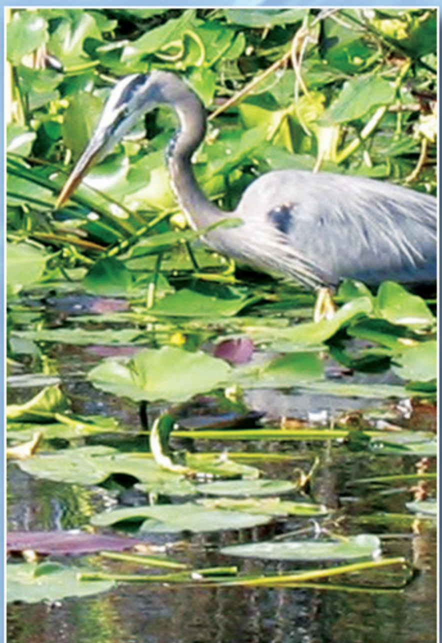
District of Columbia
Water and Sewer Authority

(A component unit of the Government of the District of Columbia)

Comprehensive Annual Financial Report

Fiscal Year Ended September 30, 2007

Olu Adebo, Acting *Chief Financial Officer*



2007

District of Columbia Water and Sewer Authority

Comprehensive Annual Financial Report

(A component unit of the Government of the District of Columbia)

Fiscal Year
October 1, 2006 to September 30, 2007

Prepared by:
Department of Finance and Budget

Olu Adebo, Acting Chief Financial Officer

TABLE OF CONTENTS

TABLE OF CONTENTS

Introductory Section

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Presented to

District of Columbia Water and Sewer Authority

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
September 30, 2006

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GOVERNMENT FINANCE OFFICERS ASSOCIATION OF THE UNITED STATES AND CANADA CORPORATION SEAL CHICAGO

President

Executive Director

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AS OF SEPTEMBER 30, 2007

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F. Alexis H. Roberson	District of Columbia
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GENERAL MANAGER'S STAFF

Jerry N. Johnson..**General Manager**

Avis Marie Russell .... General Counsel

Mujib Lodhi.. Chief Information Officer

Johnnie Hemphill ....Chief of Staff

Michael Hunter..Internal Auditor

Michele Quander-Collins ....Director Public Affairs

Linda R. Manley ....Secretary to the Board

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Yvonne Reid..Acting, Controller

Yvette Downs..Finance and Budget Director

Tanya DeLeon ....Risk Manager

Robert Hunt..Treasury / Debt Manager

OPERATIONS

John Dunn..Deputy General Manager and Chief Engineer

Leonard Benson.. Director Engineering and Technical Services

Walter M. Bailey..Director Wastewater Treatment

R. Wayne Raither..Director Maintenance Services

Charles W. Kiely ....Assistant General Manager Consumer Services

Cuthbert Braveboy..Director Sewer Services

Louis Jarvis ....Director Water Services

Eva Liggins..Director Customer Services

SUPPORT SERVICES

Barbara Grier ....Assistant General Manager

John Christodoulakis ....Director Procurement Services

Katrina J. Wiggins.. Director Human Resources

O.Z. Fuller .... Director Fleet Management

Everett Lallis.. Director Occupational Safety and Health

DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY
5000 OVERLOOK AVENUE, S.W., WASHINGTON, D.C. 20032

March 13, 2008

Robin B. Martin, Chairman
and Members of the Board of Directors
Jerry N. Johnson, General Manager
5000 Overlook Avenue, S.W.
Washington, D.C. 20032

Dear Mr. Chairman, Members of the Board, and Mr. General Manager:

I am pleased to submit the District of Columbia Water and Sewer Authority's (the "Authority" or "WASA") Comprehensive Annual Financial Report (CAFR) for the fiscal year ended September 30, 2007.

WASA's continued financial performance has been due in a large part to the annual development of and adherence to a ten-year strategic financial plan. The year ended with revenues exceeding expenses (change in net assets) by $46.1 million. As required by Board policy, the Authority maintained cash reserves in excess of 180 days operating and maintenance costs ($111.3 million in fiscal year 2007), and was in compliance with all bond covenants (see Statistical Section, Exhibit 5). The Authority ended fiscal year 2007 with operating expenditures under budget (see Statistical Section, Exhibit 20) and revenues in excess of budget. The Authority maintained its "AA" category bond ratings, which is the second highest rating category available to state and local governments.

These financial accomplishments are due in large part to the leadership of the Board of Directors, particularly because of your development of and adherence to sound financial policies.

Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with WASA's management. To the best of my knowledge and belief, the enclosed financial statements and schedules are accurate in all material respects and are reported in a manner designed to present fairly the financial position and results of operations of the Authority.

REPORT SECTIONS

This report (CAFR) describes the Authority's financial activities, condition and services as a whole. As such, the report covers information about the Authority's history, its organizational structure, and its financial data. This report is divided into three sections: Introductory, Financial, and Statistical.

- The **Introductory Section**, which is not audited, includes the Authority's organizational structure, a list of board members and senior management, a history of governance and operations, a description of facilities, a summary of the budget process, internal controls and accounting standards, the Authority's recent accomplishments and major initiatives, a discussion of economic conditions of the metropolitan Washington, D.C. area, and a description of the Authority's risk management program.

- The **Financial Section** includes the independent auditor's report, Management's Discussion and Analysis (MD&A), the Authority's fiscal year 2007 and fiscal year 2006 financial statements, and notes to the financial statements.

- The **Statistical Section**, which is not audited, presents selected financial and operating indicators of the Authority and statistics about the economic condition of the metropolitan Washington, D.C. area.

This letter of transmittal is designed to supplement the MD&A and should be read in conjunction with it. The Authority's MD&A is located immediately following the auditor's report.

RECENT ACCOMPLISHMENTS

The end of fiscal year 2007 marks the Authority's eleventh year in operation as an independent agency. Using the framework of policies the Board of Directors established in fiscal year 1998, the four Strategic Focus Areas developed by the Board in fiscal year 2003, and in light of the Board's recent planning session where it reaffirmed its four core strategic goals, the Authority and its management continued to build on the successes of its previous ten years of operations. Major accomplishments in fiscal year 2007 were:

Financial Accomplishments

- In June 2007, the Authority issued $277.7 million of subordinated lien public utility revenue bonds (Series 2007A and 2007B). Proceeds were used to refund $30 million in outstanding commercial paper and the balance was used to fund various capital projects and closing costs.

- The Authority contributed $10.0 million to the rate stabilization fund at the end of fiscal year 2007, raising the balance to $68.5 million. The rate stabilization fund will be used in the future to smooth out peak rate increases at the Authority's discretion and in accordance with the Board's policy of gradual and predictable rate increases.

- The Authority received $7.0 million in additional appropriation from the U.S. Government to be used, with matching funds, for capital projects aimed at reducing Combined Sewer Overflows (CSO). This raised the total federal appropriation to $98.2 million through the end of fiscal year 2007.

- WASA's bond ratings remained at the "AA" level, the second highest rating category available to state and local issuers, helping reduce the interest rates we pay on our debt borrowings, resulting in lower bills to our customers.

- The Authority received its eleventh consecutive unqualified audit opinion on its financial statements in fiscal year 2007.

- Residential, commercial and multi-family customer receivables over 90 days including bad debt continued on its downward trend, declining to $7.1 million at the end of fiscal year 2007 from $7.4 million at the end of fiscal year 2006. This reduction is largely due to the comprehensive Arrears Management Program that was implemented in fiscal year 2004. This program emphasizes improved performance in the daily administration of accounts receivable management through activities such as stepped up collection efforts, more systematic field service collections, and the "Dialing for Dollars" program.

- In FY 2007, the Authority successfully renewed all of its insurance coverage's and added terrorism coverage, all at a cost of 7 percent less than prior fiscal year. The use of multiple, qualified brokers improved competition and rendered favorable results in the cost of property and associated insurance coverage.

Operational Accomplishments

- The Authority spent $176.7 million on capital construction in fiscal year 2007. One of the major long-term upgrade construction projects at the Blue Plains Wastewater Treatment Plant placed in service in fiscal year 2007 was the Filtration and Disinfection Facility. Other major on-going projects at the Blue Plains Wastewater Treatment Plant included improvements to primary and secondary treatment processes, chemical distribution systems, rehabilitation of the influent grit and screening facility, process computer control system, and additional dewatering facilities. In the water service area, the major rehabilitation of the Bryant Street and Anacostia pumping stations and implementation of the Board-adopted lead service line replacement program continued in fiscal year 2007.

- The Authority made significant progress on the Board's lead service line replacement program in fiscal year 2007. The Authority replaced 3,817 lead service lines in public space, bringing the total number of replacements to approximately 14,112. Recent water test results also show lead levels continue to fall since December 2004.

- In fiscal year 2007, WASA received the prestigious gold award from the National Association of Clean Water Agencies (NACWA, formerly Association of Metropolitan Sewerage Agencies, AMSA) for the calendar year ending December 2006, adding to six gold and three silver awards over the previous eight years. This award recognizes the Authority's high level of compliance with federal standards for discharges from the Blue Plains Wastewater Treatment Plant into the Potomac River.

HIGHLIGHTS AND MAJOR INITIATIVES

Blue Plains Total Nitrogen Removal Program

In June 2007, the United States Environmental Protection Agency (EPA) issued a modification to the permit reducing the total nitrogen effluent limit to 4.7 million pounds per year (equivalent to 4.2 mg/l at 370 mgd average annual flow). Blue Plains Total Nitrogen Removal Program (BTN) provides for new facilities, and upgrades to existing facilities that are needed at Blue Plains, to meet the new total nitrogen discharge limit that has been included in WASA's NPDES permit. Projects included in this program were identified through a strategic planning process that resulted in development of WASA's proposed Total Nitrogen-Wet Weather (TN/WW) Plan, which addresses the requirements of the Long Term Control Plan as well as the Chesapeake Bay Tributary Strategies for reducing nitrogen discharged into the Chesapeake Bay. The recommended alternative in the plan removes additional nitrogen from the wastewater prior to discharge and improves the quality of discharge to the Potomac and Anacostia rivers during wet weather events. The life time budget for this program is $950 million

Lead Service Line Replacement Program

This year's Capital Improvement Plan (CIP) reflects continuation of the Board's 2004 goal of replacing the original inventory of 23,000 lines by 2010 with a lifetime budget of $438 million. In fiscal year 2007, the Authority replaced 3,817 public lines, bringing the total number of replacements to date to approximately 14,112. During the last four sampling semesters of 2007 and 2006, WASA was below the EPA action level for lead. EPA mandated replacement requirements ended January 2006, however WASA will continue the replacement program through 2016.

Combined Sewer Overflow Long Term Control Plan

Approximately one-third of the District of Columbia is served by a combined sewer system, in which both sanitary waste and storm water flow through the same pipes. When the collection system and/or the Blue Plains treatment plant reach capacity, typically during periods of heavy rainfall, the system is designed to overflow the excess water. These events are referred to as combined sewer overflows. Combined sewers are common in older wastewater collection systems.

In December 2004, the Authority reached an agreement with the Federal government on a twenty year CSO Long-Term Control Plan (CSO LTCP). A judicial consent decree entered by the U.S. District Court in March 2005 formalized the agreement and calls for WASA to complete the CSO LTCP over a twenty-year period. This program, totaling $1.9 billion including inflation, is projected to result in improved water quality and a significant reduction in debris in our national capital's waterways, by CSO reductions of 96 percent (98 percent on the Anacostia River alone) and includes the following components:

- Three large storage tunnels, which will store the combined flow from storm events until those flows are conveyed to the Blue Plains Plant for treatment;
- Pumping station improvements;
- Targeted separation of combined sewers in several sections of the District;
- Consolidation and elimination of 14 of 59 outfalls, including 4 outfalls on the Anacostia River; and
- Low impact development projects at WASA facilities.

WASA is implementing the CSO LTCP consistent with the Total Maximum Daily Pollutant Loads (TMDL) developed by EPA for the Anacostia River. A recent U.S. Court Appeals decision ruled that TMDLs should be implemented on a daily basis, not over a longer period; this contradicts the prior court decision, which allows more flexible implementation of TMDLs. The short-term impact of this decision is a possible delay in implementation of the CSO LTCP. WASA is actively working with EPA to seek a resolution of this issue to ensure that Anacostia's water quality objective will be met.

The potential impact of the CSO LTCP on rates is great. The current rate projections assume no additional funding beyond the $98.2 million already received through U.S. Government appropriations. If no additional federal assistance is provided, the typical residential customer's monthly wastewater bill will increase from $28 to almost $110 at the end of the twenty year plan, an increase of around 300 percent based on our current rate structure. The Authority is pursuing additional federal funding to significantly reduce the impact on ratepayers.

After evaluating several rate structures, the WASA Board is proposing to recover these costs using an impervious area rate beginning in fiscal year 2009. An impervious area rate offers the following advantages:

- Provides a better allocation of cost responsibility than a water/sewer consumption rate relating to managing surface runoff.

- Applying an impervious area rate structure for both programs in the same way on a citywide basis will improve understanding and sharpen incentives for low impact development.

In fiscal year 2008, the Authority will develop an impervious surface database to support implementation of this rate structure.

Storm Water System and Management

The District of Columbia Storm Water Permit Compliance Enterprise Fund ("Fund") was established on October 18, 2000, by the District of Columbia City Council pursuant to the Clean Water Act, 33 U.S.C. §1251. The City Council legislation was entitled *Storm Water Permit Compliance Amendment Act of 2000 (the Act).* The Act established WASA as the Storm Water Administrator, whose responsibility includes monitoring and coordinating activities of all District agencies to maintain compliance with the Storm Water Permit. The legislation also required WASA to charge and collect a Storm Water fee on its water bills to its retail customers.

In February 2006, the District created the "District Department of Environment (DOE) Establishment Act". Section 103 E (2) of the Act provides for the transfer of the administration from WASA to the District's DOE within one year.

In FY 2007, WASA transferred administration of the fund to DOE and is no longer responsible as the Administrator. However, WASA continues to collect storm water fees and transfer to the District quarterly. WASA's Department of Sewer Services continues to participate in the MS4 task Force, because of our responsibility for catch basin cleaning, an important component of storm water pollution control efforts.

D.C. Council member Mr. Jim Graham has established a Task Force to review storm water funding needs for the District and recommend a new storm fee structure. WASA has representation on the Task Force and WASA staff also remains involved in the Inter-Agency MS4 task Force that provides guidance to the MS4 compliance activities.

Customer Service Initiatives

In fiscal year 2007, WASA continued to make investments in its employees, process improvements and technology, all to ensure better service delivery to our customers. These improvements include the following:

- We continued our customer outreach efforts by creating and distributing a Guide to Customer Services handbook. This Guide describes what we do and what services and technologies are available to WASA customers. This handbook will also be mailed to new customers when they establish service.

- The Automated Meter Reading Program (AMR) is nearly complete with 98.9 percent of all meters installed. There are approximately 1,224 residential and small commercial meters and 133 large meters left to be installed. WASA plans to complete all remaining installations in fiscal year 2008.

- We are committed to help improve the quality of life for District residents through our Customer Assistance Programs (CAP). Through CAP, we provide eligible customers a discount of 4 Ccfs per month on their water and sewer bills. Since it began, participation in CAP has continued to increase. As of September 2007, a total of 3,474 customers are receiving a discount on their bills.

- We currently offer to our customers our High Usage Notification Application (HUNA). This is the first application of its kind in the water industry and places WASA in the forefront of innovative technology that improves its service delivery to customers. This feature capitalizes on the automated meter reading (AMR) technology that WASA has been installing throughout the District. Once they sign up for the service, customers can access this data through WASA's website. It provides graphical illustrations of the AMR data that allows customers to pinpoint high usage on the exact day it occurred.

- Collections Process Notification Program. The objective of this program is to provide delinquent customers with a friendly reminder and prevent the cost and inconvenience of service deactivation. The pilot project identifies customers that fall into one of three collections profiles (payment reminder, disconnect, and Intent to Lien) and stages automated outbound calling to the customers using personalized account information and customized scripting based upon the type of calling. In fiscal year 2007, we expanded the program to include our commercial customers as well. In total, we placed 111,885 automated calls, resulting in collection of approximately $5.1 million. This program directly contributed to the achievement of an all-time low delinquent accounts receivable at the end of fiscal year 2007.

Technology Initiatives

In December 2001, the Authority presented its Information Technology Strategic Plan (IT Plan) to the Board of Directors, which provided a vision for the delivery of information technology services at WASA through fiscal year 2007. The plan included a recommended methodology for prioritization of projects, suggested network security and infrastructure improvements, project management initiatives, and other organizational enhancements. The IT Plan called for completion of several major projects over the planning period, and significant work continued on several major projects in the plan. All of our IT projects are focused on improving service to our customers.

- In fiscal year 2007, WASA continued implementation of its Total Enterprise Asset Management System (TEAMS). Ultimately TEAMS will integrate WASA's systems and facilities for customer information, facility operations, finance, records and document management and improve both the management and maintenance of our water and sewer infrastructure. This system represents a significant improvement in the automation and business process improvements for the entire water infrastructure management and maintenance life cycle.

- In fiscal year 2007, WASA began its Supervisory Control and Data Acquisition (SCADA) replacement project. We have already incorporated the nine WASA water distribution facilities and Washington Aqueduct Division (via McMillan reservoir) into the new system. We completed training for all water service operators, and they are now using SCADA to manage all of its distribution and pumping operations. Beginning in fiscal year 2008, we will replace the SCADA for nine Sewer Pumping Stations and other sewer-related facilities. After which, we will train all sewer service operators to manage the entire sanitary sewer, storm water sewer, and combined sewer operations.

- A Geographical Information System (GIS) was identified as integral to the success of the implementation of TEAMS. GIS offers integrated technology that will provide historical data by locations. This data is useful to various departments in providing timely response to customer inquiries and request for service. We are integrating GIS and WASA's inventory management system (Maximo) so that users can look-up an asset in Maximo and then view the geographical location of that asset with the click of a button. GIS implementation began in fiscal year 2006 and continued during fiscal year 2007.

  In fiscal year 2007, WASA developed a tool based on Google Earth, to allow the Fire and Emergency Management Services (FEMS) to see the status of public fire hydrants around the city. This tool makes extensive use of the information stored in TEAMS and GIS to display, in a very dynamic way, selected data elements from our online systems that were deemed relevant for FEMS. FEMS can easily see on a map format, which hydrants are out of service, the location of those out of service hydrants and in service hydrants in the proximate area. The information for each hydrant shows its number, description, address, current operational status, compliance to the NFPA standard for the 4 1/2 " pumper nozzle with NST threads, last service date and flow rating. A simplified version of this tool will also be made available to the general public through WASA's website soon.

- In 2005, WASA initiated a project to implement an Enterprise Records and Document Management System (ERDMS) to assist in the management of documents and records throughout their lifecycle, including creation, capture, management, retention and disposition. In fiscal year 2007, we began implementation of Accounts Payables

Document Management Systems, Human Resources Personnel Files Management and Engineering Document Management and Control.

Community Service

As part of our service to customers and the Board's strategic goal on community service, WASA emphasizes extending a helping hand to the community. During the past year, employees have worked together on such projects as Joint Utility Discount Day, Ward Eight Clean Up, Green DC Week, Bread for the Soul, DC Public Schools, One Fund, Aids Walk Washington, Susan G. Komen Breast Cancer Walk and Girls and Boys Town of Washington.

Owner-Controlled Insurance Program

In FY 2004, the Authority implemented a rolling owner controlled insurance program (ROCIP). Under this program, WASA procures insurance for most of the contractors working on construction projects at Blue Plains and WASA work outside of Blue Plains. The benefits of this program are broader coverage, enhanced safety and loss control, which has resulted in fewer claims, increased minority participation (contractors who would not participate because of insufficient insurance coverage) and finally, potential cost savings. At the end of fiscal year 2007, 49 projects and 92 contractors were enrolled in the program. We estimate savings of approximately $900,000 to date. Over the life of the five-year program, we anticipate enrolling 120 projects and anticipate savings in the $4 million range.

Employee Relations

The Authority's employees are its most valuable asset and are key to accomplishing its mission and the Board's strategic goals. The Authority continued to invest in its employees by funding training and development efforts that provide skills training in the areas of safety, technology, government regulations, and professional and career development to ensure a skilled, safe and competent workforce that is fully capable of supporting our customer's needs. Other major highlights of the Authority's employee relations are:

- Wellness program – includes seminars and workshops on a variety of health topics, various workplace health screenings and fitness tests, and opportunities to participate in exercise activities and programs.

- Retirement counseling – provides counseling on retirement planning for employees who are participants in the Civil Service Retirement System (CSRS).

- Investment counseling – provides counseling on investing retirement funds for employees in the WASA 401(a) plan.

- In fiscal year 2007, WASA increased the employer matching contribution into the WASA Retirement Plan from 3 percent to 5 percent of base salary, for non-represented employees hired after October 1987. The additional match was implemented to recognize the need for additional savings for future retiree medical costs.

