primarily on their share of operating costs at Blue Plains. Loudoun County and Potomac Interceptor customers account for an additional 2.0 percent of the Authority's revenues and are included in other revenues. Operating costs are allocated to each user based on its sewer flows and purchased capacity at Blue Plains.
- Residential customers in the District account for 17.0 percent of total revenues.
- Payments from the Federal government comprise 11.0 percent of the Authority's total operating revenues and include customers such as the U.S. Congress, the Smithsonian Institution, and a range of federal departments and agencies.
- Revenues from the Government of the District of Columbia and the District of Columbia Housing Authority make up 6.0 percent of total operating revenues.

### Expenses

Operating expenses increased by \$10.6 million, or 3.5 percent, primarily due to a \$5.0 million increase in personnel services; a \$5.8 million increase in depreciation and amortization expense, and a \$1.5 million increase in contractual services. These increases were offset by a \$0.8 million decrease in chemicals, supplies and small equipment; a \$0.5 million decrease in utilities and rent; and a \$0.4 million decrease in water purchases.



## DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

### Management's Discussion and Analysis

A detailed analysis of the operating expenses follows:

- Personnel services were \$93.2 million, an increase of \$5.0 million, or 5.7 percent over the prior year, primarily due to increases in wages in addition to health and retirement benefit costs.
- Contractual services were \$68.3 million, an increase of \$1.5 million, or 2.3 percent over the prior year, primarily due to increased systems support costs and energy management pilot activities.
- Utilities and rent expenses were \$29.4 million, a decrease of \$0.5 million, or 1.7 percent compared to the prior year, primarily due to savings in electricity costs attributable to the adopted block purchasing strategy and a decline in influent flows into the treatment facilities.
- Depreciation and amortization expenses were \$70.2 million, an increase of \$5.8 million, or 9.0 percent over the prior year, in line with the increase in capital assets due to the capital improvement program.
- Water purchases were \$27.2 million, a decrease of \$0.4 million, or 1.5 percent compared to the prior year, primarily due to a 2.3 percent decrease in water consumption.
- Interest expense and fiscal charges were \$71.6 million, an increase of \$13.2 million, or 22.7 percent over last year, primarily due to the additional interest expense from the 2010 revenue bond issuance.

### UTILITY PLANT AND DEBT ADMINISTRATION

#### Utility Plant

At the end of fiscal year 2011, the Authority had \$3.1 billion invested in a broad range of capital assets (utility plant), including its wastewater collection, wastewater treatment and water distribution systems. This amount represents a net increase of nearly \$275.2 million, or 9.9 percent over the prior year due to continued capital spending in accordance with the capital improvement program.

Table 3 summarizes the Authority's utility plant, net of accumulated depreciation, at September 30, 2011, 2010 and 2009. The changes are presented in detail in Note 4 to the financial statements.

**Table 3 – Utility Plant  
Net of Accumulated Depreciation  
(\$ in 000's)**

	FY 2011	FY 2010	FY 2009
Wastewater treatment plant	\$ 1,839,010	\$ 1,822,320	\$ 1,604,064
Wastewater collection facilities	689,575	598,404	551,694
Water distribution system	863,474	800,861	744,842
Capital equipment	155,770	144,307	138,207
Construction-in-progress	485,497	327,738	400,826
Less accumulated depreciation	(981,030)	(916,505)	(858,964)
Net utility plant	<u>\$ 3,052,296</u>	<u>\$ 2,777,125</u>	<u>\$ 2,580,669</u>

**DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY****Management's Discussion and Analysis****Debt Administration**

At the end of fiscal year 2011, the Authority had a total of \$1.5 billion in debt outstanding, an increase of \$282.2 million, or 22.7 percent, over fiscal year 2010 (see Note 10 for more information on long-term debt).

**Table 4 – Long-Term Debt Outstanding**  
As of September 30, 2011  
(\$ in 000's)

<b>SENIOR DEBT</b>	<b>INTEREST RATES</b>	<b>YEAR OF FINAL MATURITY</b>	<b>AMOUNT OUTSTANDING</b>
1998 public utility revenue bonds	5.50 - 6.00%	2028	\$ 229,315
2009 public utility revenue bonds series A	3.00 - 6.00%	2039	298,225
<b>SUBTOTAL SENIOR DEBT</b>			<u>527,540</u>
<b>SUBORDINATE DEBT</b>			
2010 public utility revenue bonds series A	4.07 - 5.52%	2044	300,000
2008 public utility revenue bonds series A	4.00 - 5.00%	2034	285,540
2007 public utility revenue bonds series A	4.75 - 5.50%	2042	218,715
2003 public utility revenue bonds	5.00 - 5.25%	2033	176,220
Notes payable to the federal government for Jennings Randolph Reservoir	3.25%	2041	14,603
Notes payable to WSSC for Little Seneca Reservoir	5.98 - 6.60%	2014	104
1993 District of Columbia general obligation bonds	5.40 - 6.00%	2012	245
<b>TOTAL SUBORDINATE DEBT</b>			<u>995,427</u>
<b>TOTAL DEBT OUTSTANDING</b>			1,522,967
<b>CURRENT PORTION OF DEBT OUTSTANDING</b>			<u>(18,721)</u>
<b>DEBT OUTSTANDING, LESS CURRENT PORTION</b>			<u>\$ 1,504,246</u>

Long-term debt outstanding as presented on the accompanying statements of net assets includes net unamortized bond premiums and discounts of \$25.9 million as of September 30, 2011.

In October 2010, the Authority issued public utility subordinate lien revenue bonds (Series 2010A) with a face value of \$300.0 million utilizing 35% the federal subsidy from the Build America Bonds program. The negotiated sale for the 2010A Bonds yielded an all-in true interest cost of 3.6 percent, which is the lowest yield DC Water has obtained on long-term financing. Approximately \$214.0 million was issued to fund costs of certain capital improvements, including \$2.4 million for cost of issuance and underwriter's discount. In addition, approximately \$86.0 million was issued to fund the Digester Project, including \$10.4 million for capitalized interest.

In February 2009, the Authority issued senior lien public utility revenue bonds (Series 2010A) with a face value of \$300.0 million which are due in 2039. The interest rate on these securities is fixed and will have an effective average rate of 5.5% over the life of the bonds. There was \$1.4 million of original issue premium and approximately \$2.4 million for the cost of issuance, bond insurance and underwriter's discount costs associated with this issuance.

**DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY**

**Management’s Discussion and Analysis**

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In April 2008, the Authority refunded the 2004 and 2007 Series B subordinated public utility revenue bonds for \$295.0 million and \$59.0 million, respectively. Simultaneously, the Authority issued subordinated lien public utility revenue bonds (Series 2009A) with a face value of \$290.4 million which are due in 2034. The interest rate on these securities is fixed and has an effective average rate of 4.7% over the life of the bonds. There was \$11.7 million of original issue premium and approximately \$5.9 million for the cost of issuance, bond insurance and underwriter’s discount costs associated with this issuance. The scheduled payments of principal and interest on the Series 2009A bonds are guaranteed by a municipal bond insurance policy issued by the Assured Guaranty Program.

In June 2007, the Authority issued \$218.7 million of tax-exempt subordinated lien public utility revenue bonds (Series 2007A bonds) and \$59.0 million of taxable subordinated lien public utility revenue bonds (Series 2007B). Gross proceeds from the Series 2007A bonds totaled \$234.9 million, including \$15.7 million of original issue premium. Approximately \$30.0 million was used to repay outstanding commercial paper, and \$2.8 million was used to pay underwriter’s discount, insurance and the cost of issuance. The scheduled payments of principal and interest on Series 2007A bonds are guaranteed by a municipal bond insurance policy issued by the Financial Guaranty Insurance Company (“FGIC”) (see below). Gross proceeds from the Series 2007B bonds totaled \$59.0 million which were refunded in fiscal year 2009.

In August 2003, the Authority issued subordinated lien public utility revenue bonds (Series 2003 Bonds). Gross proceeds from the Series 2003 bonds totaled \$176.2 million, including \$3.4 million of original issue discount and \$2.8 million for the cost of issuance. Approximately \$70.0 million was used to fund various capital projects, and \$100.0 million was used to repay outstanding commercial paper. The scheduled payments of principal and interest on the Series 2003 bonds are guaranteed by a municipal bond insurance policy issued by FGIC. During fiscal year 2009, FGIC was downgraded below investment grade. As a result, the Authority obtained a direct pay letter of credit from TD Bank N.A. to supplement the Series 2003 Subordinated Debt Service Reserve fund surety provided by FGIC.

In April 1998, the Authority issued its first series of senior lien revenue bonds in the amount of \$266.0 million (Series 1998 bonds). Gross proceeds from the Series 1998 bonds totaled \$285.2 million, including \$18.8 million of an original issue premium. Approximately \$77.2 million was used to fund new capital projects and \$181.0 million was used to repay the outstanding balances of a revolving line of credit, certain notes payable to the Federal government, and to advance refund the Authority’s share of certain District of Columbia general obligation bonds.

Current Authority debt outstanding includes notes payable to the Federal government for the Washington Aqueduct and Jennings Randolph Reservoir; notes payable to the Washington Suburban Sanitary Commission for the Little Seneca Lake; and District of Columbia General Obligation bonds, in addition to outstanding revenue bonds and commercial paper.

