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COMPREHENSIVE ANNUAL FINANCIAL REPORT

LEADERSHIP | VALUE | INNOVATION

DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY *(A component unit of the Government of the District of Columbia)*

Fiscal Year Ended September 30, 2012

Allen Y. Lew, *Chairman of the Board*

George S. Hawkins, *General Manager*

Mark T. Kim, *Chief Financial Officer*

"The value of clean water is so obvious that it hardly needs elaboration. We rely on clean water to live, and investing in clean water is—or should be—an uncontroversial position."

– George S. Hawkins

2012

District of Columbia Water and Sewer Authority
(A component unit of the Government of the District of Columbia)

Comprehensive Annual Financial Report

Fiscal Year
October 1, 2011 to September 30, 2012

Prepared by:
Department of Finance, Accounting and Budget

Mark T. Kim, Chief Financial Officer

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Certificate of Achievement for Excellence in Financial Reporting

Presented to

District of Columbia Water and Sewer Authority

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
September 30, 2011

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

President

Executive Director

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AS OF JANUARY 25, 2013

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Vacant, District of Columbia

Vacant, District of Columbia

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Terry Bellamy, District of Columbia

Vacant, District of Columbia

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James Patteson, Fairfax County, VA

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AS OF FEBRUARY 21, 2014

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George S. Hawkins, General Manager

Katrina Wiggins, Chief of Staff

Randy E. Hayman, General Counsel

John Lisle, Chief of External Affairs

Thomas Kuczynski, Chief Information Officer

CHIEF FINANCIAL OFFICER'S STAFF

Mark T. Kim, Chief Financial Officer

John Madrid, Controller

Gail Alexander-Reeves, Budget Director

Robert Hunt, Treasury & Debt Manager

Syed Khalil, Revenue and Financial Planning Manager

OPERATIONS AND SUPPORT SERVICES

Leonard Benson, Deputy General Manager and Chief Engineer

Charles W. Kiely, Assistant General Manager Consumer Services

Walter M. Bailey, Assistant General Manager Wastewater Treatment

Rosalind Inge, Acting Assistant General Manager, Support Services

ACKNOWLEDGEMENTS

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Javed Awan

Temi Abosede

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Syed Khalil

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Lola Oyeyemi

Stacey Johnson

Annie Fulton-George

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Reginald Lipscomb

Suzette Stona

Ngozi Ugwu

Easmon Kaneh

The Office of the Chief Financial Officer wishes to extend its appreciation to all the departmental staff members whose hard work and dedication helped make this document possible.

DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY | 5000 OVERLOOK AVENUE, SW | WASHINGTON, DC 20032

February 21, 2014

Board of Directors
District of Columbia Water and Sewer Authority
5000 Overlook Avenue, S.W.
Washington, D.C. 20032

Dear Directors:

On January 25, 2013, the District of Columbia Water and Sewer Authority ("DC Water" or the "Authority") issued its Comprehensive Annual Financial Report ("CAFR") for the fiscal year ended September 30, 2012. Subsequent to its issuance, the Authority revised its financial statements and reclassified several line items and made an immaterial adjustment related to recognition of interest income on Federal appropriations for Combined Sewer Overflow. The reclassifications and adjustment did not have a material impact on total net assets. For details see Note 2j to the restated September 30, 2012 financial statements included in this revised CAFR.

The financial statements for fiscal year 2012 were prepared in accordance with generally accepted accounting principles as promulgated by the Governmental Accounting Standards Board ("GASB") and audited by a firm of independent certified public accountants retained by DC Water. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with DC Water'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 DC Water. All disclosures necessary for the reader to gain an understanding of DC Water's financial activity have been included.

DC Water, in its sixteenth year has persevered in its commitment to provide world-class, cost-effective water and wastewater services to both retail and wholesale customers and to lead the industry as an environmental steward.

In accordance with the Authority's enabling legislation, DC Water is required to perform an annual audit of its books and accounts and submit it to the Mayor, Chief Financial Officer, and Council of the District of Columbia. DC Water's management is responsible for establishing and maintaining an internal control structure designed to ensure that DC Water's assets are adequately safeguarded against loss, theft, or misuse and to maintain accurate and reliable financial records for the preparation of financial statements and the representations made by management. 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 DC Water's internal accounting controls adequately safeguard its assets and provide reasonable assurance of the proper recording of financial transactions.

REPORT SECTIONS

The CAFR describes DC Water's financial activities, condition and services. As such, the report covers information about DC Water'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 DC Water's organizational structure, a list of Board members and senior management, the history of governance and operations, a description of facilities, a summary of the budget process, internal controls and accounting standards, DC Water's recent accomplishments and major initiatives, and a discussion of economic conditions of the metropolitan Washington, D.C. area.

- The **Financial Section** includes the independent auditor's report, Management's Discussion and Analysis ("MD&A"), DC Water's fiscal years 2012 and 2011 financial statements and notes to the financial statements.

- The **Statistical Section**, which is not audited, presents selected financial and operating indicators of DC Water 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. DC Water's MD&A is located immediately following the auditor's report.

DC WATER PROFILE

Reporting Entity

DC Water is an independent, multi-jurisdictional regional utility that provides retail drinking water distribution and wastewater conveyance and treatment services to approximately 625,000 residential, commercial and governmental customers in the District of Columbia, and wholesale wastewater conveyance and treatment to approximately 1.6 million users in Montgomery and Prince George's Counties in Maryland and Fairfax and Loudoun Counties in Northern Virginia and approximately 17.9 million annual visitors.

DC Water continues to weather an unprecedented recession well. DC Water serves a diverse client base supported by a core base of Federal employees but not concentrated in any one customer type. Approximately 32% of revenues are derived from highly rated customers, including the Federal Government, Fairfax County, Washington Suburban Sanitary Commission, and Loudoun County Sanitary Commission. Federal and wholesale customers pay for services on a quarterly basis in advance based on estimates provided by the Authority. The District's unemployment rate is among the lowest for America's large metropolitan areas.

The operations of DC Water are accounted for as a component unit of the Government of the District of Columbia and are included in its Comprehensive Annual Financial Report. This Comprehensive Annual Financial Report is issued separately to provide the Board of Directors, DC Water customers, local and federal government officials, employees, investors, suppliers and other interested parties with comprehensive financial reporting of DC Water's operations and financial position for fiscal years 2012 and 2011.

History of DC Water

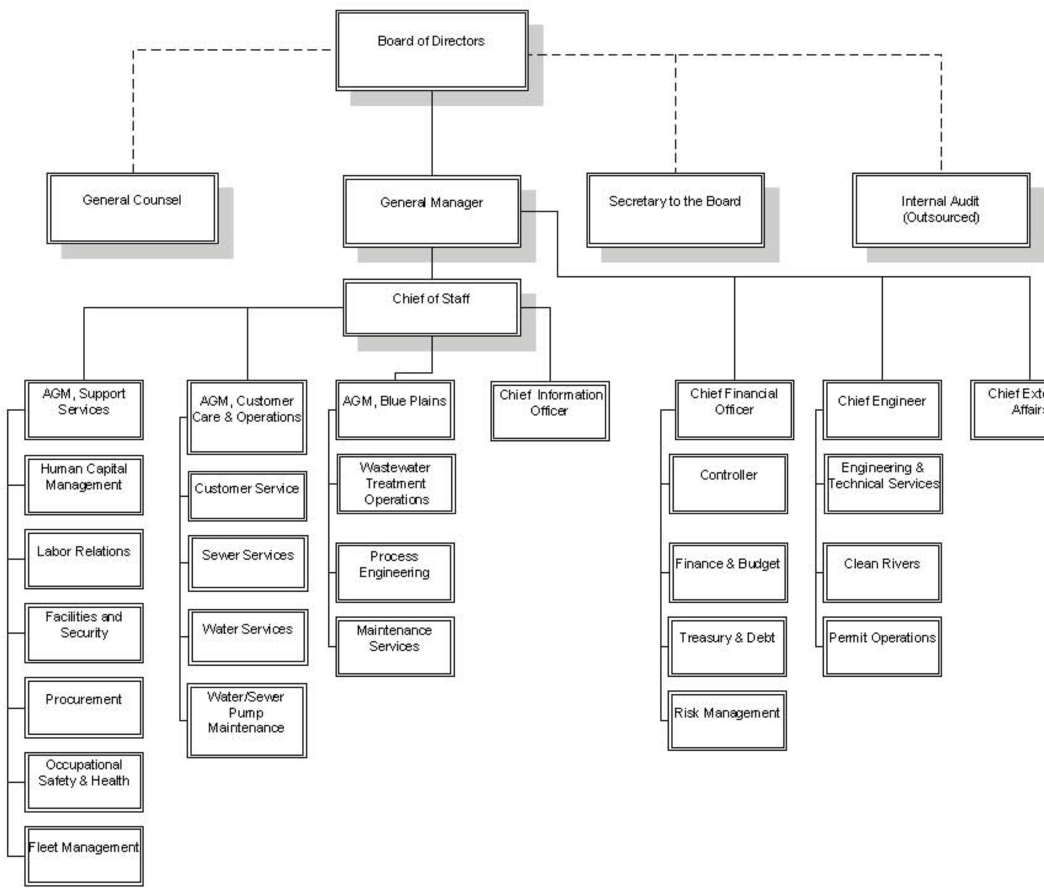
Legislative History and Relationship with the District of Columbia

In 1996, the regional participants in DC Water'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 DC Water to become operationally independent on October 1, 1996.

In accordance with the Act, the District has authorized DC Water to use all of the property and assets related to its water distribution and wastewater treatment and conveyance services and transferred to DC Water 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 DC Water for as long as any revenue bonds remain outstanding.

The Act also requires DC Water to establish rates, fees and other charges for all services provided by DC Water. These rates and charges, in addition to certain wholesale wastewater treatment contracts, should generate revenues adequate to pay all of the costs of operating DC Water. DC Water'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



DC Water 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 DC 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. DC Water 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. Only the District of Columbia Board members participate in matters that affect District's ratepayers.

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 approximately 60 percent of the Blue Plains capacity.

Since the IMA's signing in 1985, several significant changes have occurred in the region that the signatories could not foresee at that time - primarily the creation of DC Water as a quasi-independent instrumentality of the District Government. Federal requirements and technological advances have also changed the treatment process, greatly reducing the amount of nutrients DC Water can discharge into the Potomac River and Chesapeake Bay. The Chief Administrative Officers of the four jurisdictions recognized this concern and recommended that the Blue Plains IMA committees review the agreement and suggest a process and format through which it could be updated. The committees, working in conjunction with the Metropolitan Washington Council of Governments, defined key updates and produced an annotated version of the IMA to identify the areas that need to be updated or renegotiated. The participating jurisdictions have completed a new IMA agreement in 2012, and ratification is expected in 2013.

Other Wholesale Wastewater Treatment Agreements

Beginning in October 1963, DC Water 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 DC Water's costs of constructing, operating, and maintaining the Potomac Interceptor and certain other sewers and the Blue Plains facility. Under these agreements, DC Water recovers its capital and operating and maintenance costs quarterly from each user based on a per million gallons rate as applied to each user's metered sewage quantity. In November 1998, DC Water 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

DC Water 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 DC Water and the Aqueduct's two other customers, Arlington County and the City of Falls Church, Virginia. In July 1997, DC Water 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 U.S. Army Corps of Engineers, but gives DC Water and other Aqueduct customers 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; DC Water's pro rata share of Aqueduct expenses currently is approximately 73 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. DC Water 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. DC Water 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 and DC Water 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 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, full plant nitrogen removal was added in 2000.

Sewage Collection

The sewage collection system consists of approximately 1,800 miles of sanitary and combined sewers, twenty-two flow-metering stations, nine off-site wastewater-pumping stations, and sixteen 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.

DC Water has commenced DC Clean Rivers Project, formerly named Long-Term Control Plan ("LTCP") for Combined Sewer Overflow ("CSO") to provide for wet weather excess flow treatment. This program which was commenced by a federal consent decree and entered into court in 2005, is a twenty-year program estimated to cost $2.8 billion. For additional information, see DC Clean Rivers Project under Highlights and Major Initiatives.

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 ("BMP"), developed by DC Water 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. In 2006, the project was temporarily deferred after unacceptably high bids for construction of egg-shaped digesters were received. After further study, a new method was selected that will be more efficient, use less energy and lower the cost of processing the effluent. Engineering and design work is underway and includes construction of four Cambi thermal hydrolysis trains, four digesters, new dewatering equipment and a combined heat and power plant. The project is expected to be completed in 2014.

The Water System

History and Service Area

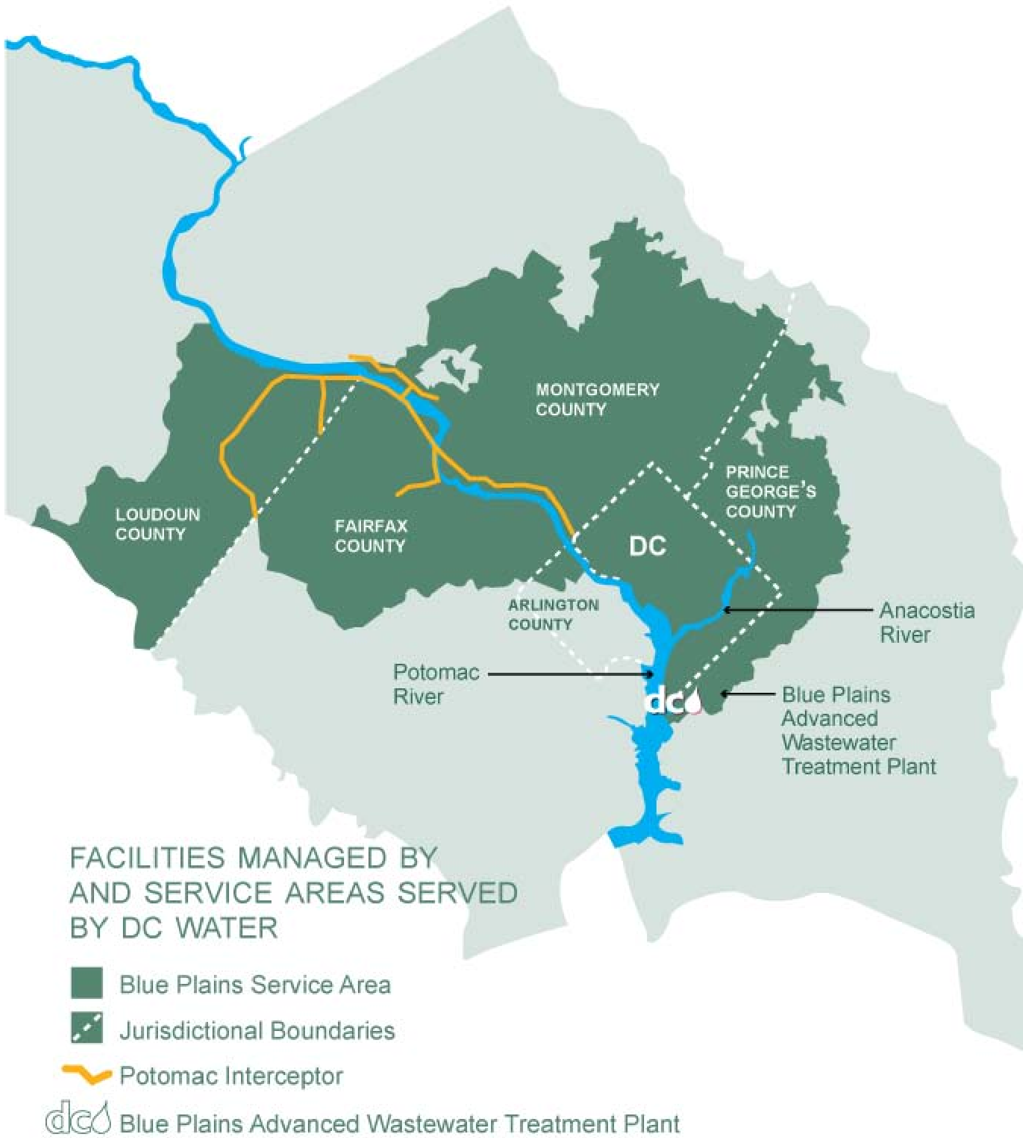
Prior to the establishment of the Washington Aqueduct Division of the United States Army Corps of Engineers (the "Aqueduct") in 1858, residents of the District obtained their drinking water from springs and wells. The distribution system consisted primarily of bored logs and some cast iron pipes. Water 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 DC Water 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 Aqueduct. DC Water purchases its water from the Aqueduct and transmits and distributes the water through four pumping stations, six distribution reservoirs and two 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.

DC Water's Department of Water Services oversees the entire water distribution system serving the District. DC Water'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. DC Water also operates and maintains four pumping stations: Bryant Street, Fort Reno, 16th and Alaska, and Anacostia. All four pumping stations have adequate pumping capacity to meet peak demands.

DC Water's service area below covers the District of Columbia, most of Montgomery and Prince George's Counties, and parts of Fairfax and Loudoun Counties.



RECENT ACCOMPLISHMENTS

Fiscal year 2012 marked DC Water's sixteenth year in operation as an independent agency of the Government of the District of Columbia. DC Water and its management continued to build on the successes of its previous fifteen years of operations. In 2012, the Board of Directors developed a Strategic Plan Framework, and Executive Management developed a strategic planning impacts analysis process with established organizational initiatives to achieve the objectives established by the Board. Major accomplishments in fiscal year 2012 were:

Financial Accomplishments

- In March 2012, the Authority successfully issued $440.6 million of subordinate lien public utility revenue bonds. The bonds, including original issue premiums, were used to fund approximately $302.0 million in new capital projects and to advance-refund $176.2 of outstanding 2003 subordinate lien revenue bonds.
- In recognition of the Authority's strong credit position and financial stability, Standard and Poor's upgraded DC Water's credit rating to AA+ for senior lien revenue bonds and AA for subordinate lien revenue bonds.
- The Authority received $15.0 million in an additional appropriation from the U.S. Government to be used, with matching funds, for capital projects aimed at reducing Combined Sewer Overflows ("CSO"). The cumulative federal appropriations received by the Authority as of September 30, 2012 was $168.6 million.
- The Authority contributed $11.3 million to the rate stabilization fund at the end of fiscal year 2012, raising the balance to $28.0 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 reliable and predictable rate increases.
- For the first time, DC Water approved a one-time retail customer rebate totaling $4.2 million which will provide a credit of approximately nine dollars to the average customer bill in January 2013.

Other Accomplishments

- On July 18, 2012, DC Water celebrated 75 years of providing the region with the highest levels of water treatment and bringing the world innovative research that influences treatment solutions around the globe.
- On March 6, 2012, DC Water selected Pepco Energy Services to design, build and operate a Combined Heat and Power ("CHP") plant at DC Water's Blue Plains Advanced Wastewater Treatment Plant ("AWTP"). This will be the first plant in North America to use biogas from an AWTP facility. The CHP project will produce at least 14MW of electric

power that will supply the Blue Plains facility with nearly 30 percent of the AWTP's average power demand. The new CHP plant will be an integral part of DC Water's new thermal hydrolysis and anaerobic digestion project, which will be the largest in the world and will reaffirm DC Water as an innovative environmental steward combining alternative solid waste handling, energy conservation, and greenhouse gas emission reduction.