- In fiscal year 2007, WASA implemented a retirement health savings plan for non-represented employees hired after October 1987. The plan will offer the opportunity for employees to save for healthcare expenses on a tax-free basis.

- In fiscal year 2007, WASA began to address issues raised in the employee climate survey which was completed in fiscal year 2006. As follow up, we held multiple employee meetings by department to discuss the survey findings. At the meetings, management and employees discussed ideas to improve the organization. Plasma screen electronic message boards were also installed at numerous worksite locations; this technology allows WASA to provide more timely communications to our employees regarding organization changes and other information.

- WASA's collective bargaining agreements for compensation and working conditions for each of the five bargaining units expired on September 30, 2007. WASA has successfully reached an agreement with the unions that provides fair compensation and is still negotiations with the five unions on working conditions and anticipates a successful completion.

The Authority will continue to evaluate new enhancements to current benefits that will keep WASA competitive with other employers in the region.

Energy Management Program

Electricity costs represent a significant portion of WASA's budget, approved at $28 million in fiscal year 2007 out of $312 million operating budget. Prices continue to rise over the past couple of years, due to a combination of factors including deregulation in the District, rising oil prices, inclement weather, record global demand for power and oil, and regional transmission and grid changes. In fiscal year 2005, WASA entered into a successive five-year contract for generation that allows WASA to lock in blocks of power at a fixed price when futures pricing meets budget targets. To the degree that WASA does not lock in blocks, pricing will be established each day at market rates with direct pass-through of all costs. The contract includes an enhanced process for block power purchases that gives WASA access to the wholesale market and provides more transparency in reviewing the bids from wholesalers. To mitigate our exposure from higher energy prices that occurred during the year, we locked in portions of our electricity load, especially for the summer period. We monitor the electricity market continuously and explore other cost avoidance alternatives in electricity procurement.

Capital Improvement Program

WASA's ultimate success in achieving its operational goals, customer service goals, and continuing success in regulatory compliance depends in large part on the implementation of our 10-year capital improvement program of $3.1 billion, approximately $880 million more than last year. The increase is primarily attributable to the newly proposed Blue Plains Total Nitrogen Program (BTN). BTN includes capital projects that are required for nitrogen removal and wet weather flow treatment, thus enabling the Blue Plains Advance Wastewater Treatment Plant to comply with the United States Environmental Protection Agency's modification to the NPDES permit, reducing the total nitrogen effluent limit to 4.7 million pounds per year.

The lifetime budget for the Wastewater Treatment Service Area is $2.3 billion dollars, reflecting a $941 million net increase over last year's budget. The cost of implementing the Total Nitrogen Program accounts for almost all the budget increase. Major capital activities that were placed in service in fiscal year 2007 at the Blue Plains Wastewater Treatment Plant were:

- Filtration and disinfection facility – replacement of filter under drains, media, and wash water troughs to prepare filters for conversion to air–water wash system. All 40 filters and all the media have been replaced and are in service.

- Electrical Power System Additions Switchgear Replacement Main Substation-replaced the 15 KV main substation switchgear.

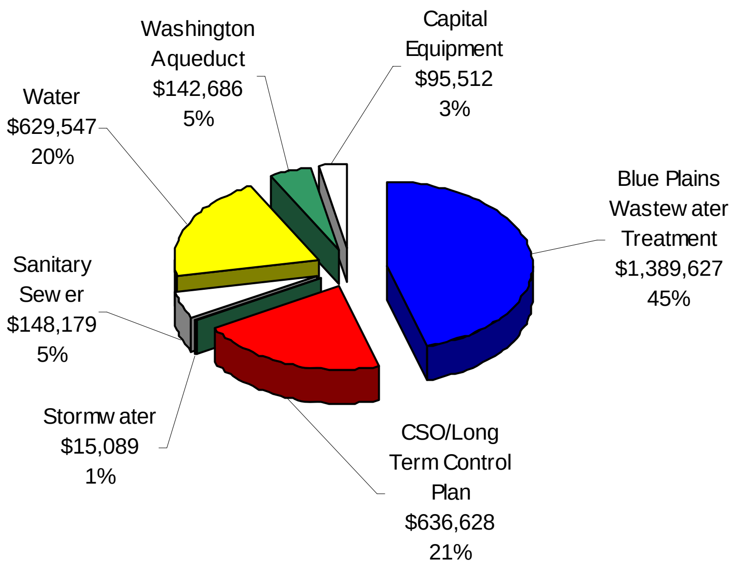
- Filtration Facility pumping upgrade-replaced the Filter Influent Pumps, the Wash water Pumps, Surface Wash Pumps, Spent Wash water Pumps, And High And Low Pressure Final Effluent Pumps.

- Process Computer Control System has been completed in stages that are tied to each of the major long-term upgrade projects. The ability to monitor and control process systems and equipment is provided as the facilities are upgraded.

Three major construction projects also started this fiscal year. They are Filtration and Disinfection Upgrade Phase II-Backwash System, Raw Wastewater Pump Station 1 Upgrades, and Nitrification Denitrification Facilities Upgrades.

The Authority also made significant progress on CSO LTCP projects over the past few years. Construction is well underway with completion of approximately $170 million of projects. Projects include rehabilitation of four major pumping stations to increase their capacity: three of these stations (Potomac, Main & O Street and East Side) are near completion, and additional work at Poplar Point is underway. WASA is also in the process of completing the facility plan for the Anacostia tunnels. The proposed FY 2007 – F 2016 capital improvement program is $3.1 billion on a disbursements basis. The plan is broken into seven service areas, as shown in the graph on next page.

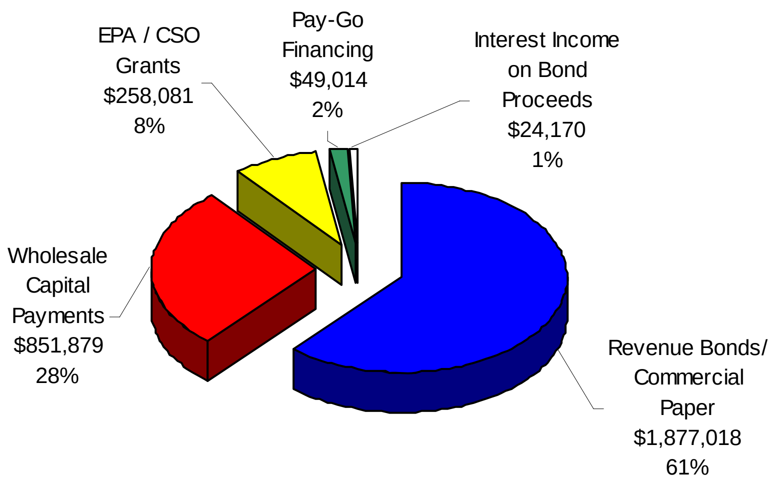
FY 2007 – FY 2016 Capital Improvement Program
($ in 000's)



Capital Financing and Debt Administration

The Authority plans to finance its $3.1 billion capital improvement program from a variety of sources, including the issuance of revenue bonds/commercial paper, grants from the U.S. Environmental Protection Agency (EPA) and other agencies, contributions from wholesale customers, and pay-as-you-go financing. Interim financing through issuance of commercial paper notes will be periodically converted to long-term financing through the issuance of bonds. As shown on the following chart, 61 percent of capital financing will come from debt issuance.

FY 2007 – 2016 Capital Improvement Program
Sources of Funds
($ in 000's)



Cash Position

Unrestricted cash and investments totaled $192 million as of September 30, 2007. Board policy requires Authority reserves in excess of 180 days operating and maintenance costs and rate stabilization fund deposits to be used to fund portions of the capital program on a pay-as-you-go basis.

ACCOUNTING AND BUDGET PROCESSES

Basis of Accounting

The Authority is a single enterprise fund and maintains accounting records using the accrual basis of accounting. Under this basis of accounting, revenues are recorded when earned, and expenses are recorded when goods and services are received.

Internal Control

The Authority's management is responsible for establishing and maintaining an internal control structure designed to ensure that the Authority assets are adequately safeguarded against loss from unauthorized use or disposition and to maintain reliable financial records for the preparation of financial statements. The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: 1) the cost of internal controls should not exceed the benefits derived from the controls; and 2) the evaluation of costs and benefits requires management's exercise of judgment. We believe the Authority's internal accounting controls adequately safeguard its assets and provide reasonable assurance of the proper recording of financial transactions.

Independent Audit

The Authority's fiscal year is from October 1 to September 30, and the Authority's financial statements are subject to an annual audit by independent certified public accountants. Thompson, Cobb, Bazilio & Associates, P.C. (TCBA) audited the Authority's financial statements for fiscal year 2007. TCBA's opinion is included in the Financial Section.

Budgetary Control

Budgetary control begins with the preparation of the annual operating and capital budgets, which are developed on an expenditure basis. After three months of extensive review by the Board's Finance and Budget, Environmental Quality and Operations, and Retail Rates Committees, the budgets are approved by the Board of Directors. The budgets are loaded into the Authority's financial management system, which prevents overspending without appropriate approvals. The Department of Finance and Budget prepares daily and monthly management reports for each operating unit. They also prepare monthly reports for the Board of Directors and its various committees. The reports are reviewed and acted upon each month to ensure the Authority complies with its authorized budget levels.

Annual Budget Process

After approval by the Board of Directors, the Authority is required to submit its annual operating and capital budgets to the Mayor and Council of the District of Columbia for their review and comment; however, neither can change the annual budgets of the Authority. The District then includes the Authority's budgets as an enterprise fund in the budget that it sends to the United States Congress for approval.

TEN-YEAR FINANCIAL PLAN

First developed in fiscal year 1997, the Authority's ten-year financial plan serves as its road map to strong and predictable long-term financial performance. This plan is updated and adopted annually by the Board of Directors. The Authority's ten-year financial plan and overall emphasis on long and short term planning are regularly cited by the rating agencies as critical factors in WASA's bond ratings. The objectives of the ten-year financial plan are:

- To proactively address all known regulatory requirements and other major infrastructure and operating issues, including the Internal Improvement Plan, over the ten-year planning period;
- To raise rates gradually and predictably as needed to meet its long-term operating, capital, and financial policy requirements; and
- To meet all of the financial policies laid out by the Board of Directors, including maintaining approximately 180 days of operating and maintenance expenses in cash reserves and maintaining senior debt service coverage of 140 percent.

Since its inception, the Authority has maintained or enhanced, the financial goals set out by Board policy and the ten-year financial plan; The Authority has achieved or exceeded the Board's and other legal financing goals and requirements in every year of its existence.

FINANCIAL POLICIES

During fiscal year 1998, the Authority adopted critical policies for financing, rate setting and cash management. These policies have served as the key parameters used to successfully develop the Authority's ten-year financial plan, capital improvement program, and operating budgets. The policies will continue to guide the development and implementation of the Authority's long term plans in the future. A summary of these policies follows.

Financing Policies

The primary objective of the financing policies is to ensure that the Authority's financial practices result in a high quality investment-grade bond rating so as to achieve the lowest reasonable cost of debt necessary to finance the Authority's long-term capital program. The Authority is committed to 140 percent debt service coverage on senior lien debt service and maintaining an operating cash reserve equivalent to 180 days of operating and maintenance expenses. In addition, the Authority will use any excess operating reserve amounts for capital financing to reduce the need for additional long-term debt.

Rate Setting Policies

The Authority's rate setting policy is simple and straightforward: the Authority will strive to set rates so that each customer will be charged for those costs necessary to provide each service, and rate increases will be predictable and gradual. The Authority will apply this rate-setting philosophy in a practical and prudent manner based on the following tenets:

- The Authority must achieve a positive net income and cash flow each year.
- Current rates must cover current costs and provide cash flow adequate to meet all bond covenant requirements.
- Rates and fees must be based on the actual cost to deliver each service.
- Rates must be based on annually updated ten-year forecasts of operating and capital budgets, with any required rate increases phased in gradually over time to avoid "rate shock."
- After the Authority achieved its required level of cash reserves, a rate stabilization fund was established to ensure gradual and predictable rate increases. The Authority contributed $10 million in fiscal year 2007, bringing the balance of the reserve to $68.5 million.

Cash Management and Investment Policies

The Authority manages its cash based on the following objectives, in order of priority: safety, liquidity, return on investment, and diversity.

With the adoption of the revised fiscal year 1998 budget, the Authority's Board of Directors adopted comprehensive cash management and investment policies and implemented investment and cash management practices. These policies and practices are consistent with and based on the Government Finance Officers Association's (GFOA) guidelines and specify the amount of the total portfolio allowed in each type of investment.

In October 2007, the Board adopted a new comprehensive Statement of Investment Policy. The Statement outlines high level broad investment policies to include delegation of certain authority to the General Manager, investment objectives, collateralization of deposits, selection of financial institutions, protection of funds, permitted investments, limits on maturities, investment of bond proceeds and investment reporting.

The Authority's Department of Finance and Budget produces daily and monthly reports on all cash management and investment activities with internal peer and management oversight. Monthly reports to the General Manager and the Board of Directors' Finance and Budget Committee enable them to monitor the Authority's compliance with its policies.

RISK MANAGEMENT

The Authority has a comprehensive risk management program designed to protect WASA's assets and to reduce or transfer risks and financial losses to third parties by utilizing insurance contracts.

The Authority's liability insurance coverage provides financial protection from claims and related defense costs for damages and injuries caused by automobile accidents, broken water and sewer lines, construction, and other operational activities. See note 12 in the financial section and exhibit 11 in the statistical section for more discussion on risk management.

AUTHORITY PROFILE

Reporting Entity

The Authority is an independent, multi-jurisdictional regional utility that provides drinking water distribution and wastewater conveyance and treatment services to residential, commercial and governmental customers in the District of Columbia, and wastewater conveyance and treatment to wholesale users in Montgomery and Prince George's Counties in Maryland and Fairfax and Loudoun Counties in Northern Virginia. The Authority's service area has a population of over two million people. These activities are fully accounted for in this report.

The operations of the Authority are accounted for as a component unit of the Government of the District of Columbia and are included in the Government of the District of Columbia's Comprehensive Annual Financial Report. The Authority is considered a component unit, because the District of Columbia Government is ultimately legally responsible for a portion of the Authority's long-term debt. This Comprehensive Annual Financial Report of the Authority is issued separately to provide the Board of Directors, Authority customers, local and federal government officials, employees, investors, suppliers and other interested parties a comprehensive financial accounting of the Authority's operations and financial position for fiscal years 2007 and 2006.

History of the Authority

(Legislative History and Relationship to the District of Columbia)

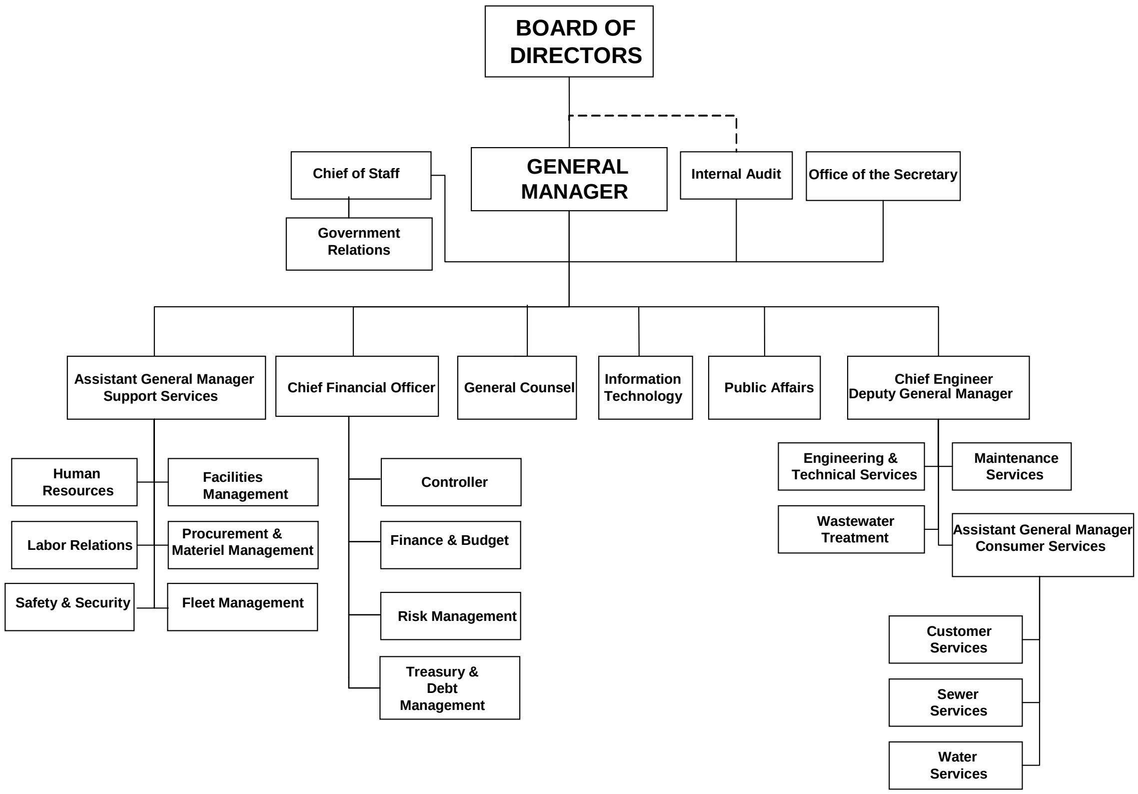
In 1996, the regional participants in the Authority's service area, including the District of Columbia, Montgomery and Prince George's Counties in Maryland, Fairfax and Loudoun Counties in Virginia, and the United States Congress, agreed to create an independent, multi-jurisdictional water and wastewater authority from its predecessor agency. In April 1996, the Council of the District of Columbia passed the "Water and Sewer Authority Establishment and Department of Public Works Reorganization Act of 1996 (as amended)," (the Act), a statute that provided the groundwork for the Authority to become operationally independent on October 1, 1996.

In accordance with the Act, the District has authorized the Authority to use all of the property and assets related to its water distribution and wastewater treatment and conveyance services and transferred to the Authority any liabilities that are directly attributable to those assets. The District has retained full legal title to these assets. The assets will remain under the control of the Authority for as long as any Authority revenue bonds remain outstanding.

The Authority is required by the Act to reimburse the District for debt service on general obligation debt issued by the District, the proceeds of which were used to finance certain water and wastewater projects undertaken by WASA's predecessor agency.

The Act also requires the Authority to establish rates, fees and other charges for all services provided by the Authority. These rates and charges, in addition to certain wholesale wastewater treatment contracts, generate revenues adequate to pay all of the costs of operating the Authority. The Authority's rate setting powers are not subject to the oversight of, or regulation by, the District or any other agency or authority.

Governance and Organization Structure



The Authority is governed by a Board of Directors consisting of eleven principal and eleven alternate members who represent the District of Columbia, Montgomery and Prince George's Counties in Maryland, and Fairfax County in Virginia. The Mayor of the District of Columbia appoints, and the Council confirms, all District Board members, including the Chairperson. In addition, the Mayor appoints the five principals and five alternate members who represent the surrounding jurisdictions based on submissions from those jurisdictions. The Authority may only take action on policy matters after it receives a favorable vote of no less than six members of the Board of Directors. All Board members participate in decisions directly affecting the general management of the joint-use facilities, and only the District of Columbia members participate in those matters that affect only District ratepayers.

The Authority's day-to-day operations are managed by a General Manager, who is appointed by the Board of Directors. The General Manager is supported by the Chief Engineer, the Chief Financial Officer, and an Assistant General Manager. The Chief Engineer supported by Assistant General Manager for Consumer Services oversees all technical operations, including Wastewater Treatment Services, Water Services, Sewer Services, Engineering and Technical Services, and Maintenance Services. The Chief Financial Officer oversees Controller, Finance and Budget, Risk, and Treasury and Debt Management. The Assistant General Manager Support Services oversees Human Resources, Labor Relations, Fleet Management, Procurement/Materiel Management, Facilities and

Security, and Occupational Health and Safety. Also reporting to the General Manager are offices of the General Counsel, Internal Auditor, Information Technology and Public Affairs.

Agreements with Other Jurisdictions and Entities

Wholesale Wastewater Treatment – Intermunicipal Agreements

In 1985, the District signed the Blue Plains Intermunicipal Agreement (the IMA) with Fairfax County in Virginia, and Montgomery and Prince George's Counties in Maryland. The IMA outlines terms relating to facility location, sizing, capacity allocations and funding and long-term management of the wastewater treatment and disposal process. It also established a uniform payment basis for facilities and future improvements. IMA signatories share the cost of operations, maintenance, and the capital program of the Blue Plains facility; the three surrounding counties comprise 60 percent of the Blue Plains capacity. Some of the terms in the 1985 IMA expire in 2010. In order to allow ample time to renegotiate any user issues, the users began negotiations during fiscal year 2006 and will continue discussions until all parties reach a new agreement.

