



**Financial  
Section**

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KPMG LLP  
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1801 K Street, NW  
Washington, DC 20006

## Independent Auditors' Report

Board of Directors  
District of Columbia Water and Sewer Authority

We have audited the accompanying financial statements of the District of Columbia Water and Sewer Authority (the Authority) as of and for the years ended September 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements for the years then ended as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District of Columbia Water and Sewer Authority as of September 30, 2017 and 2016, and the changes in its financial position and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.



## **Other Matters**

### *Required Supplementary Information*

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 19 through 31 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 audits 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.

### *Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The introductory and statistical sections as listed in the table of contents have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

**KPMG LLP**

Washington, D.C.  
December 20, 2017

## DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

### Management's Discussion and Analysis (unaudited)

September 30, 2017 and 2016

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This section of the Authority's annual financial report presents our discussion and analysis of the Authority's financial position and changes in financial position as of and for the fiscal years ended September 30, 2017 and 2016. The Management's Discussion and Analysis ("MD&A") should be read in conjunction with the Authority's basic financial statements and the related notes to the financial statements, which immediately follow this section.

#### Financial Highlights – Fiscal 2017

- In January 2017, the Authority issued \$100.0 million of 2017 Series A and \$200.0 million of 2017 Series B senior lien revenue bonds with fixed interest rates ranging from 4.0% to 5.0%. The 2017 Series A green bonds mature in 2053 and are being used to fund the Clean Rivers Project. The 2017 Series B bonds mature in 2045 and are being used to fund the Authority's various capital improvements to the system. Gross proceeds from the bond issuance totaled approximately \$334.3 million, including \$34.3 million original issue premium.
- Operating revenues increased by \$47.4 million to \$643.2 million, or 8.0%, primarily due to the retail rate increase of 5.0%, a 9.6% increase in Clean Rivers Impervious Area Charges (CRIAC) and a 10.6% increase in wholesale waste water charges.
- Operating expenses increased by \$19.7 million to \$408.1 million, or 5.1%, primarily due to increases in personnel, depreciation expense and chemicals, supplies and small equipment offset by a decrease in contractual services expense.
- Capital assets, net of depreciation and amortization, increased by \$547.8 million to \$6.5 billion, or 9.1%, as a result of capital additions of \$653.4 million offset by depreciation and amortization of \$97.9 million. Capital additions incurred in 2017 were in line with the Authority's approved 10-year capital improvement program.
- Current assets increased by \$53.5 million to \$603.0 million, or 9.7%, primarily due to a \$42.2 million increase in restricted cash and investments, and an \$18.4 million increase in receivables from other Jurisdictions and the Federal government, offset by a decrease in unrestricted cash and cash equivalents of \$7.5 million and a decrease in receivables from the District government of \$2.2 million.
- The Authority's net position increased by \$194.6 million to \$1.9 billion, or 11.4%, as a result of current year operations and capital contributions.
- Effective October 1, 2016, the Authority raised its retail water and wastewater rates by 5.0% and its CRIAC by 9.6%.

#### Financial Highlights – Fiscal 2016

- In October 2015, the Authority issued \$100.0 million of 2015 Series A and \$250.0 million of 2015 Series B subordinate lien revenue bonds with fixed interest rates ranging from 2.0% to 5.25%. The 2015 Series A green bonds mature in 2045 and are being used to fund the Clean Rivers Project. The 2015 series B bonds mature in 2044 and \$62.0 million is being used to make principal and interest payments on all or a portion of the Authority's outstanding commercial paper notes and the balance is being used to fund the Authority's capital improvement program. Gross proceeds from the bond issuance totaled approximately \$406.6 million, including \$56.6 million original issue premium.

## DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

### Management's Discussion and Analysis (unaudited)

#### September 30, 2017 and 2016

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In February 2016, the Authority issued the subordinate lien revenue refunding bonds, 2016 Series A in the amount of \$389.1 million. The proceeds from the bonds were used to refund \$401.9 million of the Authority's outstanding bonds. The interest on the bonds are at fixed rates ranging from 2.0% to 5.0%.

In September 2016, the Authority issued \$25.0 million of 2016 Series B (Environmental Impact Bonds) subordinate lien revenue bonds. The 2016 Series B Bonds are multimodal variable rate bonds, initially issued bearing a 3.43% fixed rate through the mandatory tender date, April 1, 2021. The net issuance proceeds (after payment of \$0.5 million of issuance expenses) of \$24.5 million will be used for construction of Green Infrastructure (GI) for the Rock Creek Project A (RC-A).

The Authority's long-term debt, including current maturities, increased by \$381.1 million to \$2.9 billion, or 14.9%, primarily due to the \$350.0 million and \$25.0 million bond issuances described above.

- Operating revenues increased by \$45.9 million to \$595.8 million, or 8.3%, primarily due to the retail rate increase of 6.5%, a 21.2% increase in Clean Rivers Impervious Area Charges (CRIAC) and the introduction of the new Water System Replacement Fee (WSRF) which resulted in \$39.6 million of new operating revenues in fiscal year 2016, offset by an 18.4% decrease in wholesale waste water charges.
- Operating expenses increased by \$9.7 million to \$388.4 million, or 2.6%, primarily due to increases in personnel, depreciation expense and contractual services expense offset by a decrease in chemicals and supplies, utilities and water purchases.
- Capital assets, net of depreciation and amortization, increased by \$518.0 million to \$6.0 billion, or 9.5%, as a result of capital additions of \$607.5 million offset by depreciation and amortization of \$89.5 million. Capital additions incurred in 2016 were in line with the Authority's approved 10-year capital improvement program.
- Current assets increased by \$37.3 million to \$549.5 million, or 7.3%, primarily due to an increase in cash and investments offset by a decrease in receivables from other jurisdictions.
- The Authority's net position increased by \$173.3 million to \$1.7 billion, or 11.3%, as a result of current year operations and capital contributions.
- Effective October 1, 2015, the Authority raised its retail water and wastewater rates by 6.5% and its CRIAC by 21.2%.

#### 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 Position* include the Authority's assets plus deferred outflows of resources and liabilities plus deferred inflows of resources 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 position. 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.

# DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

## Management's Discussion and Analysis (unaudited)

September 30, 2017 and 2016

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

*The Statements of Cash Flows* provide information about the Authority's cash receipts, cash payments, and net changes in cash and cash equivalents resulting from operating, 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 financial statements include information essential to understand the above statements, such as the Authority's significant accounting policies and information about certain financial statement account balances.

### Financial Analysis of the Authority

#### Net Position

The Authority's total net position at September 30, 2017 was approximately \$1.9 billion, a \$194.6 million, or 11.4%, increase from September 30, 2016. Total assets increased \$594.1 million, or 8.9%, to \$7.3 billion and total liabilities increased \$396.3 million, or 7.9%, to \$5.4 billion.

The Authority's total net position at September 30, 2016 was approximately \$1.7 billion, a \$173.3 million, or 11.3%, increase from September 30, 2015. Total assets increased \$583.2 million, or 9.6%, to \$6.7 billion and total liabilities increased \$437.8 million, or 9.5%, to \$5.0 billion.

#### Summary of Net Position (\$ in 000's)

	Fiscal Year			2017 vs 2016		2016 vs 2015	
	2017	2016	2015	Amount	%	Amount	%
Current assets	\$ 602,959	\$ 549,496	\$ 512,226	53,463	9.7	37,270	7.3
Restricted assets	61,318	56,992	23,249	4,326	7.6	33,743	145.1
Capital assets	6,543,100	5,995,347	5,477,327	547,753	9.1	518,020	9.5
Other noncurrent assets	53,436	64,920	70,696	(11,484)	(17.7)	(5,776)	(8.2)
Total assets	<u>7,260,813</u>	<u>6,666,755</u>	<u>6,083,498</u>	<u>594,058</u>	<u>8.9</u>	<u>583,257</u>	<u>9.6</u>
Deferred outflows of resources	69,946	73,157	45,246	(3,211)	(4.4)	27,911	61.7
Current liabilities	461,771	440,888	471,766	20,883	4.7	(30,878)	(6.5)
Long-term debt outstanding	3,193,727	2,900,329	2,520,046	293,398	10.1	380,283	15.1
Long-term liabilities	1,777,421	1,695,406	1,606,990	82,015	4.8	88,416	5.5
Total liabilities	<u>5,432,919</u>	<u>5,036,623</u>	<u>4,598,802</u>	<u>396,296</u>	<u>7.9</u>	<u>437,821</u>	<u>9.5</u>
Net investments in capital assets	1,655,867	1,491,925	1,348,056	163,942	11.0	143,869	10.7
Restricted	33,276	33,135	27,054	141	0.4	6,081	22.5
Unrestricted	208,697	178,229	154,832	30,468	17.1	23,397	15.1
Total net position	<u>\$ 1,897,840</u>	<u>\$ 1,703,289</u>	<u>\$ 1,529,942</u>	<u>194,551</u>	<u>11.4</u>	<u>173,347</u>	<u>11.3</u>

## DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

### Management's Discussion and Analysis (unaudited)

#### September 30, 2017 and 2016

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The following is a discussion of the more significant changes in assets, liabilities and net position in 2017.

- Capital assets, net of depreciation and amortization, increased by \$547.8 million to \$6.5 billion, or 9.1%, as a result of capital additions of \$653.4 million offset by depreciation and amortization of \$97.9 million. Capital additions incurred in 2017 were in line with the Authority's approved 10-year capital improvement program which is discussed in more detail on page 13.
- Current assets increased by \$53.5 million to \$603.0 million, or 9.7%, primarily due to a \$42.2 million increase in restricted cash and investments, and an \$18.4 million increase in receivables from other Jurisdictions and the Federal government, offset by a decrease in unrestricted cash and cash equivalents of \$7.5 million and a decrease in receivables from the District government of \$2.2 million.
- Long-term debt, including current maturities, increased by \$294.9 million to \$3.2 billion, or 10.1%, primarily due to the issuance of \$100.0 million of 2017 Series A (Green Bonds) and \$200.0 million of 2017 series B senior lien revenue bonds for a total of \$300.0 million in January 2017.
- Current liabilities increased by \$21.0 million to \$462.0 million, or 4.7%, primarily due to a \$35.7 million increase in accounts payable and accrued expenses and a \$4.9 million increase in accrued interest offset by a \$22.6 million decrease in unearned revenue.
- The Authority's net position increased by \$194.6 million to \$1.9 billion, or 11.4%, as a result of fiscal year 2017 operations and capital contributions.

The following is a discussion of the more significant changes in assets, liabilities and net position in 2016.

- Capital assets, net of depreciation and amortization, increased by \$518.0 million to \$6.0 billion, or 9.5%, as a result of capital additions of \$607.5 million offset by depreciation and amortization of \$89.5 million. Capital additions incurred in 2016 were in line with the Authority's approved 10-year capital improvement program which is discussed in more detail on page 13.
- Current assets increased by \$37.3 million to \$549.5 million, or 7.3%, primarily due to an increase in cash and investments offset by a decrease in receivables from other jurisdictions.
- Long-term debt, including current maturities, increased by \$381.1 million to \$2.9 billion, or 14.9%, primarily due to the issuance of \$100.0 million of 2015 Series A (Green Bonds) and \$250.0 million of 2015 series B subordinate lien revenue bonds for a total of \$350.0 million in October 2015, and the issuance of \$25.0 million of 2016 Series B (Environmental Impact Bonds) subordinate lien revenue bonds in September 2016.
- Current liabilities decreased by \$30.9 million to \$440.9 million, or 6.5%, primarily due to a \$28.6 million decrease in accounts payable and accrued expenses and a \$12.0 million decrease in commercial paper notes offset by an \$8.2 million increase in accrued interest.
- The Authority's net position increased by \$173.3 million to \$1.7 billion, or 11.3%, as a result of fiscal year 2016 operations and capital contributions.



# DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

## Management's Discussion and Analysis (unaudited)

September 30, 2017 and 2016

### Changes in Net Position

The increase in net position at September 30, 2017 was \$194.6 million, or 11.4%, as compared with September 30, 2016. The Authority's total operating revenues increased by 8.0% to \$643.2 million and total operating expenses increased by 5.1% to \$408.1 million.

The increase in net position at September 30, 2016 was \$173.3 million, or 11.3%, as compared with September 30, 2015. The Authority's total operating revenues increased by 8.3% to \$595.8 million and total operating expenses increased by 2.6% to \$388.4 million.