**Table 5  
DC Water Bond Ratings**

Moody’s Investors’ Service	Aa2	Stable Outlook
Standard & Poor’s Corporation	AA	Stable Outlook
Fitch Ratings	AA	Stable Outlook

In November 2001, the Authority closed on its \$100.0 million commercial paper program. This program provides interim financing for a portion of the Authority’s approved \$3.8 billion capital improvement program. Other financing sources include long-term revenue bonds, United States Environmental Protection Agency grants, wholesale customer contributions, and pay-as-you-go financing. Under the commercial paper



## DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

### Management's Discussion and Analysis

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program, the Authority issues fixed-rate, short-term (no greater than 270 days) notes. The Authority's commercial paper program is backed by a direct pay letter of credit issued by Westdeutsche Landesbank Girozentrale ("West LB"). The notes are rated based on West LB's rating; in effect the letter of credit of the bank substitutes the Authority's security with the paying ability of the bank, enhancing the appeal and marketability of the notes. There was \$35.2 million in outstanding taxable and tax-exempt commercial paper at the end of fiscal year 2011.

**Table 6**  
**DC Water Commercial Paper Ratings**

Moody's Investors' Service	P1
Standard & Poor's Corporation	SP-1+
Fitch Ratings	F1+

### RATES

Effective October 1, 2010, the Authority raised its retail water and wastewater rates by 12.5 percent. The Authority's approved ten-year financial plan includes projected rate increases of 4.0 percent to 6.5 percent and also includes projected revisions to its metering and right-of-way / payment in lieu of taxes pass-through fees.

### CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our customers and creditors with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Office of the Chief Financial Officer at 5000 Overlook Avenue, S.W. Washington D.C. 20032 or call 202-787-2000. A copy of this report is also available on DC Water's web site at [www.dcwater.com](http://www.dcwater.com).

**DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY**

Statements of Net Assets  
September 30, 2011 and 2010  
(In thousands)

<b>Assets</b>	<b>2011</b>	<b>2010</b>
<b>Current assets:</b>		
Cash and cash equivalents (note 3)	\$ 112,944	\$ 81,069
Investments (note 3)	69,764	70,255
Customer receivables, net of allowance for doubtful accounts of \$14,350 in 2011 and \$11,975 in 2010 (note 7)	39,252	39,742
Due from Federal government (note 6)	20,505	40,077
Due from other jurisdictions (note 8)	16,202	8,531
Inventory	7,264	7,339
Prepaid assets	204	371
<b>Total current assets</b>	<b>266,135</b>	<b>247,384</b>
<b>Noncurrent assets:</b>		
Restricted assets (note 3):		
Cash and cash equivalents	98,054	116,786
Investments	183,121	40,027
<b>Total restricted cash equivalents and investments</b>	<b>281,175</b>	<b>156,813</b>
Utility plant (note 4):		
In-service	3,547,829	3,365,892
Less accumulated depreciation	(981,030)	(916,505)
<b>Net utility plant in service</b>	<b>2,566,799</b>	<b>2,449,387</b>
Construction-in-progress	485,497	327,738
<b>Net utility plant</b>	<b>3,052,296</b>	<b>2,777,125</b>
Other noncurrent assets:		
Purchased capacity, net of accumulated amortization of \$60,543 in 2011 and \$55,591 in 2010 (note 5)	247,050	223,687
Unamortized bond issuance costs	17,430	15,716
Due from other jurisdictions, net of allowance for doubtful accounts of \$305 in 2011 and \$187 in 2010 (note 8)	6,639	7,990
<b>Total other noncurrent assets</b>	<b>271,119</b>	<b>247,393</b>
<b>Total noncurrent assets</b>	<b>3,604,590</b>	<b>3,181,331</b>
<b>Total assets</b>	<b>3,870,725</b>	<b>3,428,715</b>
<b>Liabilities</b>		
<b>Current liabilities:</b>		
Accounts payable and accrued expenses	119,850	88,684
Compensation payable (note 9)	16,748	15,043
Accrued interest	39,945	32,289
Due to jurisdictions	8,500	6,500
Due to District government (note 13)	1,563	382
Due to Storm Water Fund (note 13)	417	132
Deferred revenue	33,568	25,354
Commercial paper notes payable (note 11)	35,200	29,200
Current maturities of long-term debt (note 10)	18,721	17,793
<b>Total current liabilities</b>	<b>274,512</b>	<b>215,377</b>
<b>Noncurrent liabilities:</b>		
Deferred revenue	918,787	852,010
Deferred revenue - combined sewer overflow	43,314	62,843
Other liabilities (note 12)	31,720	20,568
Long-term debt, excluding current maturities (note 10)	1,530,174	1,250,442
<b>Total noncurrent liabilities</b>	<b>2,523,995</b>	<b>2,185,863</b>
<b>Total liabilities</b>	<b>2,798,507</b>	<b>2,401,240</b>
<b>Net Assets</b>		
Invested in utility plant, net of related debt	946,868	880,934
Restricted for:		
Debt service	50,872	34,747
Capital projects	11,633	9,586
Unrestricted	62,845	102,208
<b>Total net assets</b>	<b>\$ 1,072,218</b>	<b>\$ 1,027,475</b>

The notes to the basic financial statements are an integral part of these financial statements.

**DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY**

Statements of Revenues, Expenses and Change in Net Assets

Years Ended September 30, 2011 and 2010

(In thousands)

	2011	2010
Operating revenues:		
Water and wastewater user charges:		
Residential, commercial and multi-family customers	\$ 241,475	\$ 209,796
Federal government	43,033	37,845
District government and D.C. Housing Authority (note 13)	25,123	21,947
Charges for wholesale wastewater treatment	90,414	87,505
Other	8,210	6,655
<b>Total operating revenues</b>	<b>408,255</b>	<b>363,748</b>
Operating expenses:		
Personnel services	93,240	88,210
Contractual services	68,286	66,747
Chemicals, supplies and small equipment	28,188	29,003
Utilities and rent	29,429	29,929
Depreciation and amortization	70,209	64,425
Water purchases	27,170	27,587
Other	2,769	2,750
<b>Total operating expenses</b>	<b>319,291</b>	<b>308,651</b>
<b>Operating income</b>	<b>88,964</b>	<b>55,097</b>
Non-operating revenues (expenses):		
Interest income	2,008	1,561
Payment in lieu of taxes and right of way fee (note 13)	(21,990)	(20,474)
Interest expense and fiscal charges	(71,613)	(58,370)
<b>Total non-operating revenues (expenses)</b>	<b>(91,595)</b>	<b>(77,283)</b>
Change in net assets before Federal grants and contributions	(2,631)	(22,186)
Federal grants and contributions	47,374	30,403
Change in net assets	44,743	8,217
Net assets, beginning of year	1,027,475	1,019,258
<b>Net assets, ending of year</b>	<b>\$ 1,072,218</b>	<b>\$ 1,027,475</b>

The notes to the basic financial statements are an integral part of these financial statements.

**DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY**

## Statements of Cash Flows

Years Ended September 30, 2011 and 2010

(In thousands)

	2011	2010
Cash flows from operating activities:		
Cash received from customers	\$ 401,510	\$ 346,029
Cash paid to suppliers for goods and services	(154,385)	(145,876)
Cash paid to employees for services	(91,535)	(86,483)
<b>Net cash provided by operating activities</b>	<b>155,590</b>	<b>113,670</b>
Cash flows from capital and related financing activities:		
Proceeds from issuance of revenue bonds	297,580	—
Proceeds from other jurisdictions	82,856	87,097
Repayments of bond principal and notes payable to Federal and District governments	(17,792)	(14,273)
Acquisition of utility plant and purchased capacity	(302,536)	(270,526)
Payments of interest and fiscal charges	(74,715)	(68,224)
Contributions of capital from Federal government	27,485	36,126
Proceeds from issuance of commercial paper	6,000	—
<b>Net cash provided by (used in) capital and related financing activities</b>	<b>18,878</b>	<b>(229,800)</b>
Cash flows from non-capital financing activities:		
Transfers out (payment in lieu of taxes and right of way fee)	(20,618)	(20,474)
<b>Net cash used by non-capital financing activities</b>	<b>(20,618)</b>	<b>(20,474)</b>
Cash flows from investing activities:		
Cash received for interest	1,894	1,330
Investment purchases	(564,757)	(260,421)
Investment maturities	422,156	271,100
<b>Net cash (used in) provided by investing activities</b>	<b>(140,707)</b>	<b>12,009</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>13,143</b>	<b>(124,595)</b>
<b>Cash and cash equivalents (including restricted) at beginning of year</b>	<b>197,855</b>	<b>322,450</b>
<b>Cash and cash equivalents (including restricted) at end of year</b>	<b>\$ 210,998</b>	<b>\$ 197,855</b>
Operating income	\$ 88,964	\$ 55,097
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	70,209	64,425
Change in operating assets and liabilities:		
Decrease in customer and other receivables	183	275
Decrease in inventory	241	2,248
Increase in payables and accrued liabilities	5,729	8,770
Decrease in deferred revenue	(9,736)	(17,145)
<b>Net cash provided by operating activities</b>	<b>\$ 155,590</b>	<b>\$ 113,670</b>

The notes to the basic financial statements are an integral part of these financial statements.

## DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

### Notes to the Financial Statements

September 30, 2011 and 2010

(In \$ thousands)

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#### (1) Reporting Entity

The District of Columbia Water and Sewer Enterprise Fund (the "Fund") was established in 1979 and was operated by the Water and Sewer Utility Administration, a division of the Government of the District of Columbia (the "District") Department of Public Works. The District of Columbia Water and Sewer Authority ("DC Water" or the "Authority"), an independent authority of the District, was created in April 1996 and began operating on October 1, 1996 under and pursuant to an act of the Council of the District entitled the "Water and Sewer Authority and Department of Public Works Reorganization Act of 1996 (as amended)", and an Act of the United States Congress entitled the "District of Columbia Water and Sewer Authority Act of 1996".

