



Introductory Section

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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, 2009

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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BOARD OF DIRECTORS
AS OF SEPTEMBER 30, 2010

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JURISDICTION

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David J. Bardin	District of Columbia
F. Alexis H. Roberson.....	District of Columbia
Alan J. Roth	District of Columbia
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James Patterson.....	Fairfax County, VA



PRINCIPAL STAFF MEMBERS

GENERAL MANAGER'S STAFF

George S. Hawkins **General Manager**
 Avis Marie Russell (through October 2010)..... General Counsel
 Randy Hayman (November 2010 to Present) General Counsel
 Mujib Lodhi..... Chief Information Officer
 Christopher J. Carew Chief of Staff
 Alan Heymann Director Public Affairs
 Linda R. Manley Secretary to the Board

OFFICE OF THE CHIEF FINANCIAL OFFICER

Olu Adebo Chief Financial Officer
 John Madrid Controller
 Yvette Downs..... Finance and Budget Director
 Tanya DeLeon Risk Manager
 Robert Hunt..... Treasury / Debt Manager

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Leonard Benson Deputy General Manager and Chief Engineer
 David McLaughlin Director Engineering and Technical Services
 Walter M. Bailey..... Director Wastewater Treatment
 R. Wayne Raither Director Maintenance Services
 Charles W. Kiely Assistant General Manager Consumer Services
 Cuthbert Braveboy..... Director Sewer Services
 Curtis Cochrane..... Acting Director Water Services
 Lauren Preston Director Customer Services

SUPPORT SERVICES

Katrina J. Wiggins..... Assistant General Manager
 Teresa Scott..... Acting Director Procurement Services
 Terry Gilmore Director Human Resources
 O.Z. Fuller Director Fleet Management
 Taylor Benson..... Director Security and Safety
 Steven Caldwell Acting Director Facilities Management



ACKNOWLEDGEMENTS

John Madrid	Shane Bogan
Javed Awan	Cassandra Redd
Temi Abosedede	Robin Johnson
Val Blinkoff	Laurie Conteh
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Sandra Collins	Edwin Coyle
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Sandy Powell	Deborah Cole
Jacqueline Lee-Baxter	Rodea Hines
James Myers	Robin Hayes
Yvette Downs	Linda Jones
Lillian Butler	Michael Goddard
Gail Alexander-Reeves	Lola Oyeyemi
Delwyn Kamara	

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.

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

January 28, 2011

Mr. William M. Walker, Chairman
and Members of the Board of Directors
Mr. George S. Hawkins, General Manager
5000 Overlook Avenue, S.W.
Washington, D.C. 20032

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

I am pleased to submit the District of Columbia Water and Sewer Authority's ("DC Water" or the "Authority") Comprehensive Annual Financial Report (CAFR) for the fiscal year ended September 30, 2010. 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.

Despite a tough economic year both nationally and locally, DC Water, in its fourteenth year, continued its annual tradition of building a strong financial foundation. As in each prior year, we again met or exceeded all of our financial targets and are in compliance with all Board of Directors' policies and bond covenants. The year ended with operating income of \$55.1 million and solid cash and investment balance of \$151.3 million, which exceeded the board's requirement of 120 days (or \$125.5 million) of operating cash on hand.

DC Water's management is responsible for establishing and maintaining an internal control structure designed to ensure that DC Water assets are adequately safeguarded against loss from unauthorized use or disposition and to maintain reliable financial records for the preparation of financial statements. The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: 1) the cost of internal controls should not exceed the benefits derived from the controls; and 2) the evaluation of costs and benefits requires management's exercise of judgment. We believe 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 a whole. 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, a discussion of economic conditions of the metropolitan Washington, D.C. area, and a description of DC Water's risk management program.
- The **Financial Section** includes the independent auditor's report, Management's Discussion and Analysis (MD&A), DC Water's fiscal years 2010 and 2009 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 600,000 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. DC Water's service area has a population of over two million people. These activities are fully accounted for in this report.