Other Wholesale Wastewater Treatment Agreements

Beginning in October 1963, the Authority entered into separate agreements with other entities that did not participate in the IMA and that were tributary to the Potomac Interceptor sewer: Loudoun County Sanitation Authority (LCSA); Washington-Dulles International Airport; the Department of the Navy; the National Park Service; and the Town of Vienna, Virginia. The agreements provide for the pro-rata recovery of the Authority's costs of constructing, operating, and maintaining the Potomac Interceptor and certain other sewers, and the Blue Plains facility. Under these agreements, the Authority recovers its capital and operating and maintenance costs from each user each quarter based on a rate per million gallons as applied to each user's metered sewage quantity. In November 1998, the Authority executed a new agreement with LCSA that increased its share of treatment capacity at Blue Plains to 13.8 million gallons per day (mgd). LCSA now pays its share of capital and operating costs on the same basis as the other IMA entities.

Water Supply Agreements

The Authority purchases water from the Washington Aqueduct, which is owned by the federal government and operated by the United States Army Corps of Engineers under the direction of the Secretary of the Army. All water treated by the Washington Aqueduct is purchased by the Authority and the Aqueduct's two other customers, Arlington County and the City of Falls Church, Virginia. In July 1997, the Authority executed a new operating agreement with the U.S. Army Corps of Engineers that provides for the continued ownership and operation of the Aqueduct by the Corps of Engineers, but gives the Authority and other Aqueduct customer's greater participation in budget preparation and oversight of operations. The agreement also outlines each customer's pro rata share of operating and capital costs based on water purchased; the Authority's pro rata share of Aqueduct expenses is approximately 76 percent.

In 1982, the District entered into the Water Supply Coordination Agreement with the Washington Suburban Sanitary Commission and the Fairfax County Water Authority. This agreement formalizes commitments to cooperatively manage the region's water supply system. The Authority has provided for backup and peak day water supply through participation in the Little Seneca Lake and Bloomington Reservoir (now called Jennings Randolph Lake) projects. The Little Seneca project was constructed and is operated by the Washington Suburban Sanitary Commission. The Authority funds 40 percent of its capital and operating costs. The Bloomington Reservoir project was constructed by the Federal government and is operated by the U.S. Army Corps of Engineers. The Authority funds 30 percent of its applicable capital and operating costs.

AUTHORITY FACILITIES

The Wastewater System

History and Service Area

The first wastewater treatment facilities for the Washington metropolitan area became operational in 1938 at the site of the present Blue Plains Wastewater Treatment Plant. These facilities treated up to 130 mgd for a population of over 650,000, and provided primary treatment only. Since that time, there have been several expansions and upgrades. In 1949, Blue Plains was expanded to 175 mgd; and again to 240 mgd in 1959. Chlorination facilities and secondary (biological) treatment were also added. When the Federal Clean Water Act was enacted in 1972 requiring all municipal sewage treatment systems to incorporate secondary or advanced levels of treatment, Blue Plains was once again expanded and upgraded to comply with the federal regulations. Work on these tertiary treatment projects and expansion was completed in 1983. Work was completed in fiscal year 1997 to expand the Blue Plains tertiary treatment capacity to 370 mgd. Finally, in 2000, full plant nitrogen removal was added. See exhibit 19 in statistical section for more detail on wastewater treatment plant.

Sewage Collection

The sewage collection system consists of approximately 1,800 miles of sanitary and combined sewers, 22 flow-metering stations, nine off-site wastewater-pumping stations, and 16-storm water pumping stations. The sewers range from eight inches in diameter to 27-foot arch sewers. The sewers are generally constructed of vitrified clay, brick, and concrete. Approximately two-thirds of the District is served by separate sanitary and storm sewers; however, combined sanitary and storm sewer systems are prevalent in the downtown area and older portions of the service area.

Biosolids Disposal

In 1984, officials from all the jurisdictions served by Blue Plains established procedures for soliciting and entering into contracts for hauling and disposing of biosolids from Blue Plains. This high quality material consistently meets all applicable requirements of federal regulations. Most of the 1,300 tons per day of biosolids produced by the facility is directly land applied at various sites in Maryland and Virginia. Montgomery and Prince George's Counties retain contractual responsibility for the disposal of their share of biosolids generated at Blue Plains, and they currently use land application or landfill methods to meet their obligations.

The Biosolids Management Program, developed by WASA through a stakeholders group that included neighboring jurisdictions, and adopted by the Board of Directors in 1999, calls for full biosolids digestion as our primary long-term solution and continuing land application as long as it is financially advantageous. The Authority has completed the preliminary design for the installation of new egg-shaped digesters. However, an unacceptably high bid for construction of the egg-shaped digester project led to a decision by the WASA Board of Directors to defer the project. The decision by the WASA Board of Directors to defer the project until market conditions improve was based on an independently conducted economic analysis and an internal cost-benefit evaluation. Both assessments concluded that the unusually tight construction market, an abnormal spike in material costs and the project length were major factors in limiting bids and increasing the cost.

As part of its ongoing biosolids management program, WASA will continue to monitor the construction market, regulatory initiatives and evolving wastewater treatment technologies. This information will be used to develop a revised strategy for long-term biosolids management that will be presented in the form of an updated Biosolids Management Plan to the WASA Board in fiscal year 2008. We have evaluated a wide range of biosolids processing options and have narrowed the options to four processing options. Each of the options involves anaerobic digestion, consistent with the 1999 BMP. WASA is investing various other types of digestion vessels that would be less expensive to construct than the egg shaped digester.

The Water System

History and Service Area

Prior to the establishment of the Washington Aqueduct Division of the United States Army Corps of Engineers (the Aqueduct) in 1858, residents of the District obtained their drinking water from springs and wells. The distribution system consisted primarily of bored logs and some cast iron pipes. Water from the Potomac River was tapped into the system in 1863. By 1905, the Washington City Tunnel, McMillan Reservoir and Filtration Plant, and the Bryant Street Pumping Station were completed. The Dalecarlia Filtration Plant and Pumping Station and all other major components of the present water supply and distribution system were in operation by 1928.

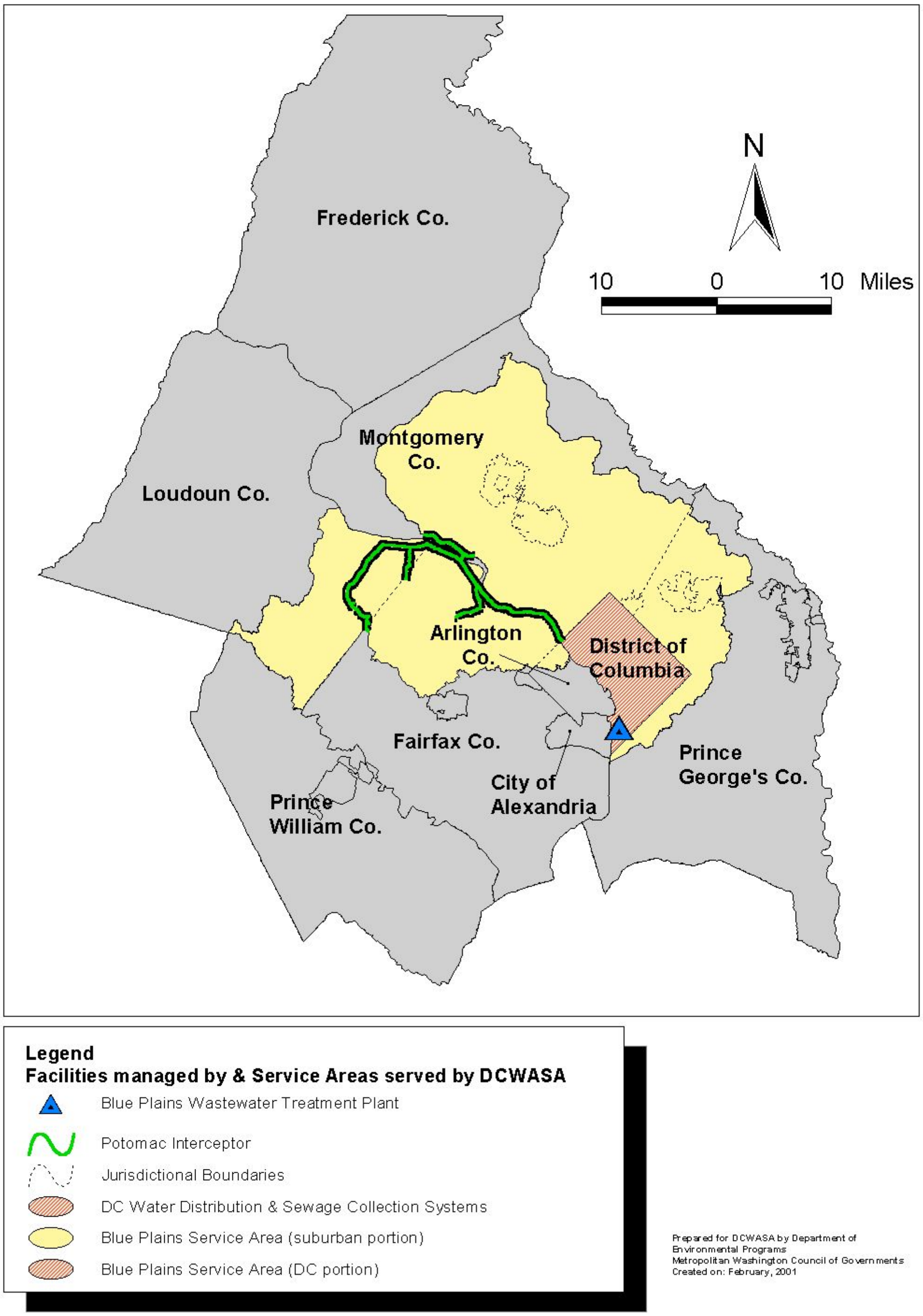
Water Treatment and Distribution System

Although the Authority is responsible for management of the treated water distribution system serving the District and certain Department of Defense and other small customers outside the District, the water itself is treated by the Washington Aqueduct Division of the U.S. Army Corps of Engineers (the Aqueduct). The Authority purchases its water from the Aqueduct and transmits and distributes the water through five pumping stations, five distribution reservoirs and four elevated tanks. The Aqueduct's water treatment and transmission system consists of the Great Falls Intake on the Potomac River; two parallel nine-mile long raw water conduits from Great Falls to the Dalecarlia Reservoir; the Little Falls Intake and Pumping Station on the Potomac River; the Dalecarlia and McMillan Reservoirs and Water Treatment Plants; the Dalecarlia Pumping Station; the Georgetown conduit and reservoir; the Washington City Tunnel; the East Shaft Pumping Station; several treated water transmission lines and three ground storage reservoirs.

The Authority's Department of Water Services oversees the entire water distribution system serving the District. The Authority's water distribution system includes 1,300 miles of pipes and mains ranging from 4 to 78 inches in diameter. The system includes cast iron, ductile iron, reinforced and pre-stressed concrete, and steel pipe, and contains more than 36,000 valves and hydrants. The Authority also operates and maintains five pumping stations: Bryant Street, Old Fort Reno, New Fort Reno, 16th and Alaska, and Anacostia. All five pumping stations have adequate pumping capacity to meet peak demands.

The Authority's service area below covers the District of Columbia, most of Montgomery and Prince George's counties, and parts of Fairfax and Loudoun counties.

District of Columbia-Water and Sewer Authority (DCWASA)



ECONOMIC CONDITION

Although the District of Columbia is known primarily as the nation's capital, it is an international city with a vibrant tourism industry and business climate. It is also the nucleus of the fifth largest metropolitan area in the United States. In 2006, the District's estimated resident population was 581,530.

The District's economic base is driven by the federal and local governments and the related diplomatic embassies and international organizations. The federal civilian workforce in the District averaged 192,000 employees in fiscal year 2006, while an additional 146,400 federal employees worked elsewhere in the metropolitan area. The District is host to more than 170 foreign embassies and other recognized diplomatic missions. A number of international organizations, such as the International Monetary Fund, the World Bank, the Inter-American Development Bank, and the Organization of American States are headquartered in the District. In 2006, an estimated 15.1 million people visited the Washington Metropolitan Area not only to do business with federal government and regional enterprises but also to visit the national monuments, historic sites, museums, and other major cultural attractions.

Per capita personal income in the District was $52,811 in 2005 compared to $34,471 in the United States. The relatively high per capita and household incomes in the District is a direct result of a combination of factors, including a high labor force participation rate, multiple earner households, small household size (average of 2.21 persons), a large percentage of college graduates and a substantial concentration of employed residents in highly-skilled occupations.

AWARDS

The Government Finance Officers Association awarded a Certificate of Achievement for Excellence in Financial Reporting to the Authority for its comprehensive annual financial report for the fiscal year ended September 30, 2006 (see page 3). The Certificate of Achievement is a prestigious national award, recognizing conformance with the highest standards for preparation of financial reports. A Certificate of Achievement is valid for a period of one year only. The Authority believes its current report continues to conform to the Certificate of Achievement program requirements, and plans to submit it to GFOA. The Authority has thus far received the GFOA Award for every year of its existence.

The Authority received the GFOA's *Distinguished Budget Presentation Award* for its fiscal year 2007 Operating and Capital budgets for the third consecutive time. In order to qualify for the distinguished Budget Presentation Award, the Authority's budget document was judged to be proficient in several categories, including presentation as a policy document, financial plan, operations guide and a communication device.

ACKNOWLEDGEMENTS

I acknowledge and thank all members of the Board of Directors, led by our Chairman, Robin B. Martin, and our General Manager, Jerry N. Johnson, for their consistent and strong financial performance expectations. Our continuing strong financial results and position directly flow from the Board's strong policy direction and oversight and our General Manager's day-to-day implementation of the Board's policy objectives.

I also acknowledge the hard work and dedication of the Authority's financial operation staff, other departments and staff, and the General Manager's staff in preparing this report. Special thanks go to: Yvonne Reid, Javed Awan, Temi Abosede, Syed Khalil, and Robert Hunt for their work in completing this report.

CONCLUSION

The Authority, in its eleventh year, continued its annual tradition of building on a strong financial foundation. As in each prior year, we again met or exceeded all of our financial targets, including all Board of Directors' policies. I look forward to another similarly productive year in fiscal year 2008.

Respectfully submitted,

Olu Adebo
Acting Chief Financial Officer

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Financial Section

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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 (a component unit of the District of Columbia) as of September 30, 2007 and 2006, 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 WASA'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.

The Management's Discussion and Analysis on pages thirty-seven through forty-seven is not a required part of the basic financial statements but is supplementary information required by the accounting principles generally accepted by 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District of Columbia Water and Sewer Authority as of September 30, 2007 and 2006, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Washington, DC *Thompson, Cobb, Bazilio & Associates, P.C.*
December 21, 2007

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This section of the District of Columbia Water and Sewer Authority's (WASA or the Authority) annual financial report presents the analysis of the Authority's financial performance during the fiscal year that ended on September 30, 2007. The Management's Discussion and Analysis (MD&A) should be read in conjunction with the Authority's basic financial statements, beginning on page 49.

HIGHLIGHTS

Financial Highlights

- The Authority's net assets increased by $46.1 million to $980.9 million, or 4.9 percent, as a result of capital contributions and fiscal year 2007 operations (see "Analysis of Net Assets" on page 39).
- Operating expenses increased by $15.0 million to $257.7 million, or 6.2 percent primarily due to increases in: personnel services, contractual services and depreciation and amortization expense. (see "Expenses" on pages 43 and 44).
- Operating revenues increased by $12.9 million to $306.5 million or 4.4 percent primarily due to increased revenues from residential, commercial, and multifamily customers, attributable to a 5.0 percent rate increase in fiscal year 2007, and wholesale wastewater charges.
- Current assets increased by $5.3 million to $276.6 million, or 2.0 percent, primarily due to an increase in receivables from retail customers and other jurisdictions at the end of the year.
- Restricted assets increased by $201.3 million to $333.6 million, or 152.1 percent, primarily due to a $290.0 million issuance of Public Utility Revenue bonds for capital construction projects.
- Net utility plant (capital assets) increased by $132.8 million to $2.2 billion, or 6.5 percent due to a planned increase in capital expenditures in line with the Authority's approved $2.2 billion 10-year capital improvement program.
- The Authority's long-term debt, including current maturities, increased by $282.3 million to $1.1 billion, or 37.1 percent, primarily due to a new debt issuance in FY 2007.

Authority Highlights

Debt Issuance - In June 2007, the Authority issued subordinated lien public utility revenue bonds (Series 2007A and 2007B). Gross proceeds from the Series 2007A and 2007B totaled $293.4 million. These amounts include $3.4 million for cost of issuance, bond insurance and underwriter's discount costs. $30.0 million of these proceeds was used to pay off outstanding commercial paper, and approximately $260.0 million is earmarked for the Authority's capital construction program. The scheduled payments of principal and interest on the Series 2007A are guaranteed by a municipal bond insurance policy issued by Financial Guaranty Insurance Company (FGIC), while the payments for the Series 2007B are guaranteed by a municipal bond policy issued by CIFG Assurance North America.

Rate Increase – Effective October 1, 2006, the Board increased the Authority's water and sewer rates by 5.0 percent for all retail customers. This rate increase was in line with the Board's rate setting policy which strives to set rates so that each customer will be charged for those costs necessary to provide each service, and rate increases will be predictable and gradual.

Combined Sewer Overflow Long-Term Control Plan – In December 2004, WASA reached agreement with the federal government and environmental plaintiffs on the Long-Term Control Plan (LTCP), a major milestone in WASA's history. The agreement has been formalized in a judicial consent decree, and calls for WASA to complete the $1.9 billion LTCP over a twenty-year period. The benefits of this Plan are significant, including the projected reduction of combined sewer overflows by 96 percent. Including the fiscal year 2007 appropriation of $7.0 million, the Authority has received a total of $98.1 million of matching funds from the United States Congress since fiscal year 2003. The Authority has drawn down approximately $42.8 million of this funding for combined sewer overflow capital projects incurred in fiscal years 2003 through 2007, and the balance of the appropriation is included in deferred revenue.

Rate Stabilization Fund – The Authority increased its rate stabilization fund to $68.5 million at the end of fiscal year 2007, with an allocation of $10.0 million. 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 Financial Statements of the Authority report information about the Authority using accounting methods similar to those used by private sector companies. These statements offer short-term and long-term financial information about the Authority's activities. 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). 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. All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Change in Net Assets, which is the second required financial statement. This statement measures the profitability 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 resulting from operations, investing, and capital and non-capital financing activities. It also provides information regarding sources of cash, uses of cash, and the changes in the cash balance during the reporting period.

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 2007	FY 2006	FY 2005
Utility Plant, Net	$ 2,176,335	$ 2,043,522	$ 1,885,647
Current and Other Assets	763,689	560,702	654,018
Total Assets	2,940,024	2,604,224	2,539,665
Current Liabilities	143,923	138,395	149,730
Long-Term Debt Outstanding	1,039,924	763,987	771,637
Long-Term Liabilities	775,287	767,024	737,570
Total Liabilities	1,959,134	1,669,406	1,658,937
Net Assets			
Invested in Utility Plant, Net of Debt	777,968	749,965	713,470
Restricted	53,972	44,888	41,911
Unrestricted	148,950	139,965	125,347
Total Net Assets	$ 980,890	$ 934,818	$ 880,728

Analysis of Net Assets

The Authority's total assets exceeded liabilities by $980.9 million at the close of fiscal year 2007. The Authority's net assets include investment of $778.0 million in utility plant (e.g., infrastructure, buildings, equipment and fleet), 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, $54.0 million, represents resources that are subject to external restrictions (primarily related to the Authority's bond indenture) on how they may be used. The remaining balance of $149.0 million is unrestricted.