The Authority provides water and wastewater services to District residents, businesses, federal and municipal customers, and certain facilities of the Federal government in Virginia and Maryland. DC Water also operates a regional advanced wastewater treatment plant (Blue Plains) and an interceptor trunk line that carries wastewater primarily from Loudoun and Fairfax Counties and Dulles Airport to the Blue Plains wastewater treatment facility.

The Authority's wastewater service territory includes over 2.1 million people in Montgomery and Prince George's Counties in Maryland, Fairfax and Loudoun Counties in Virginia, and the District. The Blue Plains Intermunicipal Agreement ("IMA") was executed in September 1985 among the District; Fairfax County, Virginia; and the Washington Suburban Sanitary Commission ("WSSC"), which comprises Montgomery and Prince George's Counties in Maryland (collectively referred to as the Participants). The IMA provided for the expansion of the Plant's processing capacity to 370 million gallons per day. The IMA also provided for the allocation of capital, operating, and maintenance costs among the Participants. Capital costs of the Plant are allocated among the Participants in proportion to their respective wastewater treatment capacity allocation as defined in the IMA. Operating costs are allocated based on wastewater flows from each participant.

The Loudoun County Sanitation Authority and the Potomac Interceptor Group also purchase wastewater services from the Authority. The Potomac Interceptor Group consists of the Town of Vienna, Virginia; the U.S. Park Service; the Department of the Navy; and the Metropolitan Washington Airports Authority (Dulles Airport).

The Authority purchases water from the Washington Aqueduct (the "Aqueduct"), which is owned by the U.S. Government and operated by the U.S. Army Corps of Engineers under the direction of the Secretary of the Army. The Aqueduct operates two water purification plants for the exclusive benefit of the Authority, Arlington County, Virginia and the City of Falls Church, Virginia. The Authority purchases approximately 75 percent of the water produced by the Aqueduct, which is reported as water purchases.

The Authority is considered a component unit of the District for financial reporting purposes primarily because the Authority is responsible for the payment of certain long-term debt issued by the District before the Authority's creation. This debt was used to finance capital improvements for the Authority's predecessor agency.

## DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

### Notes to the Financial Statements

September 30, 2011 and 2010

(In \$ thousands)

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#### (2) Summary of Significant Accounting Policies

The financial statements of the Authority have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board ("GASB") is the accepted primary standard-setting body for establishing governmental accounting and financial reporting standards. The Authority's significant accounting policies are described below.

##### (a) *Measurement Focus and Basis of Accounting*

The term "measurement focus" is used to denote what is being measured and reported in the Authority's financial statements. The Authority is accounted for on the "flow of economic resources" measurement focus. The flow of economic resources refers to the reporting of all the net assets available to the Authority for the purposes of providing related water and sewer services. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost recovery), financial position and cash flows. All assets and liabilities (whether current or noncurrent) and associated activities are reported and equity is reported as net assets. The term "basis of accounting" is used to determine when a transaction or event is recognized in the Authority's financial statements. The Authority uses the full accrual basis of accounting, with revenues recorded when earned and expenses recorded when incurred, even though actual payment or receipt may not occur until after the period ends.

The Authority elected GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, not to follow Financial Accounting Standards Board ("FASB") pronouncements issued subsequent to November 30, 1989. Therefore, the Authority follows all GASB pronouncements; and FASB pronouncements issued on or before November 30, 1989, unless those pronouncements conflict or contradict GASB pronouncements.

As allowed by GASB 20, the Authority accounts for its regulatory assets and liabilities in accordance with FASB Accounting Standards Codification (ASC) 980-10, *Regulated Operations*: Overall, (formerly Statement of Financial Accounting Standards Board Statement No. 71, *Accounting for the Effects of Certain Types of Regulation*). In general, FASB ASC 980-10 covers the type of regulation that permits rates to be set at levels intended to recover the estimated costs of providing regulated services, including the cost of capital. There are times in which the revenues intended to cover certain costs are provided either before or after the costs have been incurred. If the costs will be recovered in the future, a regulatory asset is capitalized and reduced as the related revenues are provided. If the current recovery is for costs that will be incurred in future periods, regulatory liabilities are accrued and reduced as those costs are incurred. As of September 30, 2010 and 2009, no regulatory assets or liabilities were required to be reported in accordance with FASB ASC 980-10.

In November 2006, GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. This statement addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups.

## DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

### Notes to the Financial Statements

September 30, 2011 and 2010

(In \$ thousands)

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#### (2) Summary of Significant Accounting Policies (Continued)

Management of the Authority adopted GASB Statement No. 49 as of October 1, 2008 and determined that there was no impact on its financial statements for the years ended September 30, 2010 and 2009.

The Authority has adopted the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*. GASB Statement No. 34 established standards for external financial reporting for all states and local governmental entities, which includes a statement of net assets, a statement of revenues, expenses and change in net assets, and a statement of cash flows.

GASB Statement No. 34 requires the classification of net assets into three components as described below:

- *Invested in capital assets, net of related debt* – This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and is reduced by the outstanding balances of any bonds or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- *Restricted* – This component of net assets consists of restrictions placed on net assets as a result of external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- *Unrestricted net assets* – This component of net assets consist of net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

The Authority has adopted the provisions of GASB Statement No. 40, *Deposit and Investment Risk Disclosures* to amend GASB Statement No. 3. GASB Statement No. 40 updates the custodial credit risk disclosure requirements of GASB Statement No. 3 and establishes more comprehensive disclosure requirements. It also addresses other common risks of deposits and investments of state and local governments.

#### (b) Revenues and Expenses

Revenues and expenses are distinguished between operating and non-operating items. Operating revenues generally result from providing services in connection with the Authority’s principal ongoing operations. The principal operating revenues of the Authority are water and wastewater user charges, and charges for wholesale wastewater treatment. Revenues from user charges and sales of services are recognized as the related services are provided. Refunds to customers are charged to income in the period in which those refunds are paid.

Operating expenses include the costs associated with the conveyance of water and wastewater, treatment of wastewater, administrative expenses, and depreciation of capital assets. All revenues and expenses not meeting these definitions are reported as non-operating revenues and expenses.

## DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

### Notes to the Financial Statements

September 30, 2011 and 2010

(In \$ thousands)

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#### (2) Summary of Significant Accounting Policies (Continued)

##### *Water and Wastewater User Charges*

Retail water and wastewater rates are approved by the Authority's Board of Directors. Charges to the District and the Federal government are the same as those charged to retail customers. Charges for services provided but unbilled at the end of the year are recorded as revenue on an estimated basis, which considers historical usage patterns and current rates. Allowances for customer receivables that ultimately may be uncollectible are estimated and charged to expense.

##### *Charges for Wholesale Wastewater Treatment and Deferred Revenue*

The cost of operating and maintaining the wastewater treatment plant and related collection facilities applicable to non-District users is billed to participating jurisdictions based upon their share of flows. The charges for operating and maintenance costs and for overhead costs incurred on capital projects are recorded as charges for wholesale wastewater treatment revenue in the year the costs are incurred.

The costs of capital projects required for the joint use facilities are allocated to the participating jurisdictions based on their applicable capacity allocation. The reimbursements for capital related costs are recorded as deferred revenue and are amortized into charges for wholesale wastewater treatment over the estimated useful lives of the related assets.

#### (c) **Cash and Cash Equivalents**

DC Water maintains its own cash accounts for the collection of all revenues and payment of all expenses. DC Water invests all unrestricted cash balances, in excess of the required compensating balances, in interest-bearing accounts. The Authority's cash equivalents consist of unrestricted and restricted investments such as money market funds, commercial paper, and federal agency discount notes, which have an original maturity of 90 days or less, and are readily convertible to known amounts of cash. For purposes of the accompanying statements of cash flows, cash and cash equivalents also include DC Water's restricted cash balances. See note 3(d).

#### (d) **Investments**

The Authority's investments consist of unrestricted and restricted federal government agency notes and commercial paper which have an original maturity in excess of 90 days. Investments are recorded at amortized cost, and certain non-participating contracts are recorded at cost. Recorded amounts approximate fair value.

#### (e) **Restricted Assets**

Restricted assets consist of appropriations from the U.S. Congress for combined sewer overflow projects, unexpended commercial paper and revenue bond proceeds, debt service reserves, workers' compensation reserves, and funds for the current payment of revenue bond debt service.



## DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

### Notes to the Financial Statements

September 30, 2011 and 2010

(In \$ thousands)

#### (2) Summary of Significant Accounting Policies (Continued)

These assets, which cannot be used for routine operations, are classified as restricted assets since some of their use is limited by applicable bond covenants and external restrictions.

##### (f) *Utility Plant*

Utility plant is stated at original construction cost, which includes personnel services and interest costs incurred during construction. Normal recurring maintenance and repair costs are charged to operations, whereas major repairs, improvements and replacements, which materially extend the useful lives of the assets, are capitalized. Construction-in-progress is reclassified to utility plant in-service upon substantial completion or when placed in service, with related depreciation commencing at that time. Capitalization thresholds are: \$500 for buildings, improvements and infrastructure; and \$5 for equipment. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Utility plant is depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Infrastructure and storm drains	60 years
Heavy and hydraulic equipment	20 years
Building improvements	20 years
Equipment	3-5 years
Fleet	5-10 years

##### (g) *Purchased Capacity*

Historically, the District issued long-term debt to finance most of the Aqueduct's capital facilities, and Authority recorded this debt and related capital costs in its financial statements. On April 1, 1997, Authority and the other Northern Virginia customers entered into an agreement with the Federal government, which provides for the funding of a significant portion of the Aqueduct's capital improvement program directly by the Federal government through borrowing, with the remaining amounts to be funded directly by each customer.