- On February 14, 2012, the National Association of Clean Water Agencies ("NACWA") recognized the contributions of DC Water's research program with its Research and Technology Award for a process design project. This process design, external carbon based suspended growth denitrification, enables facility and process upgrades to further reduce nitrogen levels in effluent. This process design will be instrumental for continued compliance with one of the most stringent nutrient removal requirements in the world.

HIGHLIGHTS AND MAJOR INITIATIVES

Combined Sewer Overflow Long Term Control Plan (DC Clean Rivers Project)

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.

The Combined Sewer Overflow Long Term Control Plan ("CSO LTCP") is being implemented on a schedule included in a Consent Decree between the United States, the Government of the District of Columbia and DC Water. The Consent Decree was entered by the Court on March 23, 2005, and calls for DC Water to complete the CSO LTCP over a twenty-year period that ends in 2025. CSO LTCP projects at the top of the list are those that will serve to reduce overflows to the Anacostia River.

The benefits of our twenty-year plan will be significant when fully implemented. Combined sewer overflows will be reduced by a projected 96 percent (98 percent on the Anacostia River), resulting in improved water quality and a significant reduction in locally generated debris from the combined sewer system in our local waterways. In addition, our clean-up efforts on the Anacostia River are a cornerstone of the District's redevelopment initiatives including commercial, residential and other development projects.

This $2.8 billion plan includes a variety of improvements throughout the District:

- Three large storage tunnels which will allow the storage of flows from storm events until they can be conveyed to Blue Plains for treatment
- Pumping station improvements

- Replacement of the inflatable dams
- Targeted separation of combined sewers in several sections of the District that include areas in Anacostia
- Consolidation and elimination of 14 of 59 outfalls, including 4 outfalls on the Anacostia River
- Funds for Low Impact Development ("LID") at DC Water's facilities and to encourage LID across the District
- DC Water has proposed to conduct a pilot program to demonstrate the effectiveness of green infrastructure on a large scale. The program would cover approximately 50 acres of the Potomac and Rock Creek sewersheds at a cost of $10-30 million. Green infrastructure technologies capture, infiltrate, treat and reuse polluted runoff before it enters the sewer system. These practices include rain gardens, porous pavements, green roofs, infiltration planters, trees and tree boxes, and rainwater harvesting for non-potable uses, such as toilet flushing and landscape irrigation. A modification to the Consent Decree would be necessary to allow time to evaluate the merit of additional investments in the program.

DC Water has met all the schedule deadlines in the Consent Decree. In fiscal year 2010, the National Pollutant Discharge Elimination System ("NPDES") Permit was revised and reissued to DC Water by the U.S. Environmental Protection Agency ("EPA"). The NPDES Permit became effective on September 30, 2010 and expires on September 30, 2015. DC Water is currently meeting the very stringent removal goals of the expired NPDES Permit and was the first agency to meet the voluntary nutrient reduction goals of the 1987 Chesapeake Bay Agreement.

Blue Plains Enhanced Nitrogen Removal Program

In June 2007, the EPA issued a modification to the permit, reducing the total nitrogen effluent limit to 4.7 million pounds per year (equivalent to 4.2 milligrams per liter at 370 million gallons per day average annual flow). The Blue Plains Enhanced Nitrogen Removal ("ENR") Program 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 DC Water's NPDES permit. Projects included in this program were identified through a strategic planning process that resulted in development of DC Water's proposed Total Nitrogen-Wet Weather ("TN/WW") Plan, which addresses the requirements of the CSO LTCP, as well as the Chesapeake Bay Tributary Strategies for reducing nitrogen discharged into the Chesapeake Bay. The recommended alternative in the TN/WW 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. Some projects in this program are in the planning or design phase, while construction has started on others. The lifetime budget for this program is $967 million.

Digester Project

We are continuing implementation of our Biosolids Management Plan ("BMP"), originally adopted by the Board in 1999. This plan, which included input from our neighbors, environmental groups, and other stakeholders, evaluated a number of options for long-term biosolids processing and disposal, and identified full biosolids digestion as a common element of all long-term approaches and recommended continuing land application as long as it is financially advantageous. DC Water has performed an extensive analysis of alternatives to identify a cost-effective, long-term and sustainable biosolids management project for the Blue Plains Advanced Wastewater Treatment Plant than can produce a diverse Class A biosolids product, significantly reduce lime use and enhance land application.

The updated BMP includes construction of four Cambi thermal hydrolysis trains, four digesters, new dewatering equipment, and a combined heat and power plant. The BMP has the potential to significantly manage biosolids operating costs when it is placed in operation, as it produces power from digester gas to meet over one third of DC Water's electric demand at Blue Plains. The digestion process will eliminate nearly one half of the biosolids, which will result in lower reuse costs.

In fiscal year 2006, the Board decided to reject the single bid received on the first phase digester construction contract and deferred the project until 2010. An update to the Biosolids Management Plan was started in fiscal year 2007 to review biosolids technologies that are now available to DC Water and to evaluate less expensive digester vessels. In fiscal year 2010, the Board approved the new digester project with construction starting in fiscal year 2011 and ending in fiscal year 2014.

Customer Service Initiatives

In fiscal year 2012, DC Water continued to make investments in its employees, process improvements and technology, all to ensure better service delivery to our customers. These improvements included the following:

- The Automated Meter Reading Program continued its efforts to upgrade our technology to the latest available versions of data collection and transmission equipment and software.

- We continued our commitment to help improve the quality of life for those of our customers who are least able to pay, by providing relief through our Customer Assistance Program ("CAP"). Since 2001, we have provided eligible customers a discount of 4 Ccfs per month on their water bills. In fiscal year 2012, a total of 5,648 customers received a discount on their bills for a total of $1.33 million. We further assisted our customers through our Serving People by Lending a Helping Hand Program ("SPLASH"). Contributions to this program have grown due to the convenience of the bill round-up feature which enables customers to make donations with their payments to assist other customers in paying their water and sewer bills. In fiscal year 2012, we received contributions totaling approximately $100 thousand and assisted 354 customers. The Greater Washington Urban League administers this program for DC Water.

- In the first full year of our large meter test/revenue assurance plan, we conducted 752 meter tests or equipment repairs on meters serving large properties. As a result of the work to make our meter calibration conform to the American Water Works Association ("AWWA") certified standards, we were able to identify meters with slow registrations and billed or secured more than $600 thousand in revenues that would otherwise be lost due to inaccurate registration.

- We upgraded technologies deployed in the office and in the field, including a mobile service order scheduling (SOS Mobile) for our meter technicians, allowing advance scheduling of service orders, and providing the customer a more precise window of time to meet technicians for appointments and avoid the need for customers to take an extended amount of time to meet technicians. The system also allows us to dispatch service orders electronically to a mobile terminal directly in our trucks, and complete the record keeping in the truck on a real-time basis. The project provides real-time status updates of each service order in the field, permits monitoring of work performance of field technicians, and faster communication of results to customers. This project has clearly demonstrated that employees in the trucks can use better technology tools for planning their work. By moving to electronic record keeping, SOS Mobile also saves more than 500 pieces of paper a day, and reduces labor costs for paper processing.

Technology Initiatives

Fiscal year 2012 was a year of transition both in terms of a change in leadership and in the Authority's fundamental technology direction. The Information Technology ("IT") department has made improvements in operational efficiencies, organizational accountability, and continuous improvements in delivery of services to our customers. Achievements include the following:

- Completion of an infrastructure core upgrade. This upgrade provides the Authority with the next generation in technology which allows us to better take advantage of virtual machines which minimize down time for the user, provides redundancy, as well as additional bandwidth. The additional bandwidth will allow better performance of end user applications. Introduction of this upgrade served to achieve reduced cost of support, reduced cost of hardware, and reduced cost of energy.

- DC Water's Customer Outreach Initiative achieved stronger relationships with our customers. We provided additional kiosks and plasma screens in order to increase the communication avenues with employees. In addition, the IT Customer Support Office offered various training classes such as "Writing Effective Emails", "Computer Basics", "VPN Connections for Alternate Work Schedules", and "Navigating DC Water's Network". Lastly, we attended some of the "All Hands Meetings" of other departments to speak with employees to better understand their IT needs.

- TEAMS-Maximo and Geographic Information Systems have been integrated and deployed at DC Water to manage the maintenance and repair of the Authority's plant equipment, buildings and grounds and water/sewer infrastructure. Maximo was configured to provide better facilities management through the use of a custom screen, performance tracking dashboards and reports, and the deployment of a new application to simplify the submission of service requests by DC Water personnel. Maximo was configured to support Department of Water Services' ("DWS") investigations of water distribution system issues by deploying laptops with a custom screen to field crews to allow them to electronically receive and process their service orders. This streamlines the process and allows for capture of information on a more timely and accurate basis. Additionally, Maximo was configured to support DWS in the areas of the District of Columbia's Department of Transportation permit and public space restoration tracking to streamline the process and reduce violations and fines. Maximo was also configured to support the Lead Service Demand Replacement Program, which is transitioning from a consultant-managed program to a DC Water-managed program.

- We analyzed the work of contractors and replaced, where feasible, with DC Water staff and put into place a system to gather information on the work performed by staff and contractors. These actions have reduced costs and increased accountability.

- A major upgrade to the enterprise Call Recording system for the Customer Service Department was completed, which provided a full capture capability through an integrated recording and monitoring system. This solution is far advanced compared to the previous technology available to the Customer Service Department for recording calls. The new tool offers web-based supervisor generalized user interface ("GUI") for system-wide views, web-based agent GUI for individual agent view, record and playback from any location, real-time and off-site silent monitoring.

- The Automated Meter Reading ("AMR") system upgrade provided the second generation Data Collector Units ("DCU") that are capable of transmitting every 15 minutes to the DC Water meter reading database. The upgrade provides a new User Interface that contains reading, consumption, and transmission features that are not available in our legacy version of the AMR System. As part of the upgrade, we are using new DCU propagation analysis that will enable DC Water to come up with the appropriate number of Data Collector Units needed to optimally provide maximum coverage.

- For the fourth consecutive year, DC Water worked in tight collaboration with the District of Columbia Fire and EMS Departments to perform fire hydrant condition assessments. The current system was enhanced to accommodate the business need for 2 inspections per year. The Geographical Information System ("GIS") was effectively used to map out the operations of each group. System enhancements were implemented to provide the ability to view Maximo data directly from the viewer, along with the location of the hydrant crew vehicles.

- DC Water's Livelink Enterprise Document Management System was deployed to improve the availability and management of critical documents. We continued to expand staff use significantly with more than double the number of users and four times the document retrievals from the previous fiscal year. Initiatives included the addition of Department of Engineering and Technical Services' Master Documents to simplify the management and dissemination of the latest Guideline Specifications used in preparing construction contract bid documents, as well as the implementation of Design Contracts and various other system enhancements.

External Affairs and Community Service

The General Manager and representatives from every DC Water department staged community town hall meetings in every ward of the District of Columbia. The purpose of these meetings was to introduce the upcoming budget and the associated rate proposals, and take questions from customers on any topic. Several meetings were standing-room-only.

The Authority embarked on an aggressive tap water campaign with two primary goals to 1) improve public perceptions of local tap water as clean, affordable and reliable and 2) increase public access to tap water throughout the District. These efforts include engaging public-private partnerships and identifying innovative technologies for providing tap water. In an effort to remind the public that tap water is a safe, inexpensive alternative to bottled water, the Office of External Affairs placed paid advertising on buses, added tap water campaign decals to DC Water fleet and launched the TapIt program. TapIt is a network of more than 180 District cafés and restaurants that partner with DC Water to provide free water bottle refills to the public. DC Water also offers portable water refill stations and free reusable water bottles for large public events.

As construction projects are an integral part of DC Water's activity and visibility throughout the District, the Office of External Affairs has created a survey in order to assess customer feedback following both construction and restoration phases of Capital Improvement projects. A separate survey has also been created to gauge customer satisfaction with DC Water's work zone alerts for both scheduled and emergency repairs.

DC Water has an ongoing commitment to community service and volunteerism. Throughout the year, employees participate in numerous community and charitable events to support an array of worthy causes. Joint Utility Discount Day, Bread for the Soul, DC Public Schools, Aids Walk Washington, Capital Pride Parade and Festival, Susan G. Komen Breast Cancer Walk, Bike to

Work Day and the District's Second Annual Nation's Triathlon were among some of the projects supported during the past fiscal year.

Other noteworthy accomplishments in the area of community service include implementation of an aggressive youth outreach campaign, whereby DC Water is educating and engaging students in schools across the city on water conservation, water quality, wastewater treatment and other significant environmental factors affecting our local waterways.

DC Water's Office of External Affairs also interacted with local legislative bodies and the United States Congress to monitor legislative and regulatory policies and funding opportunities that affect the Authority. In fiscal year 2012, the General Manager testified before the United States Senate Committee on Environment and Public Works on nutrient issues, and the Authority received a $15 million federal payment for the Clean Rivers Project.

Employee Relations

Our employees are our most valuable asset and are essential to accomplishing our mission and the Board's strategic goals. DC Water 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 customers' needs. Other major highlights for the year are:

- Projects in the areas of safety and asset management were expanded as priorities were formed based on skills, knowledge, and leadership qualities to identify and implement improvements.

- DC Water continued its focus on management training and development with the criteria for the DC Water Leadership Academy, which will provide opportunity for our leaders to receive vital training that is directly tied to predetermined performance competencies.

- DC Water continued its focus on safety, learning and development collaborated with the Team Blue Safety to perform a gap analysis, identifying the safety training requirements for every position in every department. The gap analysis results showed the costs to bring every DC Water employee in compliance with Occupational Safety and Health Administration ("OSHA") regulations.

- Management identified efficiencies to improve benefits administration with respect to the Healthcare Flexible Spending Account with a software module related to DC Water's current provider of Human Resource and Payroll services. Implementation is anticipated in 2013.

- DC Water, in conjunction with AON Consulting, conducted a dependent verification audit to validate dependents covered under DC Water's medical plans. Of the one-thousand two-hundred seventy-nine (1,279) covered dependents audited, approximately three-hundred (300) were identified as being ineligible and subsequently removed from medical coverage.

- To ensure that DC Water's non-union wage and salary program is equitable with surrounding jurisdictions, so that we maintain the ability to hire, motivate and retain our employees, management conducted a detailed market analysis of all non-union positions.

- Management partnered with information technology to add virtual interviewing to the talent management process. Cutting costs, improving efficiencies and standardizing processes are a few of the benefits of this technology enhancement.

Capital Improvement Program

DC Water'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 its 10-year capital improvement program proposed at $3.8 billion. Approximately 44% of the capital improvement program is either federally mandated or required by a court-ordered decree, including the Enhanced Nitrogen Removal Facilities ("ENRF") and the CSO LTCP (Clean River Project).

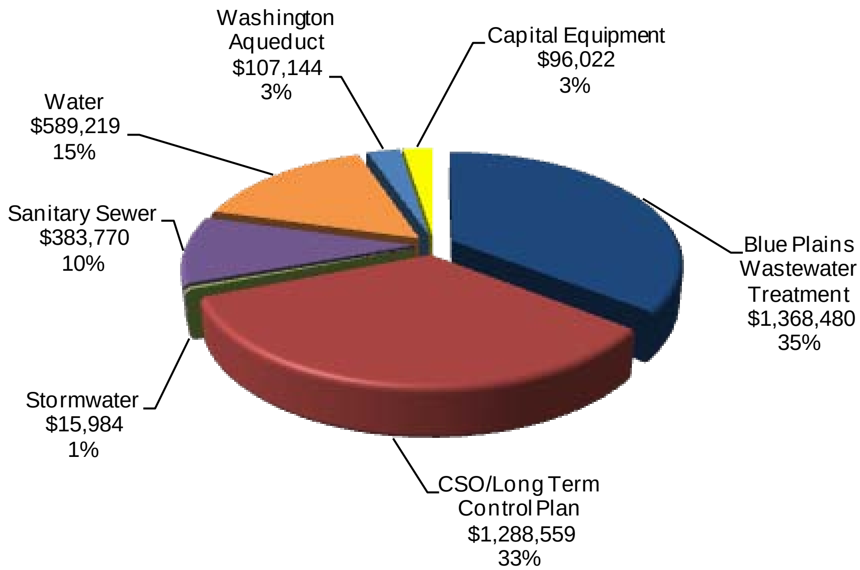
The ENRF includes capital projects that are required for nitrogen removal and wet weather flow treatment, thus enabling the Blue Plains Advance Wastewater Treatment Plant to comply with the U.S. EPA's modification to the NPDES permit, reducing the total nitrogen effluent limit to 4.7 million pounds per year.

DC Water also made significant progress on CSO LTCP projects over the past few years. 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. A green infrastructure demonstration project is planned to understand the practicability and efficacy of green infrastructure deployment for CSO control.

An asset management program is planned to fully leverage technology to operate and maintain infrastructure assets to optimize efficiencies and infrastructure life cycle value.

The approved fiscal year 2012 – 2021 capital improvement program is broken into seven service areas, as shown in the following graph.

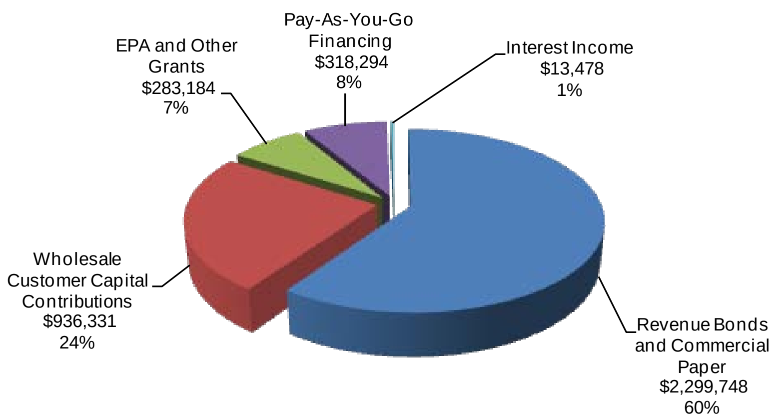
FY 2012 – FY 2021 Capital Improvement Program
Uses of Funds
($ in 000's)



Capital Financing and Debt Administration

DC Water plans to finance its $3.8 billion capital improvement program from a variety of sources, including the issuance of revenue bonds/commercial paper, grants from the U.S. EPA and other agencies, capital 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, approximately 60 percent of capital financing will come from debt issuance.

FY 2012– 2021 Capital Improvement Program
Sources of Funds
($ in 000's)



ACCOUNTING AND BUDGET PROCESSES

Basis of Accounting

DC Water prepares its financial statements in accordance with accounting principles generally accepted in the United States as a single enterprise fund and maintains accounting records on 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. DC Water follows the Governmental Accounting Standards Board ("GASB") pronouncements; and Financial Accounting Standards Board ("FASB") pronouncements issued on or before November 30, 1989, unless those pronouncements conflict or contradict GASB pronouncements.