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

	FY 2007	FY 2006	FY 2005
Revenues			
Operating revenues:			
Residential, commercial and multi-family customers	$ 182,327	$ 174,159	$ 166,045
Federal government	30,751	31,100	24,770
District government and DC Housing Authority	17,266	16,463	15,436
Charges for wholesale wastewater treatment	73,378	67,966	62,126
Other	2,735	3,845	4,366
	306,457	293,533	272,743
Non-operating revenues:			
Interest income	20,239	16,091	12,612
Total Revenues	326,696	309,624	285,355
Expenses			
Operating expenses:			
Personnel services	70,956	66,942	64,038
Contractual services	52,116	49,970	54,156
Chemicals, supplies and small equipment	24,510	23,482	22,062
Utilities and rent	32,238	31,151	25,562
Depreciation and amortization	49,355	44,149	41,069
Water purchases	24,042	22,745	19,625
Other	4,452	4,218	3,679
Total operating expenses	257,669	242,657	230,191
Non-operating expenses			
Interest expense and fiscal charges	30,524	20,881	25,415
Payment in lieu of taxes and right of way fee	17,514	16,923	16,307
Total non-operating expenses	48,038	37,804	41,722
Total expenses	305,707	280,461	271,913
Income before Federal grants and contributions	20,989	29,163	13,442
Federal grants and contributions	25,083	24,927	34,578
Change in net assets	46,072	54,090	48,020
Net assets, beginning of year	934,818	880,728	832,708
Net assets, end of year	$ 980,890	$ 934,818	$ 880,728

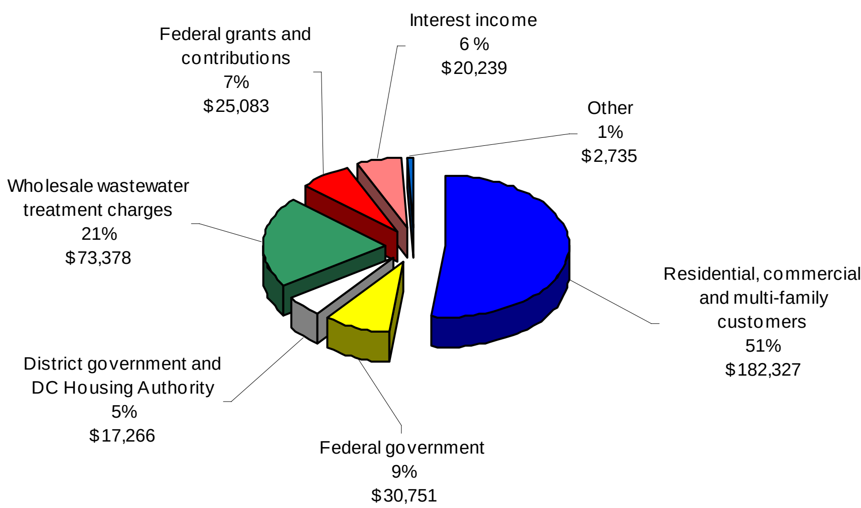
Analysis of Changes in Net Assets

The Authority's financial performance remained strong in fiscal year 2007, with net assets of $980.9 million, an increase of $46.1 million over fiscal year 2006, 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 $48.8 million, a decrease of $2.1 million compared to fiscal year 2006 (see Statements of Revenues, Expenses and Change in Net Assets on page 50).

Total Revenues

Total revenues (including federal grants and contributions) were $351.8 million in fiscal year 2007, an increase of $17.2 million, or 5.1 percent over fiscal year 2006. This is primarily due to increases of $8.2 million from retail customers, $5.4 million in water and wastewater user charges and $4.1 million in interest income.

FY 2007
Total Revenues
($ in 000's)



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 $8.2 million to $182.3 million, or 4.7 percent over fiscal year 2006, primarily due to a rate increase of 5.0 percent in fiscal year 2007.

- Water and wastewater user charges from Federal government customers were $30.8 million in fiscal year 2007, a decrease of $0.35 million, or 1.1 percent over fiscal year 2006, primarily due to billing adjustments of $2.0 million in FY 2006 relating to back billings for the previous years.

- Water and wastewater user charges from the District government and District of Columbia Housing Authority were $17.3 million, an increase of $0.8 million, or 4.9 percent over fiscal year 2006, primarily due to a rate increase of 5.0 percent in fiscal year 2007.

- Wholesale wastewater treatment charges were $73.4 million in fiscal year 2007, an increase of $5.4 million, or 8.0 percent over fiscal year 2006, primarily due to higher costs at the Blue Plains wastewater treatment plant. Per the Blue Plains Intermunicipal Agreement (IMA) (see Note 1), wholesale partners 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).

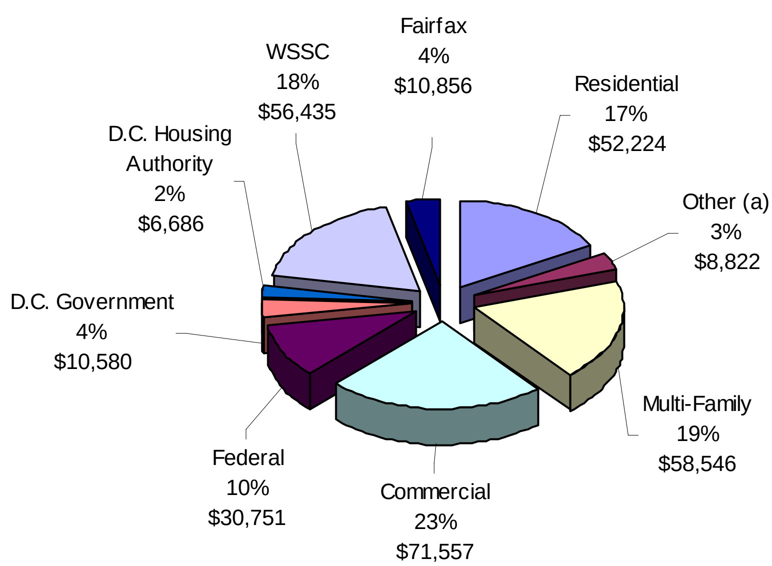
- Interest income, a non-operating revenue item was $20.2 million in fiscal year 2007, an increase of $4.1 million, or 25.8 percent over fiscal year 2006, primarily due to increased cash balances attributable to a new debt issuance of $277.7 million in fiscal year 2007.

- Federal grant contributions were $25.1 million in fiscal year 2007, an increase of $0.2 million, or 0.6 percent over fiscal year 2006, primarily due to increased capital construction spending in fiscal year 2007 on grants related 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.

FY 2007
Operating Revenues by Source
($ in 000's)



(a) Other revenues include $4.9 million from Loudoun County, $1.2 million from Potomac Interceptors and $2.7 million for special billing projects.

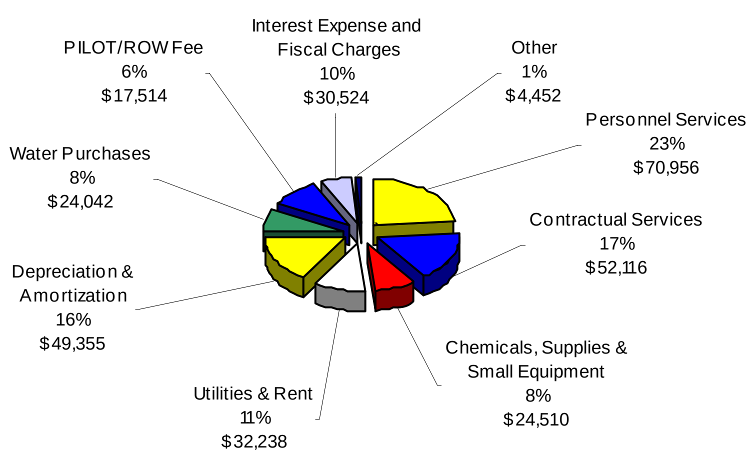
A description of each revenue source as well as a discussion of recent trends in each category follows:

- 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 especially strong 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.
- 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 22.0 percent of the Authority's revenues and are based on their share of operating costs at Blue Plains. Loudoun County and Potomac Interceptor 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 10.0 percent of the Authority's total operating revenues and include customers such as the U.S. Congress, the Smithsonian Institution, and other federal agencies.
- Revenues from the District of Columbia government and the District of Columbia Housing Authority make up 6.0 percent of total operating revenues.

Expenses

Operating expenses increased by $15.0 million, or 6.2 percent in fiscal year 2007, primarily due to a $4.0 million increase in personnel services, $2.1 million increase in contractual services, $1.3 million in water purchases expense, $5.2 million increase in depreciation expense, $1.0 million increase in chemical, supplies and small equipment purchases, and 1.1 million increase in utilities and rent.

FY 2007
Total Expenses
($ in 000's)



A detailed analysis of the operating expenses follows:

- Personnel services were $71.0 million in fiscal year 2007, an increase of $4.0 million, or 6.0 percent over fiscal year 2006, primarily due to increases in wages and fringe benefits.
- Contractual services were $52.1 million in fiscal year 2007, an increase of $2.1 million, or 4.3 percent over fiscal year 2006, primarily due to a $1.4 million increase in unit costs for the biosolids management program.
- Chemicals, supplies, and small equipment expenses were $24.5 million in fiscal year 2007, an increase of $1.0 million, or 4.4 percent over fiscal year 2006, primarily due to increase in unit costs for chemicals, particularly methanol.
- Utilities and rent expenses were $32.2 million in fiscal year 2007, an increase of $1.1 million, or 3.5 percent over fiscal year 2006, primarily due to increase in capacity charge.
- Depreciation and amortization expenses were $49.4 million in fiscal year 2007, an increase of $5.2 million, or 11.8 percent over fiscal year 2006, in line with the increase in capital assets due to the capital improvement program.
- Water purchases were $24.0 million in fiscal year 2007, an increase of $1.3 million, or 5.7 percent over fiscal year 2006, primarily due to approximately 200,000ccf increase in consumption in fiscal year 2007 compared to fiscal year 2006.
- Interest expense and fiscal charges were $30.5 million in fiscal year 2007, an increase of $9.6 million, or 46.2 percent over fiscal year 2006, primarily due to the issuance of new debt and lower capitalized interest in fiscal year 2007.

UTILITY PLANT AND DEBT ADMINISTRATION

Utility Plant

At the end of fiscal year 2007, the Authority had $2.2 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 $132.8 million, or 6.5 percent over last 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, 2007, 2006 and 2005. 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 2007	FY 2006	FY 2005
Blue Plains Regional Wastewater Treatment Plant	$ 1,422,788	$ 1,270,860	$ 1,052,147
Wastewater Collection Facilities	395,084	384,463	335,851
Water Distribution System	507,426	468,834	338,125
Capital Equipment	115,756	104,763	97,483
Construction in Progress	493,505	526,713	734,600
Less Accumulated Depreciation	(758,224)	(712,111)	(672,559)
Net Utility Plant	$ 2,176,335	$ 2,043,522	$ 1,885,647

Debt Administration

At the end of fiscal year 2007, the Authority had a total of $1.0 billion in debt outstanding, an increase of $270.2 million, or 35.0 percent, over fiscal year 2006 (see Note 10 for more information on long-term debt).

Table 4 – Long-Term Debt Outstanding
As of September 30, 2007
($ in 000's)

SENIOR DEBT	INTEREST RATES	YEAR OF FINAL MATURITY	AMOUNT OUTSTANDING
1998 public utility revenue bonds	5.50 - 6.00%	2028	$ 266,120
SUBTOTAL SENIOR DEBT			266,120
SUBORDINATE DEBT			
2007 public utility revenue bonds series a	5.36%	2042	218,715
2007 public utility revenue bonds series b	variable	2028	59,000
2004 public utility revenue bonds	variable	2034	295,000
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	15,823
Notes payable to WSSC for Little Seneca Reservoir	5.98 - 6.60%	2014	251
1991 District of Columbia general obligation bonds	6.75%	2008	90
1993 District of Columbia general obligation bonds	5.40 - 6.00%	2012	11,555
1994 District of Columbia general obligation bonds	5.05 - 6.50%	2011	2,810
2001 District of Columbia general obligation bonds	6.02%	2008	605
TOTAL SUBORDINATE DEBT			780,069
TOTAL DEBT OUTSTANDING			1,046,189
CURRENT PORTION OF DEBT OUTSTANDING			(13,956)
DEBT OUTSTANDING, LESS CURRENT PORTION			$ 1,032,233

Long-term debt outstanding as presented on the accompanying statements of net assets includes net unamortized bond premiums, discounts and issuance costs of $7.7 million as of September 30, 2007.

In June 2007, WASA 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 underwriters discount, insurance and costs of issuance. The scheduled payment of principal and interest on Series 2007A bonds are guaranteed by a municipal bond insurance policy issued by FGIC – Financial Guaranty Insurance Co. Gross proceeds from the Series 2007B bonds totaled $59.0 million. Proceeds from the 2007B series will be used entirely to fund WASA'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.

In July 2004, the Authority issued subordinated lien public utility revenue bonds (Series 2004 Bonds). Gross proceeds from the Series 2004 Bonds totaled $295.0 million, including $3.5 million for costs of issuance, bond insurance, and underwriter's discount. Approximately $226.0 million will be used to fund various capital projects; $50.0 million was used to repay outstanding commercial paper. The scheduled payment of principal and interest on the Series 2004 bonds are guaranteed by a municipal bond insurance policy issued by Ambac Assurance Corporation. WASA also funded a debt service reserve fund totaling $15.0 million.

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 cost of issuance. Approximately $70.0 million was used to fund various capital projects; $100.0 million was used to repay outstanding commercial paper. The scheduled payment of principal and interest on the Series 2003 bonds are guaranteed by a municipal bond insurance policy issued by Financial Guaranty Insurance Company (FGIC).

In April 1998, the Authority issued its first series of senior lien revenue bonds in the amount of $266.0 million. 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; $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 WASA 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
WASA Bond Ratings

Moody's Investors' Service	Aa3	Stable Outlook
Standard & Poor's Corporation	AA-	Stable Outlook
Fitch Ratings	AA-	Stable Outlook

In November 2001, the Authority closed on its $100 million commercial paper program. This program provides interim financing for a portion of the Authority's approved $2.2 billion Capital Improvement Program. Other financing sources include long-term revenue bonds, EPA grants, wholesale customer contributions, and pay-as-you-go financing. Under the commercial paper program, the Authority issues fixed-rate, short-term (no greater than 270 days) notes. WASA's commercial paper program is backed by a direct pay letter of credit issued by Westdeutsche Landesbank Giroznetrale (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 no outstanding commercial paper at the end of fiscal year 2007.

Table 6
WASA Commercial Paper Ratings

Moody's Investors' Service	P1	superior ability to repay
Standard & Poor's Corporation	A1+	extremely strong capacity to repay
Fitch Ratings	F1+	extremely strong capacity to repay

RATES

Effective October 1, 2006, the Authority raised its retail water and wastewater rates by 5.0 percent, and the Board has approved an additional 5.5 percent rate increase that was effective October 1, 2007 (FY 2008). The Authority's approved ten-year financial plan includes projected rate increases of 5.5 percent to a high of 9.5 and leveling out at 8.0 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. A copy of this report is also available on WASA's web site at www.dcwasa.com or call 202-787-2000.

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DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

Statements of Net Assets

September 30, 2007 and 2006

(In thousands)

Assets		2007		2006
Current assets:				
Cash and cash equivalents (note 3)	$	162,611	$	44,980
Investments (note 3)		29,632		146,978
Customer receivables, net of allowance for doubtful accounts of $8,246 in 2007 and $8,045 in 2006 (note 7)		37,862		33,693
Due from Federal government (note 6)		19,827		20,113
Due from District government (note 13)		5,092		7,584
Due from other jurisdictions (note 8)		13,546		9,987
Due from stormwater fund (note 13)		455		343
Inventory		7,260		7,369
Prepaid assets		278		232
Total current assets		276,563		271,279
Noncurrent assets:				
Restricted assets (note 3):				
Cash and cash equivalents		313,829		83,479
Investments		19,751		48,834
Total restricted cash equivalents and investments		333,580		132,313
Utility plant (note 4):				
In-service		2,441,054		2,228,920
Less accumulated depreciation		(758,224)		(712,111)
Net utility plant in service		1,682,830		1,516,809
Construction in progress		493,505		526,713
Net utility plant		2,176,335		2,043,522
Other noncurrent assets:				
Due from other jurisdictions, net of allowance for doubtful accounts of $2,590 in 2007 and $2,582 in 2006 (note 8)		6,130		7,998
Purchased capacity, net of accumulated amortization of $44,159 in 2007 and $40,917 in 2006 (note 5)		147,416		149,112
Total other noncurrent assets		153,546		157,110
Total noncurrent assets		2,663,461		2,332,945
Total Assets		2,940,024		2,604,224
Liabilities				
Current liabilities:				
Accounts payable and accrued expenses		71,353		79,120
Compensation payable (note 9)		10,601		7,726
Accrued interest		15,800		12,312
Due to jurisdictions		7,660		6,916
Deferred revenue		24,553		24,766
Current maturities of long-term debt (note 10)		13,956		7,555
Total current liabilities		143,923		138,395
Noncurrent liabilities:				
Deferred revenue		699,521		680,066
Deferred revenue - Combined Sewer Overflow		55,199		65,130
Other liabilities (note 12)		20,567		21,828
Long-term debt excluding current maturities (note 10)		1,039,924		763,987
Total noncurrent liabilities		1,815,211		1,531,011
Total liabilities		1,959,134		1,669,406
Net Assets				
Invested in utility plant, net of related debt		777,968		749,965
Restricted for:				
Debt service		44,802		39,730
Capital projects		9,170		5,158
Unrestricted		148,950		139,965
Total net assets	$	980,890	$	934,818

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, 2007 and 2006

(In thousands)

	2007	2006
Operating revenues:		
Water and wastewater user charges:		
Residential, commercial and multi-family customers	$ 182,327	$ 174,159
Federal government	30,751	31,100
District government and DC Housing Authority (note 13)	17,266	16,463
Charges for wholesale wastewater treatment	73,378	67,966
Other	2,735	3,845
Total operating revenues	306,457	293,533
Operating expenses:		
Personnel services	70,956	66,942
Contractual services	52,116	49,970
Chemicals, supplies and small equipment	24,510	23,482
Utilities and rent	32,238	31,151
Depreciation and amortization	49,355	44,149
Water purchases	24,042	22,745
Other	4,452	4,218
Total operating expenses	257,669	242,657
Operating income	48,788	50,876
Non-operating revenues (expenses):		
Interest income	20,239	16,091
Payment in lieu of taxes and right of way fee (note 13)	(17,514)	(16,923)
Interest expense and fiscal charges	(30,524)	(20,881)
Total non-operating revenues (expenses)	(27,799)	(21,713)
Income before Federal grants and contributions	20,989	29,163
Federal grants and contributions	25,083	24,927
Change in net assets	46,072	54,090
Total net assets, beginning of year	934,818	880,728
Total net assets, ending of year	$ 980,890	$ 934,818

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, 2007 and 2006

(In thousands)

	2007	2006
Cash flows from operating activities:		
Cash received from customers	$ 289,123	$ 289,388
Cash paid to suppliers for goods and services	(137,745)	(128,615)
Cash paid to employees for services	(71,188)	(69,388)
Net cash provided by operating activities	80,190	91,385
Cash flows from capital and related financing activities		
Proceeds from issuance of revenue bonds	290,000	—
Proceeds from issuance of commercial papers	30,000	—
Repayments of commercial papers	(30,000)	—
Proceeds from other jurisdictions	33,714	61,226
Repayments of bond principal and notes payable to Federal and District governmen	(7,556)	(8,757)
Acquisition of utility plant and purchased capacity	(176,687)	(199,909)
Payments of interest and fiscal charges	(35,850)	(34,466)
Contributions of capital from Federal governmen	14,813	24,765
Net cash provided by (used in) capital and related financing activities	118,434	(157,141)
Cash flows from non-capital financing activities:		
Transfers-Out (payment in lieu of taxes and right of way fee)	(17,514)	(16,923)
Net cash used by non-capital financing activities	(17,514)	(16,923)
Cash flows from investing activities:		
Cash received for interest	20,442	15,318
Investment purchases	(403,447)	(436,544)
Investment maturities	549,876	325,495
Net cash provided by (used in) investing activities	166,871	(95,731)
Net decrease in cash and cash equivalents	347,981	(178,410)
Cash and cash equivalents (including restricted) at beginning of year	128,459	306,869
Cash and cash equivalents (including restricted) at end of year	$ 476,440	$ 128,459
Operating income	$ 48,788	$ 50,876
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	49,355	44,149
Change in operating assets and liabilities:		
(Increase) decrease in customer and other receivables	(4,289)	13,839
Decrease (increase) in inventory	63	(45)
Increase (decrease) in payables and accrued liabilities	177	(962)
Decrease in deferred revenue	(13,904)	(16,472)
Net cash provided by operating activities	$ 80,190	$ 91,385

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

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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 District of Columbia (the District) Department of Public Works. The District of Columbia Water and Sewer Authority (WASA or the Authority), an independent authority of the District, was created in April 1996 and began operating 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."

WASA provides water and wastewater services to District residents, businesses, federal and municipal customers, and certain facilities of the Federal government in Virginia and Maryland. WASA 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.

WASA'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 WASA. 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 Airport Authority (Dulles Airport).

WASA 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 WASA, Arlington County, Virginia and the City of Falls Church, Virginia. WASA purchases approximately 75 percent of the water produced by the Aqueduct, which is reported as water purchases.

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

(2) Summary of Significant Accounting Policies

The financial statements of WASA 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. WASA'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 operating statements. The Authority is accounted for on the flow of "economic resources" measurement focus. 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 on 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.

WASA has elected, as allowed in paragraph 7 of 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, WASA 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, WASA accounts for its regulatory assets and liabilities in accordance with the Statement of Financial Accounting Standards Board Statement No. 71, *Accounting for the Effects of Certain Types of Regulations (SFAS 71)*. In general, SFAS 71 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, 2007 and 2006, no regulatory assets or liabilities were required to be reported in accordance with SFAS 71.