The Authority is responsible for funding only its portion of this debt, of which none is currently outstanding, other related capital projects, and operating costs calculated, as its pro rata share of water purchased.

The Authority's payments for capital costs are recorded as purchased capacity in the Statements of Net Assets. The Aqueduct's capital costs allocable to other jurisdictions (City of Falls Church and Arlington County, Virginia), but funded by the Authority prior to April 1, 1997, are reported as due from other jurisdictions.

**DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY**

**Notes to the Financial Statements**

**September 30, 2011 and 2010**

**(In \$ thousands)**

**(2) Summary of Significant Accounting Policies (Continued)**

Additionally, the Authority's participation in the Little Seneca Lake and Jennings Randolph Reservoir (Bloomington Dam) projects is included in purchased capacity. The two projects provide backup and peak-day water supply for the Authority and the other two Aqueduct customers as well as other area jurisdictions. The Jennings Randolph Reservoir was constructed by the Federal government and is operated by the U.S. Army Corps of Engineers, Baltimore District. The Authority funds 30 percent of all operating and capital costs. The Little Seneca Lake was constructed and is operated by the Washington Suburban Sanitary Commission. The Authority funds 40 percent of all capital and operating costs. Purchased capacity is generally amortized over the estimated useful lives of the facilities of 60 years.

**(h) Inventory**

Inventory is recorded at the lower of weighted average cost or market value and consists primarily of operating and maintenance materials.

**(i) Debt Financing Costs**

Bond discount, premium and costs incurred to issue debt are capitalized and amortized as interest expense over the related bond issue period using the effective interest method.

**(j) Reclassifications**

Certain prior year amounts have been reclassified to conform to the current year presentation.

**(k) Use of Estimate and Assumptions**

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

**(l) Vacation and Sick Leave**

Employees earn vacation and sick leave based on a prescribed formula, which allows employees to accumulate an unlimited amount of sick pay and vacation pay up to the maximum shown in the table below. The amounts of vacation leave earned but unused by employees' vests and is accrued as a liability. Sick pay does not vest, and accordingly, it is recorded when used. See Note 14d for additional disclosure on sick leave for non-union employees.

<u>Employees Length of service</u>	<u>Union Employees</u>	<u>Non-union Employees</u>
1 - 3 years	240 hours	240 hours
4 - 14 years	240 hours	320 hours
Over 15 years	240 hours	360 hours

**DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY****Notes to the Financial Statements****September 30, 2011 and 2010****(In \$ thousands)****(3) Cash Deposits and Investments****(a) Cash Deposits**

At September 30, 2011 and 2010, the carrying amounts of the Authority's unrestricted and restricted bank deposits were \$111,896 and \$83,224, respectively. These bank deposits are entirely insured or collateralized with securities held by the Authority's agent in its name.

**(b) Cash Equivalents and Investments**

As of September 30, 2011 and 2010, the Authority had the following investments:

Type of Investments	2011	Weighted Average Maturity (Years)	2010	Weighted Average Maturity (Years)
Money market funds	\$ 99,102	0.083	\$114,631	0.083
Government agencies	232,899	1.390	95,299	1.998
Commercial paper	19,986	0.286	14,983	0.319
Total Investments	<u>\$351,987</u>	0.961	<u>\$224,913</u>	0.910

The Authority's investments are categorized in accordance with GASB Statement No. 40, *Deposit and Investment Risk Disclosures*. Disclosures are limited to:

- Deposits that are not covered by depository insurance and are (a) uncollateralized, (b) collateralized with securities held by the pledging financial institution, or (c) collateralized with securities held by the pledging financial institution's trust department or agent but not in the depositor-government's name.
- Investment securities that are uninsured, are not registered in the name of the government, and are held by either (a) the counterparty or (b) the counterparty's trust department or agent but not in the government's name.

The Authority's investments are not subject to foreign currency risk. The Authority's investments are subject to interest rate, credit and custodial risks as described below:

*Interest Rate Risk* - As a means of limiting exposure to fair value losses arising from rising interest rates, the Authority's investment policy limits maximum maturity of non-debt-related permissible deposits and investments to no longer than 36 months.

**DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY****Notes to the Financial Statements****September 30, 2011 and 2010****(In \$ thousands)****(3) Cash Deposits and Investments (Continued)**

*Credit Risk* – The Authority's Board of Directors has approved a cash management and investment policy, and the Authority has adopted investment practices based on guidelines established by the Government Finance Officers Association. Allowable investments include obligations of the U.S. Treasury and U.S. agencies. The Authority may also invest in highly rated bankers' acceptances, repurchase agreements, commercial paper, corporate notes and bonds, certificates of deposit and money market funds. The Authority's money market funds are AAA rated.

*Custodial Risk* - For an investment, custodial risk is the risk that in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of the outside party. The Authority's investment policy requires that, at the time funds are invested, collateral for repurchase agreements be held in the Authority's name by a custodial agent for the term of the agreement and investments in obligations of the United States or its agencies be held by the Federal Reserve in a custodial account. Any funds not invested at the end of the day are placed in overnight repurchase agreements in the Authority's name. Repurchase agreements are collateralized at 102 percent of the investment with obligations of the U.S. Treasury or U.S. agencies, or investment grade obligations of the District or state or local governments. Investment grade means investments with a rating of AA or A-1/P-1 or better. Investments are restricted as to the amount in each type of investment to ensure appropriate diversification.

**(c) Cash and Investment Schedule**

A schedule of cash equivalents and investments as of September 30, 2011 and 2010 follows:

Description	2011			2010		
	Unrestricted	Restricted	Total	Unrestricted	Restricted	Total
Cash and cash equivalents						
Demand deposits	\$ 104,845	7,051	\$111,896	\$ 78,216	5,008	\$ 83,224
Money market funds	8,099	91,003	99,102	2,853	111,778	114,631
Total cash and cash equivalents	112,944	98,054	210,998	81,069	116,786	197,855
Investments						
Government Agencies	59,773	173,126	232,899	55,272	40,027	95,299
Commercial paper	9,991	9,995	19,986	14,983	-	14,983
Total Investments	69,764	183,121	252,885	70,255	40,027	110,282
Total cash, cash equivalents & investments	\$ 182,708	\$ 281,175	\$463,883	\$ 151,324	\$156,813	\$ 308,137

Included in unrestricted demand deposits and agency discount notes are \$16,701 for the Rate Stabilization Fund. The Authority established the Rate Stabilization Fund in fiscal year 2001. The balance in this account will be used in the future at the Authority's discretion.

**DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY****Notes to the Financial Statements****September 30, 2011 and 2010****(In \$ thousands)****(3) Cash Deposits and Investments (Continued)****(d) Restricted Cash and Investment Schedule**

A schedule of restricted cash equivalents and investments as of September 30, 2011 and 2010 follows:

Description	2011	2010
Restricted cash and cash equivalents		
Revenue bonds 2010 - Build America Bonds	\$ 17,221	\$ -
Revenue bonds 2009	3	7,618
Combined sewer overflow (CSO) federal appropriations	15,165	44,858
Debt service reserve account, 1998 revenue bonds	4,038	13,782
Debt service interest payment account, 2010 revenue bonds	8,616	-
Debt service interest payment account, 2009 revenue bonds	8,063	8,089
Debt service interest payment account, 2008 revenue bonds	7,126	7,226
Debt service interest payment account, 2007 revenue bonds	5,676	5,676
Debt service interest payment account, 2003 revenue bonds	-	4,445
Debt service interest payment account, 1998 revenue bonds	10,880	6,708
Principal payment account 2009 revenue bonds	2,020	1,775
Principal payment account 2008 revenue bonds	5,585	4,460
Principal payment account 1998 revenue bonds	10,501	9,955
Workers' compensation reserve account	1,036	1,034
District Department of Transportation 11th street bridge	1,000	-
Commercial paper proceeds, debt service	1,124	1,160
Total restricted cash and cash equivalents	98,054	116,786
Restricted investments		
Revenue bonds 2010 - Build America Bonds	115,751	-
Combined sewer overflow (CSO) federal appropriation	40,219	30,085
Debt service reserve account, 1998 revenue bonds	20,009	9,942
Debt service interest payment account, 2010 revenue bonds	7,142	-
Total restricted investments	183,121	40,027
Total restricted cash, cash equivalents & investments	\$ 281,175	\$ 156,813

**DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY**

**Notes to the Financial Statements**

**September 30, 2011 and 2010**

**(In \$ thousands)**

**(4) Utility Plant**

Activity in utility plant, including capitalized interest of \$11,204, for the year ended September 30, 2011 was as follows:

	Balance 9/30/2010	Additions	Disposals	Transfers	Balance 9/30/2011
Utility Plant					
Wastewater treatment plant	\$ 1,822,320	\$ 16,690	\$ -	\$ -	\$ 1,839,010
Wastewater collection facilities	598,404	91,171	-	-	689,575
Water distribution system	800,861	62,613	-	-	863,474
Capital equipment	144,307	12,196	(733)	-	155,770
Total utility plant in service	<u>3,365,892</u>	<u>182,670</u>	<u>(733)</u>	<u>-</u>	<u>3,547,829</u>
Less accumulated depreciation:					
Wastewater treatment plant	(424,522)	(29,694)	-	-	(454,216)
Wastewater collection facilities	(195,138)	(10,504)	-	-	(205,642)
Water distribution system	(178,501)	(14,344)	-	-	(192,845)
Capital equipment	(118,344)	(10,716)	733	-	(128,327)
Total accumulated depreciation	<u>(916,505)</u>	<u>(65,258)</u>	<u>733</u>	<u>-</u>	<u>(981,030)</u>
Net utility plant in service	2,449,387	117,412	-	-	2,566,799
Construction-in-progress	327,738	340,429	-	(182,670)	485,497
Net utility plant	<u>\$ 2,777,125</u>	<u>\$ 457,841</u>	<u>\$ -</u>	<u>\$ (182,670)</u>	<u>\$ 3,052,296</u>