Internal Control

During fiscal year 2009, the Board of Directors approved the reorganization of the Internal Audit function to use an outsourced model and selected an outside independent accounting firm, Stout, Causey & Horning ("SC&H"), to provide DC Water with a broader range and depth of resources. SC&H completed a comprehensive enterprise-wide risk assessment and presented an annual internal audit plan to the Audit Committee of the Board, which prioritized audit areas according the higher risk levels. Each year the audit plans have been approved by the Board of Directors.

SC&H has conducted numerous audits in accordance with its risk-based plans. Notable audit areas reviewed during fiscal year 2012 were: Maintenance Services, Capital Projects, Biosolids Management, Permit Operations, IT Governance, and IT Help Desk and Computer Operations. A total of twelve scheduled projects were completed by the Internal Auditors. Additionally, the Controller's Department continues to monitor internal control activities through its Internal Control and Assessment Monitoring Program that provides reviews of compliance with controls throughout the organization.

Independent Audit

DC Water's fiscal year is from October 1st to September 30th, and its financial statements are subject to an annual audit by independent certified public accountants. Bazilio Cobb Associates, ("BCA") audited DC Water's financial statements for fiscal year 2012. BCA's opinion, dated January 27, 2014, 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 four months of extensive review by the Board's Finance and Budget, Environmental Quality and Sewerage Services, DC Retail Services, and DC Retail Water and Sewer Rates Committees, the budgets are approved by the Board of Directors. The budgets are loaded into DC Water's financial management system, which prevents overspending without appropriate approvals. The Department of Finance and Budget prepares 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 DC Water complies with its authorized budget levels.

Annual Budget Process

After approval by the Board of Directors, DC Water is required to submit its annual operating and capital budgets for inclusion in the Mayor's annual budget; the budget is in turn forwarded by the Mayor to the Council of the District of Columbia for review and comment; however, neither has the authority to change the annual budgets of DC Water. The District then includes DC Water's budgets as an enterprise fund in the budget that is sent to the United States Congress for approval.

TEN-YEAR FINANCIAL PLAN

DC Water's ten-year financial plan was first developed in fiscal year 1997, and serves as its road map to ensure strong and predictable long-term financial performance. This plan is updated and adopted annually by the Board of Directors. DC Water'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 DC Water'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 project rates that are needed to meet its long-term operating, capital and financial policy requirements.

Since its inception, DC Water has maintained or enhanced the financial goals set out by Board policy and the ten-year financial plan. DC Water 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, DC Water adopted stringent policies for financing, rate setting and cash management, which were updated in 2009. The rate setting policy was replaced in 2011. These policies have served as the key parameters used to successfully develop DC Water's ten-year financial plan, capital improvement program and operating budgets. The policies will continue to guide the development and implementation of DC Water'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 DC Water's financial practices result in high quality investment-grade bond ratings to achieve the lowest reasonable cost of debt necessary to finance DC Water's long-term capital program. DC Water is committed to 140 percent debt service coverage on senior lien debt service and maintaining an operating cash reserve equivalent to 120 days of operating and maintenance expenses. In addition, DC Water uses any excess operating reserve amounts for capital financing or repayment of higher-cost debt and that, whenever possible, the least costly capital financing be used for capital projects.

Rate Setting Policies

In January 2011, DC Water's rate setting policy was replaced with a new policy that strives to achieve the following tenets: Rates that, together with other revenues, cover current costs and meet or exceed all bond and other financial requirements, as well as goals set by the Board.

- Rates that yield reliable and predictable stream of revenues, taking into account trends in costs and in units of service.
- Rates based on annually updated forecasts of operating and capital budgets.
- Rate structures that are legally defensible, based on objective criteria, and transparently designed.
- Rate structures that customers can understand and DC Water can implement efficiently and efficaciously.
- Rate increases, if required, that are implemented transparently and predictably.

To the extent annual revenues exceed costs, the Board's policy will continue to utilize all available options to mitigate future customer impact and annual rate increases, including transferring some or all of such excess funds to the Rate Stabilization Fund. At September 30, 2012, the rate stabilization fund balance was $28.0 million.

Debt Policy and Guidelines

During fiscal year 2012, DC Water drafted a comprehensive debt policy and guidelines document for consideration by the Board of Directors (adopted by the Board on December 8, 2012). The Debt Policy will allow DC Water to:

- Demonstrate its commitment to long term financial planning objectives
- Enhance the positive assessment of credit quality with the bond rating agencies to maintain and improve DC Water's high credit rating
- Integrate the debt policy with the budget development of the capital improvement program, multi-year financial plan and other policies

ECONOMIC CONDITION AND OUTLOOK

The District of Columbia is not only known for being the nation's capital, but it is also an international city with a vibrant tourist industry and business climate. It is also the nucleus of the fifth largest metropolitan area in the United States. The U.S. Census Bureau estimated that there were 617,996 residents in Washington, DC, as of July 1, 2011, an increase of 2.7% from the same period of the prior year. The 2012 population estimate for the District is not yet available.

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 210,239 employees, while thousands more are estimated to work elsewhere in the metropolitan area. The District is host to more than 187 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. An estimated 16.0 million people visited the Washington Metropolitan Area during 2012, 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.

Income has grown considerably in the District in recent years. From 2007 to 2012, personal income grew approximately 17.2%, in the District as compared to 8.5% nationally. The unemployment rate in the District was 8.2% in 2012, down from 10.2% a year earlier. The District's economy grew consistently faster than the national economy for much of this decade and is expected to continue to grow in 2013. The District's economy is more information and service dependent than most states, accounting for the region's insulation from the national housing and credit centric recession.

AWARDS

The GFOA awarded a Certificate of Achievement for Excellence in Financial Reporting to DC Water for its comprehensive annual financial report for the fiscal year ended September 30, 2011 (see page 3). The Certificate of Achievement is a prestigious national award, recognizing conformance with the highest standards for preparation of financial reports. DC Water believes its current report continues to conform to the Certificate of Achievement program requirements, and plans to submit it to GFOA. DC Water has thus far received the GFOA Award for every year of its existence.

DC Water received the GFOA's *Distinguished Budget Presentation Award* for its fiscal year 2012 Operating and Capital budgets for the twelfth consecutive time. In order to qualify for the distinguished Budget Presentation Award, DC Water'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 would like to express my appreciation to the entire Finance, Accounting and Budget (FAB) Team whose professionalism and dedication made possible the preparation and restatement of this CAFR and to the General Manager, George S. Hawkins, for his leadership and vision.

Respectfully submitted,

Mark T. Kim
Chief Financial Officer

Financial Section

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BCA Bazilio Cobb Associates

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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 (the Authority), a component unit of the District of Columbia, as of September 30, 2012 and 2011, and the related statements of revenues, expenses and change in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of September 30, 2012 and 2011, and the changes in its financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management discussion and analysis on pages thirty-five through forty-five be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Washington, DC
January 27, 2014

Bazilio Cobb Associates

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This section of the District of Columbia Water and Sewer Authority's ("DC Water" or the "Authority") annual financial report presents the analysis of the Authority's financial performance during the fiscal years that ended on September 30, 2012 and 2011. The Management's Discussion and Analysis ("MD&A") should be read in conjunction with the Authority's basic financial statements, which immediately follow this section.

HIGHLIGHTS

Financial Highlights – 2012

- The Authority's net assets increased by $85.3 million to $1.1 billion, or 8.0 percent, as a result of fiscal year 2012 operations and capital contributions.

- Operating expenses increased by $1.8 million to $343.0 million, or 0.5 percent due to increased: personnel services, water purchases, and depreciation and amortization expense, partially offset by reductions in contractual services and utilities.

- Operating revenues increased by $32.3 million to $440.6 million or 7.9 percent, primarily due to increased revenues from residential and commercial customers, Federal government and wholesale wastewater charges.

- Current assets increased by $27.4 million to $421.5 million, or 6.9 percent, primarily due to an increase in cash and investments, retail customer receivables and receivables from the Federal government, partially offset by a decrease in receivables from other jurisdictions.

- Restricted assets increased by $98.3 million to $379.5 million, or 35.0 percent, primarily due to proceeds from issuance of the 2012 revenue bonds.

- Net utility plant (capital assets) increased by $418.9 million to $3.7 billion, or 12.7 percent, due to a planned increase in capital expenditures in line with the Authority's approved $3.8 billion, 10-year capital improvement program.

- The Authority's long-term debt, including current maturities, increased $284.8 million to $1.8 billion, or 18.4 percent, primarily due to the $440.6 million bond issuance in March 2012.

Financial Highlights – 2011

- The Authority's net assets increased by $44.8 million to $1.1 billion, or 4.4 percent, as a result of fiscal year 2011 operations and capital contributions.

- Operating expenses increased by $12.1 million to $341.3 million, or 3.7 percent, due to increased: personnel services, contractual services, and depreciation and amortization expense, partially offset by reductions in chemicals and water purchases.

- Operating revenues increased by $44.5 million to $408.3 million or 12.2 percent, primarily due to increased revenues from residential and commercial customers, Federal government and wholesale wastewater charges.

- Current assets increased by $31.7 million to $394.1 million, or 8.8 percent, primarily due to an increased: cash and investments, and receivables from other jurisdictions, partially offset by a decrease in receivables from the Federal government.

- Restricted assets increased by $124.4 million to $281.2 million, or 79.3 percent, primarily due to proceeds from issuance of the 2011 revenue bonds.

- Net utility plant (capital assets) increased by $298.5 million to $3.3 billion, or 9.9 percent due to a planned increase in capital expenditures in line with the Authority's approved $3.8 billion, 10-year capital improvement program.

- The Authority's long-term debt, including current maturities, increased $280.7 million to $1.5 billion, or 22.1 percent, primarily due to the $300.0 million bond issuance in October 2010.

Authority Highlights - 2012

Bond Issuance – On March 14, 2012, DC Water issued subordinate lien public utility revenue bonds (Series 2012A-C) with a face value of $440.6 million which are due between 2033 and 2044. The interest rate on series A and C is fixed and ranges from 2.0% to 5.0% over the life of the bonds. The interest rate on series B is variable. There was $53.3 million of original issue premium and approximately $2.8 million for cost of issuance and underwriter's discount costs associated with this issuance.

Debt Refunding – On March 14, 2012, DC Water advance refunded $176.2 million of its 2003 public utility revenue bonds using proceeds from Series C of the 2012 issuance.

Rate Stabilization Fund – The Authority increased its rate stabilization fund to $28.0 million at the end of fiscal year 2012, with an allocation of $11.3 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.

Rate Increase – Effective October 1, 2011, the Board approved an increase of the Authority's retail water and sewer rates by 4.5 percent. This increase was in line with the Board's rate setting policy which strives to set rates so that each customer is charged for those costs necessary to provide each service, and rate increases are predictable and gradual.

Authority Highlights - 2011

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

Senior Service Debt Coverage – DC Water's policy requires that senior debt service coverage be maintained at a minimum of 140 percent, 20 percent higher than indenture requirements. DC Water's senior debt service coverage in 2011 was 321.0 percent. Combined debt service coverage was at 144.0 percent.

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

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

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 Statements of Net Assets includes the Authority's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and nature and extent of obligations (liabilities) with the difference between them being reported as net assets. It also provides the basis for computing the rates of return, evaluating the capital structure of the Authority, and assessing the liquidity and financial flexibility of the Authority.

- The Statements of Revenues, Expenses, and Changes in Net Assets presents the changes in net assets from one reporting period to another by accounting for revenues and expenses and measuring the financial results of operations. This statement measures the profitability (i.e. change in net assets) of the Authority's operations over the past year and can be used to determine whether the Authority has successfully recovered all of its costs through its user fees and other charges.

- The Statements of Cash Flows provides information about the Authority's cash receipts, cash payments, and net changes in cash and cash equivalents resulting from operations, investing, and capital and non-capital financing activities. It also provides information regarding sources of cash, uses of cash, and changes in cash balances during the reporting period.

- Notes to the audited financial statements include information essential to understanding them, such as the Authority's significant accounting policies and information about certain financial statement account balances.

FINANCIAL ANALYSIS OF THE AUTHORITY AS A WHOLE

The Statement of Net Assets and the Statement of Revenues, Expenses and Changes 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 and 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 2012	FY 2011	FY 2010
Utility plant, net	$3,718,243	$3,299,346	$3,000,812
Current and other assets	696,893	571,379	427,903
Total assets	4,415,136	3,870,725	3,428,715
Current liabilities	314,219	269,956	212,100
Long-term debt outstanding	1,813,967	1,530,174	1,250,441
Other long-term liabilities	1,141,461	1,010,446	950,796
Total liabilities	3,269,647	2,810,576	2,413,337
Net assets			
Invested in utility plant, net of related debt	975,933	891,786	833,717
Restricted	27,297	26,825	17,257
Unrestricted	142,259	141,538	164,404
Total net assets	$1,145,489	$1,060,149	$1,015,378

Analysis of Net Assets

The Authority's total assets exceeded liabilities by $1.1 billion for the fiscal years ended September 30, 2012 and 2011, respectively. The Authority's net assets include its investment of $975.9 million and $891.8 million in utility plant (e.g., infrastructure, buildings, equipment and fleet) for the fiscal years ended September 30, 2012 and 2011 respectively, less any related outstanding debt used to acquire those assets. The Authority uses its 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, $27.3 million and $26.8 million represents resources that are subject to external restrictions (primarily related to the Authority's bond indentures) on how they may be used. The remaining balance of $142.3 million and $141.5 million for the fiscal years ended September 30, 2012 and 2011, respectively, are unrestricted.

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

	FY 2012	FY 2011	FY 2010
Revenues			
Operating revenues:			
Water and wastewater user charges:			
Residential, commercial and multi-family customers	$ 256,846	$ 241,475	$ 209,796
Federal government	48,381	43,033	37,845
District government and D.C. Housing Authority	24,713	25,123	21,947
Charges for wholesale wastewater treatment	94,549	90,414	87,505
Other	16,077	8,210	6,655
Total operating revenues	440,566	408,255	363,748
Non-operating revenues:			
Interest income	749	2,036	1,342
Total revenues	441,315	410,291	365,090
Expenses			
Operating expenses:			
Personnel services	97,784	93,240	88,210
Contractual services	64,939	71,055	69,497
Chemicals, supplies and small equipment	28,815	28,188	29,003
Utilities and rent	26,786	29,429	29,929
Depreciation and amortization	74,342	70,209	64,425
Water purchases	28,389	27,170	27,587
Payment in lieu of taxes and right of way fee	21,982	21,982	20,474
Total operating expenses	343,037	341,273	329,125
Non-operating expenses:			
Interest expense and fiscal charges	71,895	71,621	58,369
Total expenses	414,932	412,894	387,494
Income (loss) before Federal grants and contributions	26,383	(2,603)	(22,404)
Federal grants and contributions	58,957	47,374	30,403
Change in net assets	85,340	44,771	7,999
Net assets, beginning of year	1,060,149	1,015,378	1,007,379
Net assets, end of year	$ 1,145,489	$ 1,060,149	$ 1,015,378

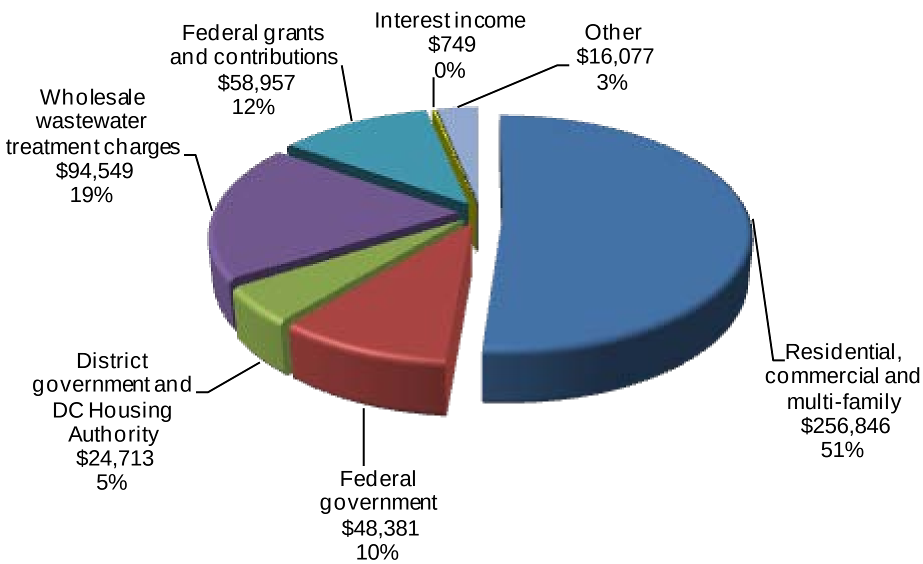
Analysis of Change in Net Assets

The Authority's financial performance remained stable in fiscal year 2012, with net assets exceeding $1.1 billion, an increase of $85.3 million over fiscal year 2011, 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 $97.5 million, an increase of $30.5 million compared to fiscal year 2011.

Total Revenues

Total revenues (including federal grants and interest income) were $500.3 million in fiscal year 2012, an increase of $42.6 million, or 9.3 percent over fiscal year 2011. This is primarily due to increases of $15.4 million from retail customers, $5.3 million from the Federal government, $4.1 million from wholesale wastewater charges, $7.9 million from other revenue sources and $11.6 million from Federal grants and contributions.

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 $15.4 million to $256.8 million, or 6.4 percent over fiscal year 2011, primarily due to a rate increase in fiscal year 2012.

- Water and wastewater user charges from Federal government customers were $48.4 million in fiscal year 2012, an increase of $5.3 million or 12.4 percent, primarily due to a rate increase in fiscal year 2012.

- Water and wastewater user charges from the District government and the District of Columbia Housing Authority were $24.7 million, a decrease of $0.4 million, or 1.6 percent, primarily due to a rate increase in fiscal year 2012 offset by a decrease in consumption.

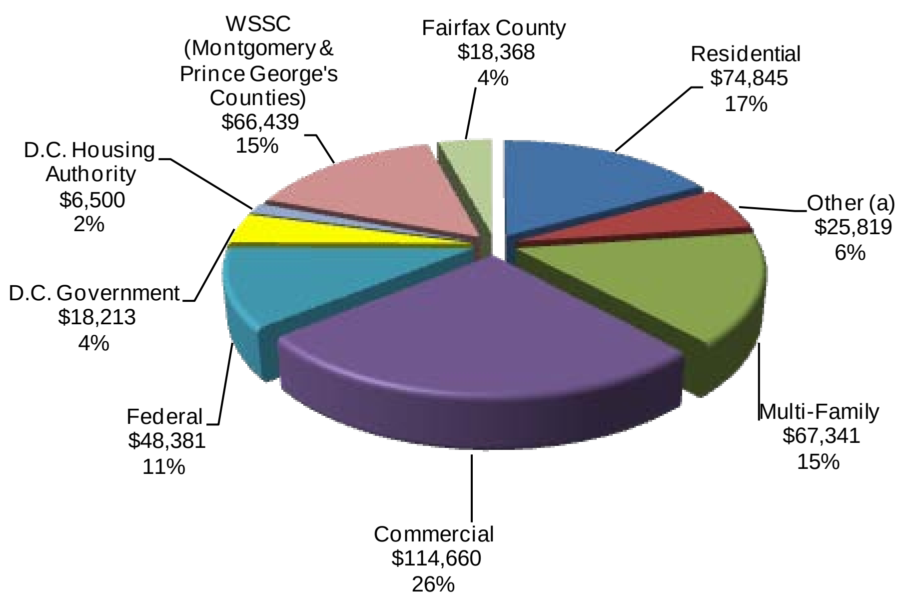
- Wholesale wastewater treatment charges were $94.5 million, an increase of $4.1 million, or 4.6 percent over fiscal year 2011, primarily due to increased revenues from IMA participants. According to the Blue Plains Intermunicipal Agreement ("IMA") (see Note 1), wholesale customers pay a share of both the operating and capital costs of the plant. The payments for capital costs are amortized and recognized as income over the depreciable life of assets purchased (i.e., 60 years).