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. DC Water is considered a component unit, because the Government of the District of Columbia is ultimately legally responsible for a portion of DC Water's long-term debt. 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 a

comprehensive financial reporting of DC Water's operations and financial position for fiscal years 2010 and 2009.

History of DC Water

Legislative History and Relationship with the District of Columbia

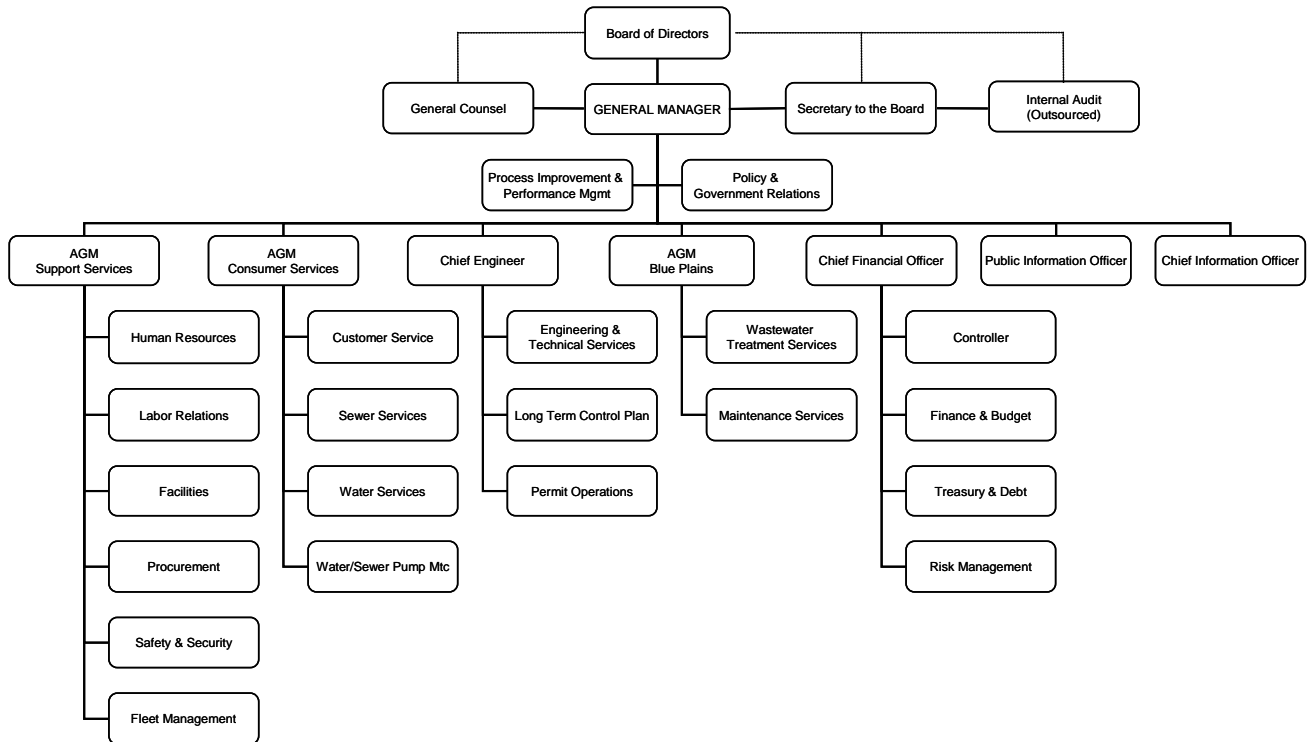
In 1996, the regional participants in DC Water's service area, including the District of Columbia, Montgomery and Prince George's Counties in Maryland, Fairfax and Loudoun Counties in Virginia, and the United States Congress, agreed to create an independent, multi-jurisdictional water and wastewater 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.

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

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, and only the District of Columbia members participate in those matters that affect only District 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.