### Change in Net Position (\$ in 000's)

	Fiscal Year			2017 vs 2016		2016 vs 2015	
	2017	2016	2015	Amount	%	Amount	%
Operating revenues	\$ 643,169	\$ 595,789	\$ 549,915	\$ 47,380	8.0	\$ 45,874	8.3
Operating expenses	408,131	388,384	378,660	19,747	5.1	9,724	2.6
Net non-operating revenues (expenses)	(64,553)	(66,489)	(60,093)	1,936	(2.9)	(6,396)	10.6
Change in net position before capital contributions	170,485	140,916	111,162	29,569	21.0	29,754	26.8
Capital contributions	24,066	32,431	67,965	(8,365)	(25.8)	(35,534)	(52.3)
Change in net position	194,551	173,347	179,127	21,204	12.2	(5,780)	(3.2)
Net position - beginning of year, as restated	1,703,289	1,529,942	1,350,815	173,347	11.3	179,127	13.3
Net position - end of year	\$ 1,897,840	\$ 1,703,289	\$ 1,529,942	\$ 194,551	11.4	\$ 173,347	11.3

The following provides a discussion as to the primary reasons for the more significant fluctuations in the Authority's revenues and expenses between fiscal years 2017 and 2016, and between fiscal years 2016 and 2015, respectively.

#### Fiscal Year 2017:

- Operating revenues increased by \$47.4 million to \$643.2 million, or 8.0%, primarily due to retail rate increase of 5.0%, a 9.6% increase in Clean Rivers Impervious Area Charges (CRIAC) and a 10.6% increase in wholesale waste water charges.
- Operating expenses increased by \$19.7 million to \$408.1 million, or 5.1%, primarily due to increases in personnel, depreciation expense and chemicals, supplies and small equipment and offset by a decrease in contractual services expense.

#### Fiscal Year 2016:

- Operating revenues increased by \$45.9 million to \$595.8 million, or 8.3%, primarily due to a 6.5% rate increase on retail water, the 21.2% increase CRIAC and the introduction of the new WSRF, offset by an 18.4% decrease in wholesale waste water charges.

## DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

### Management's Discussion and Analysis (unaudited)

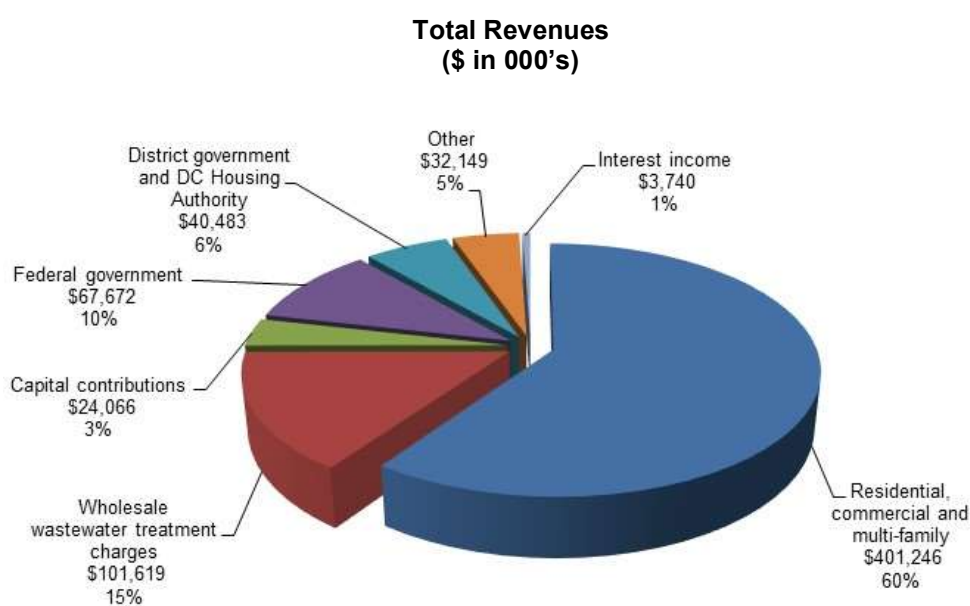
September 30, 2017 and 2016

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- Operating expenses increased by \$9.7 million to \$388.4 million, or 2.6%, primarily due to increases in personnel, contractual services expense and depreciation expense offset by a decrease in chemicals and supplies, utilities and water purchases.

#### 2017 Total Revenues

Total revenues increased \$40.1 million, or 6.4%, to \$670.9 million in fiscal year 2017.



- Revenues from residential, commercial and multi-family customers increased by \$18.7 million to \$401.2 million, or 4.9%, primarily due to a 5.0% water and wastewater rate increase and a 9.6% increase in the Clean Rivers Impervious Area Charges (CRIAC).
- Revenues from the Federal government increased by \$4.3 million to \$67.7 million, or 6.7%, primarily due to a 5.0% rate increase, 9.6% increase in the CRIAC and increase in consumption offset by lower billing adjustments for several Federal agencies during fiscal year 2017.
- Revenues from the District government and the District of Columbia Housing Authority increased by \$2.3 million to \$40.5 million, or 6.0%, primarily due to a 5.0% rate increase, 9.6% increase in CRIAC offset by a decrease in consumption.
- Revenues from wholesale wastewater treatment increased by \$9.7 million to \$101.6 million, or 10.6%, primarily due to an increase in the Intermunicipal agreement (IMA) shareable operating costs of the Blue Plains Plant and a \$4.6 million increase in IMA capital reimbursement revenues recognized in fiscal year 2017.

# DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

## Management's Discussion and Analysis (unaudited)

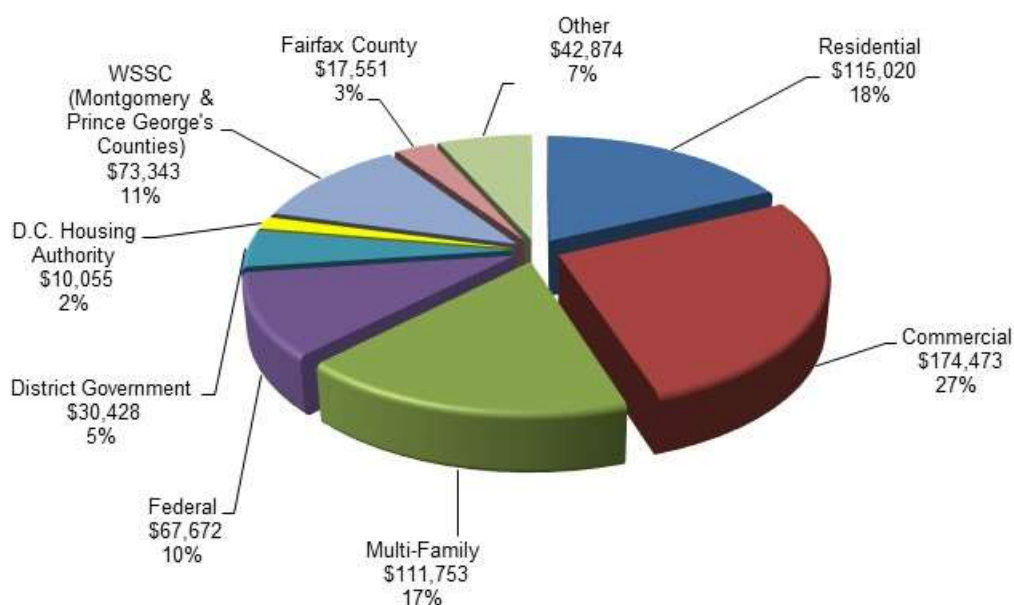
September 30, 2017 and 2016

- Other revenues increased by \$12.4 million to \$32.1 million, or 62.7%, primarily due to an increase in miscellaneous revenues from the Authority's other activities such as special projects billings and insurance reimbursements related to claim and litigation expenses.
- Capital contributions decreased by \$8.4 million, or 25.8%, primarily due to a \$5.5 million reduction in federal grants and a \$2.9 million reduction in capital contributions from the District government.

### 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 27% of total revenues.

**Operating Revenues by Source**  
(\$ in 000's)



(a) Other revenues include \$7.6 million from Loudoun County and \$3.2 million from Potomac Interceptor.

- Revenues from commercial and multi-family customers in the District comprise approximately 44% of the Authority's total operating revenues. Commercial revenues are reliable due to the presence of many national associations, law firms, consulting firms, colleges and universities and foreign embassies 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 14% of the Authority's revenues and are based on their share of operating costs at Blue Plains.

# DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

## Management's Discussion and Analysis (unaudited)

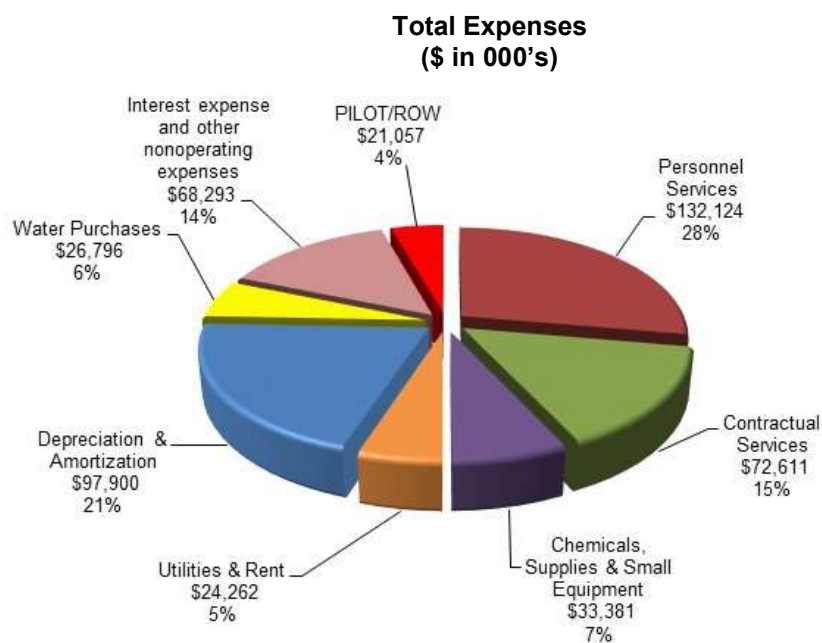
September 30, 2017 and 2016

Loudoun County and Potomac Interceptor customers account for an additional 1.7% of the Authority's revenues and are included in other revenues.

- Residential customers in the District account for 18% of total revenues.
- Revenues from the Federal government comprise 10% 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 7% of total operating revenues.

### 2017 Total Expenses

Total expenses increased by \$18.9 million, or 4.1%, to \$476.4 million in fiscal year 2017.



- Personnel services increased by \$7.9 million to \$132.1 million, or 6.4%, primarily due to increases in wages and benefits.
- Contractual services decreased by \$1.4 million to \$72.6 million, or 2.0%, due to a decrease in litigation costs and biosolids hauling costs stemming from newly installed digester operations at the Blue Plains facility.
- Chemicals, supplies and small equipment increased by \$3.9 million to \$33.4 million, or 13.1%, primarily due to higher unit prices in chemicals such as methanol and increase in parts and supplies.

# DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

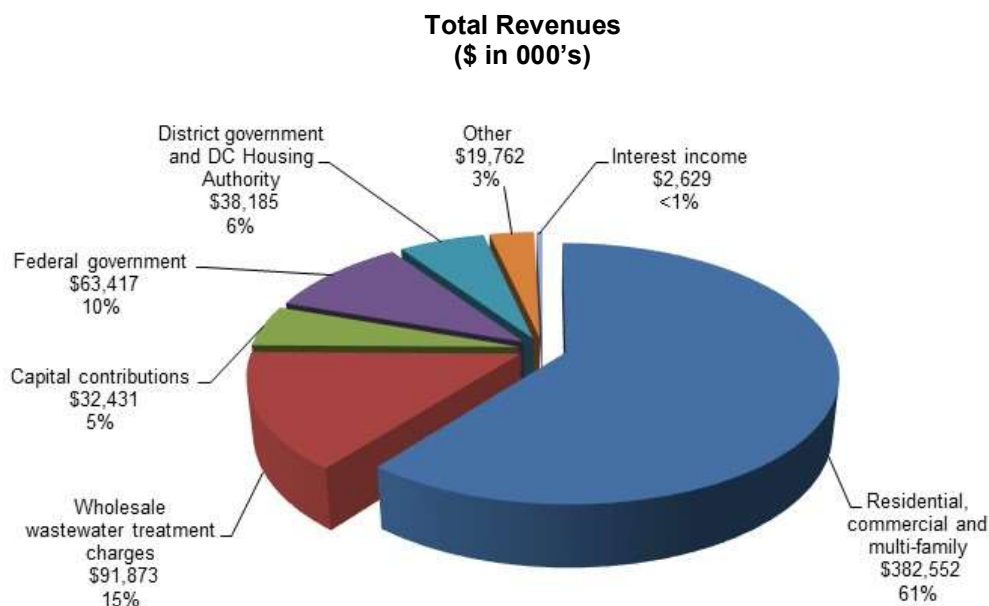
## Management's Discussion and Analysis (unaudited)

September 30, 2017 and 2016

- Utilities and rent increased by \$0.3 million to \$24.3 million, or 1.4%, primarily due to increase in space rental and water usage to generate steam for Combine Heat Power (CHP) offset by onsite electricity generation from CHP project, which became operational in the summer of 2015.
- Depreciation and amortization increased by \$8.4 million to \$97.9 million, or 9.4%, primarily due to an increase in capital assets in service.
- Water purchases increased by \$0.5 million to \$26.8 million, or 1.7%, primarily due to a 4.4% increase in the water rate and offset by a 1.5% decrease in water consumption in fiscal year 2017 compared to fiscal 2016.
- Interest expense and other nonoperating expenses decreased by \$0.8 million to \$68.3 million, or 1.2%, primarily due to an increase in interest incurred on long-term debt of \$1.8 million and an increase in losses on the disposal of capital assets of \$7.7 million, offset by an increase in the amount of capitalized interest related to the Authority's capital improvement program which increased from \$62.8 million in fiscal year 2016 to \$77.0 million in fiscal year 2017.

### 2016 Total Revenues

Total revenues increased \$11.7 million, or 1.9%, to \$630.9 million in fiscal year 2016.



- Revenues from residential, commercial and multi-family customers increased by \$46.8 million to \$382.6 million, or 13.9%, primarily due to a 6.5% water and wastewater rate increase 21.2% increase in the Clean Rivers Impervious Area Charges (CRIAC) and introduction of new Water System Replacement Fee (WSRF).

## DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

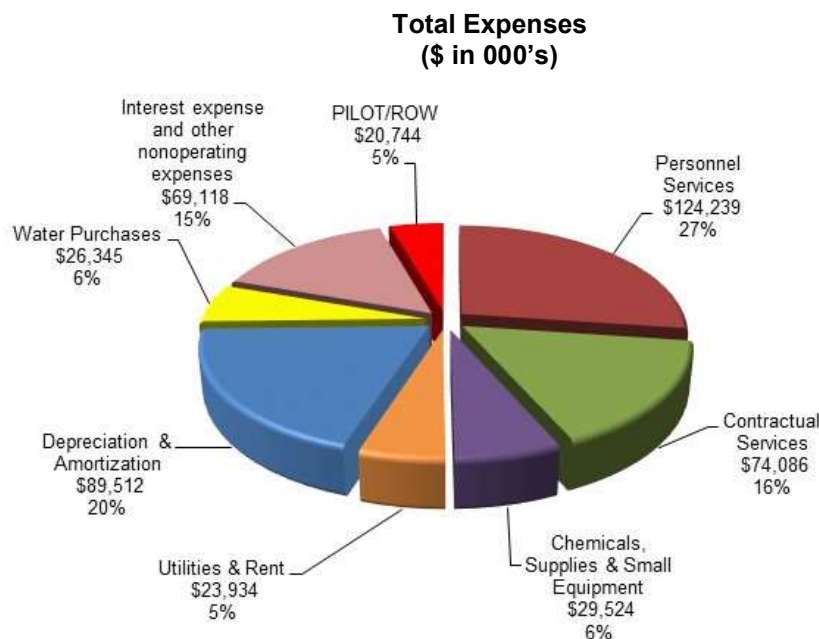
### Management's Discussion and Analysis (unaudited)

September 30, 2017 and 2016

- Revenues from the Federal government increased by \$9.1 million to \$63.4 million, or 16.9%, primarily due to a 6.5% rate increase, the introduction of the new WSRF and a 21.2% increase in the CRIAC offset by consumption adjustments for several Federal agencies during fiscal year 2016.
- Revenues from the District government and the District of Columbia Housing Authority increased by a \$5.2 million to \$38.2 million, or 15.9%, primarily due to a 6.5% rate increase, new meter-based WSRF and 21.2% increase in CRIAC offset by a decrease in consumption and disputed payment from DC government for CRIAC.
- Revenues from wholesale wastewater treatment decreased by \$20.6 million to \$91.9 million, or 18.4%, primarily due to a decrease in the Intermunicipal agreement (IMA) shareable operating costs of the Blue Plains Plant.
- Other revenues increased by \$5.3 million to \$19.8 million, or 36.7%, primarily due to an increase in miscellaneous revenues from the Authority's other activities such as special projects billings.
- Capital contributions decreased by \$35.5 million, or 52.3%, primarily due to an \$18.5 million reduction in federal grants and an \$18.4 million reduction in capital contributions from the District government for the Northeast Boundary Neighborhood project.

#### 2016 Total Expenses

Total expenses increased by \$17.4 million, or 4.0%, to \$457.5 million in fiscal year 2016.



- Personnel services increased by \$9.0 million to \$124.2 million, or 7.8%, primarily due to increases in wages, benefits and number of employees.

## DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

### Management's Discussion and Analysis (unaudited)

September 30, 2017 and 2016

- Contractual services increased by \$7.8 million to \$74.1 million, or 11.8%, due to an increase in litigation costs offset by a reduction in biosolids hauling costs stemming from newly installed digester operations at the Blue Plains facility.
- Chemicals, supplies and small equipment decreased by \$3.4 million to \$29.5 million, or 10.4%, primarily due to lower unit prices and changes in the treatment process that utilizes less chemicals and uses thermal hydrolysis and the digester system's intense heat and pressure to treat wastewater.
- Utilities and rent decreased by \$6.9 million to \$23.9 million, or 22.4%, primarily due to onsite electricity generation from the Combine Heat Power (CHP) project, which became operational in the summer of 2015.
- Depreciation and amortization increased by \$5.7 million to \$89.5 million, or 6.7%, primarily due to an increase in capital assets in service.
- Water purchases decreased by \$2.8 million to \$26.3 million, or 9.5%, primarily due to fiscal year 2015 billing adjustment and 2.6% decrease in unit cost per million gallons in fiscal year 2016.
- Interest expense and other nonoperating expenses increased by \$7.7 million to \$69.1 million, or 12.6% primarily due to a \$7.8 million increase in interest costs incurred in fiscal year 2016 as a result of the increase in borrowings, offset by a \$10.8 million increase in the amount of capitalized interest related to the Authority's capital improvement program during fiscal year 2016.

### Capital Assets and Debt Administration

#### Capital Assets

As of September 30, 2017, 2016 and 2015, respectively, the Authority had \$6.5 billion, \$6.0 billion and \$5.5 billion of capital assets (net of depreciation). This includes wastewater collection, wastewater treatment, water distribution systems, purchased capacity, capital equipment and construction in progress. The Authority's net capital assets increased by approximately \$547.8 million, or 9.1%, during fiscal year 2017, and increased by approximately \$518.0 million, or 9.5%, during fiscal year 2016, primarily due to continued capital spending in accordance with the Authority's capital improvement program. See note 4 to the financial statements for more information on capital assets.

#### Capital Assets Net of Accumulated Depreciation (\$ in 000's)

	As of September 30,		
	2017	2016	2015
Wastewater treatment plant	\$ 3,010,074	\$ 2,383,176	\$ 2,367,163
Wastewater collection facilities	856,859	843,095	828,130
Water distribution system	1,112,458	1,095,216	1,054,046
Purchased capacity	356,850	349,210	341,974
Capital equipment	253,437	220,584	203,573
Construction in progress	2,489,255	2,544,698	2,033,657
Less accumulated depreciation	(1,535,833)	(1,440,632)	(1,351,216)
Net capital assets	\$ 6,543,100	\$ 5,995,347	\$ 5,477,327

## DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

### Management's Discussion and Analysis (unaudited)

#### September 30, 2017 and 2016

The Authority's contractual commitments are primarily associated with the long-term capital improvement program. Outstanding contractual commitments related to the capital improvement program as of September 30, 2017 and 2016 were \$1.1 billion and \$861.0 million, respectively, which will be financed primarily with unspent bond proceeds, proceeds from future bond issuances, capital contributions from IMA participants, Federal capital contributions and PAY-GO capital contributions from the Authority.

#### Debt Administration

At the end of fiscal year 2017, the Authority had a total of \$3.2 billion in long term debt outstanding, an increase of \$294.9 million, or 10.1%, over fiscal year 2016.

At the end of fiscal year 2016, the Authority had a total of \$2.9 billion in long term debt outstanding, an increase of \$381.1 million, or 14.9%, over fiscal year 2015.

A schedule of long-term debt activity including current year maturities for the year ended September 30, 2017 is shown below:

Description	Balance 9/30/2016	Increases	Decreases	Balance 9/30/2017
Outstanding bonds and notes	\$ 2,733,191	\$ 300,000	\$ (29,317)	\$ 3,003,874
Unamortized bond premiums	198,677	34,345	(10,236)	222,786
Unamortized bond discounts	(2,222)	-	129	(2,093)
Total bonds and notes	<u>\$ 2,929,646</u>	<u>\$ 334,345</u>	<u>\$ (39,424)</u>	<u>\$ 3,224,567</u>

In January 2017, the Authority issued \$100.0 million of 2017 Series A and \$200.0 million of 2017 Series B senior lien revenue bonds with fixed interest rates ranging from 4.0% to 5.0%. The 2017 Series A green bonds mature in 2053 and are being used to fund the Clean Rivers Project. The 2017 series B bonds mature in 2045 and are being used to fund the Authority's various capital improvements to the system. Net proceeds from the bond issuance totaled approximately \$334.3 million, including \$1.9 million of underwriter's discount and cost of issuance.

The increases (decreases) in outstanding bonds and notes payable were related to new bond issuance and scheduled principal repayments.

A schedule of long-term debt activity including current year maturities for the year ended September 30, 2016 is shown below:

Description	Balance 9/30/2015	Increases	Decreases	Balance 9/30/2016
Outstanding bonds and notes	\$ 2,446,797	\$ 764,110	\$ (477,716)	\$ 2,733,191
Unamortized bond premiums	104,060	111,329	(16,712)	198,677
Unamortized bond discounts	(2,351)	-	129	(2,222)
Total bonds and notes	<u>\$ 2,548,506</u>	<u>\$ 875,439</u>	<u>\$ (494,299)</u>	<u>\$ 2,929,646</u>

In October 2015, the Authority issued \$100.0 million of 2015 Series A and \$250.0 million of 2015 Series B subordinate lien revenue bonds with fixed interest rates ranging from 2.0% to 5.25%. The 2015 Series A green bonds mature in 2045 and are being used to fund the Clean Rivers Project. The 2015 series B bonds mature in 2044 and will be used to fund the Authority's capital improvement program. Net proceeds from the bond issuance totaled approximately \$406.6 million including \$2.1 million of underwriter's discount and cost of issuance.



# DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

## Management's Discussion and Analysis (unaudited)

September 30, 2017 and 2016

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In February 2016, the Authority issued the subordinate lien revenue refunding bonds, 2016 Series A in the amount of \$389.1 million. The proceeds from the bonds were used to refund \$401.9 million of the Authority's outstanding bonds. The interest on the bonds are at fixed rates ranging from 2.0% to 5.0%.

In September 2016, the Authority issued \$25.0 million of 2016 Series B (Environmental Impact Bonds) subordinate lien revenue bonds. The 2016 Series B Bonds are multimodal variable rate bonds, initially issued bearing a 3.43% fixed rate through the mandatory tender date, April 1, 2021. The net issuance proceeds (after payment of \$0.5 million of issuance expenses) of \$24.5 million will be used for construction of GI for the RC-A.

The increases (decreases) in outstanding bonds and notes payable were related to new bond issuance, scheduled principal repayments and bonds refunding.