- Federal grants and contributions were $59.0 million, an increase of $11.6 million, or 24.5 percent compared to last year, primarily due to increased capital construction spending in fiscal year 2012 on grant-eligible 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 26 percent of total revenues.

Operating Revenues by Source
($ in 000's)



(a) Other revenues include $7.3 million from Loudoun County and $2.4 million from Potomac interceptor.

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

- 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

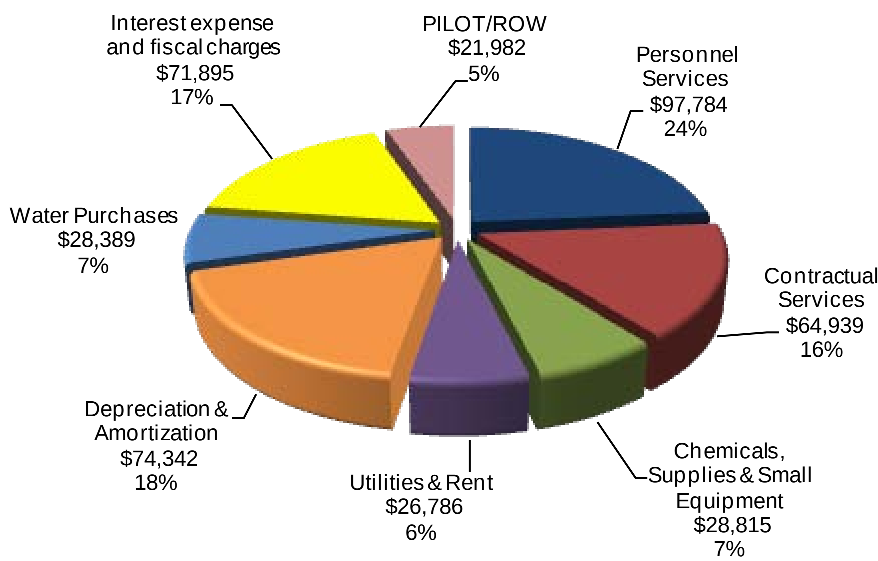
County account for 19.0 percent of the Authority's revenues and are based primarily on their share of operating costs at Blue Plains. Loudoun County and Potomac Interceptor customers account for an additional 2.0 percent of the Authority's revenues and are included in other revenues. Operating costs are allocated to each user based on its sewer flows and purchased capacity at Blue Plains.

- Residential customers in the District account for 17.0 percent of total revenues.
- Payments from the Federal government comprise 11.0 percent of the Authority's total operating revenues and include customers such as the U.S. Congress, the Smithsonian Institution, and a range of federal departments and agencies.
- Revenues from the Government of the District of Columbia and the District of Columbia Housing Authority make up 6.0 percent of total operating revenues.

Expenses

Operating expenses increased by $1.8 million, or 0.5 percent, primarily due to a $4.5 million increase in personnel services, a $4.1 million increase in depreciation and amortization expense, and a $1.2 million increase in water purchases. These increases were offset by a $6.1 million decrease in contractual services and a $2.6 million decrease in utilities and rent.

Total Expenses
($ in 000's)



A detailed analysis of the operating expenses follows:

- Personnel services were $97.8 million, an increase of $4.5 million, or 4.9 percent over the prior year, primarily due to increases in wages in addition to increased number of personnel.
- Contractual services were $64.9 million, a decrease of $6.1 million, or 8.6 percent over the prior year, primarily due to lower litigation incurrence during the current year.

- Utilities and rent expenses were $26.8 million, a decrease of $2.6 million, or 9.0 percent compared to the prior year, primarily due to savings in electricity costs attributable to the adopted block purchasing strategy and a decline in influent flows into the treatment facilities.
- Depreciation and amortization expenses were $74.3 million, an increase of $4.1 million, or 5.9 percent over the prior year, which is in line with the increase in capital assets due to the capital improvement program.
- Water purchases were $28.4 million, an increase of $1.2 million, or 4.5 percent compared to the prior year, primarily due to a 5.0 percent rate increase from the Washington Aqueduct.

UTILITY PLANT AND DEBT ADMINISTRATION

Utility Plant

At the end of fiscal year 2012, the Authority had $3.7 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 $418.9 million, or 12.7 percent over the prior year due to continued capital spending in accordance with the capital improvement program.

Table 3 summarizes the Authority's utility plant, net of accumulated depreciation, at September 30, 2012, 2011 and 2010. 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 2012	FY 2011	FY 2010
Wastewater treatment plant	$ 1,924,985	$ 1,839,010	$ 1,822,320
Wastewater collection facilities	716,651	689,575	598,404
Water distribution system	897,077	863,474	800,861
Purchased capacity	319,840	307,593	279,278
Capital equipment	167,641	155,770	144,307
Construction-in-progress	807,430	485,497	327,738
Less accumulated depreciation	(1,115,381)	(1,041,573)	(972,096)
Net utility plant	$ 3,718,243	$ 3,299,346	$ 3,000,812

Debt Administration

At the end of fiscal year 2012, the Authority had a total of $1.8 billion in long-term debt outstanding (excluding unamortized bond premiums, discounts, and amount deferred on refunding), an increase of $245.7 million, or 16.1 percent, over fiscal year 2011 (see Note 10 for more information on long-term debt).

Table 4 – Long-Term Debt Outstanding
As of September 30, 2012
($ in 000's)

SENIOR DEBT	INTEREST RATES	YEAR OF FINAL MATURITY	AMOUNT OUTSTANDING
1998 public utility revenue bonds	5.50 - 6.00%	2028	$ 218,815
2009 public utility revenue bonds series A	3.00 - 6.00%	2039	296,205
SUBTOTAL SENIOR DEBT			515,020
SUBORDINATE DEBT			
2012 public utility revenue bonds series A	2.00 - 5.00%	2037	177,430
2012 public utility revenue bonds series B-1	2.26%	2044	52,690
2012 public utility revenue bonds series B-2	2.26%	2040	47,310
2012 public utility revenue bonds series C	4.00 - 5.00%	2033	163,215
2010 public utility revenue bonds series A	4.07 - 5.52%	2044	300,000
2008 public utility revenue bonds series A	4.00 - 5.00%	2034	279,955
2007 public utility revenue bonds series A	4.75 - 5.50%	2041	218,715
Notes payable to the federal government for Jennings Randolph Reservoir	3.25%	2041	14,273
Notes payable to WSSC for Little Seneca Reservoir	5.98 - 6.60%	2014	63
TOTAL SUBORDINATE DEBT			1,253,651
TOTAL DEBT OUTSTANDING			1,768,671
CURRENT PORTION OF DEBT OUTSTANDING			(19,692)
DEBT OUTSTANDING, LESS CURRENT PORTION			$ 1,748,979

Long-term debt outstanding as presented on the accompanying statements of net assets includes net unamortized bond premiums, discounts and amount deferred on refunding of $65.0 million as of September 30, 2012.

Table 5
DC Water Bond Ratings

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

In May 2010, the Authority closed on its $225.0 million commercial paper program. This program provides interim financing for a portion of the Authority's approved $3.8 billion capital improvement program. Other financing sources include long-term revenue bonds, United States Environmental Protection Agency grants, wholesale customer contributions, and pay-as-you-go financing. Under the commercial paper program, the Authority issues fixed-rate, short-term (no greater than 270 days) notes. The Authority's commercial paper program is backed by an irrevocable letter of credit with J.P Morgan Chase Bank National Association for Series A ($100.0 million tax-exempt) and Series B ($50.0 million tax-exempt), and with U.S. Bank National Association for Series C ($75.0 million taxable). The notes are rated based on the respective rating of J.P. Morgan Chase and U.S. Bank. The letter of credit serves as an additional source of security for the notes thereby enhancing their appeal and marketability. There was $41.2 million in outstanding taxable and tax-exempt commercial paper at the end of fiscal year 2012.

Table 6
DC Water Commercial Paper Ratings

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

RATES

Effective October 1, 2011, the Authority raised its retail water and wastewater rates by 4.5 percent, The Authority's approved ten-year financial plan includes projected rate increases of 4.0 percent to 6.5 percent and also includes projected revisions to its metering and right-of-way / payment in lieu of taxes pass-through fees.

CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

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

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DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

Statements of Net Assets

September 30, 2012 and 2011

(In $ thousands)

Assets	**2012**	**2011**
Current assets:		
Cash and cash equivalents (note 3)	$ 94,472	$ 112,944
Investments (note 3)	100,489	69,764
Restricted cash and cash equivalents (note 3)	136,151	—
Restricted investments (note 3)	—	127,980
Customer receivables, net of allowance for doubtful accounts of $15,271 in 2012 and $14,350 in 2011 (note 7)	50,233	39,252
Due from Federal government (note 6)	23,491	20,505
Due from other jurisdictions (note 8)	7,975	16,202
Inventory	6,674	7,264
Due from District government (note 13)	1,491	—
Prepaid assets	519	204
Total current assets	421,495	394,115
Noncurrent assets:		
Restricted assets (note 3):		
Cash and cash equivalents	39,416	98,054
Investments	203,940	55,141
Total restricted cash equivalents and investments	243,356	153,195
Utility plant (note 4):		
In-service	4,026,194	3,855,422
Less accumulated depreciation	(1,115,381)	(1,041,573)
Net utility plant in-service	2,910,813	2,813,849
Construction-in-progress	807,430	485,497
Net utility plant	3,718,243	3,299,346
Other noncurrent assets:		
Unamortized bond issuance costs	19,536	17,430
Due from other jurisdictions (note 8)	12,506	6,639
Total other noncurrent assets	32,042	24,069
Total noncurrent assets	3,993,641	3,476,610
Total assets	4,415,136	3,870,725
Liabilities		
Current liabilities:		
Accounts payable and accrued expenses	143,375	119,850
Deferred revenue	42,875	33,568
Accrued interest	43,841	39,945
Commercial paper notes payable (note 11)	41,200	35,200
Current maturities of long-term debt (note 10)	19,692	18,721
Other liabilities (note 12)	7,748	5,591
Compensation payable	7,843	6,601
Due to jurisdictions	7,645	8,500
Due to District government (note 13)	—	1,980
Total current liabilities	314,219	269,956
Noncurrent liabilities:		
Long-term debt, excluding current maturities (note 10)	1,813,967	1,530,174
Deferred revenue	1,071,616	918,787
Deferred revenue - combined sewer overflow	40,041	55,383
Other liabilities (note 12)	19,345	26,129
Compensated absences payable (note 9)	10,459	10,147
Total noncurrent liabilities	2,955,428	2,540,620
Total liabilities	3,269,647	2,810,576
Net Assets		
Invested in utility plant, net of related debt	975,933	891,786
Restricted for:		
Debt service	27,297	26,825
Unrestricted	142,259	141,538
Total net assets	$ 1,145,489	$ 1,060,149

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 Changes in Net Assets
Years Ended September 30, 2012 and 2011
(In $ thousands)

	2012	2011
Operating revenues:		
Water and wastewater user charges:		
Residential, commercial and multi-family customers	$ 256,846	$ 241,475
Federal government	48,381	43,033
District government and D.C. Housing Authority (note 13)	24,713	25,123
Charges for wholesale wastewater treatment	94,549	90,414
Other	16,077	8,210
Total operating revenues	440,566	408,255
Operating expenses:		
Personnel services	97,784	93,240
Contractual services	64,939	71,055
Chemicals, supplies and small equipment	28,815	28,188
Utilities and rent	26,786	29,429
Depreciation and amortization	74,342	70,209
Water purchases	28,389	27,170
Payment in lieu of taxes and right of way fee (note 13)	21,982	21,982
Total operating expenses	343,037	341,273
Operating income	97,529	66,982
Non-operating revenues (expenses):		
Interest income	749	2,036
Interest expense and fiscal charges	(71,895)	(71,621)
Total non-operating revenues (expenses)	(71,146)	(69,585)
Change in net assets before Federal grants and contributions	26,383	(2,603)
Federal grants and contributions	58,957	47,374
Change in net assets	85,340	44,771
Net assets, beginning of year	1,060,149	1,015,378
Net assets, ending of year	$ 1,145,489	$ 1,060,149

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, 2012 and 2011
(In $ thousands)

	2012	2011
Cash flows from operating activities:		
Cash received from customers	$ 425,174	$ 401,510
Cash paid to suppliers for goods and services	(149,123)	(154,385)
Cash paid to employees for services	(96,230)	(91,535)
Cash paid to District for PILOT and ROW	(17,514)	(20,618)
Net cash provided by operating activities	162,307	134,972
Cash flows from capital and related financing activities:		
Proceeds from issuance of revenue bonds	491,102	297,580
Proceeds from other jurisdictions	174,259	82,856
Repayments of bond principal and notes payable to Federal and District governments	(194,941)	(17,792)
Acquisition of utility plant and purchased capacity	(472,377)	(302,536)
Payments of interest and fiscal charges	(96,393)	(74,715)
Contributions of capital from Federal government	39,560	27,485
Proceeds from issuance of commercial paper	194,000	152,000
Repayments of commercial paper	(188,000)	(146,000)
Net cash (used in) provided by capital and related financing activities	(52,790)	18,878
Cash flows from investing activities:		
Cash received for interest	1,068	1,894
Investment purchases	(730,705)	(564,757)
Investment maturities	679,161	422,156
Net cash used in investing activities	(50,476)	(140,707)
Net increase in cash and cash equivalents	59,041	13,143
Cash and cash equivalents (including restricted) at beginning of year	210,998	197,855
Cash and cash equivalents (including restricted) at end of year	$ 270,039	$ 210,998
Operating income	$ 97,529	$ 66,982
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	74,342	70,209
Change in operating assets and liabilities:		
(Increase) decrease in customer and other receivables	(3,127)	183
Decrease in inventory	275	241
Increase in payables and accrued liabilities	2,718	7,093
Decrease in deferred revenue	(9,430)	(9,736)
Net cash provided by operating activities	$ 162,307	$ 134,972
Noncash Capital and financing Activities:		
Capital asset additions included in accounts payable	$ 99,527	$ 85,504

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 Government of the District of Columbia (the "District") Department of Public Works. The District of Columbia Water and Sewer Authority ("DC Water" or the "Authority"), an independent authority of the District, was created in April 1996 and began operating on October 1, 1996 under and pursuant to an act of the Council of the District entitled the "Water and Sewer Authority and Department of Public Works Reorganization Act of 1996 (as amended)", and an Act of the United States Congress entitled the "District of Columbia Water and Sewer Authority Act of 1996". The Authority is considered a component unit of the District for financial reporting purposes.

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

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

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

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

(2) Summary of Significant Accounting Policies

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

(a) Measurement Focus and Basis of Accounting

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

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

As allowed by GASB 20, the Authority accounts for its regulatory assets and liabilities in accordance with FASB Accounting Standards Codification ("ASC") 980-10, *Regulated Operations*: In general, FASB ASC 980-10 covers the type of regulation that permits rates to be set at levels intended to recover the estimated costs of providing regulated services, including the cost of capital. There are times in which the revenues intended to cover certain costs are provided either before or after the costs have been incurred. If the costs will be recovered in the future, a regulatory asset is capitalized and reduced as the related revenues are provided. If the current recovery is for costs that will be incurred in future periods, regulatory liabilities are accrued and reduced as those costs are incurred. As of September 30, 2012 and 2011, no regulatory assets or liabilities were required to be reported in accordance with FASB ASC 980-10.

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

(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 is reduced by the outstanding balances of any bonds or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

- *Restricted* – This component of net assets consists of restrictions placed on net assets as a result of external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

- *Unrestricted* – This component of net assets consist of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

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

(b) Revenues and Expenses

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

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

Water and Wastewater User Charges

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

(2) Summary of Significant Accounting Policies (Continued)

Charges for Wholesale Wastewater Treatment and Deferred Revenue

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

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

(c) Cash and Cash Equivalents

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

(d) Investments

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

(e) Restricted Assets

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

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

(2) Summary of Significant Accounting Policies (Continued)

(f) Utility Plant

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

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

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

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

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

(In $ thousands)

(2) Summary of Significant Accounting Policies (Continued)

(h) Inventory

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

(i) Debt Financing Costs

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

(j) Reclassifications and Immaterial Adjustment

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

Subsequent to the issuance of its September 30, 2012 and 2011 comparative financial statements, the Authority revised its financial statements for reclassifications and an immaterial adjustment. These reclassifications did not impact total net assets.

The Authority also corrected the reporting of accumulated interest on Federal appropriations to defer recognition of the interest revenue until such funds are used in accordance with the requirements of the underlying appropriations act. This resulted in a reduction to net assets as previously reported as of September 30, 2012, 2011 and 2010 of approximately $12.3 million, $12.1 million, and $12.1 million, respectively.

(k) Use of Estimates 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 affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(l) Vacation and Sick Leave

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

Employees Length of servcice	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

(In $ thousands)

(3) Cash Deposits and Investments

(a) Cash Deposits

At September 30, 2012 and 2011, the carrying amounts of the Authority's unrestricted and restricted bank deposits were $88,863 and $111,896, respectively. These bank deposits are entirely insured or collateralized with securities held by the Authority's agent in its name.

(b) Cash Equivalents and Investments

As of September 30, 2012 and 2011, the Authority had the following cash equivalents and investments:

Cash equivalents and investments	2012	Weighted Average Maturity (Years)	2011	Weighted Average Maturity (Years)
Money market funds	$181,176	0.083	$ 99,102	0.083
Government agencies	244,470	1.080	232,899	1.390
Commercial paper	49,959	0.310	19,986	0.286
Certificate of deposits	10,000	1.520	-	
Total cash equivalents and investments	$485,605	0.638	$351,987	0.961

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

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

- Investment securities that are uninsured, are not registered in the name of the government, and are held by either (a) the counterparty or (b) the counterparty's trust department or agent but not in the government's name.

In 2012, the Authority began participating in the Certificate of Deposit Account Registry Services ("CDARS"). The service allows the Authority to allocate funds into certificates of deposit in increments, which ensure the funds are eligible for full FDIC insurance.

During fiscal year 2012, the Authority purchased a total of $10 million through CDARS which matures at various dates through March 2014 and were interest bearing at rates ranging from 0.5% to 0.9%.