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 customer's greater participation in budget preparation and oversight of operations. The agreement also outlines each customer's pro rata share of operating and capital costs based on water purchased; DC Water's pro rata share of Aqueduct expenses currently is approximately 75 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 the federal regulations. Work on these tertiary treatment projects and expansion were 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, 22 flow-metering stations, nine off-site wastewater-pumping stations, and 16-storm water pumping stations. The sewers range from eight inches in diameter to 27-foot arch sewers. The sewers are generally constructed of vitrified clay, brick, and concrete. Approximately two-thirds of the District is served by separate sanitary and storm sewers; however, combined sanitary and storm sewer systems are prevalent in the downtown area and older portions of the service area.

DC Water has commenced a 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 \$2.6 billion.

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 have commenced again on this new design, which 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 Washington Aqueduct Division of the U.S. Army Corps of Engineers (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 2010 marked DC Water's fourteenth year in operation as an independent agency of the Government of the District of Columbia. Using the framework of policies the Board of Directors established in fiscal year 1998, the four Strategic Focus Areas developed by the Board in fiscal year 2003, and its recently adopted 2008 – 2013 Strategic Plan, "A Guide for Measurable Progress and Achievement", DC Water and its management continued to build on the successes of its previous thirteen years of operations. Major accomplishments in fiscal year 2010 were:

Financial Accomplishments

- Planning for the issuance of \$300 million of Public Utility Subordinate Lien Revenue Bonds. These bonds were successfully issued in late October 2010 as taxable Build America Bonds, taking advantage of the federal stimulus package that provided a 35% subsidy. The bonds were well received by investors in a volatile market and were issued at the unprecedented low rate of 3.6 percent (net of subsidy) with an average life of 27 years.
- For better alignment with the size of our capital improvement program (CIP), we were successful in expanding (increasing) the size of our commercial paper program - our short-term financing instrument from \$100 million to \$225 million. Letters of credit were obtained from highly rated banks to support the program at very competitive rates in an extremely difficult credit (liquidity) market.
- A review of our electricity purchasing strategy and stable cost alternatives culminated in electricity costs of \$22.8 million, which represents \$6.5 million in savings based on the 2010 budget.
- Following the successful implementation of an impervious area charge (IAC) in 2009, and in furtherance of our plan to continue to enhance the program to ensure equitable allocation of costs amongst our customers, DC Water modified the residential IAC from a flat rate to all customers to a six-tier rate based on the amount of impervious area owned. It is expected that over 90 percent of DC Water's customers will have no increase or a lower IAC under the new structure.
- The DC Water Board of Directors demonstrated their continued commitment to fund DC Water's expanding CIP program by adopting retail customer rate increases that were effective starting October 1, 2009. These increases resulted in approximately \$4.70 increase (or 10%) on an average residential customer monthly bill.

Other Accomplishments

- 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 (U.S. EPA). This permit governs the discharge of treated municipal wastewater from the Blue Plains Wastewater treatment Plant and treated and untreated combined wastewater and storm water through the District of Columbia's combined sewer system.
- DC Water launched a comprehensive rebranding campaign for the first time in its 14-year history. Known since its inception as DC WASA, DC Water announced that it would now do business as DC Water. A new logo featuring a water drop and tagline, "Water is Life", complemented the campaign.
- In fiscal year 2010, DC Water fully complied with all water quality standards meeting all of the strict requirements of the Safe Drinking Water Act, inclusive of our compliance with federal standards under the U.S. EPA's Lead and Copper Rule.
- DC Water's Blue Plains treatment plant has been recognized by the National Association of Clean Water Agency's (NACWA) Peak Performance Awards for outstanding facility performance, including the 2010 Platinum Award for five consecutive years of zero noncompliance with the Clean Water Act discharge permit.
- The American Academy of Environmental Engineers recognized DC Water in 2010 with two "Excellence in Environmental Engineering" Awards. One award was for research and one for the performance of the Blue Plains nitrogen removal program. DC Water's biosolids management program was one of the first in the U.S. to achieve National Biosolids Partnership certification of its Environmental Management System.