WASA 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 activities and change in net assets and a statement of cash flows.

(2) Summary of Significant Accounting Policies (Continued)

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 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.”

WASA 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 Statement No. 3 and establishes more comprehensive disclosure requirements. It also addresses other common risks of deposits and investments of state and local governments.

The Authority adopted the following GASB Statements in fiscal years 2006:

In November 2003, the GASB issued Statement No. 42, “Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries.” This Statement establishes accounting and financial reporting standards for impairment of capital assets and clarifies and establishes accounting requirements for insurance recoveries.

In May 2004, the GASB issued Statement No. 44, “Economic Condition Reporting: the Statistical Section-an amendment of NCGA Statement No. 1.” This Statement provides guidance in the preparation of the statistical section.

In December 2004, the GASB issued Statement No. 46, “Net Assets Restricted by Enabling Legislation an amendment to GASB Statement No. 34.” This Statement amends the requirement established by GASB Statement No. 34 by clarifying that a legally enforceable enabling legislation restriction is one that an external party can compel a government to honor.

In July 2005, the GASB issued Statement No. 47, “Accounting for Termination Benefits”. This Statement establishes accounting standards for termination benefits.

The adoption of these standards had no material impact on the Authority’s financial statements for fiscal years 2006 and 2007. The Authority did not adopt any new GASB statements in fiscal year 2007.

(2) Summary of Significant Accounting Policies (Continued)

(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.

Water and Wastewater User Charges

Retail water and wastewater rates are approved by the WASA 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 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

WASA maintains its own cash accounts for the collection of all revenue and payment of all expenses. WASA 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 mutual funds, overnight repurchase agreements, and 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 WASA's restricted cash. See note 3(c).

(2) Summary of Significant Accounting Policies (Continued)

(d) Investments

The Authority's investments consist of unrestricted and restricted agency discount notes, 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, invested unexpended commercial paper and revenue bond proceeds, debt service reserves, workers' compensation reserves and funds for the current payment of revenue bond debt service. These assets, which cannot be used for routine operations, are classified as restricted assets since their use is limited by applicable bond covenants.

(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 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:

Asset Class	Estimated Useful Lives
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 WASA recorded this debt and related capital costs in its financial statements. On April 1, 1997, WASA 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.

(2) Summary of Significant Accounting Policies (Continued)

WASA 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.

WASA'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 WASA prior to April 1, 1997, are reported as due from other jurisdictions.

Additionally, WASA'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 WASA 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. WASA funds 30 percent of all operating and capital costs. The Little Seneca Lake was constructed and is operated by the Washington Suburban Sanitary Commission (WSSC). WASA 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 into 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.

(In thousands)

(2) Summary of Significant Accounting Policies (Continued)

(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 a maximum as shown in the table below. The amount of vacation leave earned but unused by employee's vests and is accrued as a liability. Sick pay does not vest and accordingly, it is recorded when used. See Note 14c for additional disclosure on sick leave for non-union employees.

Employee's Length of Service	Union Employees	Non-union Employees
1 - 3 years	240 hours	240 hours
4 - 14 years	240 hours	320 hours
Over 15 years	240 hours	360 hours

(3) Cash Deposits and Investments

(a) Cash Deposits

At September 30, 2007 and 2006, the carrying amounts of WASA's unrestricted bank deposits and cash on hand (petty cash) were $11,580 and $3,841, respectively. These bank deposits are entirely insured or collateralized with securities held by WASA's agent in its name.

(b) Investments

As of September 30, 2007 and 2006, WASA had the following investments:

Type of Investments	2007	Weighted Average Maturity (Years)	2006	Weighted Average Maturity (Years)
Repurchase agreements	$ 38,532	0.003	$ 36,643	0.003
Agency discount notes	187,893	0.040	195,812	0.040
Money market mutual funds	287,818	0.468	87,975	0.083
Total Investments	$ 514,243		$ 320,430	
Portfolio weighted average maturity		0.277		0.048

WASA'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.

(In thousands)

(3) Cash Deposits and Investments (Continued)

The Authority's investments are not subject to foreign currency risk. The Authority's investments are subject to interest rate, credit and custodial risk 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.

Credit Risk - WASA's Board of Directors has approved a cash management and investment policy and WASA has adopted investment practices based on guidelines established by the Government Finance Officer's Association. Allowable investments include obligations of the U.S. Treasury and U.S. agencies. WASA may also invest in highly rated bankers acceptances, repurchase agreements, commercial paper, corporate notes and bonds, certificates of deposit and money market mutual funds. WASA's money market mutual 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, 2007 and 2006 follows:

	2007			2006		
Description	Unrestricted	Restricted	Total	Unrestricted	Restricted	Total
Cash and Cash Equivalents						
Demand deposits	$ 11,580	-	$ 11,580	$ 3,841	-	$ 3,841
Repurchase agreements	38,532	-	38,532	36,644	-	36,644
Money market mutual funds	3,663	284,155	287,818	4,495	83,479	87,974
Agency discount notes	108,836	29,674	138,510	-	-	-
Total Cash and Cash Equivalents	162,611	313,829	476,440	44,980	83,479	128,459
Investments						
Agency discount notes	29,632	19,751	49,383	146,978	48,834	195,812
Total cash, cash equivalents & investments	$ 192,243	$ 333,580	$ 525,823	$ 191,958	$ 132,313	$ 324,271

(In thousands)

(3) Cash Deposits and Investments (Continued)

Included in unrestricted demand deposits and agency discount notes is $68,500 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 future at the Authority's discretion.

(d) Restricted Cash and Investment Schedule

A schedule of restricted cash equivalents and investments as of September 30, 2007 and 2006 follows:

Description	2007	2006
Restricted cash and cash equivalents		
Revenue bond construction funds (2007)	$ 207,618	$ -
Combined sewer overflow (CSO) federal appropriation	44,617	21,452
Debt service reserve account, 1998 revenue bonds	23,535	23,407
Debt service reserve account, 2004 revenue bonds	15,000	15,000
Debt service interest payment account, 1998 revenue bonds	7,680	7,522
Debt service interest payment account, 2003 revenue bonds	4,610	4,489
Debt service interest payment account, 2004 revenue bonds	692	1,599
Revenue bond construction funds (2004)	-	8,939
Principal payment account 1998 revenue bonds	8,631	-
Debt service interest payment account, 2007 revenue bonds	339	-
Workers' comp reserve account	1,000	1,049
Commercial paper proceeds	107	22
Total restricted cash and cash equivalents	313,829	83,479
Restricted investments		
Combined sewer overflow (CSO) federal appropriation	19,751	48,834
Total restricted cash, cash equivalents & investments	$ 333,580	$ 132,313

(In thousands)

(4) Utility Plant

The net utility plant, including capitalized interest of $11,201 for the year ended September 30, 2007 is as follows:

	Balance 9/30/2006	Additions	Disposals	Transfers	Balance 9/30/2007
Utility Plant					
Waste water treatment plant	$ 1,270,860	$ 151,928	$ -	$ -	$ 1,422,788
Waste water collection facilities	384,463	10,621	-	-	395,084
Water distribution system	468,834	38,592	-	-	507,426
Capital Equipment	104,763	10,993	-	-	115,756
Total utility plant in service	2,228,920	212,134	-	-	2,441,054
Less accumulated depreciation:					
Waste water treatment plant	(329,200)	(21,200)	-	-	(350,400)
Waste water collection facilities	(164,505)	(6,371)	-	-	(170,876)
Water distribution system	(137,740)	(7,774)	-	-	(145,514)
Capital Equipment	(80,666)	(10,768)	-	-	(91,434)
Total accumulated depreciation	(712,111)	(46,113)	-	-	(758,224)
Net utility plant in service	1,516,809	166,021	-	-	1,682,830
Construction in progress	526,713	178,926	-	(212,134)	493,505
Net utility plant	$ 2,043,522	$ 344,947	$ -	$ (212,134)	$ 2,176,335

The net utility plant, including capitalized interest of $15,184 for the year ended September 30, 2006 is as follows:

	Balance 9/30/2005	Additions	Disposals	Transfers	Balance 9/30/2006
Utility Plant					
Waste water treatment plant	$ 1,052,148	$ 218,730	$ -	$ (18)	$ 1,270,860
Waste water collection facilities	335,851	48,612	-	-	384,463
Water distribution system	338,124	130,710	-	-	468,834
Capital Equipment	97,483	8,783	(1,521)	18	104,763
Total utility plant in service	1,823,606	406,835	(1,521)	-	2,228,920
Less accumulated depreciation:					
Waste water treatment plant	(311,229)	(17,973)	-	2	(329,200)
Waste water collection facilities	(158,612)	(5,893)	-	-	(164,505)
Water distribution system	(131,343)	(6,397)	-	-	(137,740)
Capital Equipment	(71,375)	(10,699)	1,410	(2)	(80,666)
Total accumulated depreciation	(672,559)	(40,962)	1,410	-	(712,111)
Net utility plant in service	1,151,047	365,873	(111)	-	1,516,809
Construction in progress	734,600	198,948	-	(406,835)	526,713
Net utility plant	$ 1,885,647	$ 564,821	$ (111)	$ (406,835)	$ 2,043,522

(In thousands)

(5) Purchased Capacity

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

Purchased capacity as of September 30, 2007 is as follows:

	Balance 9/30/2006	Additions	Balance 9/30/2007
Purchased Capacity			
Washington Aqueduct	$ 157,839	$ 1,545	$ 159,384
Jennings Randolph Reservoir	19,863	-	19,863
Little Seneca Lake	12,327	-	12,327
Total in service	190,029	1,545	191,574
Less accumulated depreciation:			
Washington Aqueduct	(30,999)	(2,644)	(33,643)
Jennings Randolph Reservoir	(5,501)	(393)	(5,894)
Little Seneca Lake	(4,417)	(204)	(4,621)
Total accumulated depreciation	(40,917)	(3,241)	(44,158)
Purchased capacity, net	$ 149,112	$ (1,696)	$ 147,416

Purchased capacity as of September 30, 2006 is as follows:

	Balance 9/30/2005	Additions	Balance 9/30/2006
Purchased Capacity			
Washington Aqueduct	$ 152,944	$ 4,895	$ 157,839
Jennings Randolph Reservoir	19,863	-	19,863
Little Seneca Lake	12,327	-	12,327
Total in service	185,134	4,895	190,029
Less accumulated depreciation:			
Washington Aqueduct	(28,408)	(2,591)	(30,999)
Jennings Randolph Reservoir	(5,109)	(392)	(5,501)
Little Seneca Lake	(4,212)	(205)	(4,417)
Total accumulated depreciation	(37,729)	(3,188)	(40,917)
Purchased capacity, net	$ 147,405	$ 1,707	$ 149,112

(In thousands)

(6) Due from Federal Government

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

	2007	2006
Federal grants receivable	$ 2,021	$ 3,061
Washington Aqueduct advances	17,806	17,052
Total	$ 19,827	$ 20,113

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 $11,192 and $11,553 at September 30, 2007 and 2006, respectively.

(8) Due from Other Jurisdictions

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

	2007	2006
Current:		
WSSC	$ 9,414	$ 6,021
Fairfax	950	1,166
Northern Virginia (a)	371	575
Loudoun County Sanitation Authority	1,132	473
Potomac Interceptor	1,679	1,752
Total Current	13,546	9,987
Noncurrent:		
WSSC	1,243	2,433
Fairfax	255	445
Northern Virginia (a)	4,516	4,887
Loudoun County Sanitation Authority	116	233
Total Noncurrent	6,130	7,998
Total Due From Jurisdictions	$ 19,676	$ 17,985

(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 WASA for the purpose of funding capital expenditures of the Aqueduct prior to April 1, 1997.

(In thousands)

(9) Compensation Payable (Compensated Absences)

Compensation payable as of September 30, 2007 and 2006 was $10,601 and $7,726, respectively. These amounts include accruals for compensated absences (vacation) for the stated years as shown below. This liability is expected to be paid off within a year; therefore it is classified as a current liability.

	2007	2006
Balance, beginning of year	$ 4,286	$ 4,146
Increases (Incurred)	919	6,368
Decreases	(520)	(6,228)
Balance, end of year	$ 4,685	$ 4,286

(10) Long-Term Debt

WASA 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 period ended September 30, 2007 is shown below:

Description	Balance 9/30/2006	New Debt Issued	Debt Retired	Balance 9/30/2007	Due Within One Year
2007 series a public utility revenue bonds; interest at 5.36%, maturing in 2042	-	218,715	-	218,715	-
2007 series b public utility lien revenue bonds; (auction rate securities) interest varies each auction date, maturing in 2028	-	59,000	-	59,000	-
2004 public utility lien revenue bonds; (auction rate securities) interest varies each auction date, maturing in 2034	295,000	-	-	295,000	-
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	266,120	-	-	266,120	8,475
Notes payable to the federal government for Jennings Randolph Reservoir (Bloomington Dam); interest at 3.25%, maturing in 2041	$ 16,104	$ -	$ (281)	$ 15,823	$ 291
Notes payable to WSSC for Little Seneca Lake; interest ranges from 5.98% to 6.60% maturing in 2014	285	-	(34)	251	35
District of Columbia general obligation bonds:					
1991; interest at 6.75% maturing in 2008	175	-	(85)	90	90
1993; interest ranges from 5.40% to 6.0% maturing in 2012	17,252	-	(5,697)	11,555	4,445
1994; interest ranges from 5.05% to 6.50% maturing in 2011	3,700	-	(890)	2,810	15
2001; interest at 6.02%, maturing in 2008	1,172	-	(567)	605	605
Total Bonds and Notes	$ 776,028	$ 277,715	$ (7,554)	$1,046,189	$ 13,956

Long-term debt outstanding, as presented on the accompanying statement of net assets, includes net unamortized bond premiums, discounts, and issuance costs of $7,691.

(In thousands)

(10) Long-Term Debt (Continued)

A schedule of long-term debt activity for period ended September 30, 2006 is shown below:

Description	Balance 9/30/2005	New Debt Issued	Debt Retired	Balance 9/30/2006	Due Within One Year
Notes payable to the federal government for Jennings Randolph Reservoir (Bloomington Dam); interest at 3.25%, maturing in 2041	$ 16,376	$ -	$ (272)	$ 16,104	$ 281
Notes payable to WSSC for Little Seneca Lake; interest ranges from 5.98% to 6.60% maturing in 2014	317	-	(32)	285	34
District of Columbia general obligation bonds:					
1991; interest at 6.75% maturing in 2008	255	-	(80)	175	85
1993; interest ranges from 5.40% to 6.0% maturing in 2012	27,725	-	(10,473)	17,252	5,695
1994; interest ranges from 5.05% to 6.50% maturing in 2011	5,020	-	(1,320)	3,700	890
2001; interest at 6.02%, maturing in 2008	2,385	-	(1,213)	1,172	570
1998 public utility revenue bonds; interest ranges from 5.50% to 6.00%, maturing in 2028	266,120	-	-	266,120	-
2003 public utility revenue bonds; interest ranges from 5.0% to 5.25%, maturing in 2033	176,220	-	-	176,220	-
2004 public utility subordinated lien revenue bonds; (auction rate securities) interest varies each auction date, maturing in 2034	295,000	-	-	295,000	-
Total Bonds and Notes	$ 789,418	$ -	$ (13,390)	$ 776,028	$ 7,555

Long-term debt outstanding, as presented on the accompanying statement of net assets, includes net unamortized bond premiums, discounts, and issuance costs of $4,486.

(a) Senior Debt

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

Notes payable to the Federal government for the Washington Aqueduct are specifically secured by user charges assessed on retail customers. The proceeds of these notes are used to make capital improvements to the Washington Aqueduct. There are no outstanding notes to the Federal government for the Washington Aqueduct at the end of fiscal years 2007 and 2006.

(10) Long-Term Debt (Continued)

In April 1998, WASA issued approximately $266,120 of senior lien public utility revenue bonds (Series 1998 Bonds). As required by the Master Indenture, WASA 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 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 costs of issuance. The payment of principal and interest on the Series 1998 bonds is insured by Financial Security Assurance, Inc.

WASA 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 will be amortized as a component of interest expense over the remaining life of the refunded debt.

The total amount of refunded debt outstanding was $2,491 and $4,090 at September 30, 2007 and 2006, respectively.

(b) Subordinate Debt

Payment of WASA’s subordinate debt is made after payment of senior debt and after certain reserves has been funded (see “Bond Covenants” below).

In June 2007, WASA 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). As required by the Master Indenture, WASA 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). 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 underwriters discount, insurance and costs of issuance. The scheduled payment of principal and interest on Series 2007A bonds are guaranteed by a municipal bond insurance policy issued by FGIC – Financial Guaranty Insurance Co. Gross proceeds from the Series 2007B bonds totaled $59,000. Proceeds from the 2007B series will be used entirely to fund WASA’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.

(10) Long-Term Debt (Continued)

In July 2004, WASA issued $295,000 of subordinated lien public utility revenue bonds (Series 2004 Bonds). As required by the Master Indenture, WASA 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). Gross proceeds from the Series 2004 Bonds totaled $295,000, including $3,549 for costs of issuance, bond insurance, and underwriter's discount. Approximately $226,000 was used to fund various capital projects; $50,000 was used to repay outstanding commercial paper. The scheduled payment of principal and interest on Series 2004 bonds are guaranteed by a municipal bond insurance policy issued by Ambac Assurance Corporation. WASA also funded a debt service reserve fund totaling $15,000.

In August 2003, WASA issued $176,220 of subordinated lien public utility revenue bonds (Series 2003 Bonds). As required by the Master Indenture, WASA 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). Gross proceeds from the Series 2003 Bonds totaled $176,220, including $3,449 of original issue discount and $2,771 for cost of issuance. Approximately $70,000 was used to fund various capital projects; $100,000 was used to repay outstanding commercial paper. The scheduled payment of principal and interest on the Series 2003 bonds are guaranteed by a municipal bond insurance policy issued by Financial Guaranty Insurance Company (FGIC). The Authority also purchased a surety bond policy from FGIC to meet the debt reserve fund requirement for the Series 2003 bonds.

Notes payable to the Federal government for 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 backup 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 backup and peak day water supply for the Authority.

Prior to the creation of WASA as an independent entity, the District issued general obligation bonds to fund improvements to the water and wastewater system. WASA 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 WASA 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, WASA and the District executed a memorandum of understanding that outlined certain terms for payment of WASA's share of District general obligation bonds. In particular, it contained the following three provisions: (1) WASA 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, commencing September 1, 1999, WASA will prepay the general obligation debt service due for the subsequent fiscal year;

(10) Long-Term Debt (Continued)

and (3) WASA will annually establish rates sufficient to provide at least 100 percent debt service coverage of WASA's share of District general obligation bonds, in accordance with the Master Indenture. As of September 30, 2007 and 2006, WASA had reserved $515 and $605, respectively; of its unrestricted cash in connection with the debt service reserve requirement described above, and was in compliance with the other provisions of the memorandum of understanding.

(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, 2007 and 2006. 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, 2007 and 2006 was $23,535 and $23,060, respectively, and is required to be maintained at 125 percent of current and future average annual Series 1998 debt service. The Series 2004 Bonds debt service reserve account balance as of September 30, 2007 and 2006 was $15,000 as required by the indenture.

(In thousands)

(10) Long-Term Debt (Continued)

(d) Debt Service to Maturity

The future debt-service obligations at September 30, 2007 are as follows:

Fiscal year	Principal	Interest	Total
2008	$ 13,956	$ 51,473	$ 65,429
2009	15,277	50,771	66,048
2010	16,246	49,739	65,985
2011	17,083	48,815	65,898
2012	18,016	47,535	65,551
2013 - 2017	105,142	223,776	328,918
2018 - 2022	135,720	192,294	328,014
2023 - 2027	174,130	151,417	325,547
2028 - 2032	195,034	104,707	299,741
2033 - 2037	189,442	59,213	248,655
2038 - 2041	166,143	18,974	185,117
Total	$ 1,046,189	$ 998,714	$ 2,044,903

The above table assumes (for estimation purposes only) an interest rate of 4.0% on the Series 2004 and 5.36% on Series 2007b bonds.

(11) Commercial Paper

Commercial Paper — The Board of Directors of the Authority approved WASA's commercial paper program on November 1, 2001, with the Series A and B notes not to exceed $50,000 each at any one time. Proceeds from the sale of the notes are used to finance costs incurred in connection with the construction of capital improvements to WASA's wastewater treatment collection and disposal system, its water distribution system and capital equipment.

Series A and B notes are secured by separate letters of credit, issued by Westdeutsche Landesbank Gironzentrale (WestLB) and are rated P1, A1+ and F1+ by Moody's, S&P and Fitch, respectively. The letter of credit expires on November 30, 2015.

There was no outstanding commercial paper at the end of fiscal year 2007 and a schedule of commercial paper activity for period ended September 30, 2007 is shown below:.