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

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

(In $ thousands)

(3) Cash Deposits and Investments (Continued)

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

Custodial Risk - For an investment, custodial risk is the risk that in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of the outside party. The Authority's investment policy requires that, at the time funds are invested, collateral for repurchase agreements be held in the Authority's name by a custodial agent for the term of the agreement and investments in obligations of the United States or its agencies be held by the Federal Reserve in a custodial account. 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, 2012 and 2011 follows:

	2012			2011		
Description	Unrestricted	Restricted	Total	Unrestricted	Restricted	Total
Cash and cash equivalents						
Demand deposits	$ 83,836	$ 5,027	$ 88,863	$ 104,845	$ 7,051	$111,896
Money market funds	10,636	170,540	181,176	8,099	91,003	99,102
Total cash and cash equivalents	94,472	175,567	270,039	112,944	98,054	210,998
Investments						
Government agencies	50,527	193,943	244,470	59,773	173,126	232,899
Commercial paper	39,962	9,997	49,959	9,991	9,995	19,986
Certificate of deposit	10,000	-	10,000	-	-	-
Total Investments	100,489	203,940	304,429	69,764	183,121	252,885
Total cash, cash equivalents & investments	$ 194,961	$379,507	$574,468	$ 182,708	$281,175	$463,883

Included in unrestricted demand deposits and agency discount notes are $27,951 for the Rate Stabilization Fund. The Authority established the Rate Stabilization Fund in fiscal year 2001. The balance in this account will be used in the future at the Authority's discretion.

(In $ thousands)

(3) Cash Deposits and Investments (Continued)

(d) Restricted Cash and Investment Schedule

A schedule of restricted cash equivalents and investments as of September 30, 2012 and 2011 follows:

Description	2012	2011
Restricted cash and cash equivalents (current and noncurrent)		
Revenue bonds 2010 digesters	$ 41,011	$ 17,224
Revenue bonds 2012 B-2	27,067	-
Revenue bonds 2012 B-1	12,295	-
Principal payment account 1998 revenue bonds	11,081	10,501
Combined sewer overflow (CSO) federal appropriations	10,055	15,165
Revenue bonds 2012 A	9,619	-
Debt service interest payment account, 2012 A,C revenue bonds	8,726	-
Debt service reserve account, 1998 revenue bonds	8,712	4,038
Debt service interest payment account, 2010 revenue bonds	8,477	8,616
Debt service interest payment account, 2009 revenue bonds	8,034	8,063
Debt service interest payment account, 2008 revenue bonds	7,001	7,126
Debt service interest payment account, 1998 revenue bonds	6,146	10,880
Principal payment account 2008 revenue bonds	5,746	5,585
Debt service interest payment account, 2007 revenue bonds	5,677	5,676
Principal payment account 2009 revenue bonds	2,486	2,020
Debt service interest payment account, 2012 B-1,2 revenue bonds	2,258	-
Commercial paper	1,176	1,124
Workers' compensation reserve account	-	1,036
District Department of Transportation 11th street bridge	-	1,000
Total restricted cash and cash equivalents	175,567	98,054
Restricted investments		
Revenue bonds 2012 A	109,338	-
Combined sewer overflow (CSO) federal appropriation	29,985	40,219
Revenue bonds 2012 B-1	24,993	-
Revenue bonds 2012 B-2	19,994	-
Debt service reserve account, 1998 revenue bonds	15,335	20,009
Revenue bonds 2010 cap interest	4,295	7,142
Revenue bonds 2010	-	115,751
Total restricted investments	203,940	183,121
Total restricted cash, cash equivalents & investments	$ 379,507	$ 281,175

(In $ thousands)

(4) Utility Plant

The following tables present the activity in utility plant for the years ended September 30, 2012 and 2011.

	Balance 9/30/2011	Additions	Disposals	Transfers	Balance 9/30/2012
Utility Plant					
Wastewater treatment plant	$1,839,010	$ -	$ (629)	$ 86,604	$1,924,985
Wastewater collection facilities	689,575	-	-	27,076	716,651
Water distribution system	863,474	-	-	33,603	897,077
Purchased capacity	307,593	12,247	-	-	319,840
Capital equipment	155,770	-	(523)	12,394	167,641
Total utility plant in-service	3,855,422	12,247	(1,152)	159,677	4,026,194
Less accumulated depreciation:					
Wastewater treatment plant	(454,216)	(30,742)	11	-	(484,947)
Wastewater collection facilities	(205,642)	(11,467)	-	-	(217,109)
Water distribution system	(192,845)	(15,455)	-	-	(208,300)
Purchased capacity	(60,543)	(5,290)	-	-	(65,833)
Capital equipment	(128,327)	(11,388)	523	-	(139,192)
Total accumulated depreciation	(1,041,573)	(74,342)	534	-	(1,115,381)
Net utility plant in-service	2,813,849	(62,095)	(618)	159,677	2,910,813
Construction-in-progress	485,497	481,610	-	(159,677)	807,430
Net utility plant	$3,299,346	$419,515	$ (618)	$ -	$3,718,243

	Balance 9/30/2010	Additions	Disposals	Transfers	Balance 9/30/2011
Utility Plant					
Wastewater treatment plant	$1,822,320	$ 16,690	$ -	$ -	$1,839,010
Wastewater collection facilities	598,404	91,171	-	-	689,575
Water distribution system	800,861	62,613	-	-	863,474
Purchased capacity	279,278	28,315	-	-	307,593
Capital equipment	144,307	12,196	(733)	-	155,770
Total utility plant in-service	3,645,170	210,985	(733)	-	3,855,422
Less accumulated depreciation:					
Wastewater treatment plant	(424,522)	(29,694)	-	-	(454,216)
Wastewater collection facilities	(195,138)	(10,504)	-	-	(205,642)
Water distribution system	(178,501)	(14,344)	-	-	(192,845)
Purchased capacity	(55,591)	(4,952)	-	-	(60,543)
Capital equipment	(118,344)	(10,716)	733	-	(128,327)
Total accumulated depreciation	(972,096)	(70,210)	733	-	(1,041,573)
Net utility plant in-service	2,673,074	140,775	-	-	2,813,849
Construction-in-progress	327,738	340,429	-	(182,670)	485,497
Net utility plant	$3,000,812	$481,204	$ -	$(182,670)	$3,299,346

(In $ thousands)

(5) Purchased Capacity

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

Purchased capacity activity for the year ended September 30, 2012 was as follows:

	Balance 9/30/2011	Additions	Balance 9/30/2012
Purchased Capacity			
Washington Aqueduct	$ 275,403	$ 12,247	$ 287,650
Jennings Randolph Reservoir	19,863	-	19,863
Little Seneca Lake	12,327	-	12,327
Total in-service	307,593	12,247	319,840
Less accumulated depreciation:			
Washington Aqueduct	(47,634)	(4,692)	(52,326)
Jennings Randolph Reservoir	(7,465)	(393)	(7,858)
Little Seneca Lake	(5,444)	(205)	(5,649)
Total accumulated depreciation	(60,543)	(5,290)	(65,833)
Purchased capacity, net	$ 247,050	$ 6,957	$ 254,007

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

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

(In $ thousands)

(6) Due from Federal Government

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

Description	2012	2011
Washington Aqueduct advances	$ 17,434	$ 18,396
Federal grants receivable	6,057	2,109
Total	$ 23,491	$ 20,505

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

(7) Customer Receivables

Customer receivables include unbilled revenues of $15,587 and $12,986 at September 30, 2012 and 2011, respectively.

(8) Due from Other Jurisdictions

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

Description	2012	2011
Current:		
Washington Suburban Sanitary Commission	$ 6,025	$ 11,380
Fairfax	914	2,661
Loudoun County Sanitation Authority	414	1,080
Northern Virginia (a)	94	101
Potomac Interceptor	528	980
Total current	7,975	16,202
Noncurrent:		
Washington Suburban Sanitary Commission	7,129	2,417
Northern Virginia (a)	3,350	3,444
Fairfax	1,389	524
Loudoun County Sanitation Authority	638	254
Total noncurrent	12,506	6,639
Total due from jurisdictions	$ 20,481	$ 22,841

(a) Northern Virginia

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

(In $ thousands)

(9) Compensated Absences Payable

The following table reflects the activity associated with accrued compensated absences for the years ended September 30, 2012 and 2011, respectively:

	2012			2011		
Description	Vacation	Sick	Total	Vacation	Sick	Total
Beginning of year	$ 6,659	$ 4,570	$ 11,229	$ 6,195	$ 3,914	$ 10,109
Increased	987	721	1,708	1,282	787	2,069
Decreased	(790)	(413)	(1,203)	(818)	(131)	(949)
End of year	6,856	4,878	11,734	6,659	4,570	11,229
Less: current portion	902	373	1,275	829	253	1,082
Noncurrent portion	$ 5,954	$ 4,505	$ 10,459	$ 5,830	$ 4,317	$ 10,147

The current portion of compensated absences is included in compensation payable in the accompanying statements of net assets.

(In $ thousands)

(10) Long-Term Debt

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

A schedule of long-term debt activity for the year ended September 30, 2012 is shown below:

Description	Balance 9/30/2011	New Debt Issued	Debt Retired	Balance 9/30/2012	Due Within One Year
2012 public utility revenue bonds:					
Series A interest at 2.0 % to 5.0%, maturing in 2037	$ -	$ 177,430	$ -	$ 177,430	$ -
Series B-1 interest at 2.26%, maturing in 2044	-	52,690	-	52,690	-
Series B-2 interest at 2.26%, maturing in 2040	-	47,310	-	47,310	-
Series C interest at 4.0% to 5.0%, maturing in 2033		163,215	-	163,215	-
2010 series a public utility revenue bonds; interest at 4.07% to 5.5%, maturing in 2044	300,000	-	-	300,000	-
2009 series a public utility revenue bonds; interest at 3.0% to 6.0%, maturing in 2039	298,225	-	(2,020)	296,205	2,485
2008 series a public utility revenue bonds; interest at 4.0% to 5.0%, maturing in 2034	285,540	-	(5,585)	279,955	5,745
2007 series a public utility revenue bonds; interest at 4.75% to 5.50%, maturing in 2041	218,715	-	-	218,715	-
2003 public utility revenue bonds; interest ranges from 5.0% to 5.25%, maturing in 2033	176,220	-	(176,220)	-	-
1998 public utility revenue bonds; interest ranges from 5.50% to 6.00%, maturing in 2028	229,315	-	(10,500)	218,815	11,080
Notes payable to the federal government for Jennings Randolph Reservoir (Bloomington Dam); interest at 3.25%, maturing in 2041	14,603	-	(330)	14,273	341
Notes payable to WSSC for Little Seneca Lake; interest ranges from 5.98% to 6.60% maturing in 2014	104	-	(41)	63	41
District of Columbia general obligation bonds: 1993; interest ranges from 5.40% to 6.0% maturing in 2012	245	-	(245)	-	-
Total bonds and notes	$ 1,522,967	$ 440,645	$ (194,941)	$ 1,768,671	$ 19,692

Long-term debt outstanding, as presented on the accompanying statements of net assets, includes net unamortized bond premiums, discounts and amount deferred on refunding of $64,988.

(In $ thousands)

(10) Long-Term Debt (Continued)

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

Description	Balance 9/30/2010	New Debt Issued	Debt Retired	Balance 9/30/2011	Due Within One Year
2010 series a public utility revenue bonds (build america bonds); interest at 4.07% to 5.5%, maturing in 2044	$ -	$ 300,000	$ -	$ 300,000	$ -
2009 series a public utility revenue bonds; interest at 3.0% to 6.0%, maturing in 2039	300,000	-	(1,775)	298,225	2,020
2008 series a public utility revenue bonds; interest at 4.0% to 5.0%, maturing in 2034	290,000	-	(4,460)	285,540	5,585
2007 series a public utility revenue bonds; interest at 4.75% to 5.50%, maturing in 2042	218,715	-	-	218,715	-
2003 public utility revenue bonds; interest ranges from 5.0% to 5.25%, maturing in 2033	176,220	-	-	176,220	-
1998 public utility revenue bonds; interest ranges from 5.50% to 6.00%, maturing in 2028	239,270	-	(9,955)	229,315	10,500
Notes payable to the federal government for Jennings Randolph Reservoir (Bloomington Dam); interest at 3.25%, maturing in 2041	14,923	-	(320)	14,603	330
Notes payable to WSSC for Little Seneca Lake; interest ranges from 5.98% to 6.60% maturing in 2014	142	-	(38)	104	41
District of Columbia general obligation bonds:					
1993; interest ranges from 5.40% to 6.0% maturing in 2012	495	-	(250)	245	245
1994; interest ranges from 5.05% to 6.50% maturing in 2011	995	-	(995)	-	-
Total bonds and notes	$ 1,240,760	$ 300,000	$ (17,793)	$ 1,522,967	$ 18,721

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

(a) Senior Debt

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

(10) Long-Term Debt (Continued)

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

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

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

(b) Subordinate Debt

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

In March 2012, the Authority issued subordinate lien revenue bonds with a face value of $440,645. The bonds were structured in three Series: Series 2012A consisted of $177,430 with interest rates ranging from 2.0% to 5.0% maturing in 2037. Series 2012B consisting of $100,000 with interest rate at 2.26% maturing in 2040 and 2044.

(10) Long-Term Debt (Continued)

Series 2012C consisting of $163,215 with interest rates ranging from 4.0 % to 5.0% maturing in 2033. Gross proceeds from the 2012 Bonds totaled $493,934, including $53.289 of the original issue premium. Approximately $302,413 was used to fund various capital projects; $188,688 was used to advance-refund series 2003 bonds, and $2,833 was used to pay the underwriter's discount and cost of issuance.

The Authority completed its advance-refunding of the series 2003 bonds by using $188,688 of bond proceeds from Series 2012C to purchase securities that were placed in an irrevocable trust with an escrow agent to provide for all future debt service payments on the bonds. As a result, the bonds are considered to be defeased and the liability for those bonds has been removed from the financial statements. This refunding decreases total debt service payments by approximately $25,478 resulting in an economic gain (difference between the present values of the debt service payments on the old and new debt) of $17,843.

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

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

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

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

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

(10) Long-Term Debt (Continued)

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

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

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

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

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

(In $ thousands)

(10) Long-Term Debt (Continued)

(c) Bond Covenants

The Master Indenture sets forth the establishment of accounts, the application of revenues, and certain other covenants to ensure proper operation and maintenance of the water and wastewater system and payment of debt service. Management believes the Authority was in compliance with all bond covenants as of and for the years ended September 30, 2012 and 2011. 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, 2012 and 2011 was $24,047, respectively, and is required to be maintained at 125 percent of current and future average annual Series 1998 debt service.

(d) Debt Service to Maturity

The future debt service obligations at September 30, 2012 are as follows:

Fiscal Year	Principal	Interest	Total
2013	$ 19,692	$ 73,696	$ 93,388
2014	25,189	81,559	106,748
2015	26,473	80,229	106,702
2016	27,870	78,785	106,655
2017	29,317	77,340	106,657
2018 - 2022	178,210	361,332	539,542
2023 - 2027	239,470	311,004	550,474
2028 - 2032	303,669	245,479	549,148
2033 - 2037	390,602	158,211	548,813
2038 - 2042	446,282	50,758	497,040
2043 - 2045	81,897	3,361	85,258
Total	$1,768,671	$1,521,754	$3,290,425

(In $ thousands)

(11) Commercial Paper

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

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

Schedules of commercial paper activity for years ended September 30, 2012 and 2011 are shown below:

	Balance	2012		Balance
Description	9/30/2011	Maturities	Re-Issuance	9/30/2012
Series C, interest from 0.15% to 0.28%, maturities ranged from 31 to 97 days	$ 29,200	$ (146,000)	$ 146,000	$ 29,200
Series B, interest from 0.08% to 0.19%, maturities ranged from 7 to 88 days	6,000	(42,000)	48,000	12,000
	$ 35,200	$ (188,000)	$ 194,000	$ 41,200

	Balance	2011		Balance
Description	9/30/2010	Maturities	Re-Issuance	9/30/2011
Series C, interest from 0.20% to 0.30%, maturities ranged from 58 to 91 days	$ 29,200	$ (146,000)	$ 146,000	$ 29,200
Series B, interest at 0.17%, matures in 37 days	-	-	6,000	6,000
	$ 29,200	$ (146,000)	$ 152,000	$ 35,200

(In $ thousands)

(12) Commitments and Contingencies – Other Liabilities

A schedule of other liabilities as of September 30, 2012 and 2011 is shown below:

Description	2012	2011
Risk management contingency	$12,453	$ 12,260
Rolling owner controlled insurance program	10,332	9,504
Litigation contingency	2,450	8,291
Federal grants disallowance	1,858	1,665
Total other liabilities	27,093	31,720
Less: current portion	7,748	5,591
Noncurrent portion	$19,345	$ 26,129

(a) Federal Grants

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

(b) Litigation

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

Changes in the balances of litigation contingencies during the years ended September 30, 2012 and 2011 were as follows:

Description	2012	2011
Balance, beginning of year	$ 8,291	$ 6,081
Current year claims and changes in estimates	(946)	2,585
Claim payments	(4,895)	(375)
Balance, end of year	$ 2,450	$ 8,291

(In $ thousands)

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

(c) Rolling Owner Controlled Insurance Program (ROCIP)

The Authority procures insurance for the majority of its construction contractors through ROCIP. Coverage includes general liability, umbrella and workers' compensation insurance for almost every construction project undertaken by DC Water. The result is substantially higher and broader coverage, enhanced safety and loss control, increased minority participation and potential cost savings.

The Authority completed its final year of the first ROCIP (ROCIP 1) in April of 2012 and began the third year of ROCIP II. ROCIP II continues for two more years (the ROCIP structure is typically three years to enroll projects and five years to complete) – therefore the need to run programs somewhat simultaneously. At the end of fiscal year 2012, 65 projects and 393 contractors were enrolled in ROCIP I and 48 projects and 472 contractors were enrolled in ROCIP II. ROCIP II will support an estimated $1.15 billion of planned construction projects. In October 2012, ROCIP III was incepted and will run for five years. We anticipate 65 projects will be enrolled and an estimate of $970 million in planned construction.

Changes in the Authority's estimated ROCIP liabilities related to workers' compensation and general liability claims during the years ended September 30, 2012, 2011 and 2010 were as follows:

Description	2012	2011	2010
Balance, beginning of year	$ 9,504	$ 631	$ 2,285
Current year increase in ROCIP liability	3,821	11,195	3,117
ROCIP administration and claim payments	(2,993)	(2,322)	(4,771)
Balance, end of year	$ 10,332	$ 9,504	$ 631

(d) Risk Management

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Effective April 7, 1998, the Authority purchased certain commercial insurance coverage. Prior to that date, the Authority was either self-insured or covered under District programs. For each of the five most recent years, settlement of claims has not exceeded insurance coverage.

The Authority has purchased $1,000,000 property coverage (Property Policy) to protect its owned or leased facilities, buildings and contents. Except for catastrophic on-site protection provided on the Property Policy, the Authority self-insures its fleet of vehicles.

The deductible for each claim for buildings and contents is $1,000. Off-site watercraft and specified equipment are insured under an Inland Marine Policy. Deductibles range from $10 to $25 on this policy for each occurrence.