### Credit Ratings

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#### Long Term Credit Ratings

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Moody's Investors' Service	Aa1	Stable Outlook
Standard & Poor's Corporation	AAA	Stable Outlook
Fitch Ratings	AA	Stable Outlook

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#### Short Term Credit Ratings

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Moody's Investors' Service	P-1
Standard & Poor's Corporation	A-1+
Fitch Ratings	F1+

### Rates

Effective October 1, 2016, the Authority raised its retail water and wastewater rates by 5.0%. The Authority's approved ten-year financial plan includes projected annual rate increases of 5.0% for each of the fiscal years 2018 to 2027 and also includes projected revisions to its metering, right-of-way fee and payment-in-lieu of taxes pass-through, the Clean River Impervious area charge (CRIAC) and the Water System Replacement Fee (WSRF).

### Contacting the Authority's Financial Management

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

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**DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY**

Statements of Net Position

September 30, 2017 and 2016

(In thousands)

<b>Assets and Deferred Outflows of Resources</b>	<b>2017</b>	<b>2016</b>
Current assets:		
Cash and cash equivalents (note 3)	\$ 104,834	\$ 112,283
Investments (note 3)	107,633	106,982
Restricted cash and cash equivalents (note 3)	133,683	96,674
Restricted investments (note 3)	104,035	98,803
Customer receivables, net of allowance for doubtful accounts of \$16,857 in 2017 and \$15,042 in 2016 (note 7)	68,506	67,015
Due from other jurisdictions (note 8)	24,508	14,960
Due from Federal government (note 6)	37,222	28,373
Due from District government (note 13)	4,235	6,411
Inventory	12,358	12,309
Prepaid assets	5,945	5,686
<b>Total current assets</b>	<b>602,959</b>	<b>549,496</b>
Noncurrent assets:		
Restricted assets (note 3):		
Cash and cash equivalents	8,364	29,041
Investments	52,954	27,951
<b>Total restricted cash and cash equivalents and investments</b>	<b>61,318</b>	<b>56,992</b>
Capital assets (note 4):		
In-service	5,589,678	4,891,281
Less accumulated depreciation	(1,535,833)	(1,440,632)
<b>Net capital assets in service</b>	<b>4,053,845</b>	<b>3,450,649</b>
Construction-in-progress	2,489,255	2,544,698
<b>Net capital assets</b>	<b>6,543,100</b>	<b>5,995,347</b>
Other noncurrent assets:		
Due from District government (note 13)	41,006	46,864
Due from other jurisdictions (note 8)	12,430	18,056
<b>Total other noncurrent assets</b>	<b>53,436</b>	<b>64,920</b>
<b>Total noncurrent assets</b>	<b>6,657,854</b>	<b>6,117,259</b>
<b>Total assets</b>	<b>7,260,813</b>	<b>6,666,755</b>
<b>Deferred Outflows of Resources</b>		
Deferred loss on debt refunding	69,946	73,157
<b>Total assets and deferred outflows of resources</b>	<b>7,330,759</b>	<b>6,739,912</b>
<b>Liabilities</b>		
Current liabilities:		
Accounts payable and accrued expenses	195,720	160,025
Unearned revenue	52,267	74,866
Accrued interest	70,583	65,677
Commercial paper notes payable (note 10)	79,200	79,200
Current maturities of long-term debt (note 11)	30,840	29,317
Due to jurisdictions	8,980	7,906
Compensation payable (note 9)	10,560	11,971
Other liabilities (note 12)	13,621	11,926
<b>Total current liabilities</b>	<b>461,771</b>	<b>440,888</b>
Noncurrent liabilities:		
Long-term debt, excluding current maturities (note 11)	3,193,727	2,900,329
Unearned revenue	1,750,789	1,667,284
Other liabilities (note 12)	9,444	12,769
Compensated absences payable (note 9)	17,188	15,353
<b>Total noncurrent liabilities</b>	<b>4,971,148</b>	<b>4,595,735</b>
<b>Total liabilities</b>	<b>5,432,919</b>	<b>5,036,623</b>
<b>Net Position</b>		
Net investments in capital assets	1,655,867	1,491,925
Restricted for debt service	33,276	33,135
Unrestricted	208,697	178,229
<b>Total net position</b>	<b>\$ 1,897,840</b>	<b>\$ 1,703,289</b>

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

**DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY**  
**Statements of Revenues, Expenses and Changes in Net Position**  
**Years Ended September 30, 2017 and 2016**  
(In thousands)

	2017	2016
Operating revenues:		
Water and wastewater user charges:		
Residential, commercial and multi-family customers	\$ 401,246	\$ 382,552
Federal government	67,672	63,417
District government and D.C. Housing Authority (note 13)	40,483	38,185
Charges for wholesale wastewater treatment	101,619	91,873
Other	32,149	19,762
<b>Total operating revenues</b>	<b>643,169</b>	<b>595,789</b>
Operating expenses:		
Personnel services	132,124	124,239
Contractual services	72,611	74,086
Chemicals, supplies and small equipment	33,381	29,524
Utilities and rent	24,262	23,934
Depreciation and amortization	97,900	89,512
Water purchases	26,796	26,345
Payment in lieu of taxes and right of way fee (note 13)	21,057	20,744
<b>Total operating expenses</b>	<b>408,131</b>	<b>388,384</b>
<b>Operating income</b>	<b>235,038</b>	<b>207,405</b>
Nonoperating revenues (expenses):		
Interest income	3,740	2,629
Interest expense and other nonoperating expenses	(68,293)	(69,118)
<b>Total nonoperating (expenses)</b>	<b>(64,553)</b>	<b>(66,489)</b>
Change in net position before capital contributions	170,485	140,916
Capital contributions (note 5)	24,066	32,431
<b>Change in net position</b>	<b>194,551</b>	<b>173,347</b>
<b>Net position, beginning of year</b>	<b>1,703,289</b>	<b>1,529,942</b>
<b>Net position, end of year</b>	<b>\$ 1,897,840</b>	<b>\$ 1,703,289</b>

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

## DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

### Statements of Cash Flows

Years Ended September 30, 2017 and 2016

(In thousands)

	2017	2016
<b>Cash flows from operating activities:</b>		
Cash received from customers	\$ 594,592	\$ 565,997
Cash paid to suppliers for goods and services	(158,530)	(176,871)
Cash paid to employees for services	(131,700)	(120,625)
Cash paid to District for PILOT and ROW	(21,057)	(20,744)
<b>Net cash provided by operating activities</b>	<b>283,305</b>	<b>247,757</b>
<b>Cash flows from capital and related financing activities:</b>		
Proceeds from issuance of revenue bonds	334,345	875,439
Proceeds from other jurisdictions	113,488	146,722
Repayments of bond principal and notes payable to Federal government	(29,317)	(477,716)
Acquisition of capital assets	(546,496)	(549,018)
Payments of interest and fiscal charges	(147,285)	(168,182)
Contributions of capital from Federal and District governments	28,267	33,470
Proceeds from issuance of commercial paper	612,800	612,800
Repayments of commercial paper	(612,800)	(624,800)
<b>Net cash used in capital and related financing activities</b>	<b>(246,998)</b>	<b>(151,285)</b>
<b>Cash flows from investing activities:</b>		
Cash received for interest	3,461	2,607
Investment purchases	(443,976)	(488,542)
Investment maturities	413,091	393,812
<b>Net cash used in investing activities</b>	<b>(27,424)</b>	<b>(92,123)</b>
<b>Net increase in cash and cash equivalents</b>	<b>8,883</b>	<b>4,349</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>237,998</b>	<b>233,649</b>
<b>Cash and cash equivalents at end of year</b>	<b>\$ 246,881</b>	<b>\$ 237,998</b>
<b>Operating income</b>	<b>\$ 235,038</b>	<b>\$ 207,405</b>
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	97,900	89,512
Change in operating assets and liabilities:		
Decrease (increase) in customer and other receivables	933	(143)
Increase in inventory and prepaid assets	(304)	(4,728)
Increase (decrease) in payables and accrued liabilities	229	(15,168)
Decrease in unearned revenue	(50,491)	(29,121)
<b>Net cash provided by operating activities</b>	<b>\$ 283,305</b>	<b>\$ 247,757</b>
<b>Noncash Investing, Capital and Financing Activities:</b>		
Capital asset additions included in accounts payable	\$ 169,885	\$ 135,176
Net (decrease) increase in the fair value of investments	(563)	270

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

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# DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

## Notes to the Financial Statements

September 30, 2017 and 2016

(In thousands)

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### (1) Background, Governance, Operations and Reporting Entity

#### (a) *Background*

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 related organization of the District for purposes of presentation in the District's financial statements.

#### (b) *Governance*

The Authority is governed by a Board of Directors consisting of eleven principal and eleven alternate members. The Board is composed of six District of Columbia representatives, two each from Montgomery and Prince George's Counties in Maryland, and one from Fairfax County in Virginia. The Mayor of the District of Columbia appoints, and the DC Council confirms, all six District Board members and alternates, including the Chairman. In addition, the Mayor appoints the five principal and alternate members who represent the surrounding jurisdictions based on executive submissions from those jurisdictions.

#### (c) *Operations*

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 or, "the Plant") 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 between the Authority; 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"), was executed in September 1985 (the "1985 IMA").

The 1985 IMA was replaced in 2012 and became effective on April 3, 2013 by a new Intermunicipal Agreement (the "2012 IMA"), which was negotiated, approved and executed by each of the original signatories to the 1985 IMA. The IMA provides 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 2012 IMA. Operating costs are allocated based on wastewater flows from each participant.

# DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

## Notes to the Financial Statements

September 30, 2017 and 2016

(In thousands)

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### (1) Background, Governance, Operations and Reporting Entity (Continued)

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 U.S. 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 Federal government and operated by the U.S. Army Corps of Engineers (USACE) under the direction of the Secretary of the Army. Since 1852, an act of Congress placed the care, management, and superintendence of the Washington Aqueduct under the USACE. Under the Act, USACE was given responsibility for supplying water in the District for use by the Federal government and for the use and benefit of the inhabitants of the District. The USACE operates two water purification plants at the Aqueduct, Dalecarlia and McMillan, for the exclusive benefit of the Authority, Arlington County and Fairfax County Water Authority ("FCWA"). The Aqueduct facilities supply treated water to distribution systems of the Authority, Arlington County, FCWA, the Federal government, and other parts of northern Virginia.

As of January 3, 2014, FCWA assumed ownership and operation of the water distribution system previously owned and operated by the City of Falls Church. The Authority is responsible for managing the treated Water System that serves the District and several other governmental customers outside the District. The Authority currently purchases approximately 73% of the finished water produced by the Aqueduct, and Arlington County and the FCWA purchase the remainder. Under this agreement, which remains in effect until September 30, 2023 and then thereafter until terminated, the Authority is responsible for funding approximately 73% of the Aqueduct's annual operating and capital costs. Additionally, the Authority obtains back-up and peak-day water supply from the Jennings Randolph Reservoir (Bloomington Dam) and Little Seneca Lake. The Jennings Randolph Reservoir was constructed by the Federal government and is operated by the USACE. The Little Seneca Lake was constructed and is operated by the WSSC.

#### (d) Reporting Entity

A financial reporting entity consists of a primary government and its component units. The criteria used to determine whether organizations are to be included as component units within the Authority's reporting entity are as follows:

- The Authority holds the corporate powers of the organization, and
- The Authority appoints a voting majority of the organization's board, and
- The Authority is able to impose its will on the organization, or
- The organization has the potential to impose a financial burden on, or provide a financial benefit to the Authority, or
- It would be misleading to exclude the organization from the Authority's financial statements.



# DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

## Notes to the Financial Statements

September 30, 2017 and 2016

(In thousands)

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### (1) Background, Governance, Operations and Reporting Entity (Continued)

Based on the application of the above criteria, Blue Drop, LLC, a separate not-for-profit organization created by DC Water in November, 2016 by the Board Resolution #16-90, is considered to be a component unit of the Authority. Blue Drop, LLC which is legally separate from the Authority was established as a pilot program to provide the following:

- Relief from rising rates, fees, and charges to DC Water's customers in the District of Columbia, to other participating jurisdictions and to users of the joint-use sewage facilities,
- Advancing and promoting innovative strategies and technologies in the treatment and delivery of potable water, the treatment and collection of wastewater, and related products and services,
- Improving the state of the water and wastewater treatment sectors by sharing knowledge, research, and expertise throughout the country and the world,
- Promoting resource recovery and conservation; and
- Other purposes consistent with and complementary to the principles described in this Resolution.