Description	Balance 9/30/2006	Addition	Reduction	Balance 9/30/2007
Commercial Paper Notes Payable				
Series A, interest at 3.75%	$ -	$ 15,000	$ (15,000)	$ -
Series B, interest at 3.75	-	15,000	(15,000)	-
Total Commercial Paper	$ -	$ 30,000	$ (30,000)	$ -

(In thousands)

(12) Commitments and Contingencies – Other Liabilities

A schedule of other liabilities as of September 30, 2007 and 2006 is shown below:

Description	2007	2006
Federal Grants	$ 2,058	$ 2,739
Litigation	5,579	5,940
Owner Controlled Insurance Program (OCIP)	93	415
Risk Management	12,837	12,734
Total Other Liabilities	$ 20,567	$ 21,828

(a) Federal Grants

WASA's capital and operating grants are subject to financial and compliance audits by the EPA, the grantor, or its representatives. WASA's management does not expect that the results of these audits will have a material adverse effect on the accompanying financial statements.

(b) Litigation

WASA is a party in various legal actions and claims brought by or against it. In the opinion of WASA'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 WASA.

Changes in the balances of litigation contingencies during the years ended September 30, 2007 and 2006 were as follows:

	2007	2006
Balance, beginning of year	$ 5,940	$ 5,047
Current year claims and changes in estimates	1,564	3,023
Claim payments	(1,926)	(2,130)
Balance, end of year	$ 5,578	$ 5,940

(c) Risk Management

WASA 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, WASA purchased certain commercial insurance coverage. Prior to that date WASA 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.

WASA has purchased $500,000 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, WASA 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.

(In thousands)

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

WASA 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.

WASA 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, WASA 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, 2007 and 2006 were as follows:

	2007	2006
Balance, beginning of year	$ 12,734	$ 12,061
Current year claims and changes in estimates	1,514	1,280
Claim payments	(1,411)	(607)
Balance, end of year	$ 12,837	$ 12,734

(d) Construction Commitments

Contractual commitments for utility plant construction and capital equipment for the years ended September 30, 2007 and 2006 were $400,886 and $227,375, respectively. Construction commitments are not recorded in the financial statements.

	2007	2006
Total contract commitments	$ 569,285	$ 411,139
Less work performed and retainage	(168,399)	(183,764)
Outstanding contract commitments	$ 400,886	$ 227,375

(In thousands)

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

(e) Lease Commitments

WASA 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.

WASA's rental expenses for the years ended September 30, 2007 and 2006 are shown in the accompanying rental expense table.

	2007	2006
Facilities Leases	$ 964	$ 745
Automobile Equipment Leases	57	148
Machinery Leases	88	4
Other	3	1
Total	$ 1,112	$ 898

Future minimum noncancelable lease payments on existing operating leases at September 30, 2006, which have an initial term of one year or more, are as follows.

	Future Minimum Lease Payments
2008	$ 864
2009	76
Thereafter	—
Total	$ 940

(13) Related Party and Similar Transactions

The enabling legislation, described in Note 1, established that the District would pay for water and wastewater services. WASA recorded revenues of $10,580 and $9,617 from the District government and $6,686 and $6,846 from the District of Columbia Housing Authority (DCHA) for fiscal years 2007 and 2006, respectively. Both the District government and DCHA revenues are included in water and wastewater user charges in the accompanying statements of revenues, expenses and changes in net assets.

WASA recorded expenses of $12,414 and $11,823, 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, 2007 and 2006, respectively. WASA 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 the years ended September 30, 2007 and 2006.

(13) Related Party and Similar Transactions (Continued)

The amount due from the District government for the years ended September 30, 2007 and 2006 were $5,092 and $7,584, respectively. These amounts are for WASA's share of fiscal year 2006 and 2005 debt service on general obligation bonds originally issued to finance WASA's capital improvements that WASA 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 in fiscal years 2007 and 2006 for costs incurred by the District for certain lead mitigation activities.

On October 18, 2000, the District of Columbia City Council approved the Storm Water Compliance Amendment Act of 2000 (the Act), which created the "Storm Water Permit Compliance Enterprise Fund" (Storm Water Fund or the Fund). The Act established the Authority as the Storm Water Administrator. The Administrator is responsible for monitoring and coordinating the activities of all District agencies, including the activities of the Authority, which are required to maintain compliance with the Storm Water Permit. The Authority is reimbursed by the Fund for all costs incurred to administer the Fund. Also, the Authority does not assume any of the Fund's liabilities or obligations. The permit was issued to the District of Columbia government by the Environmental Protection Agency. The legislation also established a rate for recovery of storm water compliance costs, which is collected by the Authority from its customers on the District's behalf. The Authority incurred $851 and $1,160 of administrative expenses for years ended September 30, 2007 and 2006, respectively.

Additionally, the Authority had a receivable from the Storm Water Fund of $455 and $343 for years ended September 30, 2007 and 2006, respectively. The amount shown on the Statement of Net Assets as due from Storm Water Fund is net of collection and administrative costs.

(14) Employee Benefits

(a) Defined Benefit Plans

WASA 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.

In addition, the plans issue a publicly available financial report that includes financial statements and required supplementary information. Employees and WASA each contribute a percentage of the employees' salaries to the Federal government, which administers the plans. During fiscal years 2007, 2006 and 2005, WASA's contributions to the plans were $1,173, $1,174 and $1,229, 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 the three fiscal years ended 2007. The required percentage of salaries to be contributed by WASA was also 7.0 percent for the three fiscal years ended 2006.

(14) Employee Benefits (Continued)

(b) 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 District government. The District of Columbia Defined Contribution Plan (D.C. Code 1-627) is a qualified trust under Internal Revenue Code Section 401. During fiscal years 2007, 2006 and 2005, the Authority's contribution was seven percent of base pay toward the plan on behalf of each eligible employee. Employees do not contribute to the plan. Employees become 100 percent vested in their account balance after three years of service.

Starting in January 2000, 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 Defined Contribution Plan is a qualified trust under Internal Revenue Code Section 401. The Authority makes a contribution of seven percent of base pay toward the plan on behalf of each eligible employee.

The Authority also makes an additional contribution of five percent of all base earnings above the Social Security Wage Base, if applicable. In addition, the Authority makes a matching contribution of 100 percent of the amount that the employee defers to the Section 457(b) Deferred Compensation Plan; up to a maximum contribution of three percent of base pay (matching contributions for non-represented employees were increased to five percent during fiscal year 2007).

There is no waiting period before an employee becomes a participant of this plan. Employees become 100 percent vested in their account balance after three years of service.

During fiscal years 2007, 2006 and 2005, the Authority's contributions to both defined contribution plans were $3,485, $2,930 and $2,720, respectively.

(c) Post Employment Insurance Plans

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

In fiscal year 2007 a Retirement Health Savings Plan was implemented for non-union employees. The Plan allows eligible employees to receive a benefit equal to the value of their unused sick leave upon separation from service. Funds from this plan are deposited into an account to be used to pay for post employment medical expenses.

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Statistical Section

This section contains statistical tables that reflect financial trends information, revenue capacity information, debt capacity information, demographic and economic information, and operating information. These tables differ from the financial statements because they usually cover more than two fiscal years and may present non accounting data.

The statistical section is divided into five sections as follows:

- Financial Trends
- Revenue Capacity
- Debt Capacity
- Demographic and Economic Information
- Operating Information

1. Financial Trends

These schedules contain trend information to better understand how the Authority's financial performance and well-being have changed over time.

EXHIBIT 1: SUMMARY OF NET ASSETS
FY 2002 - 2007
($000)

	2002	2003	2004	2005	2006	2007
NET ASSETS:						
Invested in utility plant, net of related debt	$ 534,819	$ 588,294	$ 651,250	$ 713,470	$ 749,965	$ 777,968
Restricted for debt service	23,481	22,356	38,302	39,765	39,730	44,802
Restricted for capital projects	18,115	5,038	815	2,146	5,158	9,170
Unrestricted	178,351	188,285	142,341	125,347	139,965	148,950
TOTAL NET ASSETS:	$ 754,766	$ 803,973	$ 832,708	$ 880,728	$ 934,818	$ 980,890

Note: As a result of GASB 34 implementation in FY 2002, only six years are presented.

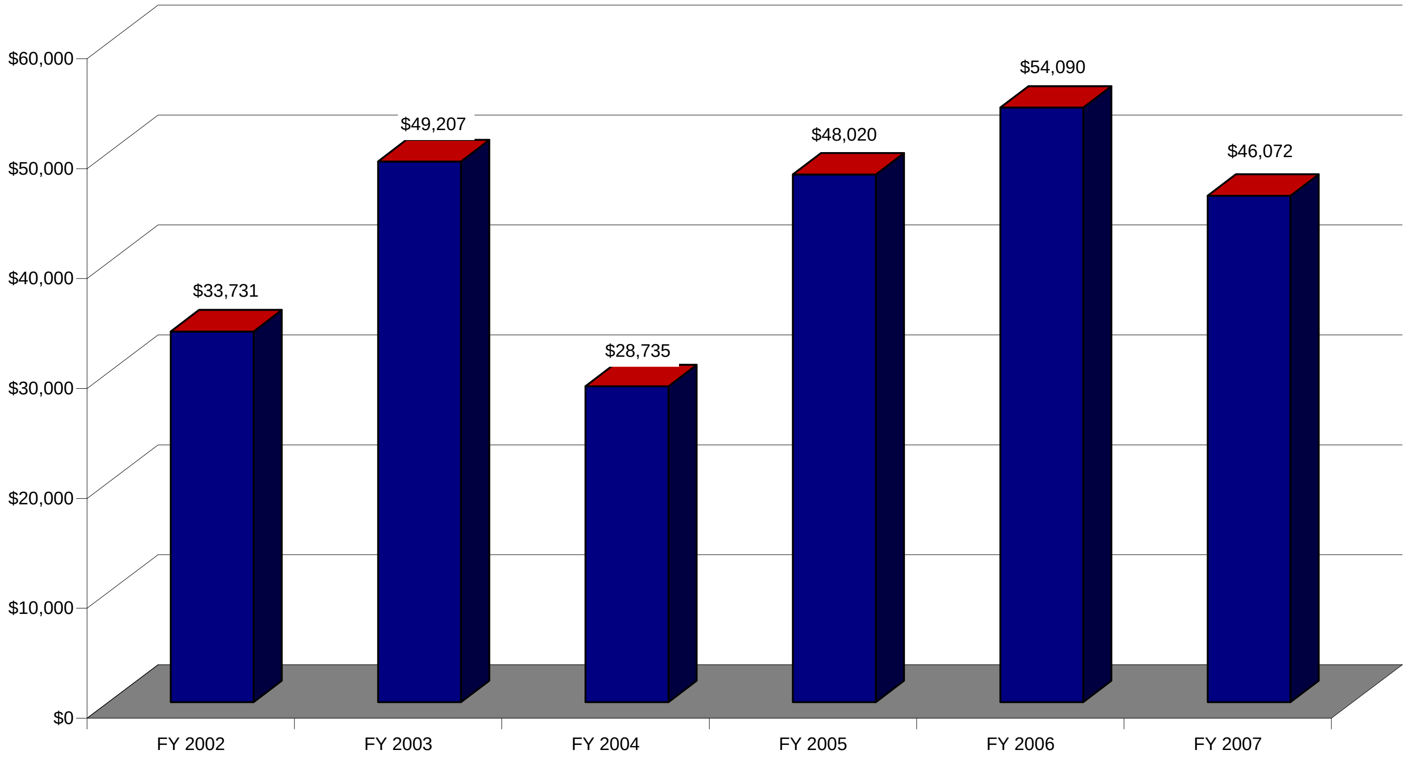
Source: FY 2002 - 2007 Audited Statements of Net Assets.

EXHIBIT 2: CHANGE IN NET ASSETS
FY 2002 - 2007
($000)

	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Revenues						
Operating revenues:						
Residential, commercial and multi-family customers	$ 148,134	$ 147,870	$ 159,165	$ 166,045	$ 174,159	$ 182,327
Federal government	28,501	26,884	26,444	24,770	31,100	30,751
District government and DC Housing Authority	16,496	16,072	15,464	15,436	16,463	17,266
Charges for wholesale wastewater treatment	53,211	61,682	60,834	62,126	67,966	73,378
Other	2,387	3,287	2,427	4,366	3,845	2,735
Total Operating Revenues	248,729	255,795	264,334	272,743	293,533	306,457
Non-operating revenues:						
Interest income	6,825	3,090	3,472	12,612	16,091	20,239
Total Revenues	255,554	258,885	267,806	285,355	309,624	326,696
Expenses						
Operating expenses:						
Personnel services	62,162	64,091	62,449	64,038	66,942	70,956
Contractual services	59,166	63,065	61,491	54,156	49,970	52,116
Chemicals, supplies and small equipment	13,683	14,768	17,384	22,062	23,482	24,510
Utilities and rent	20,071	20,804	22,217	25,562	31,151	32,238
Depreciation and amortization	37,099	39,524	40,500	41,069	44,149	49,355
Water purchases	16,904	13,723	20,692	19,625	22,745	24,042
Other	-	-	3,955	3,679	4,218	4,452
Total operating expenses	209,085	215,975	228,688	230,191	242,657	257,669
Non-operating expenses						
Interest expense and fiscal charges	16,339	17,816	26,060	25,415	20,881	30,524
Payment in lieu of taxes and right of way fee	15,247	15,513	15,778	16,307	16,923	17,514
Total non-operating expenses	31,586	33,329	41,838	41,722	37,804	48,038
Total expenses	240,671	249,304	270,526	271,913	280,461	305,707
Income before Federal grants and contributions	14,883	9,581	(2,720)	13,442	29,163	20,989
Federal grants and contributions	18,848	39,626	31,455	34,578	24,927	25,083
Change in net assets	33,731	49,207	28,735	48,020	54,090	46,072
Net assets, beginning of year	721,035	754,766	803,973	832,708	880,728	934,818
Net assets, end of year	$ 754,766	$ 803,973	$ 832,708	$ 880,728	$ 934,818	$ 980,890

Note: As a result of GASB 34 implementation in FY 2002, only six years are presented.
Source: FY 2002 - 2007 Audited Statements of Net Assets.

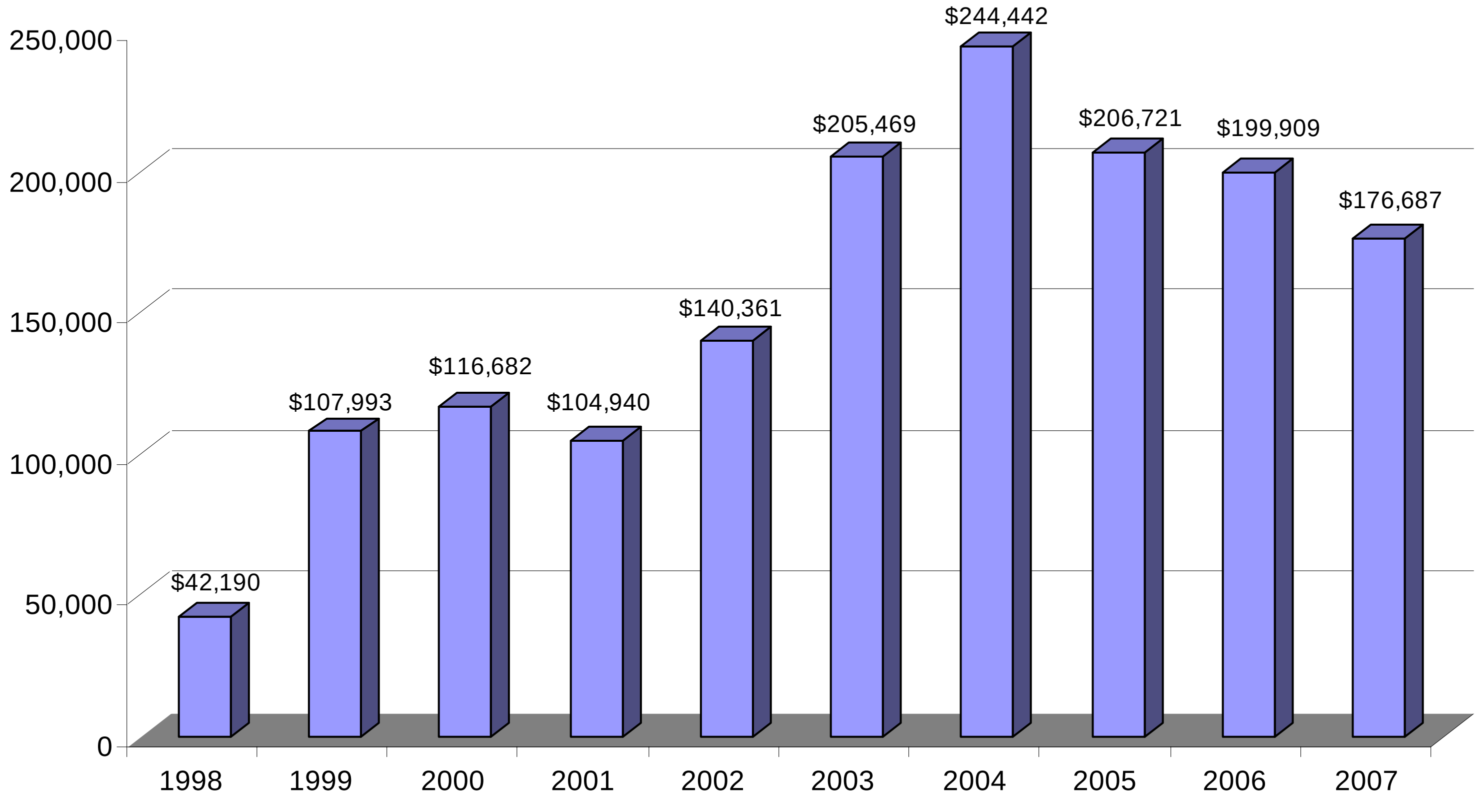
EXHIBIT 3: CHANGE IN NET ASSETS FY 2002 - 2007 ($000)



Note: As a result of GASB 34 implementation in FY 2002, only six years are presented.

Source: FY 2002 – 2007 Audited Statements of Revenue, Expenses and Changes in Net Assets

EXHIBIT 4: CAPITAL DISBURSEMENTS
FY 1998 - 2007
($000)



Note: These disbursements include the Authority's share of Washington Aqueduct's capital disbursements, which in FY 1997 – 2002 were financed by U.S. Treasury notes.

Source: FY 1998 – 2007 Audited Statements of Cash Flows

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2. Revenue Capacity

These schedules contain information regarding the Authority's most significant revenue sources.