Activity in utility plant, including capitalized interest of \$11,586, for the year ended September 30, 2010 was as follows:

	Balance 9/30/2009	Additions	Disposals	Transfers	Balance 9/30/2010
Utility Plant					
Wastewater treatment plant	\$ 1,604,064	\$ 218,256	\$ -	\$ -	\$ 1,822,320
Wastewater collection facilities	551,695	46,709	-	-	598,404
Water distribution system	744,842	56,019	-	-	800,861
Capital equipment	138,206	8,602	(2,501)	-	144,307
Total utility plant in service	<u>3,038,807</u>	<u>329,586</u>	<u>(2,501)</u>	<u>-</u>	<u>3,365,892</u>
Less accumulated depreciation:					
Wastewater treatment plant	(396,941)	(27,581)	-	-	(424,522)
Wastewater collection facilities	(185,754)	(9,384)	-	-	(195,138)
Water distribution system	(165,913)	(12,588)	-	-	(178,501)
Capital equipment	(110,356)	(10,480)	2,492	-	(118,344)
Total accumulated depreciation	<u>(858,964)</u>	<u>(60,033)</u>	<u>2,492</u>	<u>-</u>	<u>(916,505)</u>
Net utility plant in service	2,179,843	269,553	(9)	-	2,449,387
Construction-in-progress	400,826	256,498	-	(329,586)	327,738
Net utility plant	<u>\$ 2,580,669</u>	<u>\$ 526,051</u>	<u>\$ (9)</u>	<u>\$ (329,586)</u>	<u>\$ 2,777,125</u>

**DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY****Notes to the Financial Statements****September 30, 2011 and 2010****(In \$ thousands)****(5) Purchased Capacity**

The Washington Aqueduct, managed by the U.S. Army Corps of Engineers, provides wholesale water treatment services to the Authority, Northern Virginia, Arlington County and Falls Church. In addition to paying for operating and maintenance costs for the Aqueduct, the Authority and the other jurisdictions are also responsible for capital costs at the Aqueduct. The Authority's share of capital costs is recorded in its books as purchased capacity.

Purchased capacity activity for the year ended September 30, 2011 was as follows:

	Balance 9/30/2010	Additions	Balance 9/30/2011
Purchased Capacity			
Washington Aqueduct	\$ 247,088	\$ 28,315	\$ 275,403
Jennings Randolph Reservoir	19,863	-	19,863
Little Seneca Lake	12,327	-	12,327
Total in service	<u>279,278</u>	<u>28,315</u>	<u>307,593</u>
Less accumulated depreciation:			
Washington Aqueduct	(43,280)	(4,354)	(47,634)
Jennings Randolph Reservoir	(7,072)	(393)	(7,465)
Little Seneca Lake	(5,239)	(205)	(5,444)
Total accumulated depreciation	<u>(55,591)</u>	<u>(4,952)</u>	<u>(60,543)</u>
Purchased capacity, net	<u>\$ 223,687</u>	<u>\$ 23,363</u>	<u>\$ 247,050</u>

Purchased capacity activity for the year ended September 30, 2010 was as follows:

	Balance 9/30/2009	Additions	Balance 9/30/2010
Purchased Capacity			
Washington Aqueduct	\$ 208,270	\$ 38,818	\$ 247,088
Jennings Randolph Reservoir	19,863	-	19,863
Little Seneca Lake	12,327	-	12,327
Total in service	<u>240,460</u>	<u>38,818</u>	<u>279,278</u>
Less accumulated depreciation:			
Washington Aqueduct	(39,486)	(3,794)	(43,280)
Jennings Randolph Reservoir	(6,680)	(392)	(7,072)
Little Seneca Lake	(5,032)	(207)	(5,239)
Total accumulated depreciation	<u>(51,198)</u>	<u>(4,393)</u>	<u>(55,591)</u>
Purchased capacity, net	<u>\$ 189,262</u>	<u>\$ 34,425</u>	<u>\$ 223,687</u>

**DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY****Notes to the Financial Statements****September 30, 2011 and 2010****(In \$ thousands)****(6) Due from Federal Government**

The amount due from the Federal government consists of the following at September 30:

	<u>2011</u>	<u>2010</u>
Washington Aqueduct advances	\$ 18,396	\$ 37,221
Federal grants receivable	2,109	2,856
Total	<u>\$ 20,505</u>	<u>\$ 40,077</u>

The Washington Aqueduct advances consist of unexpended pay-go advances for capital projects and \$4,675 for operating escrow as required by the Water Sales Agreement.

**(7) Customer Receivables**

Customer receivables include unbilled revenues of \$12,986 and \$12,122 at September 30, 2011 and 2010, respectively.

**(8) Due from Other Jurisdictions**

The amount due from other jurisdictions consists of the following at September 30:

	<u>2011</u>	<u>2010</u>
Current:		
Washington Suburban Sanitary Commission	\$ 11,380	\$ 7,669
Fairfax	2,661	(158)
Loudoun County Sanitation Authority	1,080	(74)
Northern Virginia (a)	101	187
Potomac Interceptor	980	907
Total current	<u>16,202</u>	<u>8,531</u>
Noncurrent:		
Washington Suburban Sanitary Commission	2,417	3,403
Northern Virginia (a)	3,444	3,544
Fairfax	524	704
Loudoun County Sanitation Authority	254	339
Total noncurrent	<u>6,639</u>	<u>7,990</u>
Total due from jurisdictions	<u>\$ 22,841</u>	<u>\$ 16,521</u>

**(a) Northern Virginia**

The amount due from Northern Virginia represents the Arlington County and the City of Falls Church, Virginia portions of the debt incurred by the Authority for the purpose of funding capital expenditures of the Washington Aqueduct prior to April 1, 1997.



**DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY**

**Notes to the Financial Statements**

**September 30, 2011 and 2010**

**(In \$ thousands)**

**(9) Compensation Payable (Compensated Absences)**

Compensation payable as of September 30, 2011 and 2010 was \$16,748 and \$15,043, respectively. As this liability is expected to be paid off within a year, it is classified as a current liability. The accrual for annual leave (vacation payable) which is part of compensation payable as of September 30, 2011 and 2010 was as follows:

	<u>2011</u>	<u>2010</u>
Balance, beginning of year	\$ 6,195	\$ 5,687
Increases (incurred)	1,282	1,669
Decreases	<u>(818)</u>	<u>(1,161)</u>
Balance, end of year	<u>\$ 6,659</u>	<u>\$ 6,195</u>

**DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY****Notes to the Financial Statements****September 30, 2011 and 2010****(In \$ thousands)****(10) Long-Term Debt**

The Authority derives part of its funding for future capital projects from the issuance of revenue bonds, District general obligation bonds, notes payable to the Federal government and various other non-debt sources of financing.

A schedule of long-term debt activity for the year ended September 30, 2011 is shown below:

Description	Balance 9/30/2010	New Debt Issued	Debt Retired	Balance 9/30/2011	Due Within One Year
2010 series a public utility revenue bonds (build america bonds); interest at 4.1% to 5.5%, maturing in 2044	\$ -	\$ 300,000	\$ -	\$ 300,000	\$ -
2009 series a public utility revenue bonds; interest at 3.0% to 6.0%, maturing in 2039	300,000	-	(1,775)	298,225	2,020
2008 series a public utility revenue bonds; interest at 4.0% to 5.0%, maturing in 2034	290,000	-	(4,460)	285,540	5,585
2007 series a public utility revenue bonds; interest at 4.75% to 5.50%, maturing in 2042	218,715	-	-	218,715	-
2003 public utility revenue bonds; interest ranges from 5.0% to 5.25%, maturing in 2033	176,220	-	-	176,220	-
1998 public utility revenue bonds; interest ranges from 5.50% to 6.00%, maturing in 2028	239,270	-	(9,955)	229,315	10,500
Notes payable to the federal government for Jennings Randolph Reservoir (Bloomington Dam); interest at 3.25%, maturing in 2041	14,923	-	(320)	14,603	330
Notes payable to WSSC for Little Seneca Lake; interest ranges from 5.98% to 6.60% maturing in 2014	142	-	(38)	104	41
District of Columbia general obligation bonds: 1993; interest ranges from 5.40% to 6.0% maturing in 2012	495	-	(250)	245	245
1994; interest ranges from 5.05% to 6.50% maturing in 2011	995	-	(995)	-	-
<b>Total bonds and notes</b>	<b>\$ 1,240,760</b>	<b>\$ 300,000</b>	<b>\$ (17,793)</b>	<b>\$ 1,522,967</b>	<b>\$ 18,721</b>

Long-term debt outstanding, as presented on the accompanying statement of net assets, includes net unamortized bond premiums and discounts \$25,928.

**DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY****Notes to the Financial Statements****September 30, 2011 and 2010****(In \$ thousands)****(10) Long-Term Debt (Continued)**

A schedule of long-term debt activity for the year ended September 30, 2010 is shown below:

Description	Balance 9/30/2009	New Debt Issued	Debt Retired	Balance 9/30/2010	Due Within One Year
2009 series a public utility revenue bonds; interest at 3.0% to 6.0%, maturing in 2039	\$ 300,000	\$ -	\$ -	\$ 300,000	\$ 1,775
2008 series a public utility revenue bonds; interest at 4.0% to 5.0%, maturing in 2034	290,375	-	(375)	290,000	4,460
2007 series a public utility revenue bonds; interest at 4.75% to 5.50%, maturing in 2042	218,715	-	-	218,715	-
2003 public utility revenue bonds; interest ranges from 5.0% to 5.25%, maturing in 2033	176,220	-	-	176,220	-
1998 public utility revenue bonds; interest ranges from 5.50% to 6.00%, maturing in 2028	248,705	-	(9,435)	239,270	9,955
Notes payable to the federal government for Jennings Randolph Reservoir (Bloomington Dam); interest at 3.25%, maturing in 2041	15,232	-	(309)	14,923	320
Notes payable to WSSC for Little Seneca Lake; interest ranges from 5.98% to 6.60% maturing in 2014	179	-	(37)	142	38
District of Columbia general obligation bonds: 1993; interest ranges from 5.40% to 6.0% maturing in 2012	3,255	-	(2,760)	495	250
1994; interest ranges from 5.05% to 6.50% maturing in 2011	1,925	-	(930)	995	995
<b>Total bonds and notes</b>	<b>\$ 1,254,606</b>	<b>\$ -</b>	<b>\$ (13,846)</b>	<b>\$ 1,240,760</b>	<b>\$ 17,793</b>

Long-term debt outstanding, as presented on the accompanying statement of net assets, includes net unamortized bond premiums and discounts of \$27,476.

**(a) Senior Debt**

Payment of the principal and interest on Authority's senior debt is secured by a pledge of Authority's gross revenues (excluding any capital contributions or grants) after provisions for payment of operating expenses. The 2009 and 1998 public utility revenue bonds are considered senior debt under the related Master Indenture of Trust (Master Indenture).

## DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

### Notes to the Financial Statements

September 30, 2011 and 2010

(In \$ thousands)

#### (10) Long-Term Debt (Continued)

In February 2009, the Authority issued senior lien public utility revenue bonds (Series 2009A Bonds) with a face value of \$300,000, consisting of \$38,355 Serial Bonds and \$261,645 Term Bonds. The Serial Bonds have maturity dates and interest rates ranging from 2010-2030 and 3.0 percent to 5.4 percent, respectively. The Term Bonds have maturity dates and interest rates ranging from 2024-2039 and 4.8 percent to 6.0 percent, respectively. There was \$1,426 of original issue premium and approximately \$2,392 for the cost of issuance, bond insurance and underwriter's discount costs associated with this issuance. Debt proceeds were used to refinance \$14,800 of the taxable Series A Commercial Paper Notes and \$50,000 of the tax exempt Series B Commercial Paper Notes with the remainder used to finance the ongoing capital improvement program.

In April 1998, the Authority issued \$266,120 of senior lien public utility revenue bonds (Series 1998 Bonds). As required by the Master Indenture, the Authority has agreed to fix, charge, and collect rates and fees at levels sufficient to cover annual senior principal and interest requirements by 120 percent (see "Bond Covenants" below). Gross proceeds from the Series 1998 Bonds totaled \$285,200, including \$18,800 of the original issue premium. Approximately \$77,200 was used to fund various capital projects; \$181,000 was used to repay the outstanding balances of a revolving line of credit and certain notes payable to the Federal government and to advance-refund approximately \$152,200 of District general obligation bonds. The remainder of the gross proceeds, approximately \$27,000, was used to fund the debt service reserve fund and to pay the cost of issuance. The payment of principal and interest on the Series 1998 bonds is insured by Financial Security Assurance, Inc.

The Authority completed the advance-refunding portion of the April 1998 bond issuance to restructure its front-loaded debt service schedule. Approximately \$160,000 of bond proceeds was used to purchase securities that were placed in an irrevocable trust, which provides resources for all future debt service payments on the refunded debt. The refunded debt is considered defeased, and the respective liabilities have been removed from the balance sheet. The advance-refunding in 1998 resulted in an economic cost (difference between the present values of the old and new debt service payments) of \$241 and an increase in aggregate debt service payments of \$119,000. The difference between the refunded debt and the new debt is amortized as a component of interest expense over the remaining life of the refunded debt.

The total amount of refunded debt outstanding was \$1,660 and \$868 at September 30, 2011 and 2010, respectively.

#### (b) *Subordinate Debt*

Payments of the Authority's subordinate debt are made after payments of senior debt and after certain reserves have been funded (see "Bond Covenants" below).

In October 2010, the Authority issued public utility subordinate lien revenue bonds, (Series 2010A Bonds). The Build America Bonds federally taxable issuer subsidy in the amount of 35% yielded all-in true interest costs of 3.6%.

## DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

### Notes to the Financial Statements

September 30, 2011 and 2010

(In \$ thousands)

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#### (10) Long-Term Debt (Continued)

The \$300,000 par amount consisted of \$18,550 in serial bonds maturing in 2033 and gross interest rates ranging from 4.1% to 4.6%, \$30,950 in term bonds maturing in 2028 and a gross interest rate of 5.4%, and \$250,500 in index term bonds maturing in 2044 and a gross interest rate of 5.5%. Approximately \$214,640 was issued to fund costs of certain capital improvements, including \$2,420 for the cost of issuance and underwriter's discount. In addition, approximately \$75,000 was issued to fund the Digester Project and \$10,360 for capitalized interest.

In April 2008, the Authority refunded the 2004 and 2007 Series B subordinated public utility revenue bonds for \$295,000 and \$59,000, respectively. Simultaneously, the Authority issued subordinated lien public utility revenue bonds (Series 2008A) with a face value of \$290,375 which are due in 2034.

The interest rate on these securities is fixed and will have an effective average rate of 4.7% over the life of the bonds. There was \$11,678 of original issue premium and approximately \$5,888 for the cost of issuance, bond insurance and underwriter's discount costs associated with this issuance. As required by the Master Indenture, the Authority has agreed to fix, charge, and collect rates and fees at levels sufficient to cover 100 percent of annual principal and interest payments (see "Bond Covenants" below). The scheduled payments of principal and interest on the Series 2008A bonds are guaranteed by a municipal bond insurance policy issued by the Assured Guaranty Program.

The refunded debt of Series 2004 and 2007B Series is considered defeased, and the respective liabilities have been removed from the statement of net assets. The current refunding in 2008 resulted in an economic cost (difference between the present value of the old and new debt service payments) of \$12,320 and an increase in aggregate debt service payments of \$22,597.

In June 2007, the Authority issued \$218,715 of tax-exempt subordinated lien public utility revenue bonds (Series 2007A bonds) and \$59,000 of taxable subordinated lien public utility revenue bonds (Series 2007B bonds). As required by the Master Indenture, the Authority has agreed to fix, charge, and collect rates and fees at levels sufficient to cover 100 percent of annual principal and interest payments (see "Bond Covenants" on the next page). Gross proceeds from the Series 2007A bonds totaled \$234,923, including \$15,661 of original issue premium. Approximately \$30,000 was used to repay outstanding commercial paper, and \$2,824 was used to pay the underwriter's discount, insurance and the cost of issuance. The scheduled payments of principal and interest on Series 2007A bonds are guaranteed by a municipal bond insurance policy issued by the Financial Guaranty Insurance Company ("FGIC"). Gross proceeds from the Series 2007B bonds totaled \$59,000. Proceeds from the Series 2007B bonds were used entirely to fund the Authority's share of capital improvements to the Washington Aqueduct. The scheduled payments of principal and interest on Series 2007B bonds are guaranteed by a municipal bond insurance policy issued by CIFG Assurance North America, Inc. The Series 2007B bonds were refunded in April 2008.

## DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

### Notes to the Financial Statements

September 30, 2011 and 2010

(In \$ thousands)

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#### (10) Long-Term Debt (Continued)

In August 2003, the Authority issued \$176,220 of subordinated lien public utility revenue bonds (Series 2003 Bonds). As required by the Master Indenture, the Authority has agreed to fix, charge, and collect rates and fees at levels sufficient to cover 100 percent of annual principal and interest payments (see "Bond Covenants" on the next page). Gross proceeds from the Series 2003 bonds totaled \$176,220, including \$3,449 of original issue discount and \$2,771 for the cost of issuance. Approximately \$70,000 was used to fund various capital projects and \$100,000 was used to repay outstanding commercial paper. The scheduled payments of principal and interest on the Series 2003 bonds are guaranteed by a municipal bond insurance policy issued by FGIC. The Authority also purchased a surety bond policy from FGIC to meet the debt reserve fund requirement for the Series 2003 bonds.

During fiscal year 2008, FGIC was downgraded below investment grade. As a result, the Authority obtained a direct pay letter of credit from TD Bank N.A. to supplement the Series 2003 Subordinated Debt Service Reserve fund surety provided by FGIC.

Notes payable to the Federal government for the Jennings Randolph Reservoir are considered subordinate debt under the Master Indenture and contain no pledge of property, sinking fund provisions, or restrictive covenants. The proceeds of the notes were used to make improvements to the Jennings Randolph Reservoir for back-up and peak-day water supply.

Notes payable to WSSC for the Little Seneca Lake are considered subordinate debt under the Master Indenture and contain no pledge of property, sinking fund provisions, or restrictive covenants. The proceeds of the notes were used by WSSC to construct the Little Seneca Dam and Lake for back-up and peak-day water supply for the Authority.

Prior to the creation of the Authority as an independent entity, the District issued general obligation bonds to fund improvements to the water and wastewater system. The Authority is responsible for this debt, which is considered subordinate under the Master Indenture. General obligation bonds are also supported by the full faith and credit of the District and by special real property and tax deposits accounted for in the District's general fund. While the Authority is not directly liable for the general obligation bonds, it is required by the enabling legislation to transfer to the District the funds necessary to pay its portion of the debt service on the bonds.