HIGHLIGHTS AND MAJOR INITIATIVES

Combined Sewer Overflow Long Term Control Plan (Clean River 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 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 \$2.6 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
- Rehabilitation 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

In fiscal year 2010, the NPDES Permit was revised and reissued to DC Water by the U.S. EPA. The 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.

Upon its creation, DC Water assumed responsibility for compliance with various legal actions taken against the District related to operation of, and discharges from, Blue Plains, specifically including a judicial Consent Decree issued in 1995 and a subsequent Stipulated Agreement and Order. DC Water has completed all the requirements under both the 1995 Consent Decree and the Stipulated Agreement and Order. The EPA Region III has acknowledged satisfaction of these requirements, although the 1995 Consent Decree remains in effect.

Blue Plains Total 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). Blue Plains Total Nitrogen Removal Program (BTN) provides for new facilities and upgrades to existing facilities that are needed at Blue Plains to meet the new total nitrogen discharge limit that has been included in 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 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. All projects in this program are in the planning or design phase, and the lifetime budget for this program is \$1.03 billion.

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. This plan 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 2010, DC Water continued to make investments in its employees, process improvements and technology, all to ensure better service delivery to our customers. These improvements include the following:

- 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. The value of the CAP discount continued to increase, and in fiscal year 2010, a total of 6,107 customers received a discount on their bills for a total of \$919,156. In 2010, the DC Water Board approved an expansion of the CAP to provide a discount on the right-of-way and PILOT charges in addition to the discount currently being provided on water and sewer charges. We further assist 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 2010, we received contributions totaling \$94,767 and assisted 300 customers. The Greater Washington Urban League administers this program for DC Water.
- We revised our High Usage Notification Application (HUNA) to allow it to send even more warnings to customers about potential water leaks at their home. This was the first application of its kind in the water industry and places DC Water in the forefront of innovative technology that improves its service delivery to customers. This feature capitalizes on the automated meter reading and telephone system technologies that let customers access their data through DC Water's website and alerts customers of water usage anomalies as they occur. It provides graphical illustrations to allow customers to pinpoint high usage on the exact day it occurred. We now send alerts to up to 12 different phone numbers, email addresses or text message formats.
- The Collections Process Notification Program provides delinquent customers with a friendly reminder to prevent the cost and inconvenience of service deactivation. This program identifies customers that fall into one of three collections profiles and stages automated outbound calling to the customers using personalized account information and customized scripting based upon the type of calling. This program directly contributed to the continued achievement of historically low delinquent accounts receivable of \$5.1 million at the end of fiscal year 2010.
- We implemented ways for customers to contact us through social media, such as Facebook, Twitter and Flickr and have found them to be especially useful for communicating to customers about outages and news of public interest. Further, we had

- customers help us locate leaks and other street repairs needed through pictures sent by social media.

Technology Initiatives

Our focus over the past few years has been on implementing the Board approved Information Technology Strategic Plan. This plan lays out a vision for the delivery of information technology services at DC Water, and a methodology for prioritization of all technology projects (which includes an assessment of cost savings and productivity growth). Technology projects include those that focus on improvements in information security, infrastructure and the use of information technology throughout DC Water to improve the delivery of services to our customers and operational efficiency.