(In $ thousands)

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

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

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

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

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

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

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

Changes in the Authority's estimated risk management liabilities related to workers' compensation and general liability claims during the years ended September 30, 2012, 2011 and 2010 were as follows:

Description	2012	2011	2010
Balance, beginning of year	$ 12,260	$ 12,384	$ 12,243
Current year claims and changes in estimates	2,333	2,318	3,181
Claim payments	(2,140)	(2,442)	(3,040)
Balance, end of year	$ 12,453	$ 12,260	$ 12,384

(In $ thousands)

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

(e) Construction Commitments

Contractual commitments for utility plant construction and capital equipment for the years ended September 30, 2012 and 2011 were $1,041,086 and $1,042,732, respectively. Construction commitments are not recorded in the financial statements.

Description	2012	2011
Total contractual commitments	$ 1,042,732	$ 365,084
Additional commitments (less) work performed and retainage	(1,646)	677,648
Outstanding contract commitments	$ 1,041,086	$ 1,042,732

(f) Lease Commitments

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

The Authority's rental expenses for the years ended September 30, 2012 and 2011 were as follows:

Description	2012	2011
Facilities leases	$ 1,553	$ 1,364
Automobile equipment leases	20	2
Machinery leases	68	413
Total	$ 1,641	$ 1,779

Future minimum noncancelable lease payments on existing operating leases at September 30, 2012, which have an initial term of one year or more, are as follows.

Future Minimum Lease Payments	
2013	$ 1,018
2014	1,085
2015	1,081
2016	1,113
2017	1,170
Thereafter	1,051
Total	$ 6,518

(13) Related Party and Similar Transactions

The enabling legislation, described in Note 1, established that the District would pay for water and wastewater services. The Authority recorded revenues of $18,213 and $17,827 from the District government and $6,500 and $7,296 from the District of Columbia Housing Authority ("DCHA") for fiscal years 2012 and 2011, 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.

The Authority recorded an expense of $16,882 for payments-in-lieu-of-taxes to the District for services such as road repairs, fire protection, police protection, and other services for each of the years ended September 30, 2012 and 2011. The Authority also recorded an expense of $5,100 for the District's right-of-way fee, charged to all area utilities for infrastructure occupancy in public streets, for each of the years ended September 30, 2012 and 2011.

The amounts due from / (to) the District government as of September 30, 2012 and 2011 were $1,491 and ($1,980), respectively. The amount due from the District at September 30, 2012 includes approximately $2,800 billings to the District's Department of Transportation (DDOT) for job inspections and approximately $1,190 in payables to DDOT for construction of DC Water infrastructure projects.

The District of Columbia Council created the Storm Water Compliance Amendment Act of 2000 which established the Authority as the Storm Water Administrator and a fund was established. The administration of the fund was transferred to the District Department of the Environment ("DDOE") in 2007. The Authority continues to bill and collect storm water fees as a separate item and transfers the funds to the DDOE quarterly. The Authority incurred $757 and $821 of reimbursable expenses for years ended September 30, 2012 and 2011, respectively.

Additionally, the Authority had a net payable of $473 and $417 to the Storm Water Fund for years ended September 30, 2012 and 2011, respectively. These amounts are netted to arrive at the amounts due from (to) the District government on the Statements of Net Assets.

(14) Employee Benefits

(a) Defined Benefit Plans

Employees hired prior to October 1, 1987 participate in certain federal benefit plans administered by the federal government's Office of Personnel Management ("OPM"). 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 fiscal year 2012, there were 208 DC Water employees covered by these plans. The OPM issues a publically available financial report that includes financial statements and required supplementary information, which may be obtained at www.opm.gov.

(14) Employee Benefits (Continued)

Employees and the Authority each contribute a percentage of the employees' salaries to the Federal government, which administers the plans. During fiscal years 2012, 2011 and 2010, the Authority's contributions to the plans were $1,061, $1,116 and $1,169, respectively. These amounts were 100 percent of the required contributions under the plans for each of the fiscal years presented.

The required percentage of salaries to be contributed by the employees was 7.00 percent for each of the three fiscal years ended 2012. The required percentage of salaries to be contributed by the Authority was also 7.0 percent for each of the three fiscal years ended 2012.

(b) Defined Contribution Plans

Defined Contribution Plan - Employees who were hired after September 30, 1987, participate in the U.S. Social Security system and a defined contribution plan sponsored by the Authority. The District of Columbia Water and Sewer Authority Defined Contribution Plan is a qualified trust under Internal Revenue Code Section 401(a). During fiscal years 2012, 2011 and 2010, the Authority's contribution was seven percent of base pay up to the social security wage base, plus 5% of base pay in excess of the social security wage base for each eligible employee. Employees do not contribute to the plan. Employees become 100 percent vested in their account balance after three years of service.

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

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

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

During fiscal years 2012, 2011 and 2010, the Authority's contributions to both defined contribution plans were $5,453, $5,225 and $4,182, respectively.

(c) Post-Employment Insurance Plans

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

(14) Employee Benefits (Continued)

(d) Retirement Health Savings Plan

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

(15) Subsequent Events

In July 2013, the Authority issued $300,000 of subordinated lien public utility revenue bonds with interest rates ranging from 4.75% to 5.0%, maturing in 2049 to fund the Authority's capital improvement program. Gross proceeds from the Series 2013A bonds totaled $298,921, including $1,014 of original issue premium and $2,093 of underwriter's discount and cost of issuance.

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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 2003 - 2012
($000)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Invested in utility plant, net of related debt	$584,639	$655,546	$718,899	$748,181	$775,964	$ 741,588	$ 782,316	$ 833,717	$ 891,786	$ 975,933
Restricted	-	-	307	1,323	6,267	8,297	10,244	17,257	26,825	27,297
Unrestricted	219,138	176,350	159,379	180,160	189,490	259,564	214,819	164,404	141,538	142,259
Total net assets	$803,777	$831,896	$878,585	$929,664	$971,721	$1,009,449	$1,007,379	$1,015,378	$1,060,149	$1,145,489

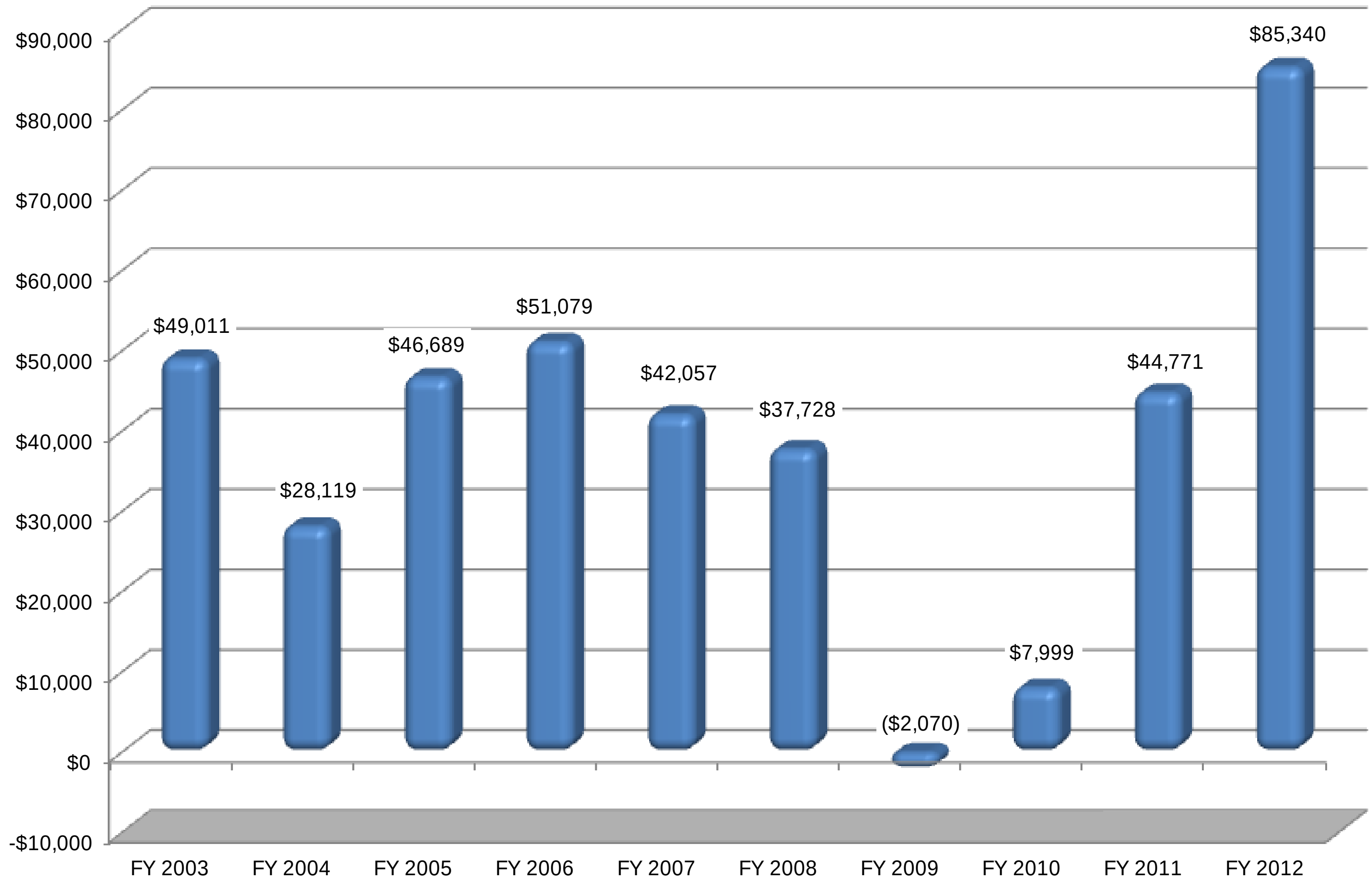
Source: FY 2003 - 2012 Statements of Net Asset.

EXHIBIT 2: CHANGE IN NET ASSETS
FY 2003 - 2012
($000)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Operating revenues										
Residential, commercial and multi-family customers	$ 147,870	$ 159,165	$ 166,045	$ 174,159	$ 182,327	$ 183,553	$ 191,543	$ 209,796	$ 241,475	$ 256,846
Federal government	26,884	26,444	24,770	31,100	30,751	35,888	35,195	37,845	43,033	48,381
District government and DC Housing Authority	16,072	15,464	15,436	16,463	17,266	16,193	16,804	21,947	25,123	24,713
Charges for wholesale wastewater treatment	61,682	60,834	62,126	67,966	73,378	82,854	85,519	87,505	90,414	94,549
Other	3,287	2,427	4,366	3,845	2,735	3,846	3,337	6,655	8,210	16,077
Total Operating Revenues	255,795	264,334	272,743	293,533	306,457	322,334	332,398	363,748	408,255	440,566
Operating expenses										
Personnel services	64,091	62,449	64,038	66,942	70,956	75,838	82,248	88,210	93,240	97,784
Contractual services	63,065	65,446	57,835	54,188	56,568	58,730	64,513	69,497	71,055	64,939
Chemicals, supplies and small equipment	14,768	17,384	22,062	23,482	24,510	28,816	29,074	29,003	28,188	28,815
Utilities and rent	20,804	22,217	25,562	31,151	32,238	37,843	32,813	29,929	29,429	26,786
Depreciation and amortization	39,524	40,500	41,069	44,149	49,355	54,418	59,291	64,425	70,209	74,342
Water purchases	13,723	20,692	19,625	22,745	24,042	25,746	25,371	27,587	27,170	28,389
Payment in lieu of taxes and right of way fee	15,513	15,778	16,307	16,923	17,514	17,525	19,183	20,474	21,982	21,982
Total operating expenses	231,488	244,466	246,498	259,580	275,183	298,916	312,493	329,125	341,273	343,037
Operating income	24,307	19,868	26,245	33,953	31,274	23,418	19,905	34,623	66,982	97,529
Non-operating revenue (expenses)										
Interest income	2,894	2,856	11,281	13,080	16,224	11,444	1,704	1,343	2,036	749
Interest expense and fiscal charges	(17,816)	(26,060)	(25,415)	(20,881)	(30,524)	(39,342)	(51,431)	(58,370)	(71,621)	(71,895)
Total non-operating revenue (expenses)	(14,922)	(23,204)	(14,134)	(7,801)	(14,300)	(27,898)	(49,727)	(57,027)	(69,585)	(71,146)
Change in net assets before Federal grants and contributions	9,385	(3,336)	12,111	26,152	16,974	(4,480)	(29,822)	(22,404)	(2,603)	26,383
Contributions of capital from Federal government	39,626	31,455	34,578	24,927	25,083	42,208	27,752	30,403	47,374	58,957
Change in net assets	49,011	28,119	46,689	51,079	42,057	37,728	(2,070)	7,999	44,771	85,340
Net assets, beginning of year	754,766	803,777	831,896	878,585	929,664	971,721	1,009,449	1,007,379	1,015,378	1,060,149
Net assets, end of year	$ 803,777	$ 831,896	$ 878,585	$ 929,664	$ 971,721	$ 1,009,449	$ 1,007,379	$ 1,015,378	$ 1,060,149	$ 1,145,489

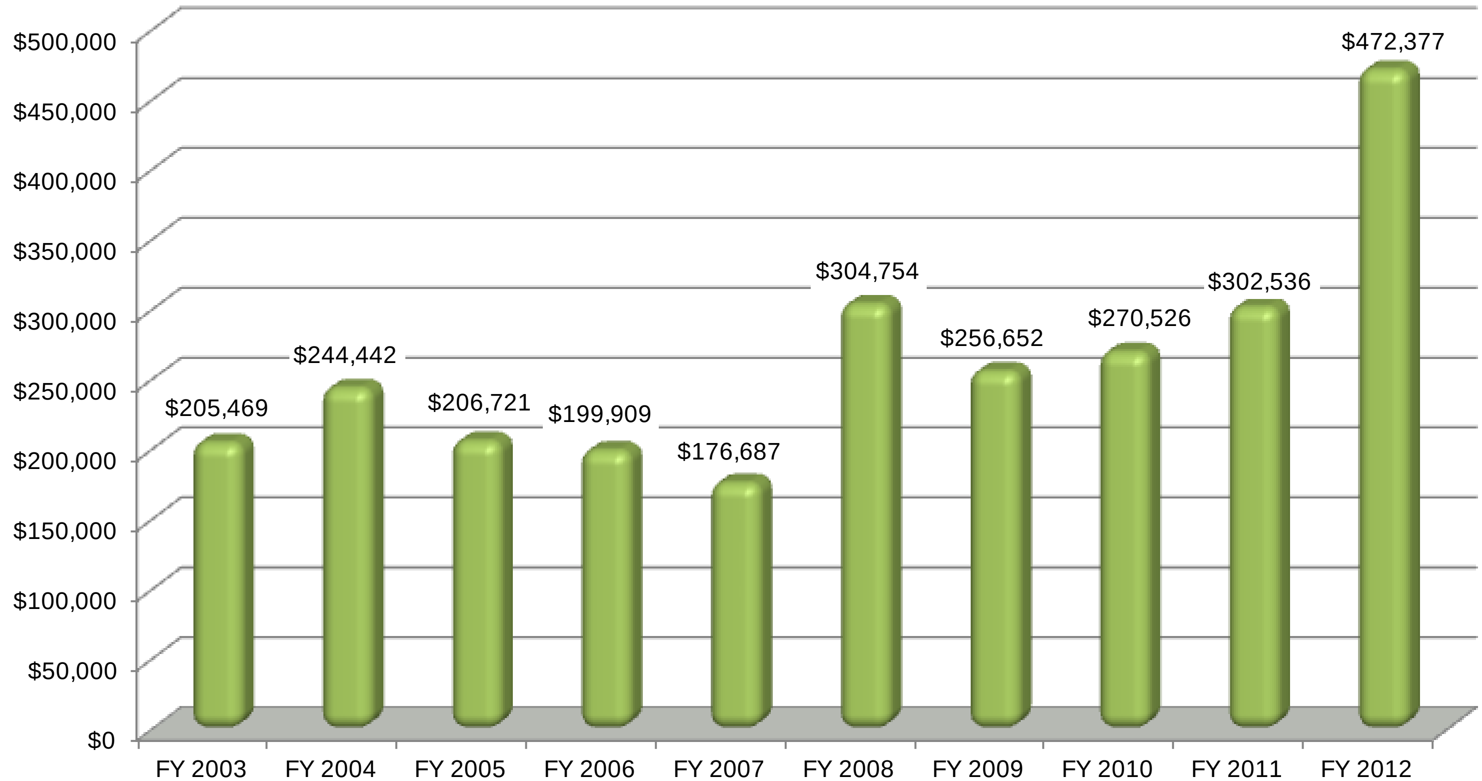
Source: FY 2003 - 2012 Statements of Revenues, Expenses and Changes in Net Assets.

EXHIBIT 3: CHANGE IN NET ASSETS
FY 2003 - 2012
($000)



Source: FY 2003 – 2012 Audited Statements of Revenue, Expenses and Changes in Net Assets.

EXHIBIT 4: CAPITAL DISBURSEMENTS
FY 2003 - 2012
($000)



Note: These disbursements include DC Water's share of Washington Aqueduct's capital disbursements.