In March 1998, the Authority and the District executed a Memorandum of Understanding that outlined certain terms for payment of the Authority's share of District general obligation bonds. In particular, it contained the following three provisions: (1) the Authority will establish a debt service reserve equal to 10 percent of the subsequent fiscal year's general obligation debt service; (2) on each September 1<sup>st</sup>, commencing September 1, 1999, the Authority will prepay the general obligation debt service due for the subsequent fiscal year; and (3) the Authority will annually establish rates sufficient to provide at least 100 percent debt service coverage of the Authority's share of District general obligation bonds, in accordance with the Master Indenture. As of September 30, 2011 and 2010, the Authority had reserved \$29 and \$138, respectively, of its unrestricted cash and cash equivalents in connection with the debt service reserve requirement described above, and was in compliance with the other provisions of the Memorandum of Understanding.

**DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY****Notes to the Financial Statements****September 30, 2011 and 2010****(In \$ thousands)****(10) Long-Term Debt (Continued)****(c) Bond Covenants**

The Master Indenture sets forth the establishment of accounts, the application of revenues, and certain other covenants to ensure proper operation and maintenance of the water and wastewater system and payment of debt service. Management believes the Authority was in compliance with all bond covenants as of and for the years ended September 30, 2011 and 2010. The primary requirements of the Master Indenture are summarized below:

*Rate Covenant* — The Authority has covenanted to establish and maintain rates and charges to produce revenues sufficient to pay operating expenses and annual debt service on senior and subordinate debt, to fund certain required reserves, to fund any payment in lieu of taxes, and to produce net revenues sufficient at least equal to the sum of: (1) 120 percent of annual debt service on senior debt and (2) 100 percent of annual debt service on subordinate debt.

Net revenues are defined generally as all Authority revenues (excluding capital contributions from wholesale customers, Federal grants, or any proceeds derived from the sale of capital assets), less operating and maintenance expenses (excluding any payment in lieu of taxes, depreciation and amortization charges and certain extraordinary, nonrecurring expenses).

*Debt Service Reserve Fund* — The Authority has established debt service reserve accounts for certain series of bonds, which are only to be used to pay debt service in the event of insufficient funds. The Series 1998 bonds debt service reserve account balance as of September 30, 2011 and 2010 was \$24,047 and \$23,724, respectively, and is required to be maintained at 125 percent of current and future average annual Series 1998 debt service.

**(d) Debt Service to Maturity**

The future debt-service obligations at September 30, 2011 are as follows:

<u>Fiscal year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 18,721	\$ 73,691	\$ 92,412
2013	19,692	72,669	92,361
2014	20,749	71,571	92,320
2015	21,888	70,385	92,273
2016	23,120	69,105	92,225
2017 - 2021	140,288	324,893	465,181
2022 - 2026	200,306	280,655	480,961
2027 - 2031	254,572	223,916	478,488
2032 - 2036	322,123	152,817	474,940
2037 - 2041	410,313	60,777	471,090
2042 - 2045	91,195	3,046	94,241
Total	<u>\$1,522,967</u>	<u>\$1,403,525</u>	<u>\$ 2,926,492</u>

**DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY****Notes to the Financial Statements****September 30, 2011 and 2010****(In \$ thousands)****(11) Commercial Paper**

*Commercial Paper Notes* — The Authority has established a commercial paper (“CP”) program to provide interim financing for Costs of the System. Three series of notes have been issued under the commercial paper program: the tax-exempt Series A CP Notes in an aggregate principal amount not to exceed \$100,000, the tax-exempt Series B CP Notes in an aggregate principal amount not to exceed \$50,000, and the taxable Series C CP Notes in an aggregate principal amount not to exceed \$75,000 (collectively, the “Commercial Paper Notes”), each as subordinate debt. To provide liquidity and credit support for the Commercial Paper Notes, the Authority obtained irrevocable, direct-pay letters of credit (the “Letters of Credit”) issued by J.P. Morgan Chase Bank and U.S. Bank National Association (collectively, the “Banks”) which expire on May 31, 2013. In connection with the Banks’ issuance of the Letters of Credit, the Authority and each Bank entered into a Reimbursement Agreement.

The Agreements (collectively, the “Reimbursement Agreements”), dated as of June 1, 2010, obligate the Authority to pay Bank Obligations and Reimbursement Obligations (both as defined in the Eleventh Supplemental Indenture relating to the Commercial Paper Notes) and Fee Obligations (as defined in each Reimbursement Agreement) to the applicable Bank. The Bank Obligations, the Reimbursement Obligations and Fee Obligations are subordinate debt under the Indenture.

A schedule of commercial paper activity for year ended September 30, 2011 is shown below:

Description	Balance 9/30/2010	Addition	Reduction	Balance 9/30/2011
Series C, (taxable) interest ranges from .2% to .28%	\$ 29,200	\$ -	\$ -	\$ 29,200
Series B, (tax-exempt) interest at .17%	-	6,000	-	6,000
	<u>\$ 29,200</u>	<u>\$ 6,000</u>	<u>\$ -</u>	<u>\$ 35,200</u>

**(12) Commitments and Contingencies – Other Liabilities**

A schedule of other liabilities as of September 30, 2011 and 2010 is shown below:

Description	2011	2010
Federal grants disallowance	\$ 1,665	\$ 1,472
Litigation contingency	8,291	6,081
Rolling Owner Controlled Insurance Program	9,504	631
Risk management contingency	12,260	12,384
Total other liabilities	<u>\$ 31,720</u>	<u>\$ 20,568</u>

**(a) Federal Grants**

The Authority’s capital and operating grants are subject to financial and compliance audits by the United States Environmental Protection Agency, the grantor, or its representatives. The Authority’s management does not expect that the results of these audits will have a material adverse effect on the accompanying financial statements.



**DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY**

**Notes to the Financial Statements**

**September 30, 2011 and 2010**

**(In \$ thousands)**

**(12) Commitments and Contingencies – Other Liabilities (Continued)**

**(b) Litigation**

The Authority is a party in various legal actions and claims brought by or against it. In the opinion of the Authority's management and legal counsel, the ultimate resolution of these actions and claims will not materially affect the financial position or results of operations of the Authority.

Changes in the balances of litigation contingencies during the years ended September 30, 2011 and 2010 were as follows:

	2011	2010
Balance, beginning of year	\$ 6,081	\$ 4,009
Current year claims and changes in estimates	2,585	2,338
Claim payments	(375)	(266)
Balance, end of year	<u>\$ 8,291</u>	<u>\$ 6,081</u>

**(c) Rolling Owner Controlled Insurance Program (ROCIP)**

The Authority completed its sixth year of a rolling owner-controlled insurance program (ROCIP I) and second year of ROCIP II. The Authority procures insurance for the majority of its construction contractors. Coverage includes general liability, umbrella and workers' compensation insurance for certain major construction projects. The result is substantially higher and broader coverage, enhanced safety and loss control, increased minority participation and potential cost savings.

At the end of fiscal year 2011, 65 projects and 393 contractors were enrolled in ROCIP I and 40 projects and 200 contractors were enrolled in ROCIP II. ROCIP II is a three-year program that will support an estimated \$688,000 of planned construction completion.

**(d) 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. Effective April 7, 1998, the Authority purchased certain commercial insurance coverage. Prior to that date, the Authority was either self-insured or covered under District programs. For each of the five most recent years, settlement of claims has not exceeded insurance coverage.

The Authority has purchased \$1,000,000 property coverage (Property Policy) to protect its owned or leased facilities, buildings and contents. Except for catastrophic on-site protection provided on the Property Policy, the Authority self-insures its fleet of vehicles. The deductible for each claim for buildings and contents is \$1,000. Off-site watercraft and specified equipment are insured under an Inland Marine Policy. Deductibles range from \$10 to \$25 on this policy.

**DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY****Notes to the Financial Statements****September 30, 2011 and 2010****(In \$ thousands)****(12) Commitments and Contingencies – Other Liabilities (Continued)**

The Authority has purchased liability insurance coverage to protect it from claims alleging damages and injuries caused by automobile accidents, damaged utilities, construction, and other activities. Limits of \$100,000 have been secured in excess of a deductible of \$1,000 for each occurrence.

Public Officials' liability insurance has been secured with limits of \$20,000 in excess of a deductible of \$250 to \$500 per claim.

The Authority self-insures the first \$1,000 of workers' compensation claims costs. In order to mitigate the potential self-insured costs of medical expenses, rehabilitation and lost wages, the Authority purchased an Excess Workers' Compensation Policy with unlimited coverage. The Authority contracts with a third-party administrator to support the workers' compensation claims management program.

Liabilities are recognized when it is probable that losses have occurred and the amounts of the losses can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported to date.

Because actual claims liabilities depend on such complex factors as inflation, changes in governing laws and standards, and court awards, the process used in computing claims liabilities is reevaluated periodically to take into consideration the history, frequency and severity of recent claims and other economic and social factors.

These liabilities are computed using a combination of actual claims experience and statistically estimated amounts.

Changes in the balances of workers' compensation claims and general liability claims during the years ended September 30, 2011 and 2010 were as follows:

	2011	2010
Balance, beginning of year	\$ 12,384	\$ 12,243
Current year claims and changes in estimates	2,318	3,181
Claim payments	(2,442)	(3,040)
Balance, end of year	<u>\$ 12,260</u>	<u>\$ 12,384</u>

**(e) Construction Commitments**

Contractual commitments for utility plant construction and capital equipment for the years ended September 30, 2011 and 2010 were \$1,042,732 and \$365,084, respectively. Construction commitments are not recorded in the financial statements.