A few key examples of this effort are already underway or will begin in the near future and include:

- The Authority continued to implement additional aspects of its Total Enterprise Asset Management System (TEAMS-Maximo). TEAMS-Maximo is the system used to manage the maintenance and repair of the Authority's plant equipment, buildings and grounds and water/sewer infrastructure. The main goal and achievement for 2010 was upgrading to the new version of Maximo which provides additional functionality and provides a much better platform for integration with other systems – integration being key to the Authority's plans to expand the system and realize additional benefits. Other accomplishments for the year include implementing Maximo to track private backflow preventers in support of the Authority's Cross-Connection Control Program; enhancing Maximo to better manage valve shuts performed in support of water distribution system repairs; and implementing functionality to allow customers to view the status of their applications on-line in support of developer permitting.
- The Authority has merged two key technologies to improve support of its Meter Operations in management and maintenance of its Automated Meter Reading system. By intelligently extracting data from the AMR system and applying it across our city-wide Premise location and Graphical Information System, DC Water is able to track and identify potential issues with the meter transmission hardware and logically group service teams for efficient and timely response. By targeting incidents in the same locale, the Meter Operations group is able to save fuel, time and costs, while proactively responding to potential issues before they can have an impact on customer service and on the bottom line. In addition to improving performance, our application provides an online GIS-based dashboard with direct interfaces to customer information, allowing field workers and management to track progress daily and over time and identify any issues that may reach beyond single customer impacts. While use of this system has only just started, the

- return on investment has already been felt across the organization, and continued modifications are being planned.
- In September 2010, the Authority implemented the electronic Board book (e-Boardbook). The DC Water Board prior to this implementation was paper-based wherein Board members would receive the board package via the mail prior to every meeting. This method was labor and supply intensive. In order to promote efficiency with the distribution of board materials (and to promote eco-friendliness), the Authority implemented the e-Boardbook where Board members can access the package online via a secure portal. As of November 2010, the Authority included the committee meetings in the e-Boardbook platform.
- Mobile Website: The Authority undertook an effort to make the website (www.dewater.com) accessible from mobile devices in a manner consistent and more user friendly based on the actual device being used. A majority of the website content has been made more easily viewable on a range of mobile devices to include iPhone, Android, Windows Mobile, Palm, and Blackberry. This application allows for greater interaction between DC Water and its customers, as well as other entities wishing to interact with us over the Internet. From this system, DC Water plans to expand services and eventually include mobile report-a-problem that interacts with GPS and other features inherent to these devices. This will continue to improve our ability to serve and respond to our community.

Community Service

DC Water has an ongoing commitment to community service and volunteerism. Throughout the year, employees participate in diverse service and charitable projects to support an array of worthy causes. Joint Utility Discount Day, Bread for the Soul, DC Public Schools, One Fund, Aids Walk Washington, Susan G. Komen Breast Cancer Walk, For a Better Community (Latino event), Boys Town of Washington, and the District's Fifth Annual Nation's Triathlon were among some of the projects supported during the past year.

Employee Relations

Our employees are our most valuable asset and are key 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 of DC Water's employee relations are:

- In fiscal year 2010, the Team Blue Program was implemented. This program was formed to promote vertical and horizontal communications within DC Water to foster transparency, communication and resolution of issues in team fashion.
- In fiscal year 2010, DC Water contracted with Dale Carnegie Training to conduct an enterprise-wide survey and conduct seminars in their Management Development Program and Intermediate Supervisory Skills Training.
- In fiscal year 2010, a Leave Transfer Program was implemented for Authority employees to transfer leave to other employees in the case of illness or emergency circumstances where the affected employee has exhausted their accumulated leave.
- In fiscal year 2010, Management and the Unions have agreed to conduct a classification review of all union positions at DC Water. This is being performed to document current job responsibilities, determine the appropriateness of current job structures, identify possible career paths within the classification structure and gain consensus between labor and management on changes that support the operational needs of DC Water and accurately represent work performed.

Energy Management Program

Electricity continues to represent a significant portion of DC Water's operating costs, at \$22.8 million, or 7 percent of DC Water's fiscal year 2010 actual operations and maintenance expenditures. In fiscal year 2005, DC Water entered into its first electricity contract for generation services in the deregulated environment. That summer, DC Water entered into a successor five-year contract for generation that allows us the flexibility to lock in blocks of power at a fixed price when futures pricing meets budget targets. The contract also grants DC Water access to the wholesale market for electricity, and provides more transparency in reviewing bids from wholesalers.