EXHIBIT 5: SUMMARY OF OPERATING / NONOPERATING REVENUES, AND RATE INCREASES
FY 1998 - 2007
($000)

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
OPERATING REVENUES:										
Retail Customers										
Residential, Commercial and Multifamily	$ 138,697	$ 138,328	$ 131,399	$ 139,429	$ 148,134	$ 147,870	$ 159,165	$ 166,045	$ 174,159	$ 182,327
Federal Government	25,068	26,859	24,092	26,199	28,501	26,884	26,444	24,770	31,100	30,751
DC Government	21,883	11,168	10,883	9,543	10,293	9,943	9,129	8,968	9,617	10,580
DC Housing Authority	7,770	5,720	5,194	6,284	6,203	6,129	6,335	6,468	6,846	6,686
Other Revenues	14,459	4,450	6,078	3,483	2,387	3,287	2,427	4,366	3,845	2,735
Total Retail Customers	207,877	186,525	177,646	184,938	195,518	194,113	203,500	210,617	225,567	233,079
Wholesale Customers										
Charges for Wholesale Wastewater Treatment	50,566	56,107	50,284	52,542	53,211	61,682	60,834	62,126	67,966	73,378
TOTAL OPERATING REVENUES	258,443	242,632	227,930	237,480	248,729	255,795	264,334	272,743	293,533	306,457
NONOPERATING REVENUES:										
Interest Income	22,187	13,676	12,744	10,382	6,825	3,090	3,472	12,612	16,091	20,239
TOTAL OPERATING AND NONOPERATING REVENUES:	$ 280,630	$ 256,308	$ 240,674	$ 247,862	$ 255,554	$ 258,885	$ 267,806	$ 285,355	$ 309,624	$ 326,696
Retail Rate Increases	0.00%	0.00%	4.80%	4.90%	0.00%	-5.25%	2.50%	5.00%	5.50%	5.00%

Source: FY 1998 - 2007 Audited Statements of Revenue, Expenses and Changes in Net Assets

EXHIBIT 6: NUMBER AND TYPE OF CUSTOMER ACCOUNTS FY 1998 - 2007

TYPE OF ACCOUNTS	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Retail Accounts										
Residential	101,260	102,852	103,294	102,747	101,219	101,783	102,188	102,418	102,655	103,263
Commercial [(A)]	20,351	20,805	20,925	19,326	17,817	18,111	18,283	18,337	18,489	18,513
Governmental										
Federal	553	594	592	540	537	538	529	526	526	531
District of Columbia	931	968	893	565	574	565	569	565	582	589
DC Housing Authority	2,192	2,175	2,142	1,529	1,503	1,469	1,196	1,179	1,173	1,175
Total Retail Accounts	125,287	127,394	127,846	124,707	121,650	122,466	122,765	123,025	123,425	124,071
WASA			29	35	29	29	29	29	29	30
Washington Aqueduct							1	1	1	1
Wholesale	7	7	7	7	7	7	7	7	7	7
Total Number of Accounts	125,294	127,401	127,882	124,749	121,686	122,502	122,802	123,062	123,462	124,109

[(A)] Included in commercial accounts are exempt accounts

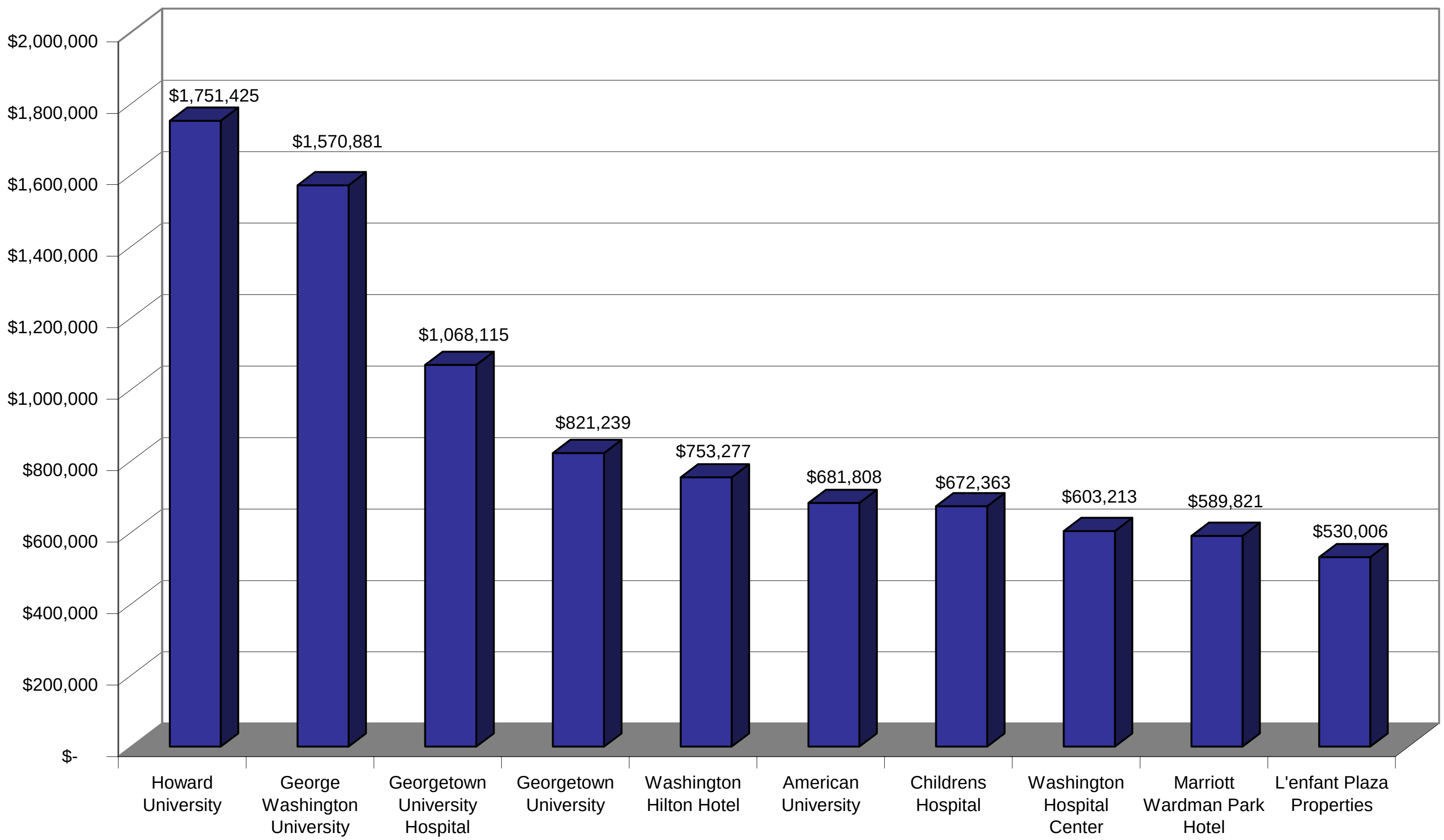
Source: D.C. Water and Sewer Authority Department of Customer Service

EXHIBIT 7: LARGEST COMMERCIAL CUSTOMER ACCOUNTS FY 1998 - 2007

CUSTOMER	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Howard University	$ -		$ -	$ -	$ 1,382,043	$ 1,788,134	$ 1,744,217	$ 1,612,565	$ 1,584,501	$ 1,751,425
George Washington University	-		526,681	-	1,028,883	1,036,396	1,382,116	1,601,369	1,519,286	1,570,881
Georgetown University Hospital	726,846	970,708	1,240,914	1,323,019	-	-	1,373,516	971,014	723,604	1,068,115
Georgetown University	566,641	-	-	584,857	-	770,637	583,335	-	-	821,239
Washington Hilton Hotel	-	-	-	643,172	566,333	-	-	-	716,612	753,277
Washington Hospital Center	651,026	455,675	668,852	-	596,310	530,154	741,166	800,082	782,404	-
American University	489,765	-	-	589,333	767,434	-	-	738,628	-	-
Soldiers' Home	-	-	-	-	-	649,981	-	-	-	-
The Shoreham Hotel	-	-	498,012	780,922	-	-	-	-	-	-
Linens of the Weak Palace Laundry	-	452,935	450,363	-	-	-	-	-	-	-
Washington Sheraton Hotel	624,997	564,961	-	-	-	-	-	-	-	-
George Washington Hospital	-	401,900	-	-	-	-	-	-	-	-

Source: Authority Department of Customer Service

EXHIBIT 8: LARGEST COMMERCIAL CUSTOMER ACCOUNTS FY 2007



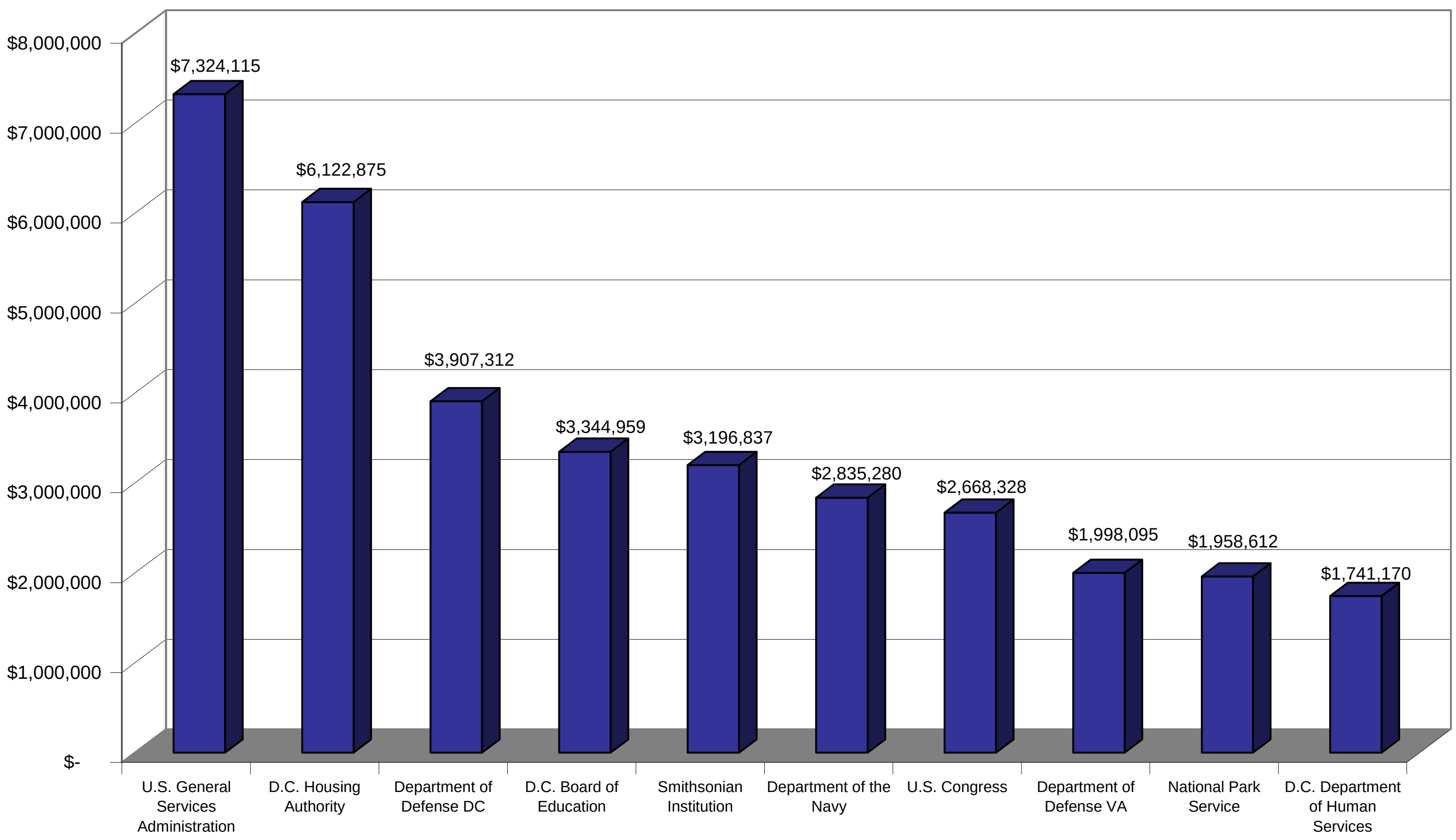
Source: Authority Department of Customer Service

EXHIBIT 9: LARGEST GOVERNMENT CUSTOMER ACCOUNTS FY 1998 – 2007

CUSTOMER	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
U.S. General Services Administration	$ 6,347,748	$ 6,022,234	$ 6,976,601	$ 7,304,982	$ 8,170,058	$ 7,595,917	$ 8,577,887	$ 8,092,600	$ 7,916,072	$ 7,324,115
D.C. Housing Authority	-	-	-	-	-	6,292,037	5,871,752	6,036,527	6,514,112	6,122,875
Department of Defense DC	-	-	-	-	-	-	-	2,184,982	-	3,907,312
D.C. Board of Education	-	2,787,242	2,527,349	2,344,683	2,462,458	2,453,574	2,728,892	2,669,214	2,934,220	3,344,959
Smithsonian Institution	3,684,550	3,548,489	2,983,870	2,857,171	2,836,136	-	2,518,991	-	3,443,695	3,196,837
U.S. Congress	3,524,913	4,057,713	2,972,882	3,805,865	2,606,519	2,592,498	3,014,968	2,655,930	3,320,538	-
D.C. Department of Human Services	4,170,872	-	-	-	2,413,678	2,456,904	-	-	-	-
Department of the Navy	6,661,614	-	-	1,954,677	-	-	-	-	-	-
D.C. Department of Human Services	-	3,273,182	3,548,658	-	-	-	-	-	-	-

Source: Authority Department of Customer Service

EXHIBIT 10: LARGEST GOVERNMENT CUSTOMER ACCOUNTS FY 2007



Source: Authority Department of Customer Service

EXHIBIT 11: HISTORY OF RETAIL WATER & SEWER RATES PER Ccf FY 1980 – 2007

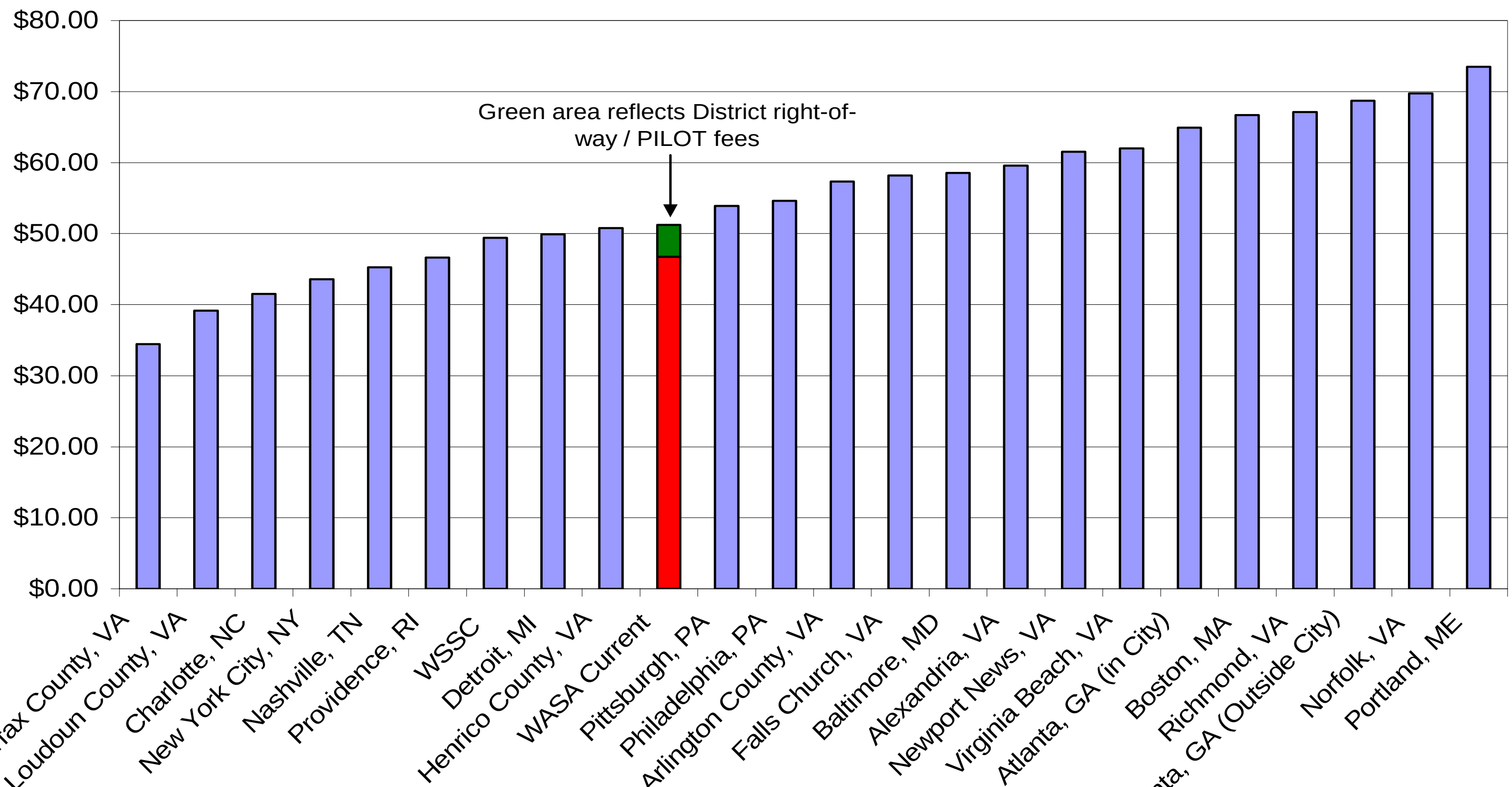
FISCAL YEARS	METERING FEE	DISTRICT PUBLIC SPACE OCCUPANCY FEE - PILOT	WATER CONSUMPTION RATE	SEWER CONSUMPTION RATE	COMBINED CONSUMPTION RATE	AVERAGE MONTHLY BILL [2]
1980-1983	$ -	$ -	$ 0.460	$ 0.677	$ 1.137	$ 9.471
1984	-	-	0.537	0.998	1.535	$ 12.787
1985	-	-	0.698	1.297	1.995	$ 16.618
1986	-	-	0.873	1.621	2.494	$ 20.775
1987-1996	-	-	1.004	1.864	2.868	$ 23.890
1997	-	-	1.380	2.710	4.090	$ 34.070
1998	-	-	1.380	2.710	4.090	$ 34.070
1999	-	-	1.380	2.710	4.090	$ 34.070
2000	-	-	1.576	2.710	4.286	$ 35.702
2001-2002	-	-	1.786	2.710	4.496	$ 37.452
2003 (1)	2.010	0.360	1.690	2.570	4.260	$ 40.490
2004	2.010	0.360	1.740	2.630	4.370	$ 41.410
2005	2.010	0.360	1.830	2.760	4.590	$ 43.240
2006	2.010	0.420	1.930	2.910	4.840	$ 45.830
2007	2.010	0.440	2.030	3.060	5.090	$ 48.080

[1] All rates are for one hundred cubic feet (1 Ccf) consumption with the exception of the flat metering fee, which became effective on October 1, 2002.

[2] Average residential customer consumption is 8.33 Ccf per month.

Source: D.C. Water and Sewer Authority Department of Finance & Budget

EXHIBIT 12: RESIDENTIAL WATER & WASTEWATER BILL COMPARISONS
MONTHLY BASIS
AS OF SEPTEMBER 2007 (1)



(1) This analysis is based on 5/8" meters and 8.33 Ccf (hundred cubic feet) per month consumption (25 Ccf per quarter) for residential customers.

Source: Authority Department of Finance & Budget

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3. Debt Capacity

These schedules present information showing the Authority's current levels of outstanding debt and the Authority's ability to issue additional debt in the future.

EXHIBIT 13: TOTAL OUTSTANDING DEBT
FY 1998 - 2007
($000)

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Senior Debt										
1998 Public Utility Revenue Bonds	$ 266,120	$ 266,120	$ 266,120	$ 266,120	$ 266,120	$ 266,120	$ 266,120	$ 266,120	$ 266,120	$ 266,120
Notes Payable to the Federal Government for Washington Aqueduct	9,935	15,667	8,031	15,708	7,984	1,173	-	-	-	-
Total Senior Debt	276,055	281,787	274,151	281,828	274,104	267,293	266,120	266,120	266,120	266,120
Subordinate Debt										
DC General Obligation Bonds	114,121	107,661	100,146	91,204	79,070	65,645	51,215	35,385	22,299	15,060
2007 Series A Public Utility Revenue Bonds	-	-	-	-	-	-	-	-	-	218,715
2007 Series B Public Utility Revenue Bonds	-	-	-	-	-	-	-	-	-	59,000
2004 Public Utility Revenue Bonds	-	-	-	-	-	-	295,000	295,000	295,000	295,000
2003 Public Utility Revenue Bonds	-	-	-	-	-	176,220	176,220	176,220	176,220	176,220
Notes Payable to the Federal Government for Bloomington Dam	18,058	17,840	17,615	17,383	17,143	16,895	16,640	16,376	16,104	15,823
Notes Payable to WSSC for Little Seneca	2,601	1,943	1,465	935	531	360	357	317	285	251
Total Subordinate Debt	134,780	127,444	119,226	109,522	96,744	259,120	539,432	523,298	509,908	780,069
Total Debt	$ 410,835	$ 409,231	$ 393,377	$ 391,350	$ 370,848	$ 526,413	$ 805,552	$ 789,418	$ 776,028	$ 1,046,189

Source: D.C. Water and Sewer Authority Department of Finance & Budget

EXHIBIT 14: DEBT SERVICE COVERAGE AND DEBT RATIOS FY 1998 - 2007

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Debt Service Coverage:										
Senior Debt Service Coverage	5.88	4.84	4.11	2.38	3.51	5.07	4.60	5.62	6.24	3.43
Subordinate Debt Service Coverag	3.77	3.03	3.77	2.00	2.87	2.76	1.78	2.11	2.72	2.07
Combined Debt Service Coverage	2.81	2.37	2.51	1.63	2.07	2.05	1.52	1.76	2.13	1.58
Debt Service As Percentage of Total Operating Expenditures	-	17.0%	21.0%	24.0%	25.0%	27.0%	29.0%	33.0%	35.0%	36.0%
Debt Service As Percentage of Fixed Assets	38.7%	35.9%	32.5%	29.8%	33.1%	34.1%	46.2%	41.2%	37.6%	47.7%

Source: D.C. Water and Sewer Authority Department of Finance & Budget

EXHIBIT 15: CALCULATION OF DEBT SERVICE COVERAGE FY 2007 ($000)

Prepared in accordance with the Authority's Master Trust Indenture, which corresponds closely to cash basis accounting

ANALYSIS OF CASHFLOWS & RESERVE REQUIREMENTS

Retail revenues	206,932
Wholesale revenues	55,745
Other non-operating revenues	41,064
(Contributions to) / Transfers from Rate Stabilization Fund	(10,000)
TOTAL REVENUES	293,740
OPERATING EXPENSES	208,406
REVENUES LESS OPERATING EXPENSES	85,335
SENIOR DEBT SERVICE	23,367
Replenishment of Senior Debt Service Reserve Fund	-
SUBORDINATE DEBT SERVICE	27,474
TOTAL OUTSTANDING & PROJECTED DEBT SERVICE	50,841
PAYMENT IN LIEU OF TAXES / RIGHT OF WAY FEE	17,514
ANNUAL BALANCE FROM OPERATIONS	16,979
BEGINNING CASH RESERVE BALANCE	128,424
CASH RESERVE BALANCE BREAKDOWN	
Beginning Undesignated Reserve Balance	60,339
Additions to / (Payments from) Undesignated Reserve	
Annual balance from operations	16,979
Prior year federal billing reconciliation	(4,371)
(Refund to) / Payment from wholesale customers	(781)
Prepayment of Washington Aqueduct Treasury loans	-
Pay-as-you-go capital financing	(23,509)
(Additions to) / Transfers from 60-Day Operating Reserve	(1,634)
(Additions to) / Transfers from Renewal & Replacement Reserve	-
Ending Undesignated Reserve Balance	47,024
Beginning 60-Day Operating Reserve Balance	33,085
Additions to / (Transfers from) 60-Day Operating Reserve	1,634
Ending 60-Day Operating Reserve Balance	34,719
Beginning Renewal & Replacement Reserve Balance	35,000
Additions to / (Transfers from) Renewal & Replacement Reserve	-
Ending Renewal & Replacement Reserve Balance	35,000
ENDING CASH RESERVE BALANCE	**$116,743**
Cash Reserve Requirement Based on Board Policy	**$103,303**
Beginning Rate Stabilization Fund Balance	58,500
Additions to / Transfers from Rate Stabilization Fund	10,000
Ending Rate Stabilization Fund Balance	68,500

ANALYSIS OF DEBT SERVICE COVERAGE

CALC. OF NET REVENUES AVAILABLE FOR SENIOR DEBT SERVICE	
Revenues Less Operating Expenses	85,335
Prior year federal billing reconciliation	(4,371)
(Refund to) / Payment from wholesale customers	(781)
NET REVENUES AVAILABLE FOR SENIOR DEBT SERVICE	80,183
SENIOR DEBT SERVICE COVERAGE	3.43x
CALCULATION OF SUBORDINATE DEBT SERVICE COVERAGE	
Net revenues available for senior debt service	80,183
Less senior debt service	(23,367)
NET REVENUES AVAILABLE FOR SUBORDINATE DEBT SERVICE	56,816
SUBORDINATE DEBT SERVICE COVERAGE	2.07x
COMBINED DEBT SERVICE COVERAGE	1.58x

4. Demographic and Economic Information

These schedules offer demographic and economic data to help explain the environment within which the Authority's financial activities take place.