	2011	2010
Total contract commitments	\$ 365,084	\$ 351,416
Additional commitments (less) work performed and retainage	677,648	13,668
Outstanding contract commitments	<u>\$ 1,042,732</u>	<u>\$ 365,084</u>

**DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY**

**Notes to the Financial Statements**

**September 30, 2011 and 2010**

**(In \$ thousands)**

**(12) Commitments and Contingencies – Other Liabilities (Continued)**

**(f) Lease Commitments**

The Authority conducts a portion of its operations from leased facilities. Most of the leases contain renewal options. Virtually all of the leases for equipment and facilities are operating leases, and the rental payments under these leases are charged to operations as incurred.

The Authority's rental expenses for the years ended September 30, 2011 and 2010 were as follows:

	2011	2010
Facilities leases	\$ 1,364	\$ 1,279
Automobile equipment leases	2	5
Machinery leases	413	700
Total	<u>\$ 1,779</u>	<u>\$ 1,984</u>

Future minimum noncancelable lease payments on existing operating leases at September 30, 2011, which have an initial term of one year or more, are as follows.

	Future Minimum Lease Payments
2012	\$ 1,043
2013	111
2014	120
2015	126
2016	131
Thereafter	279
Total	<u>\$ 1,810</u>

**(13) Related Party and Similar Transactions**

The enabling legislation, described in Note 1, established that the District would pay for water and wastewater services. The Authority recorded revenues of \$17,827 and \$15,628 from the District government and \$7,296 and \$6,319 from the District of Columbia Housing Authority ("DCHA") for fiscal years 2011 and 2010, respectively. Both the District government and DCHA revenues are included in water and wastewater user charges in the accompanying statements of revenues, expenses and change in net assets.

The Authority recorded expenses of \$16,890 and \$15,374, for payments-in-lieu-of-taxes to the District for services such as road repairs, fire protection, police protection, and other services for the years ended September 30, 2011 and 2010, respectively. The Authority also recorded an expense of \$5,100 for the District's right-of-way fee, charged to all area utilities for infrastructure occupancy in public streets, for each of the years ended September 30, 2011 and 2010.

## DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

### Notes to the Financial Statements

September 30, 2011 and 2010

(In \$ thousands)

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#### (13) Related Party and Similar Transactions (Continued)

The amounts due to the District government as of September 30, 2011 and 2010 were \$1,563 and \$382, respectively. These amounts are for the Authority's share of fiscal years 2012 and 2011 debt service on general obligation bonds originally issued to finance the Authority's capital improvements that were prepaid in accordance with a Memorandum of Understanding with the District, as described in Note 10. The balance also includes \$1,017 due to the District as of September 30, 2011 and 2010 for costs incurred by the District for certain lead mitigation activities and \$1,190 as of September 30, 2011 related to the construction of DC Water infrastructure projects undertaken by the District's Department of Transportation.

The District of Columbia Council created the Storm Water Compliance Amendment Act of 2000 which established the Authority as the Storm Water Administrator and a fund was established. The administration of the fund was transferred to the District Department of the Environment ("DDOE") in 2007. The Authority continues to bill and collect storm water fees as a separate item and transfers the funds to the DDOE quarterly. The Authority incurred \$821 and \$1,208 of reimbursable expenses for years ended September 30, 2011 and 2010, respectively.

Additionally, the Authority had a net payable of \$417 and \$132 to the Storm Water Fund for years ended September 30, 2011 and 2010, respectively. The amounts shown on the Statements of Net Assets as due to Storm Water Fund are net of collection and administrative costs.

#### (14) Employee Benefits

##### (a) Defined Benefit Plans

Employees hired prior to October 1, 1987 participate in certain federal benefit plans. The plans are cost sharing multi-employer plans, which provide retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan participants and beneficiaries.

Employees and the Authority each contribute a percentage of the employees' salaries to the Federal government, which administers the plans. During fiscal years 2011, 2010 and 2009, the Authority's contributions to the plans were \$1,116, \$1,169 and \$1,173, respectively. These amounts were 100 percent of the required contributions under the plans for each of the fiscal years presented.

The required percentage of salaries to be contributed by the employees was 7.00 percent for each of the three fiscal years ended 2011. The required percentage of salaries to be contributed by the Authority was also 7.0 percent for each of the three fiscal years ended 2011.

##### (b) Defined Contribution Plans

*Defined Contribution Plan* - Employees who were hired after September 30, 1987, participate in the U.S. Social Security system and a defined contribution plan sponsored by the Authority. The District of Columbia Water and Sewer Authority Defined Contribution Plan is a qualified trust under Internal Revenue Code Section 401. During fiscal years 2011, 2010 and 2009, the Authority's contribution was seven percent of base pay up to the social security wage base, plus

## DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

### Notes to the Financial Statements

September 30, 2011 and 2010

(In \$ thousands)

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#### (14) Employee Benefits (Continued)

5% of base pay in excess of the social security wage base for each eligible employee. Employees do not contribute to the plan. Employees become 100 percent vested in their account balance after three years of service.

*457(b) Plan* - Starting in January 2000, employees who were hired after September 30, 1987, participate in the U.S. Social Security system and a 457(b) Deferred Compensation plan sponsored by the Authority. The District of Columbia Water and Sewer Defined Contribution Plan is a qualified trust under Internal Revenue Code Section 401.

The Authority makes a matching contribution of 100 percent of the amount that the employee defers to the 457(b) Deferred Compensation Plan; up to a maximum contribution of five percent of base pay for eligible employees.

There is no waiting period before an employee can elect to become a participant of this plan and employees are always 100 percent vested in their contributions. The Authority's matching contribution is vested after three years of service.

During fiscal years 2011, 2010 and 2009, the Authority's contributions to both defined contribution plans were \$5,225, \$4,182 and \$4,425, respectively.

#### (c) *Post-Employment Insurance Plans*

The Authority does not provide post employment health and life insurance benefits to any post-1987 employees. The federal government provides healthcare and life insurance benefits to certain retired employees under the Federal Employees' Health Benefits Program and the Federal Employee's Group Life Insurance Program at no cost to the Authority.

#### (d) *Retirement Health Savings Plan*

In fiscal year 2007 the Authority implemented a Retirement Health Savings Plan for post-1987 non-union employees. The Plan allows eligible employees to receive a benefit for their unused sick leave upon separation of service. Funds are transferred to a third party to pay for post-employment medical expenses at the termination of employment.

**DC WATER AND SEWER AUTHORITY  
BOARD OF DIRECTORS CONTRACTOR FACT SHEET**

**ACTION REQUESTED**

**GOODS AND SERVICES CONTRACT MODIFICATION  
TELECOMMUNICATIONS SERVICES**

**(Joint Use )**

Approval to execute a contract modification to add additional funding to the contract for telecommunications services in the amount of \$817,996.00.

**CONTRACTOR/SUB/VENDOR INFORMATION**

<b>PRIME:</b>	<b>SUBS:</b>	<b>PARTICIPATION:</b>
Verizon Federal 22001 Loudoun County Parkway Ashburn, Virginia 20147	N/A	0%

**DESCRIPTION AND PURPOSE**

Original Contract Value:	\$2,537,668.00
Current Modification No. 1:	\$ 817,996.00
Current Modification No. 1 Dates:	February 6, 2012
Original Contract Time:	November 8, 2007
Contract Completion Date:	November 7, 2012

**Purpose of the Contract:**

The purpose of this contract is to provide support for our WITS Telecommunication Grid for Intra-Site connectivity. The grid serves as a pathway for all data transfer via e-mail and file sharing. It also acts as a route for digitally transcribed telephone communication through our Voice Over Internet Protocol (VOIP) systems.

**Previous Spending:**

Cumulative Contract Value:	November 8, 2007 – November 7, 2012	\$2,537,668.00
Cumulative Contract Spending:	November 8, 2007 – December 31, 2011	\$2,220,235.92

PROCUREMENT INFORMATION			
<b>Contract Type:</b>	Fixed Fee	<b>Award Based On:</b>	Not Applicable
<b>Commodity:</b>	Services	<b>Contract Number:</b>	GS11T0&BJD6001
<b>Contractor Market:</b>	GSA Schedule		
BUDGET INFORMATION			
<b>Funding:</b>	Operating	<b>Department:</b>	Dept. of Information Technology
<b>Service Area:</b>	DC Water Wide	<b>Department Head:</b>	Omer Siddiqui
<b>Project:</b>			
USER SHARE INFORMATION			
User	Share %	Dollar Amount	
District of Columbia	44.54%	\$364,335.42	
Washington Suburban Sanitary Commission	41.76%	\$341,595.13	
Fairfax County	9.45%	\$ 77,300.62	
Loudoun County & Potomac Interceptor	3.62%	\$ 29,611.46	
Other	0.63%	\$ 5,153.37	
<b>Total Estimated Dollar Amount</b>	<b>100%</b>	<b>\$817,996.00</b>	

 1/20/12


Yvette Downs  
Director of Finance & Budget

 1/19/2012

Rosalind R. Inge  
Director of Procurement

 1/20/12

Omer Siddiqui  
Chief Information Officer

 /

George Hawkins  
General Manager



**D.C. WATER AND SEWER AUTHORITY  
BOARD OF DIRECTORS  
FINANCE AND BUDGET  
FEBRUARY COMMITTEE MEETING**

**Thursday, February 23, 2012; 11:00 a.m.  
Blue Plains Wastewater Treatment Plant  
5000 Overlook Avenue, SW, DC  
AGENDA**

<b>Call to Order</b>	Chairman
<b>January 2012 Financial Report</b>	Director of Finance & Budget
<b>Action Items</b>	Chairman
<b>Agenda for March Committee Meeting</b>	Chairman
<b>Adjournment</b>	Chairman

\*Detailed agenda can be found on DC Water's website at [www.dcwater.com/about/board\\_agendas.cfm](http://www.dcwater.com/about/board_agendas.cfm)