We continue to utilize the electricity contract entered into during fiscal year 2005 and were successful in purchasing electricity for an estimated average cost of \$83.21 per megawatt hour compared to an estimated average cost of \$140.27 per megawatt hour had we purchased electricity through PEPCO Standard Offer Service (SOS). This represents an estimated savings

of \$14.4 million. In fiscal year 2010, the Board approved extension of the contract to accommodate locking approximately 100 percent of energy load for fiscal year 2011.

Capital Improvement Program

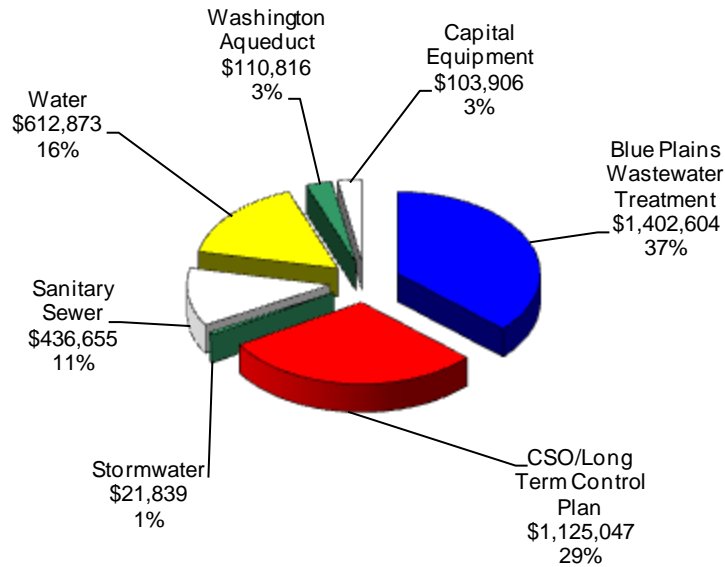
DC Water's ultimate success in achieving its operational goals, customer service goals, and continuing success in regulatory compliance depends in large part on the implementation of its 10-year capital improvement program proposed at \$3.8 billion. Approximately 44% of the capital improvement program is either federally mandated or a court-ordered decree, including the Blue Plains Total Nitrogen Program (BTN) and the CSO LTCP (Clean River Project).

The BTN includes capital projects that are required for nitrogen removal and wet weather flow treatment, thus enabling the Blue Plains Advance Wastewater Treatment Plant to comply with the 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. DC Water is also in the process of completing the facility plan for the Anacostia tunnels.

The proposed fiscal year 2010 – 2019 capital improvement program is broken into seven service areas, as shown in the following graph.

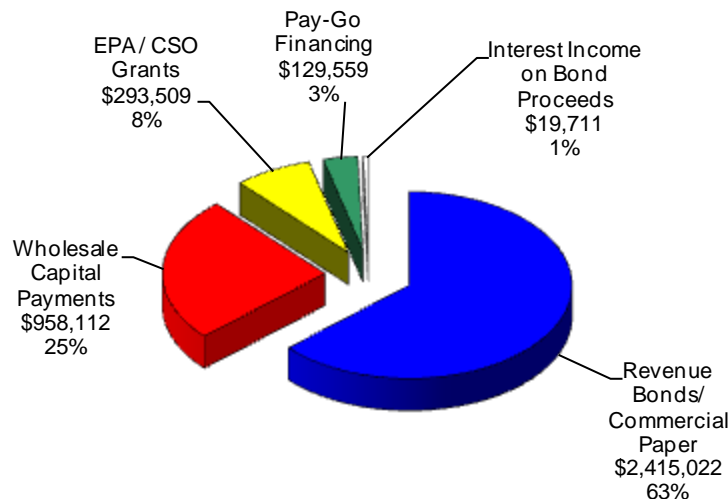
**FY 2010 – FY 2019 Capital Improvement Program
(\$ in 000's)**



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, 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, 63 percent of capital financing will come from debt issuance.