Source: FY 2003 – 2012 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 REVENUES AND RATE INCREASES FY 2003 - 2012 ($000)

	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Operating Revenues:										
Retail Customers										
Residential, Commercial and Multifamily	$ 147,870	$ 159,165	$ 166,045	$ 174,159	$ 182,327	$ 183,553	$ 191,543	$ 209,796	$ 241,475	$ 256,846
Federal Government	26,884	26,444	24,770	31,100	30,751	35,888	35,195	37,845	43,033	48,381
DC Government	9,943	9,129	8,968	9,617	10,580	9,391	10,116	15,628	17,827	18,213
DC Housing Authority	6,129	6,335	6,468	6,846	6,686	6,802	6,688	6,319	7,296	6,500
Other Revenues	3,287	2,427	4,366	3,845	2,735	3,846	3,337	6,655	8,210	16,077
Total Retail Customers	194,113	203,500	210,617	225,567	233,079	239,480	246,879	276,243	317,841	346,017
Wholesale Customers										
Charges for Wholesale Wastewater Treatment	61,682	60,834	62,126	67,966	73,378	82,854	85,519	87,505	90,414	94,549
Total Operating Revenues	255,795	264,334	272,743	293,533	306,457	322,334	332,398	363,748	408,255	440,566
Nonoperating Revenues:										
Interest Income	2,894	2,856	11,281	13,080	16,224	11,444	2,285	1,342	2,036	749
Total Operating and Nonoperating Revenues:	$ 258,689	$ 267,190	$ 284,024	$ 306,613	$ 322,681	$ 333,778	$ 334,683	$ 365,090	$ 410,291	$ 441,315
Retail Rate Increases	-5.25%	2.50%	5.00%	5.50%	5.00%	5.50%	7.50%	9.00%	12.50%	4.50%

Source: FY 2003 - 2012 Audited Statements of Revenue, Expenses and Changes in Net Assets

EXHIBIT 6: NUMBER AND TYPE OF CUSTOMER ACCOUNTS FY 2003 – 2012

TYPE OF ACCOUNTS	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Retail Accounts										
Residential	101,783	102,188	102,418	102,655	103,263	103,674	103,665	103,315	103,857	103,887
Commercial [A]	18,111	18,283	18,337	18,489	18,513	18,528	19,060	19,049	19,165	19,242
Governmental										
Federal	538	529	526	526	531	533	540	546	549	538
District of Columbia	565	569	565	582	589	590	606	603	607	605
DC Housing Authority	1,469	1,196	1,179	1,173	1,175	1,218	1,220	1,431	1,431	1,435
Total Retail Accounts	122,466	122,765	123,025	123,425	124,071	124,543	125,091	124,944	125,609	125,707
DC Water	29	29	29	29	30	30	30	35	35	36
Washington Aqueduct		1	1	1	1	2	2	1	2	2
Wholesale	7	7	7	7	7	7	7	7	7	7
Total Number of Accounts	122,502	122,802	123,062	123,462	124,109	124,582	125,130	124,987	125,653	125,752

[A] Included in commercial accounts are exempt accounts

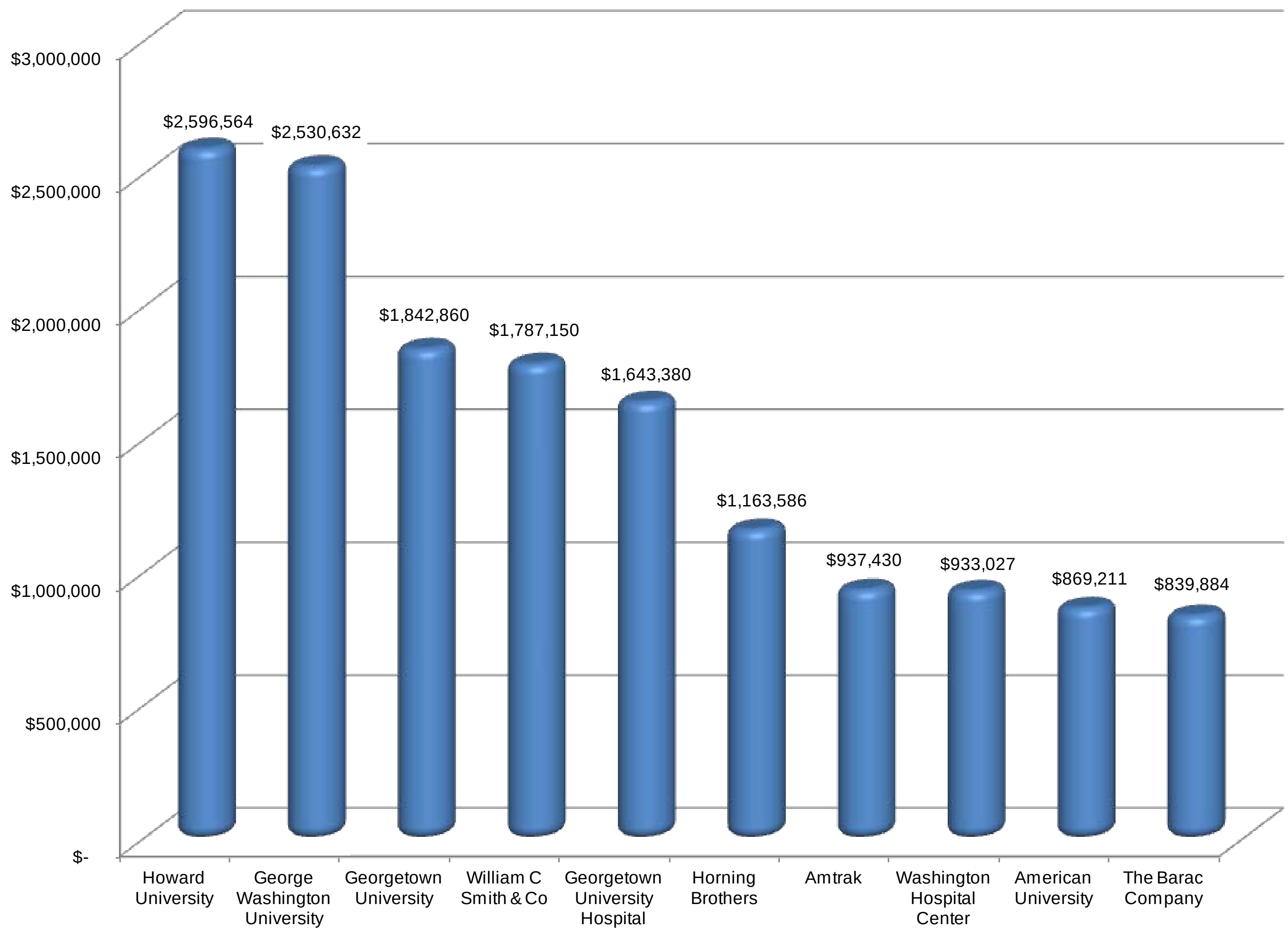
Source: D.C. Water Department of Customer Service

EXHIBIT 7: FIVE LARGEST COMMERCIAL CUSTOMER ACCOUNTS BY REVENUES FY 2003 - 2012

CUSTOMER	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Howard University	$ 1,788,134	$1,744,217	$1,612,565	$1,584,501	$1,751,425	$1,706,124	$1,640,815	$1,735,598	$1,862,880	$2,596,564
George Washington University	1,036,396	1,382,116	1,601,369	1,519,286	1,570,881	2,020,849	1,777,659	1,618,618	2,122,176	2,530,632
Georgetown University	-	1,373,516	971,014	723,604	1,068,115	2,055,644	2,135,768	2,100,705	2,238,766	1,842,860
William C Smith & Co	-	-	-	-	-	-	-	1,505,145	1,709,334	1,787,150
Georgetown University Hospital	770,637	583,335	-	-	821,239	-	-	-	1,371,035	1,643,380
Washington Hospital Center	530,154	741,166	800,082	782,404	-	-	-	1,113,672	-	-
American University	-	-	738,628	-	-	948,708	1,524,262	-	-	-
Marriott Wordman Park Hotel	-	-	-	-	-	-	1,037,663	-	-	-
Children's Hospital	-	-	-	-	-	841,774	-	-	-	-
Washington Hilton Hotel	-	-	-	716,612	753,277	-	-	-	-	-
Soldiers' Home	649,981	-	-	-	-	-	-	-	-	-

Source: DC Water Department of Customer Service

EXHIBIT 8: TEN LARGEST COMMERCIAL CUSTOMER ACCOUNTS BY REVENUES FY 2012



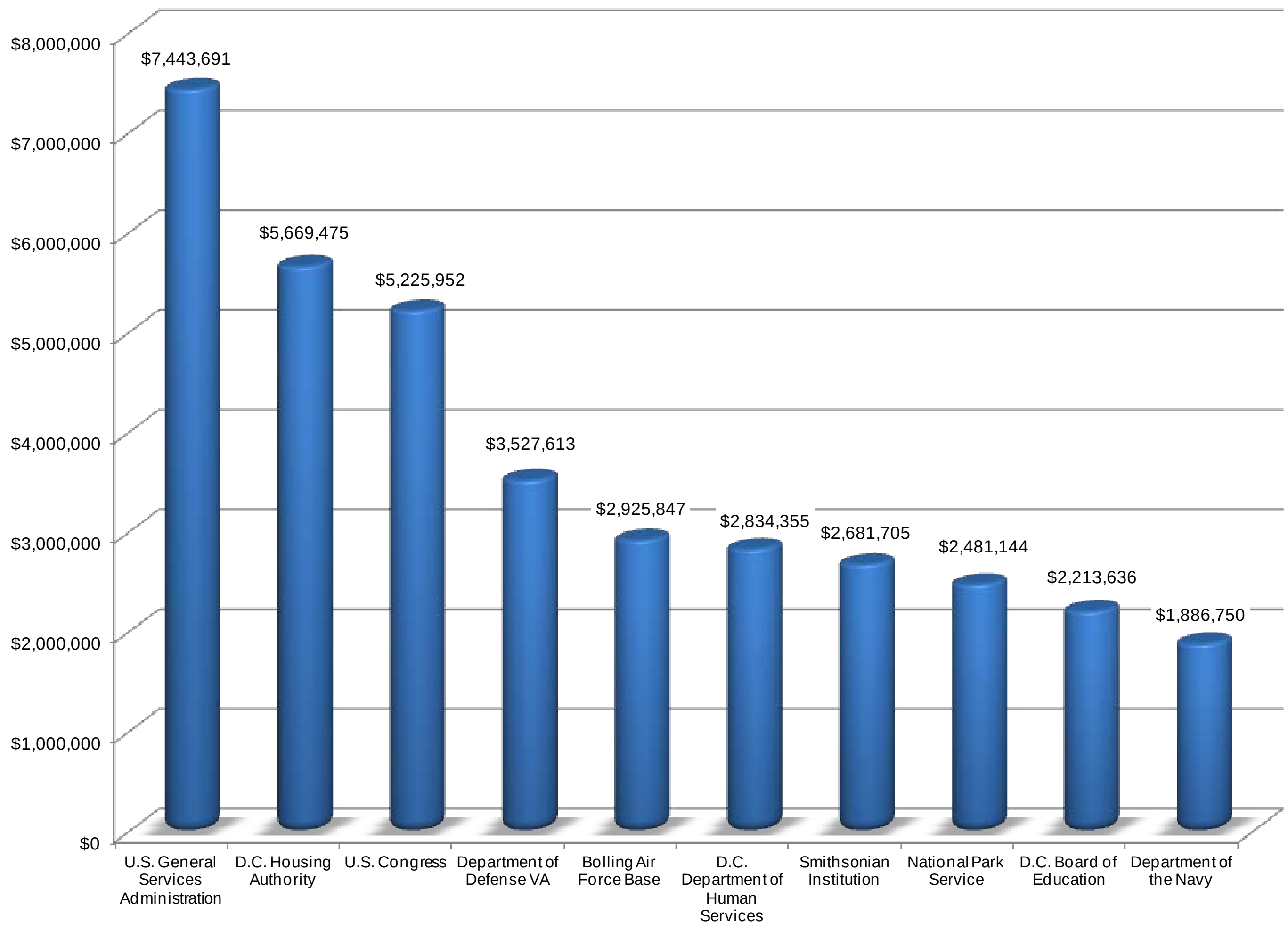
Source: DC Water Department of Customer Service

EXHIBIT 9: FIVE LARGEST GOVERNMENT CUSTOMER ACCOUNTS BY REVENUES FY 2003 – 2012

CUSTOMER	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
U.S. General Services Administration	$7,595,917	$8,577,887	$8,092,600	$7,916,072	$7,324,115	$8,199,985	$6,773,195	$6,575,977	$6,877,787	$7,443,691
D.C. Housing Authority	6,292,037	5,871,752	6,036,527	6,514,112	6,122,875	6,339,434	6,266,786	5,750,927	6,277,722	5,669,475
U.S. Congress	2,592,498	3,014,968	2,655,930	3,320,538	-	4,096,695	4,028,564	3,559,903	4,214,640	5,225,952
Department Defense VA	-	-	-	-	-	-	-	2,759,264	-	3,527,613
Bolling Air Force Base	-	-	-	-	-	-	-	-	-	2,925,847
Smithsonian Institution	-	2,518,991	-	3,443,695	3,196,837	4,325,576	3,605,478	-	3,997,326	-
Department of the Navy	-	-	-	-	-	-	3,504,547	2,851,611	3,832,568	-
Department of Defense DC	-	-	2,184,982	-	3,907,312	3,292,402	-	-	-	-
D.C. Board of Education	2,453,574	2,728,892	2,669,214	2,934,220	3,344,959	-	-	-	-	-
D.C. Department of Human Services	2,456,904	-	-	-	-	-	-	-	-	-

Source: DC Water Department of Customer Service

EXHIBIT 10: TEN LARGEST GOVERNMENT CUSTOMER ACCOUNTS BY REVENUES FY 2012



Source: DC Water Department of Customer Service

EXHIBIT 11: HISTORY OF RETAIL WATER AND SEWER RATES (PER Ccf) FY 1980 – 2012

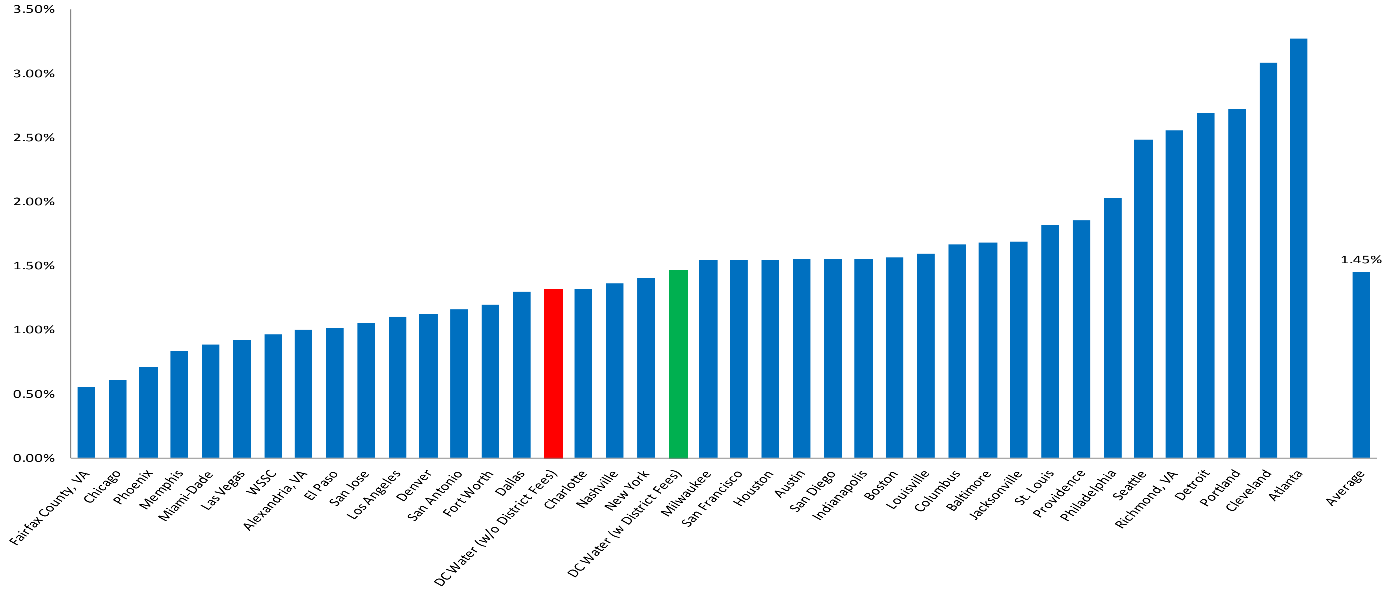
FISCAL YEARS	METERING FEE	DISTRICT PUBLIC SPACE OCCUPANCY FEE AND PILOT	WATER CONSUMPTION RATE	SEWER CONSUMPTION RATE	COMBINED CONSUMPTION RATE	IMPERVIOUS SURFACE AREA CHARGE [3]	AVERAGE MONTHLY BILL [2]
1980-1983	$ -	$ -	$ 0.460	$ 0.677	$ 1.137	$ -	$ 7.607
1984	-	-	0.537	0.998	1.535	-	10.269
1985	-	-	0.698	1.297	1.995	-	13.347
1986	-	-	0.873	1.621	2.494	-	16.685
1987-1996	-	-	1.004	1.864	2.868	-	19.187
1997	-	-	1.380	2.710	4.090	-	27.362
1998	-	-	1.380	2.710	4.090	-	27.362
1999	-	-	1.380	2.710	4.090	-	27.362
2000	-	-	1.576	2.710	4.286	-	28.673
2001-2002	-	-	1.786	2.710	4.496	-	30.078
2003 (1)	2.010	0.360	1.690	2.570	4.260	-	32.918
2004	2.010	0.360	1.740	2.630	4.370	-	33.654
2005	2.010	0.360	1.830	2.760	4.590	-	35.126
2006	2.010	0.420	1.930	2.910	4.840	-	37.199
2007	2.010	0.440	2.030	3.060	5.090	-	39.006
2008	2.010	0.470	2.140	3.230	5.370	-	41.080
2009	2.010	0.520	2.300	3.310	5.610	1.240	44.260
2010	2.010	0.570	2.510	3.610	6.120	2.200	48.966
2011	3.860	0.630	3.100	3.790	6.890	3.450	57.619
2012	3.860	0.640	3.240	3.960	7.200	6.640	62.950

[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 6.69 Ccf per month.

[3] Per Equivalent Residential Unit (ERU).

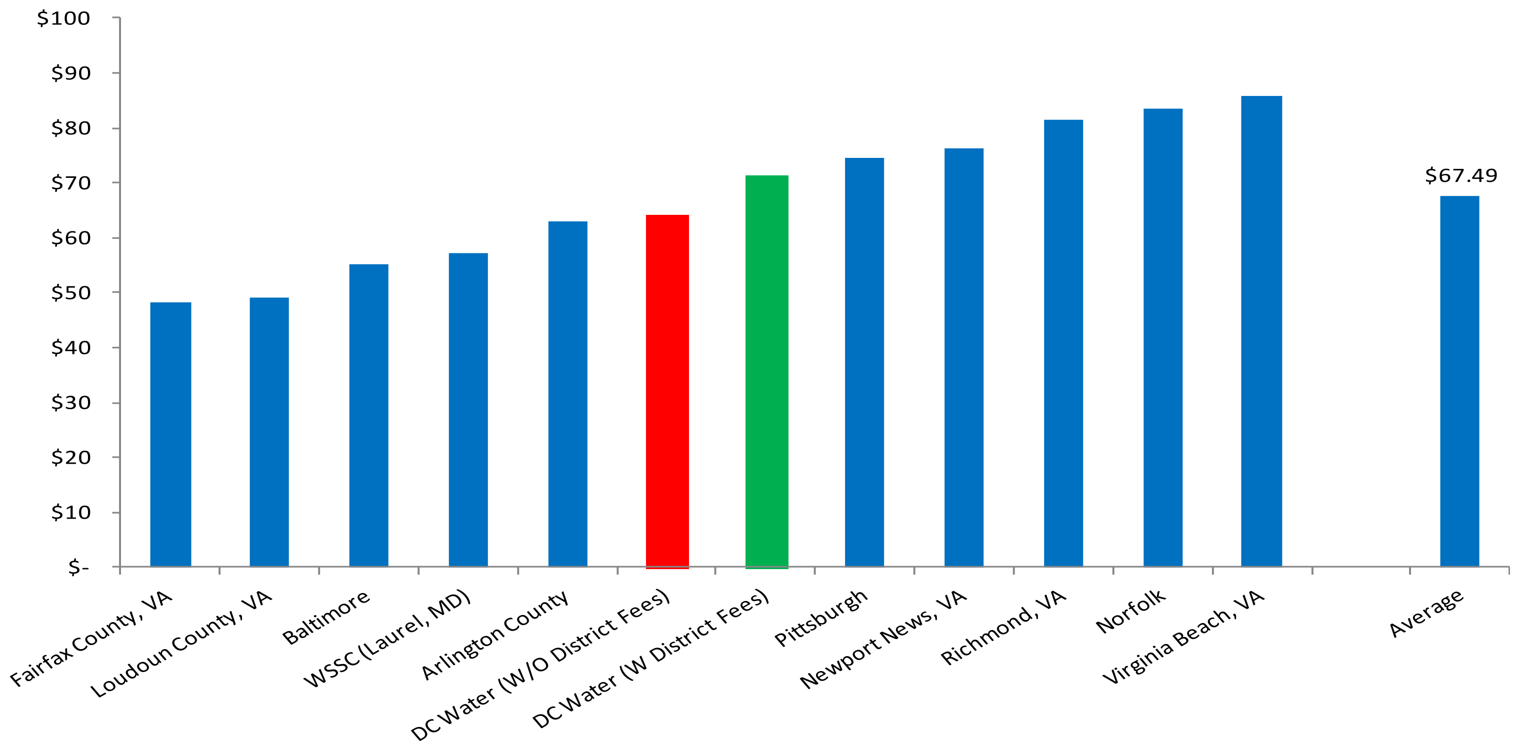
EXHIBIT 12: RESIDENTIAL WATER AND WASTEWATER BILL COMPARISONS AS A PERCENTAGE OF MEDIAN HOUSEHOLD INCOME (1)



(1) This analysis is based on a single family residential monthly bill as a percentage of median household income for large national utilities based on rates in effect fall 2012.