EXHIBIT 16: POPULATION OF SERVICE AREA JURISDICTIONS FY 1998 - 2007

JURISDICTION	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
District of Columbia	565,230	571,042	572,059	577,357	578,907	577,476	579,720	582,049	581,530	N/A
Montgomery County	847,596	862,350	878,683	894,575	907,926	916,198	921,264	927,405	937,000	N/A
Prince George's County	780,666	789,037	802,712	815,927	825,815	832,761	837,837	842,764	841,315	N/A
Fairfax County	945,392	958,432	975,332	987,146	993,966	998,083	1,003,496	1,010,015	1,010,443	N/A
Loudoun County	133,493	144,514	169,599	190,169	203,948	221,170	239,613	256,417	268,817	N/A

N/A: Not Available

Source: United States Census Bureau

EXHIBIT 17: PER CAPITA PERSONAL INCOME FY 1998 - 2007

JURISDICTION	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
District of Columbia	36,379	37,030	40,456	44,210	44,543	46,606	50,240	52,811	N/A	N/A
Montgomery County	43,165	45,283	49,592	50,904	51,812	52,973	56,678	59,953	N/A	N/A
Prince George's County	26,274	27,033	28,896	29,922	30,812	31,518	33,143	34,912	N/A	N/A
Fairfax County	43,193	47,306	50,024	51,874	52,406	53,981	57,169	60,289	N/A	N/A
Loudoun County	36,873	39,674	41,116	40,589	38,242	37,814	39,378	41,193	N/A	N/A

N/A: Not Available

Source: U.S. Department of Commerce, Bureau of Economic Analysis

EXHIBIT 18: UNEMPLOYMENT RATES
FY 1998 - 2007

JURISDICTIONS	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
District of Columbia	7.6%	6.4%	5.6%	6.8%	6.4%	6.1%	7.3%	6.0%	5.9%	5.9%
Montgomery County	2.2%	1.9%	2.4%	3.3%	3.1%	3.1%	2.9%	2.8%	2.7%	2.7%
Prince George's County	4.1%	3.5%	3.6%	4.6%	4.6%	4.5%	4.3%	4.3%	4.1%	3.9%
Fairfax County	1.7%	1.7%	1.6%	3.0%	3.2%	3.1%	2.5%	2.5%	2.2%	2.0%
Loudoun County	1.4%	1.3%	1.4%	3.2%	3.7%	3.1%	2.4%	2.3%	2.2%	2.1%

Source: U.S. Department of Labor, Bureau of Labor Statistics

EXHIBIT 19: EMPLOYMENT BY SECTOR

	DISTRICT OF COLUMBIA	MONTGOMERY COUNTY	PRINCE GEORGE'S COUNTY	FAIRFAX COUNTY	LOUDOUN COUNTY
Agriculture, Forestry, Mining, etc.	1.26%	(C)	0.26%	(C)	(C)
Construction	(C)	6.28%	9.50%	6.68%	10.82%
Manufacturing	0.32%	2.50%	2.81%	(C)	3.48%
Transportation & Public Utilities	1.26%	1.44%	3.79%	(C)	9.06%
Wholesale & Retail Trade	3.33%	11.29%	15.06%	12.95%	13.66%
Finance, Insurance & Real Estate	5.16%	10.84%	6.67%	10.08%	6.45%
Services	56.12%	53.67%	40.61%	56.20%	43.96%
Government (Federal, State & Local)	29.61%	12.98%	19.38%	13.13%	11.99%
Military	2.93%	1.00%	1.92%	0.96%	0.58%
TOTAL	100.00%	100.00%	100.00%	100.00%	100.00%

(C) Indicates data are not shown to avoid disclosure of confidential information

Source: U.S. Department of Commerce, Bureau of Economic Analysis
Latest available data is for 2005

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5. Operating Information

These schedules contain information about the Authority's operations and resources to help the reader understand how the Authority's financial information relates to the activities it performs.

EXHIBIT 20: WATER DELIVERED (PUMPED) AND BILLED (SOLD) IN Ccf FY 1998 – 2007

FISCAL YEAR	TREATED WATER DELIVERED	WATER BILLED	SOLD/PUMPED RATIO
1998	63,730,922	49,896,545	78.29%
1999	67,032,821	46,026,213	68.66%
2000	64,239,492	42,763,218	66.57%
2001	64,363,369	42,791,940	66.48%
2002	65,019,144	42,977,802	66.10%
2003	61,036,537	41,891,644	68.63%
2004	62,466,939	42,291,441	67.70%
2005	60,237,099	41,682,933	69.20%
2006	55,536,377	42,403,046	76.35%
2007	55,731,939	42,220,531	75.76%

Source: Ccf Delivered, Washington Aqueduct; Ccf Billed, Authority Department of Customer Service

EXHIBIT 21: WATER DEMAND
FY 1998 - 2007

FISCAL YEAR	ANNUAL DELIVERIES TO SYSTEM (MG)	AVERAGE DAY (MG)	MAXIMUM MONTH AVERAGE (MGD)	MAXIMUM DAY (MGD)	TOTAL ANNUAL WATER SOLD (MGD)	AVERAGE DAY (MG)
1998	47,671	130.6	159.2	178.7	37,323	102.3
1999	50,140	137.4	167.0	201.3	34,428	94.3
2000	48,051	131.6	153.0	209.7	31,987	87.6
2001	48,144	131.9	148.3	180.4	32,008	87.7
2002	48,634	133.2	152.1	170.3	32,147	88.1
2003	45,655	125.1	141.2	164.9	31,335	85.8
2004	46,725	128.0	146.5	164.6	31,634	86.7
2005	45,057	123.4	133.7	149.6	31,179	85.4
2006	41,541	113.8	137.8	161.6	31,717	86.9
2007	41,687	114.2	133.7	156.5	31,581	86.5

Source: Authority Department of Water Services and Washington Aqueduct

EXHIBIT 22: MISCELLANEOUS STATISTICS ABOUT AUTHORITY OPERATIONS FY 1998 - 2007

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Utilities and Supplies Per Day at Blue Plains										
Electric Power (KWH)	721,200	690,520	690,520	690,520	745,000	745,000	745,000	745,000	745,000	745,000
Natural Gas (CF)	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000
Sodium Hypochlorite (gallons)	-	-	-	-	2,500	2,500	6,850	6,850	6,850	6,850
Sodium Bisulfite (pounds)	-	-	-	-	5,600	5,600	5,600	5,600	5,600	5,600
City Water (gallons)	700,000	700,000	700,000	700,000	525,000	525,000	525,000	525,000	525,000	525,000
Lime (tons, pounds)	60	55	55	55	83,500	83,500	72,050	72,050	72,050	72,050
Sodium Hydroxide (pounds)	-	-	-	-	49,400	49,400	26,100	26,100	26,100	26,100
Methanol (gallons)	-	18,000	18,000	15,000	15,000	15,000	10,000	10,000	10,000	10,000
Ferric Chloride (10% Iron) (gallons)	-	10,500	10,500	10,500	10,500	10,500	12,900	12,900	12,900	12,900
Chloine (tons)	10.8	9	9	9	-	-	-	-	-	-
Sulfur Dioxide (tons)	-	2.1	2.1	2.1	-	-	-	-	-	-
Poymer Solution (lbs)	32,800	32,800	32,800	32,800	-	-	-	-	-	-
Electric Demand (KW/month)	32,200	-	-	-	-	-	-	-	-	-
Wastewater Treatment Capacity										
Average Day (MGD)	370	370	370	370	370	370	370	370	370	370
Peak 4 Hour Flow, through complete process (MGD)	740	740	740	740	740	740	740	740	740	740
Excess Storm Flow, primary treatment only (MGD)	336	336	336	336	336	336	336	336	336	336
Peak Flow (MGD)	1,076	1,076	1,076	1,076	1,076	1,076	1,076	1,076	1,076	1,076

EXHIBIT 22: MISCELLANEOUS STATISTICS ABOUT AUTHORITY OPERATIONS FY 2007 (Continues)

Wastewater Plant Permit Limitations

Parameter	Monthly	Weekly
Biochemical Oxygen Demand (carbonaceous)	5.0 mg/L (15,429 lbs/day)	7.5 mg/L (23,143 lbs/day)
Total Suspended Solids (TSS)	7.0 mg/L (21,600 lbs./day)	10.5 mg/L (32,400 lbs/day)
Ammonia Nitrogen		
Summer (5/1 – 10/31)	4.2 mg/L (12,960 lbs/day)	6.1 mg/L (18,823 lbs/day)
Winter 1 (11/1 – 2/14)	11.1 mg/L (34,253 lbs/day)	14.8 mg/L (45,670 lbs/day)
Winter 2 (2/15 – 4/30)	12.8 mg/L (39,500 lbs/day)	17.0 mg/L (52,460 lbs/day)
Total Phosphorus (annual average)	0.18 mg/L (555 lbs/day)	0.35 mg/L (1080 lbs/day)
Dissolved Oxygen		
Minimum daily average	5.0 mg/L	
Not less than	4.0 mg/L	
pH		
Minimum	6.0 units	
Maximum	8.5 units	
Total Chlorine	Non detectable at any time	
Fecal Coliform	200/100 ml	400/100 ml
Chesapeake Bay Voluntary Agreement		
Total Nitrogen (Annual Average)	7.5 mg/L	

Wastewater Plant Processes

Primary Treatment

Influent Pumping Capacity	1,300 MGD
Number of bar screens	13
Number of aerated grit chambers	16
Total volume of aerated grit chambers	2.3 MG
Number of primary clarifers	36
Average detention time (clarifiers)	2.5 hours
Average hydraulic loading (clarifiers)	1008 gallons/square foot/day
Maximum hydraulic loading (clarifiers)	2,929 gallons/square foot/day

EXHIBIT 22: MISCELLANEOUS STATISTICS ABOUT AUTHORITY OPERATIONS FY 2007 (Continues)

Secondary Treatment

Number of reactors	6
Total reactor volume	27.7 MG
Number of clarifiers	24
Average reactor detention time	1.6 hours
Average clarifier hydraulic loading	763 gal/sq ft/day
Number of centrifugal blowers	6
Total blower capacity	280,000 cu ft/minute
Average MLSS	2,200 mg/L
Average SRT	1.6 days
Average SVI	80-100 ml/g
Effluent dissolved oxygen	2-3 mg/L
Effluent alkalinity	140 mg/L as $CaC0_3$

NIitrification/Denitrification

Number of reactors	12
Total reactor volume	55.2 MG
Aerobic Volume	33.1-44.2MG
Anoxic Volume	11.0-22.1MG
Number of clarifiers	28
Average reactor detention time	3.3 hours
Average clarifier hydraulic loading	755-gal/sq ft/day
Number of centrifugal blowers	5
Total blower capacity	291,500 cu ft/minute
Number of turbine aerators	120
Average MLSS	1,800 mg/L
Average reactor pH	7.3
Average SRT	21 days
Average SVI	80 – 110 ml/g
Effluent alkalinity	110 mg/L as $CaC0_3$
Effluent dissolved oxygen (Post - Aeration)	6.8 – 7.2 mg/L
Dual purpose sedimentation tanks (in either secondary treatment or nitrification)	8
Total Dual Purpose Surface Area	197,160 sq ft

Filtration & Disinfection

Number of filters	40
Total filter area	83,200 sq ft
Average filtration rate	3.4 gal/ minute/sq ft
Average filter run time	55 hours
Depth of anthracite media	24 inches
Depth of sand media	12 inches
Depth of Gravel Support Layer	12 inches
Number of chlorine contact tanks	4
Average contact time	42 minutes

EXHIBIT 23: SCHEDULE OF INSURANCE AS OF SEPTEMBER 30, 2007

TYPE OF COVERAGE	COMPANY	POLICY PERIOD	COVERAGE LIMITS
Blanket Property and Boiler & Machinery	Alliant/PEPIP	June 15, 2007 – July 1, 2008	$500,000,000 Blanket Buildings and Contents – (Specified Locations) and Mobile Equipment $100,000,000 Boiler and Machinery $10,000,000 Miscellaneous Locations $100,000,000 Earth Movement $100,000,000 Flood, except $10,000,000 Locations within 100 Year Flood Zone (e.g. Blue Plains) Terrorism: $450,000,000 per occurrence, $850,000 annual aggregate ($250,000,000 of occurrence and aggregate limit dedicated solely to DCWASA) $10,000,000 Transit Per Shipment Deductibles: $1,000,000 Any Loss, except except $10,000 Equipment
Fidelity & Crime Insurance	Travelers Insurance	June 15, 2007 – June 15, 2008	$5,000,000 - Employee Dishonesty, Forgery, Funds Transfer Fraud, Money & Securities Deductible: $50,000 Per Occurrence
Commercial General Liability	Self-Funded		$1,000,000 each occurrence
Commercial Automobile	Self-Funded		$1,000,000 any one accident 100% Physical Damage - self-funded
Worker's Compensation	Self-Funded		Statutory WC Benefits Employer's Liability - $1,000,000 Each Accident; $1,000,000 Disease/ Employee
Excess Worker's Compensation Insurance	AIG - National Union	June 15, 2007 – June 15, 2008	Unlimited - WC Benefits; $1,000,000 - Employer's Liability (Included - Terrorism) Retentions: $1,000,000/accident; $1,000,000 Disease/ Employee.
Excess General Liability, Automobile Liability, and Employers Liability Insurance	AEGIS Insurance	June 15, 2007 – June 15, 2008	$35,000,000 in excess of $1,000,000 (Included - Terrorism)
Excess Liability	Energy Insurance Mutual	June 15, 2007 – June 15, 2008	$65,000,000 in excess of $35,000,000 ($25,000,000 - Terrorism sublimit)
Public Official Liability	RSUI / Darwin	June 15, 2007 – June 15, 2008	$20,000,000 Each Loss / Aggregate Retentions: $250,000 per wrongful act
Fiduciary Liability	Travelers Insurance Company	June 15, 2007 – June 15, 2008	$3,000,000 Each Loss / Aggregate Deductible: $10,000 per claim

EXHIBIT 24: SUMMARY OF MAJOR PERMITS & ADMINISTRATIVE ORDERS FY 2007

Wastewater	Description	Expiration Date	Current Status
National Pollutant Discharge Elimination System Permit # DC0021199	Authorizes discharge of treated wastewater from Blue Plains into the Potomac River and from the combined sewer system into Rock Creek, the Anacostia River, and the Potomac River. Prescribes operating conditions for the plant and sewer system.	February 25, 2008	Modified permit Issued 4/5/07
1995 Consent Decree Civil Action 90-1643-JGP and 84-2842-JGP	Requires certain actions including: Review procurement practices & maintenance procedures Undertake Operational Capability Review Conduct a pilot project for biological nitrogen reduction	N/A	In Compliance All items completed; awaiting action to terminate decree
1996 Stipulated Agreement & Order Civil Action 96-669-TFH	Requires certain actions including: Rehabilitate and maintain certain facilities and capital equipment in good operating condition Maintain certain records and data for status reports and prepare monthly reports on status of compliance Maintain user fees in separate accounts and make timely payment of invoices	N/A	In Compliance All items completed; awaiting action to terminate agreement and order
2003 Consent Decree Civil Action 90-5-1-107137	Requires certain actions including: Replacement/repair of control structures Cleaning/inspection of catch basins Rehabilitation of pumping stations Rehabilitation of Blue Plains grit chambers and influent screens Inspection of certain sewers and siphons Public education/outreach activities Payment of civil penalty of $250,000 Conduct/support of supplemental environmental projects	N/A	All activities thus far required completed on schedule
2005 Consent Decree for CSS LTCP Consolidate Civil Action No: 1:00CV00183TFH	Requires implementing various components of the combined sewer system (CSS) long term control plan (LTCP)	March 18, 2025	In Compliance

EXHIBIT 25: BUDGETARY COMPARISON SCHEDULE
For the Year Ended September 30, 2007

	Approved Budget	Actual Expenditure	Variance
Expenses:			
Personnel services	$ 85,233	$ 78,497	$ 6,736
Contractual services	63,400	56,571	6,829
Water purchases	19,995	24,042	(4,047)
Chemicals, supplies and small equipment	20,688	23,256	(2,568)
Utilities and rent	30,383	32,238	(1,855)
Small Equipment	1,102	471	631
Interest and fiscal charges (debt service)	73,090	50,843	22,247
Payment in lieu of tax & right of way fee	17,751	17,514	237
Total budget expenses	$ 311,642	$ 283,432	$ 28,210
Increase (decrease) to reconcile budgetary to GAAP			
Personnel expense transferred to capital fund		(7,541)	
Depreciation expense		49,355	
Long-term debt principal payments		(8,833)	
Long-term debt - capitalized interest		(11,201)	
Inventory issuance		784	
Non-budgeted expenses (e.g. bad debt)		(289)	
Total GAAP expenses		$ 305,707	

EXHIBIT 25: BUDGETARY COMPARISON SCHEDULE (Continues)
For the Year Ended September 30, 2007

BUDGETARY ACCOUNTING AND CONTROL

Budget Law

The Authority prepares its annual operating budget under the provisions of its enabling legislation. In accordance with those provisions, the following process is used to adopt the annual budget.

- Development of the 10-year financial plan
- Development of individual departmental operating budgets, based on the financial framework in the 10-year financial plan
- Review and development of proposed budget by the General Manager
- Presentation of proposed budget to the Board of Directors
- Review and development of proposed budget by the Board of Directors
- Adoption of proposed budget by the Board of Directors
- Submission of proposed budget to the District of Columbia for inclusion in its budget
- District of Columbia budget submission to U.S. Congress
- Approval of proposed budget by U.S. Congress and President

Budget Accounting

The Authority is a single enterprise fund and maintains accounting records using the accrual basis of accounting, in accordance with generally accepted accounting principles (GAAP) in the United States of America. Under this basis of accounting, revenues are recorded when earned, and expenses are recorded when goods and services are received. The Authority's expenditure budget is prepared on a comparable basis to GAAP, with the exception of debt service, which is budgeted in full when due, including principal and interest. Depreciation is not budgeted; depreciation is recorded as an expense for financial statement purposes.

Budget Requirements

After the U.S. Congress approves the budget, the operating and capital budgets are loaded into the Authority's financial management system, which prevents overspending without appropriate approvals. The Department of Finance and Budget prepares daily and monthly management reports for each operating unit, management staff, the Board of Directors, and its various committees. The reports are consistently reviewed each month to ensure the Authority complies with its authorized budget levels.