**FY 2010 – 2019 Capital Improvement Program
Sources of Funds
(\$ in 000's)**



Cash Position

Unrestricted cash and investments were \$151.3 million as of September 30, 2010. Board policy requires Authority reserves in excess of 120 days operating and maintenance costs. Rate stabilization fund deposits may be used to fund portions of the capital program on a pay-as-you-go basis. Cash held for overnight deposit is collateralized at 102% of the investments with government securities.

ACCOUNTING AND BUDGET PROCESSES

Basis of Accounting

DC Water prepares 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 all GASB pronouncements; and 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 selecting an outside independent accounting firm, Stout, Causey & Horning (SC&H), to provide DC Water with a broader range and depth of resources commencing in fiscal year 2010. In fiscal year 2010, SC&H completed a comprehensive enterprise-wide risk assessment and presented a two-year audit plan prioritizing audits of areas with higher risk assessment which was approved by the Board of Directors. It is anticipated that SC&H will increase the operational efficiency and effectiveness of the audit function. In addition to activities performed by the Internal Auditors, the Controller's Department has strengthened 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 DC Water's financial statements are subject to an annual audit by independent certified public accountants. Thompson, Cobb, Bazilio & Associates, P.C. (TCBA) audited DC Water's financial statements for fiscal year 2010. TCBA's opinion, dated December 15, 2010, 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 their 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 impacts and annual rate increases, including transferring some or all of such excess funds to the Rate Stabilization Fund.

Cash Management and Investment Policies

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

With the adoption of the revised fiscal year 1998 budget, DC Water's Board of Directors adopted comprehensive cash management and investment policies and implemented investment and

cash management practices. These policies and practices are consistent with and based on the Government Finance Officers Association's (GFOA) guidelines and specify the amount of the total portfolio allowed by each type of investment.

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

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

RISK MANAGEMENT

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

DC Water's liability insurance coverage provides financial protection from claims and related defense costs for damages and injuries caused by automobile accidents, broken water and sewer lines, construction, and other operational activities.

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. In 2009, the District's estimated resident population was 599,657.

The District's economic base is driven by the federal and local governments and the related diplomatic embassies and international organizations. The federal civilian workforce in the District averaged 192,074 employees in calendar year 2008, while an additional 152,400 federal employees worked elsewhere in the metropolitan area. The District is host to more than 185 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 million people visit the Washington Metropolitan Area annually not only to do business with federal government and regional enterprises but also to visit the national monuments, historic sites, museums and other major cultural attractions. Per capita personal income in the District was \$66,316 in 2008 compared to \$40,166 in the United States. Personal income in the District was

\$40.8 billion in 2009 compared to \$12.2 trillion in the United States. The relatively high per capita and household incomes in the District are a direct result of a combination of factors, including a high labor force participation rate, multiple earner households, small household size (average of 2.39 persons), a large percentage of college graduates, and a substantial concentration of employed residents in highly-skilled occupations.

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, 2009 (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 2010 Operating and Capital budgets for the sixth 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

This CAFR reflects the Board of Directors' commitment to the District of Columbia, Fairfax, Loudoun, Montgomery, and Prince George's Counties, and the financial community to maintain financial statements in conformance with the highest standard of financial accountability.

As we look to the coming year, with its many challenges and opportunities, I would like to express my profound thanks and admiration for all members of the Board of Directors, led by our chairman, William M. Walker, and our General Manager, George S. Hawkins, for their leadership and adherence to strong financial performance expectations. Our strong financial results and position are a direct result of their direction and guidance.

I also acknowledge the hard work and dedication of DC Water's financial operation staff, other departments and staff, and the General Manager's staff in preparing this report.

Respectfully submitted,



Olu Adebo
Chief Financial Officer