Source: DC Water Department of Finance & Budget

EXHIBIT 13: RESIDENTIAL WATER AND WASTEWATER BILL COMPARISONS TO LOCAL AND REGIONAL UTILITIES (1)



(1) This analysis represents single family residential average monthly bill based on rates in effect fall 2011.

Source: DC Water Department of Finance & Budget

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 14: TOTAL OUTSTANDING DEBT
FY 2003 - 2012
($000, EXCEPT PER CAPITA)

	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Senior Debt										
1998 Public Utility Revenue Bonds	$ 266,120	$ 266,120	$ 266,120	$ 266,120	$ 266,120	$ 257,645	$ 248,705	$ 239,270	$ 229,315	$ 218,815
2009 Series A Public Utility Revenue Bonds	-	-	-	-	-	-	300,000	300,000	298,225	296,205
Notes Payable to the Federal Government for Washington Aqueduct	1,173	-	-	-	-	-	-	-	-	-
Total Senior Debt	267,293	266,120	266,120	266,120	266,120	257,645	548,705	539,270	527,540	515,020
Subordinate Debt										
2012 Series A Public Utility Revenue Bonds	-	-	-	-	-	-	-	-	-	177,430
2012 Series B-1 Public Utility Revenue Bonds	-	-	-	-	-	-	-	-	-	52,690
2012 Series B-2 Public Utility Revenue Bonds	-	-	-	-	-	-	-	-	-	47,310
2012 Series C Public Utility Revenue Bonds	-	-	-	-	-	-	-	-	-	163,215
2010 Series A Public Utility Revenue Bonds	-	-	-	-	-	-	-	-	300,000	300,000
2008 Series A Public Utility Revenue Bonds	-	-	-	-	-	290,375	290,375	290,000	285,540	279,955
2007 Series A Public Utility Revenue Bonds	-	-	-	-	218,715	218,715	218,715	218,715	218,715	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	176,220	176,220	176,220	176,220	-
Notes Payable to the Federal Government for Bloomington Dam	16,895	16,640	16,376	16,104	15,823	15,532	15,232	14,922	14,603	14,273
DC General Obligation Bonds	65,645	51,215	35,385	22,299	15,060	9,905	5,180	1,490	245	-
Notes Payable to WSSC for Little Seneca	360	357	317	285	251	216	179	142	104	63
Total Subordinate Debt	259,120	539,432	523,298	509,908	780,069	710,963	705,901	701,489	995,427	1,253,651
Total Debt	$ 526,413	$ 805,552	$ 789,418	$ 776,028	$ 1,046,189	$ 968,608	$ 1,254,606	$ 1,240,759	$ 1,522,967	$ 1,768,671
Debt per capita	$ 926	$ 1,419	$ 1,392	$ 1,360	$ 1,821	$ 1,669	$ 2,118	$ 2,051	$ 2,464	N/A

N/A: Population not available

Source: D.C. Water Department of Finance & Budget

EXHIBIT 15: DEBT SERVICE COVERAGE AND DEBT RATIOS FY 2003 - 2012

	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Debt Service Coverage:										
Senior debt service coverage	5.07	4.60	5.62	6.24	3.43	4.68	2.97	2.75	3.21	3.60
Subordinate debt service coverage	2.76	1.78	2.11	2.72	2.07	1.86	1.61	1.71	1.82	1.90
Combined debt service coverage	2.05	1.52	1.76	2.13	1.58	1.57	1.34	1.36	1.45	1.52
Debt service as percentage of total operating expenditures	27.0%	29.0%	33.0%	35.0%	36.0%	21.0%	22.9%	24.4%	26.9%	28.5%
Debt service as percentage of fixed assets	34.1%	46.2%	41.2%	37.6%	47.7%	43.0%	48.8%	44.7%	49.9%	51.1%

Source: D.C. Water Department of Finance & Budget

EXHIBIT 16: CALCULATION OF DEBT SERVICE COVERAGE FY 2012 ($000)

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

ANALYSIS OF CASH FLOWS AND RESERVE REQUIREMENTS	
Retail revenues	295,247
Wholesale revenues	75,240
Other non-operating revenues	47,136
(Contributions to) / Transfers from Rate Stabilization Fund	(11,250)
TOTAL REVENUES	406,373
OPERATING EXPENSES	248,622
REVENUES LESS OPERATING EXPENSES	157,751
SENIOR DEBT SERVICE	41,918
SUBORDINATE DEBT SERVICE	57,354
TOTAL DEBT SERVICE	99,272
PAYMENT IN LIEU OF TAXES / RIGHT OF WAY FEE	17,514
ANNUAL BALANCE FROM OPERATIONS	40,965
BEGINNING CASH RESERVE BALANCE	150,035
CASH RESERVE BALANCE BREAKDOWN	
Beginning Undesignated Reserve Balance	73,522
Additions to / (Payments from) Undesignated Reserve	
Annual balance from operations	40,965
Prior year federal billing reconciliation	(1,000)
(Refund to) / Payment from wholesale customers	(5,661)
Pay-as-you-go capital financing	(39,621)
Customer Rebate	(4,468)
(Additions to) / Transfers from 60-Day Operating Reserve	395
Ending Undesignated Reserve Balance	64,132
Beginning 60-Day Operating Reserve Balance	41,514
Additions to / (Transfers from) 60-Day Operating Reserve	(395)
Ending 60-Day Operating Reserve Balance	41,119
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	140,251
Cash Reserve Requirement Based on Board Policy	125,500
Beginning Rate Stabilization Fund Balance	16,700
Additions to / Transfers from Rate Stabilization Fund	11,250
Ending Rate Stabilization Fund Balance	27,950
ANALYSIS OF DEBT SERVICE COVERAGE	
CALCULATION OF NET REVENUES AVAILABLE FOR SENIOR DEBT SERVICE	
Revenues Less Operating Expenses	157,751
Prior year federal billing reconciliation	(1,000)
(Refund to) / Payment from wholesale customers	(5,661)
NET REVENUES AVAILABLE FOR SENIOR DEBT SERVICE	151,091
SENIOR DEBT SERVICE COVERAGE	3.60x
CALCULATION OF SUBORDINATE DEBT SERVICE COVERAGE	
Net revenues available for senior debt service	151,091
Less senior debt service	(41,918)
NET REVENUES AVAILABLE FOR SUBORDINATE DEBT SERVICE	109,173
SUBORDINATE DEBT SERVICE COVERAGE	1.90x
COMBINED DEBT SERVICE COVERAGE	1.52x

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 17: POPULATION OF SERVICE AREA JURISDICTIONS
FY 2003 - 2012

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
District of Columbia	568,502	567,754	567,136	570,681	574,404	580,236	592,228	604,912	617,996	N/A
Montgomery County	910,498	914,991	921,531	926,492	931,694	942,748	959,013	975,439	989,794	N/A
Prince George's County	837,648	845,950	853,271	852,097	849,916	850,167	856,161	865,219	871,233	N/A
Fairfax County	1,035,184	1,042,687	1,051,190	1,051,240	1,060,356	1,077,509	1,099,347	1,121,054	1,135,992	N/A
Loudoun County	220,366	238,299	254,909	267,194	279,704	292,570	303,661	315,305	325,405	N/A

N/A: Not Available

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

EXHIBIT 18: PERSONAL INCOME OF SERVICE AREA JURISDICTIONS FY 2003 – 2012

($000)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
District of Columbia	27,544,363	29,728,668	31,964,976	34,786,968	37,525,123	41,014,705	40,326,374	43,082,099	45,597,835	N/A
Montgomery County	48,650,108	52,238,928	55,846,295	60,372,289	62,643,745	65,845,731	62,962,957	65,904,393	69,050,166	N/A
Prince George's County	26,644,565	28,115,765	29,434,782	30,306,871	31,753,583	33,026,742	33,156,357	33,888,631	35,036,640	N/A
Fairfax County	56,954,646	60,930,780	65,598,555	69,554,932	73,256,103	75,302,775	71,954,372	75,161,493	78,392,046	N/A
Loudoun County	8,361,268	9,384,197	10,854,613	12,394,528	13,875,373	15,147,096	15,340,608	16,971,112	18,626,729	N/A

N/A: Not Available

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

EXHIBIT 19: PER CAPITA PERSONAL INCOME OF SERVICE AREA JURISDICTIONS FY 2003 – 2012

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
District of Columbia	48,451	52,362	56,362	60,957	65,329	70,686	68,093	71,220	73,783	N/A
Montgomery County	53,432	57,092	60,602	65,162	67,236	69,844	65,654	67,564	69,762	N/A
Prince George's County	31,809	33,236	34,496	35,567	37,361	38,847	38,727	39,168	40,215	N/A
Fairfax County	55,019	58,436	62,404	66,165	69,086	69,886	65,452	67,045	69,008	N/A
Loudoun County	37,943	39,380	42,582	46,388	49,607	51,773	50,519	53,824	57,242	N/A

N/A: Not Available

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

EXHIBIT 20: UNEMPLOYMENT RATES
FY 2003 – 2012

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
District of Columbia	7.0%	7.5%	6.5%	5.7%	5.5%	6.6%	9.7%	10.1%	10.2%	8.2%
Montgomery County	3.3%	3.2%	3.1%	2.8%	2.6%	3.2%	5.6%	5.8%	5.2%	4.7%
Prince George's County	4.7%	4.5%	4.5%	4.1%	3.6%	4.4%	7.3%	7.7%	7.0%	6.5%
Fairfax County	3.1%	2.7%	2.5%	2.2%	2.2%	2.9%	4.9%	4.9%	4.3%	3.6%
Loudoun County	3.2%	2.6%	2.4%	2.1%	2.1%	2.8%	4.8%	4.8%	4.2%	3.7%

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

EXHIBIT 21: EMPLOYMENT BY SECTOR

	DISTRICT OF COLUMBIA	MONTGOMERY COUNTY	PRINCE GEORGE'S COUNTY	FAIRFAX COUNTY	LOUDOUN COUNTY
Agriculture, Forestry, Mining, etc.	0.07%	0.27%	0.22%	0.13%	0.86%
Construction	1.77%	5.36%	8.02%	4.75%	8.93%
Manufacturing	0.18%	2.00%	2.11%	1.01%	2.74%
Transportation & Public Utilities	0.96%	1.38%	3.51%	1.58%	6.25%
Wholesale & Retail Trade	3.19%	9.88%	13.74%	8.03%	12.78%
Finance, Insurance & Real Estate	5.66%	12.09%	7.52%	10.05%	8.77%
Services	56.26%	54.46%	41.79%	61.12%	47.39%
Government (Federal, State & Local)	29.69%	13.51%	21.22%	12.37%	11.74%
Military	2.20%	1.06%	1.86%	0.95%	0.55%
TOTAL	100.00%	100.00%	100.00%	100.00%	100.00%

Source: U.S. Department of Commerce, Bureau of Economic Analysis
Latest available data is for 2011

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 perform.

EXHIBIT 22: WATER DELIVERED (PUMPED) AND BILLED (SOLD) FY 2003 – 2012

FISCAL YEAR	TREATED WATER DELIVERED (MG)	WATER BILLED (MG)	SOLD/PUMPED RATIO
2003	45,655	31,335	68.63%
2004	46,725	31,634	67.70%
2005	45,057	31,179	69.20%
2006	41,541	31,717	76.35%
2007	41,687	31,581	75.76%
2008	40,755	30,603	75.09%
2009	39,998	29,344	73.36%
2010	38,589	29,004	75.16%
2011	37,556	29,040	77.32%
2012	36,930	27,988	75.79%

Source: DC Water Department of Customer Service

EXHIBIT 23: WATER DEMAND
FY 2003 - 2012

FISCAL YEAR	ANNUAL DELIVERIES TO SYSTEM (MG)	AVERAGE DAY (MG)	MAXIMUM MONTH AVERAGE (MGD)	MAXIMUM DAY (MGD)	TOTAL ANNUAL WATER SOLD (MG)	AVERAGE DAY (MGD)
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
2008	40,755	111.7	130.1	150.5	30,603	83.8
2009	39,998	109.6	123.2	150.4	29,344	80.4
2010	38,589	105.7	130.5	146.9	29,004	79.5
2011	37,556	102.9	121.6	143.7	29,040	79.6
2012	36,930	100.9	125.3	142.9	27,988	76.5

Source: DC Water Department of Water Services and Washington Aqueduct

EXHIBIT 24: MISCELLANEOUS STATISTICS ABOUT AUTHORITY OPERATIONS
FY 2003 - 2012

	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Utilities and supplies per day at blue plains										
Electric power (kwh)	745,000	745,000	745,000	745,000	745,000	745,000	700,000	700,000	700,000	700,000
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	6,850	6,850	6,850	6,850	6,850	6,850	6,850	6,850	6,850
Sodium bisulfite (pounds)	5,600	5,600	5,600	5,600	5,600	5,600	5,600	5,600	5,600	5,600
Water (gallons)	525,000	525,000	525,000	525,000	525,000	525,000	525,000	525,000	525,000	525,000
Lime (tons, pounds)	83,500	72,050	72,050	72,050	72,050	72,050	72,050	72,050	72,050	72,050
Sodium hydroxide (pounds)	49,400	26,100	26,100	26,100	26,100	26,100	26,100	26,100	26,100	26,100
Methanol (gallons)	15,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000
Ferric chloride (10% Iron) (gallons)	10,500	12,900	12,900	12,900	12,900	12,900	12,900	12,900	12,900	12,900
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
Number of DC Water employees	981	931	923	920	948	961	1,000	1,004	1,032	1,051

EXHIBIT 24: MISCELLANEOUS STATISTICS ABOUT AUTHORITY OPERATIONS FY 2012 (Continued)

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 24: MISCELLANEOUS STATISTICS ABOUT AUTHORITY OPERATIONS FY 2012 (Continued)

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 25: SCHEDULE OF INSURANCE AS OF SEPTEMBER 30, 2012

TYPE OF COVERAGE	COMPANY	POLICY PERIOD	COVERAGE LIMITS
Blanket Property and Boiler & Machinery	Alliant Public Entity Property Insurance Program (PEPIP)	July 1, 2012 – July 1, 2013	$1,000,000,000 Blanket Buildings and Contents – (Specified Locations) and Mobile Equipment $100,000,000 Boiler and Machinery $25,000,000 Miscellaneous Locations $100,000,000 Earth Movement $100,000,000 Flood, except $25,000,000 Locations within 100 Year Flood Zone (e.g. Blue Plains) Terrorism: $550,000,000 per occurrence, $850,000,000 annual aggregate ($100,000,000 of occurrence and aggregate limit dedicated solely to DC Water) $25,000,000 Transit Per Shipment Deductibles: $1,000,000 Any Loss, except $10,000 Equipment
Fidelity & Crime Insurance	Travelers Insurance	July 1, 2012 – July 1, 2013	$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		$1,000,000 each accident Statutory WC Benefits Employer's Liability - $1,000,000 Each Accident; $1,000,000 Disease/ Employee
Excess Worker's Compensation Insurance	Safety National	July 1, 2012 – July 1, 2013	Unlimited - WC Benefits; $3,000,000 - Employer's Liability (Included - Terrorism) Retentions: $1,000,000/accident; $1,000,000 Disease/ Employee.
Excess General Liability, Automobile Liability, and Employers Liability Insurance	Alliant National Municipal Liability Program (ANML)	July 1, 2012 – July 1, 2013	$25,000,000 in excess of $1,000,000 (Included - Terrorism)
Excess Liability	Alliant Catastrophe Liability Insurance Program (CLIP)	July 1, 2012 – July 1, 2013	$75,000,000 in excess of $25,000,000 ($25,000,000 - Terrorism sublimit)
Public Official Liability	RSUI Indemnity / Hiscox Insurance Company	July 1, 2012 – July 1, 2013	$20,000,000 Each Loss / Aggregate Retentions: $250,000 per wrongful act
Fiduciary Liability	Travelers Insurance	June 1, 2012 – July 1, 2013	$3,000,000 Each Loss / Aggregate Deductible: $10,000 per claim

EXHIBIT 26: SUMMARY OF MAJOR PERMITS AND ADMINISTRATIVE ORDERS FY 2012

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.	September 30, 2015	In Compliance
National Pollutant Discharge Elimination System Municipal Separate Strom Sewer (MS4) Permit # DC0000221	Permit issued to Government of District of Columbia which prescribes certain actions to DC Water including: Responding to sanitary sewer overflows (SSO) Reporting SSOs that overflow to MS4 system to public health agencies Cleaning catch basins and removing trash from waterbodies Maintaining storm sewer system infrastructure Collection of stormwater fees	October 7, 2016	In Compliance
1995 Consent Decree Civil Action No.: 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 No.: 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 No.: 1:00CV00183TFH Civil Action No.: 02-2511 (TFH)	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	In Compliance
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
DC Department of Environment	Permit to construct the enhanced nitrogen removal facility	N/A	In Compliance
DC Department of Environment	Permit to construct biosolids project – main process train/combined heat & power/final dewatering facility	N/A	In Compliance

EXHIBIT 27: BUDGETARY COMPARISON SCHEDULE FOR FISCAL YEAR 2012

	Approved Budget	Actual Expenditure	Variance
Expenses:			
Personnel services	$ 113,354	$ 107,334	$ 6,020
Contractual services	78,826	64,939	13,887
Water purchases	33,000	28,389	4,611
Chemicals and supplies	29,946	26,744	3,202
Utilities and rent	37,447	26,786	10,661
Small equipment	995	1,139	(144)
Interest and fiscal charges (debt service)	105,387	99,272	6,115
Payment in lieu of tax & right of way fee	23,401	21,982	1,419
Total budget expenses	$ 422,356	$ 376,585	$ 45,771
Increase (decrease) to reconcile budgetary to GAAP			
Personnel expense transferred to capital fund		(9,550)	
Depreciation expense		74,342	
Long-term debt principal payments		(18,721)	
Long-term debt - capitalized interest		(15,150)	
Build america bonds subsidy		5,710	
Long-term debt - transfers to escrow		(361)	
Inventory issuance		932	
Non-budgeted expenses		1,145	
Total GAAP expenses		$ 414,932	

EXHIBIT 27: BUDGETARY COMPARISON SCHEDULE FOR FISCAL YEAR 2012 (Continued)

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 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.