A component unit should be included in the reporting entity financial statements using the blending method in any of these circumstances:

- The component unit's governing body is substantively the same as the governing body of the primary government *and* (1) there is a financial benefit or burden relationship between the primary government and the component unit, or (2) management of the primary government has operational responsibility for the component unit.
- The component unit provides entirely, or almost entirely, to the primary government or otherwise exclusively, or almost exclusively, benefits the primary government even though it does not provide services directly to it.
- The component unit's total debt outstanding, including leases, is expected to be repaid entirely, or almost entirely, with resources of the primary government.
- The component unit is organized as a not-for-profit corporation in which the primary government is the sole corporate member, as identified in the component unit's articles of incorporation or bylaws.

Blue Drop, LLC is a blended component unit because it is organized as a not-for-profit corporation in which the Authority is the sole corporate member, as identified in Blue Drop, LLC's articles of incorporation and bylaws. The inclusion of Blue Drop, LLC as a blended component unit did not have a material effect on the fiscal year 2017 financial statements. Separate audited financial statements for Blue Drop, LLC are available from the Blue Drop, LLC Office at 810 First Street NE, First Floor, Washington, DC 20002. Condensed financial statements of Blue Drop, LLC as of and for the year ended September 30, 2017 are also included in Note 16.

Additionally, the Authority is not considered to be a component unit of the District as the District is not able to impose its will on the Authority, and the Authority does not impose a financial burden on or provide a financial benefit to the District.

# DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

## Notes to the Financial Statements

September 30, 2017 and 2016

(In thousands)

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

The financial statements of the Authority have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP"), as applicable to governmental entities. 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 financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Grants and similar items are recognized when all eligibility requirements imposed by the grantor have been met.

#### (b) *Cash and Cash Equivalents*

The Authority invests all unrestricted cash balances, in excess of the required compensating balances, in interest-bearing accounts. The Authority's cash equivalents at year end consist of unrestricted and restricted investments, such as registered money market mutual funds and U.S. government agency obligations, 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 the Authority's restricted cash and cash equivalents.

#### (c) *Investments*

The Authority's investments at year end consist of unrestricted and restricted U.S. government agency obligations, U.S. Treasury notes, commercial paper, FDIC insured and negotiable certificates of deposit, corporate notes, supranational bonds and municipal bonds which have an original maturity in excess of 90 days. Money market investments and participating interest-earning investment contracts that have a remaining maturity at time of purchase of one year or less are reported at amortized cost. All other Investments are reported at fair value as of September 30, 2017 and 2016, respectively.

#### (d) *Inventory*

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

#### (e) *Restricted Assets*

Restricted assets represent unspent revenue bond proceeds, funds for the current payment of debt service, and unspent Federal capital appropriations. These assets, which cannot be used for routine operations, are classified as restricted assets since their use is limited by the applicable debt covenants and Federal Appropriations Act.

# DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

## Notes to the Financial Statements

September 30, 2017 and 2016

(In thousands)

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

#### (f) Capital Assets

The Authority's capital assets are comprised of the wastewater treatment plant, wastewater collection facilities, the water distribution system, purchased capacity, and capital equipment and fleet. Capital assets are reported at historical costs and include all ancillary costs. The wastewater treatment plant, collections facilities and water distribution system include project construction and development costs, internal engineering and construction management personnel costs, and interest costs incurred during the construction period.

Normal recurring maintenance and repair costs are charged to operations, whereas major repairs, improvements and replacements, which extend the useful lives of the capital assets, are capitalized. Construction-in-progress is transferred to capital assets in-service upon substantial completion or when placed in service, with related depreciation commencing at that time. The Authority's capitalization thresholds are: \$500 for wastewater treatment plant and collection facilities, and water distribution systems improvements; and \$5 for capital equipment and fleet.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Asset class</u>	<u>Estimated useful lives</u>
Wastewater treatment plant	60 years
Wastewater collection facilities	60 years
Water distribution systems	60 years
Purchased capacity	60 years
Capital equipment and fleet	3 - 20 years

The Authority recognizes a half-year of depreciation in the year the capital asset is placed in service and a half-year in the year of disposal.

As discussed in Note 1, the Authority is responsible for approximately 73% of the Aqueduct's operating and capital costs. The Authority records its share of operating costs as water purchases and capital costs as purchased capacity, an intangible asset. The Authority's policy is to capitalize capital costs required to be funded under long-term water purchase agreements and to amortize such costs over the shorter of the term of the contractual agreement or estimated useful life of the assets. For purposes of the Aqueduct, the Authority considers the term of the water purchase agreement to be indefinite as USACE is required by law to provide the Authority with a source of water from the Aqueduct and the Authority has no intent to terminate its Agreement to purchase water from USACE. Additionally, capital cost reimbursements made in prior years under the Authority's participation in the Jennings Randolph Reservoir (Bloomington Dam) and Little Seneca Lake projects are also included in purchased capacity.

# DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

## Notes to the Financial Statements

September 30, 2017 and 2016

(In thousands)

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

#### (g) *Deferred Outflows of Resources*

Deferred outflows of resources are defined as a consumption of net position by the Authority that is applicable to a future reporting period. Deferred outflows of resources increase net position, similar to assets. Deferred loss on bond refunding resulted from the difference between the carrying value of the refunded debt and its reacquisition price. Net losses are deferred and amortized over the life of the refunded or refunding debt, whichever is shorter.

#### (h) *Compensated Absences*

Employees earn vacation and sick leave based on a prescribed formula, which allows employees to accumulate an unlimited amount of sick leave, and vacation leave up to the maximum amounts shown in the table below. Vacation leave earned but unused by employees vests and is accrued as a liability. Generally, sick leave does not vest, and accordingly, it is recorded when used. However, as further discussed in Note 14d, the Authority Retirement Health Savings (RHS) Plan allows non-union, non-federal employees to use sick leave that is usually forfeited upon termination, to fund an account that can be used to pay for eligible medical expenses. Eligibility is established upon termination if an employee has five years of service and 100 hours of sick leave.

Accordingly, the Authority has recorded an accrual for earned sick leave only to the extent it is probable that the benefits will result in termination payments. In developing this estimate the Authority has taken into consideration past experience in making termination payments for sick leave, adjusted for the effect of changes in our termination payment policy and other current factors.

<u>Length of Service</u>	<u>Annual Carryover Limits</u>
Regular Union employees:	
1-3 years	240 hours
4-14 years	240-320 hours
Over 15 years	240-360 hours
Non-union employees:	
1-2 years	240 hours
3-6 years	320 hours
7 years	360 hours

# DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

## Notes to the Financial Statements

September 30, 2017 and 2016

(In thousands)

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

#### (i) *Bond Premiums, Discounts and Issuance Costs*

Bond premiums and discounts incurred to issue debt are capitalized and amortized as interest expense over the related bond issue period using the effective interest method. Bond issuance costs are expensed in the period incurred.

#### (j) *Net Position*

Net position is categorized into three components as follows:

- *Net investments in capital assets* – This component of net position consists of capital assets, net of accumulated depreciation and amortization 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. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are also included in this component.
- *Restricted* – This component of net position consists of restrictions placed on net position 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. When both restricted and unrestricted resources are available for use, generally it is the Authority's policy to use restricted resources first and the unrestricted resources when they are needed.
- *Unrestricted* – This component consists of net position that does not meet the definition of "restricted" or "net investments in capital assets."

#### (k) *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.

Operating expenses include the costs associated with the conveyance of water and wastewater, treatment of wastewater, administrative expenses, District payments-in-lieu-of-taxes (PILOT) and right-of-way (ROW) fees, and depreciation and amortization of capital assets. All revenues and expenses not meeting these definitions are reported as non-operating revenues and expenses.

# DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

## Notes to the Financial Statements

September 30, 2017 and 2016

(In thousands)

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

#### (l) *Retail 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. Amounts received in advance or in excess of the user charge for a billing period are recorded as unearned revenues until such time as these amounts are either refunded or applied against future user charges.

#### (m) *Charges for Wholesale Wastewater Treatment and Unearned 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 in accordance with terms of the IMA agreement discussed in Note 1c. 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 as set forth in the 2012 IMA. The reimbursements for capital related costs are recorded as unearned revenue and are amortized into user charges for wholesale wastewater treatment revenues over the estimated useful lives of the related assets.

#### (n) *Contingencies*

Liabilities from loss contingencies arising from claims, assessments, litigation, fines and penalties, and other sources, are recorded when information available before the financial statements are issued indicates that it is probable that an asset has been impaired or a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. When the reasonable estimate of the loss is a range, and when no amount within the range is a better estimate than any other amount, the Authority accrues a loss for the minimum amount in the range.

#### (o) *Use of Estimates*

The preparation of financial statements in conformity with U.S generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities and deferred inflows of resources and disclosure of contingent assets and liabilities at the date of the basic financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

# DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

## Notes to the Financial Statements

September 30, 2017 and 2016

(In thousands)

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

#### (p) Adoption of New Accounting Standards

During the fiscal year ended September 30, 2017, the Authority adopted the following new accounting standards issued by the Governmental Accounting Standards Board (GASB): Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*; Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*; Statement No. 77, *Tax Abatement Disclosures*; Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*; Statement No. 80, *Blending Requirements for Certain Component Units*; and Statement No. 82, *Pension Issues*

Implementation of GASB Statement Nos. 73, 74, 77, 78 and 82 had no impact on the Authority's fiscal year 2017 financial statements. The Authority's implementation of GASB Statement No. 80 did not have a material impact on the Authority's fiscal year 2017 financial statements because the operations of Blue Drop, LLC, a not-for-profit limited liability company, were not material to the financial statements taken as a whole, but did result in additional required disclosures. See note 1(d).

#### (q) New Accounting Pronouncements to be Implemented in the Future

The Authority plans to implement the following GASB pronouncements by the required implementation dates:

No.	Title	Required Implementation Date (Period Beginning After)	Authority Fiscal Year
75	Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions	June 15, 2017	2018
81	Irrevocable Split-Interest Agreements	December 15, 2016	2018
83	Certain Asset Retirement Obligations	June 15, 2018	2019
84	Fiduciary Activities	December 15, 2018	2020
85	Omnibus 2017	June 15, 2017	2018
86	Certain Debt Extinguishment Issues	June 15, 2017	2018
87	Leases	December 15, 2019	2021

# DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

## Notes to the Financial Statements

September 30, 2017 and 2016

(In thousands)

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### (3) Cash Deposits and Investments

#### (a) Authorized Cash Deposits and Investments

The Authority's Investment Policy, which is compliant with the Authority's bond covenants and master indenture, requires that all cash and other deposits maintained in financial institutions be collateralized, including bank deposits and collateralized certificates of deposit. Collateral is required to be secured in accordance with the following policy: a) collateralization on all deposits of the Authority in excess of the amount protected by federal deposit insurance; and b) collateralization with any of the following: (i) U.S. Treasury obligations, (ii) Federal agency obligations, or (iii) a Letter of Credit issued by a Federal Home Loan Bank the amount of which shall be 102% of the deposits held. Collateral shall always be held by an independent third-party custodian in the name of the Authority.

The Authority's Investment Policy permits investments in the following securities:

- (1) *U.S. Treasury Obligations.* U.S Treasury bills, notes, or any other obligation or security issued by or backed by the full faith and credit of the US Treasury. These securities shall be limited to a maximum maturity of five (5) years at the time of purchase.
- (2) *Registered Investment Companies (Mutual Funds).* Shares in open-end, no-load investment funds provided such funds are registered under the Federal Investment Company Act of 1940, invest exclusively in the securities permitted under this investment policy, provided that the fund is rated "AAAm" or "AAAm-G" or the equivalent.
- (3) *Repurchase Agreements.* Contracts shall be invested in only if certain conditions are met, including: a) the Repurchase Agreement has a term to maturity of no greater than ninety (90) days; b) the contract is fully secured by deliverable U.S. Treasury and Federal Agency obligations, having a market value at all times of at least one hundred two percent (102%) of the amount of the contract; and c) the counterparty meets certain criteria specified in the Investment Policy.
- (4) *Federal Agency Obligations.* Bonds, notes, debentures, or other obligations or securities issued by a Federal government agency or instrumentality, except Collateralized Mortgage Obligations, with a rating of at least "AA" or equivalent from two major rating agencies. These obligations shall be limited to a maximum maturity of five (5) years at the time of purchase.
- (5) *Bankers' Acceptances.* Issued by a domestic bank or a federally chartered domestic office of a foreign bank, which are eligible for purchase by the Federal Reserve System, may be purchased if the following conditions are met: a) the maturity is no greater than one hundred-eighty days (180) days; and b) it is rated not lower than 'A-1' or the equivalent.
- (6) *Commercial Paper.* Unsecured short-term debt of U.S. corporations may be purchased if certain conditions are met, including: a) the maturity is no greater than two hundred-seventy days (270) days; and b) the issuing corporation, or its guarantor, has a short-term debt rating of no less than "A-1" (or its equivalent) by at least two of the Nationally Recognized Statistical Rating Organizations ("NRSRO").



# DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

## Notes to the Financial Statements

September 30, 2017 and 2016

(In thousands)

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### (3) Cash Deposits and Investments (Continued)

- (7) *Collateralized Certificates of Deposit* in state chartered banks or federally chartered banks. Collateralized Certificates of Deposit shall be collateralized at 102%.
- (8) *Corporate Notes*. High quality corporate notes that meet the following criteria: 1) a rating of at least 'AA' (or its equivalent) from at least one NRSRO and a rating of at least 'A' (or its equivalent) from a second NRSRO; and 2) the final maturity shall not exceed a period of five (5) years from the time of purchase.
- (9) *FDIC insured Certificates of Deposit obtained through Certificate of Deposit placement services including the Certificate of Deposit Account Registry Service (CDARS)*. In 2012, the Authority began participating in CDARS program. The program allows the Authority to allocate funds into certificates of deposit in increments, which ensure the funds are eligible for full FDIC insurance.
- (10) *Federal Agency Mortgage-Backed Securities*. Issued by Fannie Mae, Freddie Mac, or the Government National Mortgage Association (GNMA) that meet the following criteria: 1) a rating of at least "AA" (or its equivalent) by two NRSROs; 2) The weighted average life (WAL) shall not exceed a period of five (5) years from the time of purchase.
- (11) *Negotiable Certificates of Deposit and Bank Deposit Notes of domestic banks and domestic offices of foreign banks with:* a) ratings of at least 'A-1' (or its equivalent) by two NRSROs for maturities of one (1) year or less; b) a rating of at least 'AA' (or its equivalent) from at least one NRSRO and a rating of at least 'A' (or its equivalent) from a second NRSRO for maturities over one (1) year; and c) the final maturity shall not exceed a period of five (5) years from the time of purchase.
- (12) *Supranational Bonds*. Obligations, participations or other instruments of any Federal agency, instrumentality or United States government-sponsored enterprise, including those issued or fully guaranteed as to the principal and interest by Federal agencies, instrumentalities or United States government sponsored enterprises, provided that: 1) at time of purchase the maturity does not to exceed five (5) years; and 2) have a rating of at least 'A' (or its equivalent) from at least two NRSROs.
- (13) *Municipal Obligations*. Municipal bonds, notes and other evidences of indebtedness of the District or any state or local government may be purchased that meet certain criteria, including: a) final maturity on the date of investment not to exceed five (5) years; b) rated in either of the two highest rating categories by a NRSRO; and c) the total holdings of any single issue do not represent more than 25% of the total issue.

# DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

## Notes to the Financial Statements

September 30, 2017 and 2016

(In thousands)

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### (3) Cash Deposits and Investments (Continued)

Additionally, the Authority's Investment Policy has established the following limits as to the maximum percentage of the investment portfolio that is permitted to be invested in each type of eligible security:

Security		Security	
Collateralized Bank Deposits	100%	Collateralized Certificates of Deposit	30%
U.S. Treasury Obligations	100%	Corporate Notes	30%
Registered Money Market Mutual Funds	100%	FDIC-insured Certificates of Deposit	30%
Repurchase Agreements	100%	Federal Agency Mortgage-Backed Securities	30%
Federal Agency Obligations	80%	Negotiable Certificates of Deposit	30%
Bankers' Acceptances	40%	Supranational Bonds	30%
Commercial Paper	35%	Municipal Obligations	20%

The Authority's Investment Policy also stipulates that no more than 5% of the Authority's portfolio will be invested in the securities of any single issuer with following exceptions:

U.S. Treasury	100% maximum
Each Mutual Fund	50% maximum
Each Repurchase Agreement Counterparty	50% maximum
Each Federal Agency	40% maximum

For the years ended September 30, 2017 and 2016, the Authority was in full compliance with the Investment Policy.

#### (b) Cash Deposits

At September 30, 2017 and 2016, the carrying amounts of the Authority's unrestricted and restricted bank deposits were \$104,742 and \$112,215 respectively. These bank deposits were entirely insured or collateralized with securities or letters of credit at 102% of the market value of principal, plus accrued interest held by the Authority's independent agent in the Authority's name.

**DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY**

**Notes to the Financial Statements**

**September 30, 2017 and 2016**

**(In thousands)**

**(3) Cash Deposits and Investments (Continued)**

**(c) Fair Value Measurements**

The Authority categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The Authority is required to classify certain assets and liabilities based on the following fair value hierarchy:

**Level 1:** Quoted price in active markets for identical assets.

**Level 2:** Inputs other than quoted prices included in level 1 that are observable, either directly or indirectly. Debt securities are priced based on a compilation of primarily observable market information or broker quote in a non-active market.

**Level 3:** Inputs are significant unobservable inputs.

As noted in the following table, all of the Authority's investments that are reported at fair value have been measured using Level 2 inputs as of September 30, 2017 and 2016, respectively:

Investments by fair value level	Fair Value Measurement at Reportable Date Using Significant Other Observable Inputs (Level 2)	
	2017	2016
U.S. Treasury notes	\$ 123,493	\$ 37,997
Corporate notes	19,586	25,044
U.S. government agency obligations	19,345	67,184
Negotiable certificates of deposit	8,156	12,012
Supranational Bonds	6,410	3,755
Municipal bonds	5,232	4,743
Total investments at fair value	182,222	150,735
Investments and cash equivalents carried at amortized cost	224,539	208,784
Total investments and cash equivalents	\$ 406,761	\$ 359,519

# DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

## Notes to the Financial Statements

September 30, 2017 and 2016

(In thousands)

### (3) Cash Deposits and Investments (Continued)

#### (d) Cash Equivalents and Investments

As of September 30, 2017 and 2016, the Authority held the following cash equivalents and investments:

Cash equivalents and investments	2017	Weighted Average Maturity (Years)	2016	Weighted Average Maturity (Years)
Registered money market mutual	\$142,139	0.083	\$125,783	0.083
U.S. Treasury notes	140,975	0.941	43,009	1.270
Commercial paper	49,657	0.342	62,792	0.257
Corporate notes	19,586	1.750	25,044	1.772
U.S. government agency obligations	19,345	1.871	67,184	1.191
FDIC-insured certificates of deposit	15,261	0.151	15,197	0.326
Negotiable certificates of deposit	8,156	1.551	12,012	0.839
Supranational Bonds	6,410	2.076	3,755	2.584
Municipal bonds	5,232	1.442	4,743	2.324
Total cash equivalents and investments	<u>\$406,761</u>	<u>0.658</u>	<u>\$359,519</u>	<u>0.671</u>

The Authority's exposure to foreign currency risk, interest rate risk, credit risk and custodial risk associated with its cash deposits and investments are described below:

*Foreign Currency Risk* – Foreign currency risk is the risk that changes in the exchange rates will adversely impact the fair values of an investment. The Authority's investments are not subject to foreign currency risk as the Authority held no investments denominated in foreign currency as of and for the years ended September 30, 2017 and 2016, respectively.

*Interest Rate Risk* – Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, an investment with a longer maturity will have a greater sensitivity to fair value changes that are related to market interest rates. As a means of limiting its exposure to fair value losses resulting from rising interest rates, the Authority's Investment Policy limits the Authority's investment portfolio to investments with certain maximum maturities.

# DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

## Notes to the Financial Statements

September 30, 2017 and 2016

(In thousands)

### (3) Cash Deposits and Investments (Continued)

The following are the maximum maturities established by the Authority's investment policy:

Security	Maturities	Security	Maturities
U.S. Treasury Obligations	5 years	Corporate Notes	5 years
Registered Money Market Mutual Funds	NA	FDIC-insured Certificates of Deposit	NA
Repurchase Agreements	90 days	Federal Agency Mortgage-Backed Securities	5 years
Federal Agency Obligations	5 years	Negotiable Certificates of Deposit	5 years
Bankers' Acceptances	180 days	Supranational Bonds	5 years
Commercial Paper	270 days	Municipal Obligations	5 years
Collateralized Certificates of Deposit	NA		

Additionally, the Authority monitors the interest rate risk inherent in its portfolio by measuring the weighted average maturity of its portfolio of debt instruments.

As reflected in the table on the previous page, the weighted average maturity of the Authority's investment portfolio was 0.658 years and 0.671 years as of September 30, 2017 and 2016, respectively.

*Credit Risk* – Generally, credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized rating organization. The Authority manages this risk by establishing minimum credit ratings in its investment policy.

The table below reflects the allocation of the Authority's investments by credit quality rating as of September 30, 2017:

Investment Type	Credit Quality Rating										Total	
	AAA	AA+	AA	AA-	A+	A	A-1	A-1+	AAAm	Not Rated		
U.S. government agency obligations		4.8%										4.8%
Commercial paper							10.9%	1.3%				12.2%
Registered money market mutual									34.9%			34.9%
U.S. Treasury notes		34.6%										34.6%
FDIC-insured certificates of deposit										3.8%		3.8%
Corporate notes	0.3%	0.6%	0.4%	1.9%	0.9%	0.8%						4.9%
Negotiable certificates of deposit				1.1%	0.9%							2.0%
Supranational Bonds		1.6%										1.6%
Municipal bond	0.1%		0.9%		0.2%							1.2%
	<u>2.0%</u>	<u>40.0%</u>	<u>1.3%</u>	<u>3.0%</u>	<u>2.0%</u>	<u>0.8%</u>	<u>10.9%</u>	<u>1.3%</u>	<u>34.9%</u>	<u>3.8%</u>		<u>100.0%</u>

At September 30, 2017, the Authority's investments with exposure to credit risk met the minimum credit ratings required in the Authority's investment policy.

# DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

## Notes to the Financial Statements

September 30, 2017 and 2016

(In thousands)

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### (3) Cash Deposits and Investments (Continued)

*Custodial Credit Risk – Deposits* is the risk that, in the event of the failure of the depository financial institution, the Authority will not be able to recover the deposits or collateral securities that are in the possession of an outside party. The Authority had no custodial credit risk associated with cash deposits as all other bank deposits were entirely insured or collateralized with securities or letters of credit at 102% of the market value of principal, plus accrued interest and held by the Authority's independent agent in the Authority's name.

*Custodial Credit Risk – Investments* 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 has no custodial credit risk as all Authority investments are held in the Authority's name by an independent custodial agent for the term of the agreement and investments in obligations of the United States or its agencies are held by the Federal Reserve in a custodial account.

*Other Required Disclosures* – As of and for the years ended September 30, 2017 and 2016, the Authority did not have any:

- Commitments to resell securities under yield maintenance agreements;
- Losses due to defaults by counterparties or recoveries from prior period losses; or
- Investments in any one issuer that represent 5% or more of total investments, excluding investments explicitly guaranteed by the U.S. government and its agencies and investments in mutual funds, external investment pools and other pooled investments that are excluded from this disclosure requirement.

# DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

## Notes to the Financial Statements

September 30, 2017 and 2016

(In thousands)

### (3) Cash Deposits and Investments (Continued)

#### (d) Cash and Investment Schedule

A schedule of cash, cash equivalents and investments as of September 30, 2017 and 2016 follows:

Description	2017			2016		
	Unrestricted	Restricted	Total	Unrestricted	Restricted	Total
Cash and cash equivalents						
Demand deposits	\$ 104,742	\$ -	\$ 104,742	\$ 112,215	\$ -	\$ 112,215
Registered money market mutual	92	142,047	142,139	68	125,715	125,783
Total cash and cash equivalents	104,834	142,047	246,881	112,283	125,715	237,998
Investments						
U.S. Treasury notes	33,643	107,332	140,975	16,118	26,891	43,009
Commercial paper	-	49,657	49,657	1,790	61,002	62,792
Corporate notes	19,586	-	19,586	25,044	-	25,044
U.S. government agency obligations	19,345	-	19,345	28,323	38,861	67,184
FDIC-insured certificates of deposit	15,261	-	15,261	15,197	-	15,197
Negotiable certificates of deposit	8,156	-	8,156	12,012	-	12,012
Supranational Bonds	6,410	-	6,410	3,755	-	3,755
Municipal bonds	5,232	-	5,232	4,743	-	4,743
Total Investments	107,633	156,989	264,622	106,982	126,754	233,736
Total cash, cash equivalents & investments	\$ 212,467	\$ 299,036	\$ 511,503	\$ 219,265	\$ 252,469	\$ 471,734

# DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

## Notes to the Financial Statements

September 30, 2017 and 2016

(In thousands)

### (3) Cash Deposits and Investments (Continued)

#### (e) *Restricted Cash and Investment Schedule*

A schedule of restricted cash, cash equivalents and investments as of September 30, 2017 and 2016 follows:

Description	2017	2016
Restricted cash and cash equivalents (current and noncurrent)		
2016 B EIB Construction Funds	\$ 24,680	\$ 24,500
Principal payment, 1998 revenue bonds	14,750	13,924
Interest payment, 2015A,B revenue bonds	8,760	8,760
Interest payment, 2014C revenue bonds	8,734	8,739
Interest payment, 2016A revenue bonds	8,710	10,500
Interest payment, 2014A revenue bonds	8,425	8,431
Interest payment, 2010 revenue bonds	8,157	8,398
Interest payment, 2012A,C revenue bonds	7,959	8,079
Interest payment, 2013 revenue bonds	7,497	7,534
Interest payment, 2017 A&B Senior Lien Interest	7,013	-
Principal payment, 2008 revenue bonds	6,735	6,604
Revenue bonds 2017B	6,725	-
Debt service reserve account, 1998 revenue bonds	5,526	211
Principal payment, 2012 revenue bonds	5,140	4,919
Interest payment, 1998 revenue bonds	4,307	5,587
Principal payment, 2009 revenue bonds	3,815	3,498
Extendable municipal commercial paper	2,330	2,326
Revenue bonds 2015A	1,043	233
Interest payment, 2016 B EIB	429	-
Interest payment, commercial paper	352	637
Interest payment, 2008 revenue bonds	340	506
Interest payment, 2009 revenue bonds	182	236
Revenue bonds 2017A	117	-
Interest payment, EMCP Series A	116	-
Interest payment, 2014B revenue bonds	71	96
Revenue bonds 2014C	63	124
Interest payment, 2012C revenue bonds	36	38
Revenue bonds 2015B	31	1,833
Combined sewer overflow (CSO) federal appropriations	2	1
Revenue bonds 2014A	1	1
Interest payment, 2007 revenue bonds	1	-
Total restricted cash and cash equivalents	142,047	125,715
Restricted investments (current and noncurrent)		
Revenue bonds 2017A	18,167	-
Revenue bonds 2017B	120,724	-
Revenue bonds 2015A	-	24,970
Revenue bonds 2015B	-	78,402
Debt service reserve account, 1998 revenue bonds	18,098	23,382
Total restricted investments	156,989	126,754
Total restricted cash, cash equivalents & investments	\$ 299,036	\$ 252,469



# DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

## Notes to the Financial Statements

September 30, 2017 and 2016

(In thousands)

### (4) Capital Assets

The following tables present the activity in capital assets for the years ended September 30, 2017 and 2016:

	Balance 9/30/2016	Additions	Disposals	Transfers	Balance 9/30/2017
<b>Capital Assets</b>					
Wastewater treatment plant	\$ 2,383,176	\$ -	\$ -	\$ 626,898	\$ 3,010,074
Wastewater collection facilities	843,095	-	-	13,764	856,859
Water distribution system	1,095,216	-	(9,650)	26,892	1,112,458
Purchased capacity	349,210	7,640	-	-	356,850
Capital equipment	220,584	6,985	(766)	26,634	253,437
Total capital assets in service	<u>4,891,281</u>	<u>14,625</u>	<u>(10,416)</u>	<u>694,188</u>	<u>5,589,678</u>
Less accumulated depreciation:					
Wastewater treatment plant	(629,272)	(46,239)	-	-	(675,511)
Wastewater collection facilities	(267,272)	(13,654)	-	-	(280,926)
Water distribution system	(274,429)	(18,577)	1,936	-	(291,070)
Purchased capacity	(88,360)	(5,945)	-	-	(94,305)
Capital equipment	(181,299)	(13,485)	763	-	(194,021)
Total accumulated depreciation	<u>(1,440,632)</u>	<u>(97,900)</u>	<u>2,699</u>	<u>-</u>	<u>(1,535,833)</u>
Net capital assets in service	3,450,649	(83,275)	(7,717)	694,188	4,053,845
Construction-in-progress	2,544,698	638,745	-	(694,188)	2,489,255
Net capital assets	<u>\$ 5,995,347</u>	<u>\$ 555,470</u>	<u>\$ (7,717)</u>	<u>\$ -</u>	<u>\$ 6,543,100</u>
	Balance 9/30/2015	Additions	Disposals	Transfers	Balance 9/30/2016
<b>Capital Assets</b>					
Wastewater treatment plant	\$ 2,367,163	\$ -	\$ -	\$ 16,013	\$ 2,383,176
Wastewater collection facilities	828,130	-	-	14,965	843,095
Water distribution system	1,054,046	-	-	41,170	1,095,216
Purchased capacity	341,974	7,236	-	-	349,210
Capital equipment	203,573	(35)	(96)	17,142	220,584
Total capital assets in service	<u>4,794,886</u>	<u>7,201</u>	<u>(96)</u>	<u>89,290</u>	<u>4,891,281</u>
Less accumulated depreciation:					
Wastewater treatment plant	(588,392)	(40,880)	-	-	(629,272)
Wastewater collection facilities	(253,807)	(13,465)	-	-	(267,272)
Water distribution system	(256,622)	(17,807)	-	-	(274,429)
Purchased capacity	(82,540)	(5,820)	-	-	(88,360)
Capital equipment	(169,855)	(11,540)	96	-	(181,299)
Total accumulated depreciation	<u>(1,351,216)</u>	<u>(89,512)</u>	<u>96</u>	<u>-</u>	<u>(1,440,632)</u>
Net capital assets in service	3,443,670	(82,311)	-	89,290	3,450,649
Construction-in-progress	2,033,657	600,331	-	(89,290)	2,544,698
Net capital assets	<u>\$ 5,477,327</u>	<u>\$ 518,020</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,995,347</u>

# DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

## Notes to the Financial Statements

September 30, 2017 and 2016

(In thousands)

### (4) Capital Assets (Continued)

For the years ended September 30, 2017 and 2016, total interest expense incurred was \$52,750 and \$65,183, and total capitalized interest was \$77,003 and \$62,800, respectively. During fiscal year 2017, the Authority incurred losses on disposals of capital assets in the amount of \$7,717. This amount has been included in interest expense and other non-operating expenses on the statement of revenues, expenses, and changes in net position.

The following tables present the activity in purchased capacity for the years ended September 30, 2017 and 2016:

	Balance 9/30/2016	Additions	Balance 9/30/2017
Purchased capacity			
Washington Aqueduct	\$ 317,020	\$ 7,640	\$ 324,660
Jennings Randolph Reservoir	19,863	-	19,863
Little Seneca Lake	12,327	-	12,327
Total in service	<u>349,210</u>	<u>7,640</u>	<u>356,850</u>
Less accumulated depreciation:			
Washington Aqueduct	(72,462)	(5,347)	(77,809)
Jennings Randolph Reservoir	(9,430)	(393)	(9,823)
Little Seneca Lake	(6,468)	(205)	(6,673)
Total accumulated depreciation	<u>(88,360)</u>	<u>(5,945)</u>	<u>(94,305)</u>
Purchased capacity, net	<u>\$ 260,850</u>	<u>\$ 1,695</u>	<u>\$ 262,545</u>
	Balance 9/30/2015	Additions	Balance 9/30/2016
Purchased capacity			
Washington Aqueduct	\$ 309,784	\$ 7,236	\$ 317,020
Jennings Randolph Reservoir	19,863	-	19,863
Little Seneca Lake	12,327	-	12,327
Total in service	<u>341,974</u>	<u>7,236</u>	<u>349,210</u>
Less accumulated depreciation:			
Washington Aqueduct	(67,239)	(5,223)	(72,462)
Jennings Randolph Reservoir	(9,037)	(393)	(9,430)
Little Seneca Lake	(6,264)	(204)	(6,468)
Total accumulated depreciation	<u>(82,540)</u>	<u>(5,820)</u>	<u>(88,360)</u>
Purchased capacity, net	<u>\$ 259,434</u>	<u>\$ 1,416</u>	<u>\$ 260,850</u>

# DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

## Notes to the Financial Statements

September 30, 2017 and 2016

(In thousands)

### (5) Capital Contributions

Capital contributions consist of the following for the years ended September 30, 2017 and 2016, respectively:

Description	2017	2016
Federal grants and appropriations	\$ 23,956	\$ 29,470
Contributions from District government	110	2,961
Total	<u>\$ 24,066</u>	<u>\$ 32,431</u>

Capital contributions consist principally of Federal grants and appropriations and certain capital costs incurred by the Authority in fiscal year 2017 and 2016 to be reimbursed by the District government pursuant to the Memorandum of Understanding between the Authority and the District discussed in Note 13(c).

### (6) Due from Federal Government

The amount due from the Federal government consists of the following at September 30, 2017 and 2016, respectively:

Description	2017	2016
Washington Aqueduct advance	\$ 31,994	\$ 24,150
Federal grants receivable	5,228	4,223
Total	<u>\$ 37,222</u>	<u>\$ 28,373</u>

The Washington Aqueduct advance consists of unexpended capital advances and an operating escrow of \$4,675 required under the Water Sales Agreement. Federal grants receivable represent amounts due from federal grantors related to allowable construction costs incurred but not billed and/or reimbursed as of the fiscal year end.

### (7) Customer Receivables

The following is a summary of customer receivables, net as of September 30, 2017 and 2016:

Description	2017	2016
Billed customer receivables	\$ 63,358	\$ 60,616
Unbilled customer receivables	22,005	21,441
Total customer receivables	85,363	82,057
Less: Allowance for doubtful accounts	(16,857)	(15,042)
Customer receivables, net	<u>\$ 68,506</u>	<u>\$ 67,015</u>

# DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

## Notes to the Financial Statements

September 30, 2017 and 2016

(In thousands)

### (8) Due from Other Jurisdictions

The amount due from other jurisdictions under the 2012 IMA consists of the following at September 30, 2017 and 2016:

Description	2017	2016
Current:		
Washington Suburban Sanitary Commission	\$ 18,876	\$ 10,872
Fairfax	3,338	2,472
Loudoun County Sanitation Authority	1,491	937
Northern Virginia	96	92
Potomac Interceptor	707	587
Total current	24,508	14,960
Noncurrent:		
Washington Suburban Sanitary Commission	7,475	11,703
Northern Virginia	2,893	2,989
Fairfax	1,434	2,333
Loudoun County Sanitation Authority	628	1,031
Total noncurrent	12,430	18,056
Total due from other jurisdictions	\$ 36,938	\$ 33,016

### (9) Compensated Absences

The following table reflects the activity associated with accrued compensated absences for the years ended September 30, 2017 and 2016, respectively:

Description	2017			2016		
	Vacation	Sick	Total	Vacation	Sick	Total
Beginning of year	\$ 8,315	\$ 9,073	\$ 17,388	\$ 8,253	\$ 7,805	\$ 16,058
Increased (incurred)	1,769	2,518	4,287	2,112	2,201	4,313
Decreases	(1,216)	(860)	(2,076)	(2,050)	(933)	(2,983)
End of year	8,868	10,731	19,599	8,315	9,073	17,388
Less: current portion	1,553	858	2,411	1,443	592	2,035
Noncurrent portion	\$ 7,315	\$ 9,873	\$ 17,188	\$ 6,872	\$ 8,481	\$ 15,353

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

# DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

## Notes to the Financial Statements

September 30, 2017 and 2016

(In thousands)

### (10) Short-Term Debt—Commercial paper notes payable and Extendable Municipal Commercial Paper

The Authority's commercial paper notes payable are comprised of the following as of September 30, 2017 and 2016, respectively:

Description	Balance	Balance
	9/30/2016	9/30/2017
Commercial Paper	\$ 29,200	\$ 29,200
Extendable Municipal Commercial Paper	50,000	50,000
	<u>\$ 79,200</u>	<u>\$ 79,200</u>

#### (a) Commercial Paper

A schedule of Commercial Paper activity for the years ended September 30, 2017 and 2016 is shown below:

Description	Balance	2017		Balance
	9/30/2016	Maturities	Re-Issuance	9/30/2017
Series C, interest from 0.67% to 1.25%, maturities ranged from 7 to 67 days	29,200	(262,800)	262,800	29,200
	<u>\$ 29,200</u>	<u>\$ (262,800)</u>	<u>\$ 262,800</u>	<u>\$ 29,200</u>

Description	Balance	2016		Balance
	9/30/2015	Maturities	Re-Issuance	9/30/2016
Series C, interest from 0.24% to 0.60%, maturities ranged from 34 to 95 days	\$ 29,200	\$ (262,800)	\$ 262,800	\$ 29,200
Series B, interest from 0.03% to 0.07%, maturities ranged from 17 to 71 days	62,000	(87,000)	25,000	-
	<u>\$ 91,200</u>	<u>\$ (349,800)</u>	<u>\$ 287,800</u>	<u>\$ 29,200</u>

The Authority has established a commercial paper ("CP") program to provide interim financing for the Authority's capital improvement program. Two series of notes have been issued under the commercial paper program: the tax-exempt Series B CP Notes in an aggregate principal amount not to exceed \$100,000, and the taxable Series C CP Notes in an aggregate principal amount not to exceed \$50,000, (collectively, the "Commercial Paper Notes"), each as subordinate debt to the senior debt discussed in Note 11. 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 Landesbank Hessen-Thüringen Girozentrale, New York Branch (the "Bank") which currently expire on May 15, 2020.

**DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY**

**Notes to the Financial Statements**

**September 30, 2017 and 2016**

**(In thousands)**

**(10) Short-Term Debt—Commercial Paper and Extendable Municipal Commercial Paper (Continued)**

In connection with the Bank's issuance of the Letters of Credit, the Authority and the Bank entered into a Reimbursement Agreement for each series of CP Notes, each dated as of May 1, 2015, each as amended (collectively, the "Reimbursement Agreements") that obligates 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 Bank. The Bank Obligations, the Reimbursement Obligations and Fee Obligations are Subordinate Debt under the Indenture.

**(b) Extendable Municipal Commercial Paper**

A schedule of Extendable Municipal Commercial Paper activity for the years ended September 30, 2017 and 2016 is shown below:

Description	Balance 9/30/2016	2017		Balance 9/30/2017
		Maturities	Re-Issuance	
EMCP Series A, interest from 0.57% to 1.00%, maturities ranged from 30 to 89 days	\$ 50,000	\$ (350,000)	\$ 350,000	\$ 50,000

Description	Balance 9/30/2015	2016		Balance 9/30/2016
		Maturities	Re-Issuance	
EMCP Series A, interest from 0.06% to 0.55%, maturities ranged from 27 to 90 days	\$ -	\$ (275,000)	\$ 325,000	\$ 50,000

The Authority has authorized a \$100,000 Extendable Municipal Commercial Paper (EMCP) Program. The program consists of one series - A, in the amount of \$100,000. This program will provide interim financing for a portion of the Authority's Capital Improvement Program. Under this program the notes are issued backed by the liquidity and credit rating of the Authority. Each Series A EMCP Note will mature on its respective "Original Maturity Date", which may range from one to 90 days from the date of issuance, unless its maturity is extended on the "Original Maturity Date" to the "Extended Maturity Date", which will be the date that is 270 days after the date of issuance of the Series A EMCP Note. The notes are payable from and secured by a subordinate lien on the Authority's net revenues, as further described in the Authority's master trust indenture as supplemented. On December 1, 2015, the Authority issued the Series A EMCP Notes in the amount of \$50,000. The proceeds were used to (1) redeem \$47,310 of currently outstanding Commercial Paper (2) pay \$1 of accrued interest on the Commercial Paper as well as the interest associated with the Authority's public utility subordinate lien multimodal revenues bonds, 2012 series B-2 (3) pay \$355 associated cost of issuance of the Series A EMCP Note and (4) the remaining \$2,334 were contributed to the Construction Account.

# DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

## Notes to the Financial Statements

September 30, 2017 and 2016

(In thousands)

### (11) Long-Term Debt

A schedule of long-term debt activity for the year ended September 30, 2017 is shown below:

Description	Balance 9/30/2016	Increases	Decreases	Balance 9/30/2017	Due Within One Year
2017 Public Utility Revenue Bonds:					
Series A interest at 4.0 % to 5.0%, maturing in 2053	\$ -	\$ 100,000	\$ -	\$ 100,000	\$ -
Series B interest at 4.0 % to 5.0%, maturing in 2045	-	200,000	-	200,000	-
2016 Public Utility Revenue Bonds:					
Series A interest at 2.0 % to 5.0%, maturing in 2040	389,110	-	-	389,110	-
Series B interest at 3.4%, maturing in 2047	25,000	-	-	25,000	-
2015 Public Utility Revenue Bonds:					
Series A interest at 2.0 % to 5.0%, maturing in 2046	100,000	-	-	100,000	-
Series B interest at 5.0 % to 5.25%, maturing in 2045	250,000	-	-	250,000	-
2014 Public Utility Revenue Bonds:					
Series A interest at 4.81%, maturing in 2115	350,000	-	-	350,000	-
Series B-1 interest at 1.0 % to 3.25%, maturing in 2051	50,000	-	-	50,000	-
Series B-2 interest at 1.0 % to 3.25%, maturing in 2051	50,000	-	-	50,000	-
Series C interest at 3.0 % to 5.0%, maturing in 2045	377,110	-	-	377,110	-
2013 Public Utility Revenue Bonds:					
interest at 4.75% to 5.0%, maturing in 2049	300,000	-	-	300,000	-
2012 Public Utility Revenue Bonds:					
Series A interest at 2.0 % to 5.0%, maturing in 2038	163,655	-	(4,915)	158,740	5,140
Series B-2 interest at 2.26%, maturing in 2040	-	-	-	-	-
Series C interest at 4.0% to 5.0%, maturing in 2034	163,215	-	-	163,215	-
2010 Series A Public Utility Revenue Bonds:					
interest at 4.1% to 5.5%, maturing in 2045	300,000	-	-	300,000	-
2009 Series A Public Utility Revenue Bonds:					
interest at 3.0% to 6.0%, maturing in 2019	11,535	-	(3,495)	8,040	3,815
2008 Series A Public Utility Revenue Bonds:					
interest at 4.0% to 5.0%, maturing in 2019	20,200	-	(6,600)	13,600	6,735
1998 Public Utility Revenue Bonds:					
interest ranges from 5.5% to 6.0%, maturing in 2029	170,525	-	(13,920)	156,605	14,750
Notes payable to the Federal Government for Jennings Randolph Reservoir (Bloomington Dam):					
interest at 3.25%, maturing in 2041	12,841	-	(387)	12,454	400
Subtotal	2,733,191	300,000	(29,317)	3,003,874	30,840
Unamortized bond premiums	198,677	34,345	(10,236)	222,786	-
Unamortized bond discounts	(2,222)	-	129	(2,093)	-
Total bonds and notes	\$ 2,929,646	\$ 334,345	\$ (39,424)	\$ 3,224,567	\$ 30,840

# DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

## Notes to the Financial Statements

September 30, 2017 and 2016

(In thousands)

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

A schedule of long-term debt activity for the year ended September 30, 2016 is shown below:

Description	Balance 9/30/2015	Increases	Decreases	Balance 9/30/2016	Due Within One Year
2016 Public Utility Revenue Bonds:					
Series A interest at 2.0 % to 5.0%, maturing in 2040	\$ -	\$ 389,110	\$ -	\$ 389,110	\$ -
Series B interest at 3.4%, maturing in 2047	-	25,000	-	25,000	-
2015 Public Utility Revenue Bonds:					
Series A interest at 2.0 % to 5.0%, maturing in 2046	-	100,000	-	100,000	-
Series B interest at 5.0 % to 5.25%, maturing in 2045	-	250,000	-	250,000	-
2014 Public Utility Revenue Bonds:					
Series A interest at 4.81%, maturing in 2115	350,000	-	-	350,000	-
Series B-1 interest at 1.0 % to 3.25%, maturing in 2051	50,000	-	-	50,000	-
Series B-2 interest at 1.0 % to 3.25%, maturing in 2051	50,000	-	-	50,000	-
Series C interest at 3.0 % to 5.0%, maturing in 2045	377,700	-	(590)	377,110	-
2013 Public Utility Revenue Bonds:					
interest at 4.75% to 5.0%, maturing in 2049	300,000	-	-	300,000	-
2012 Public Utility Revenue Bonds:					
Series A interest at 2.0 % to 5.0%, maturing in 2038	168,405	-	(4,750)	163,655	4,915
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 2034	163,215	-	-	163,215	-
2010 Series A Public Utility Revenue Bonds:					
interest at 4.1% to 5.5%, maturing in 2045	300,000	-	-	300,000	-
2009 Series A Public Utility Revenue Bonds:					
interest at 3.0% to 6.0%, maturing in 2019	159,520	-	(147,985)	11,535	3,495
2008 Series A Public Utility Revenue Bonds:					
interest at 4.0% to 5.0%, maturing in 2019	168,190	-	(147,990)	20,200	6,600
2007 Series A Public Utility Revenue Bonds:					
interest at 4.75% to 5.50%, maturing in 2041	115,580	-	(115,580)	-	-
1998 Public Utility Revenue Bonds:					
interest ranges from 5.5% to 6.0%, maturing in 2029	183,660	-	(13,135)	170,525	13,920
Notes payable to the Federal Government for Jennings Randolph Reservoir (Bloomington Dam):					
interest at 3.25%, maturing in 2041	13,217	-	(376)	12,841	387
Subtotal	2,446,797	764,110	(477,716)	2,733,191	29,317
Unamortized bond premiums	104,060	111,329	(16,712)	198,677	-
Unamortized bond discounts	(2,351)	-	129	(2,222)	-
Total bonds and notes	\$ 2,548,506	\$ 875,439	\$ (494,299)	\$ 2,929,646	\$ 29,317



# DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

## Notes to the Financial Statements

September 30, 2017 and 2016

(In thousands)

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

#### (a) Senior Debt

The 2017 Series A and B, 2014 Series A, 2009 Series A and 1998 Series public utility revenue bonds are considered senior debt under the related Master Indenture of Trust ("Master Indenture"). 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.

In January 2017, the Authority issued senior lien revenue bonds with a face value of \$300,000. The bonds were structured in two Series: 2017 Series A (Green Bonds) consisting of \$100,000 with interest rates ranging from 4.0% to 5.0% maturing in 2053; 2017 Series B consisting of \$200,000 with interest rates ranging from 4.0% to 5.0% maturing in 2045. Gross proceeds from the two series of 2017 Bonds totaled \$334,345, including \$34,345 of the original issue premium. Approximately \$107,966 of 2017 series A (Green Bonds) was used to fund a portion of the costs of the Authority's DC Clean Rivers Project; \$224,406 of the 2017 series B was used to fund various capital improvements to the system and \$1,972 was used to pay the underwriter's discount and cost of issuance.

In July 2014, the Authority issued \$350,000 of senior lien public utility revenue bonds 2014 Series A. The 2014 Series A bonds are federally taxable green bonds with a fixed rate of 4.81% and a 100 year final maturity in 2115. The proceeds of the issuance will be used to help finance the construction of the Authority's DC Clean Rivers Project. Net proceeds from the bond issuance totaled approximately \$346,000 including \$4,000 of underwriter's discount and cost of issuance.

In February 2009, the Authority issued senior lien public utility revenue bonds 2009 Series A with a face value of \$300,000, consisting of \$38,355 in Serial Bonds and \$261,645 in Term Bonds. The Serial Bonds have maturity dates and interest rates ranging from 2010-2030 and 3.0% to 5.4%, respectively. The Term Bonds have maturity dates and interest rates ranging from 2024-2039 and 4.8% to 6.0%, respectively. Debt proceeds were used to repay \$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. During fiscal years 2015 and 2016, the Authority advance refunded \$128,835 and \$144,810, of the 2009 Series A bonds respectively. Details of the advance refunding are discussed below. The remaining undefeased 2009 Series A bonds outstanding as of September 30, 2016 will mature in fiscal years 2017 through 2019

In April 1998, the Authority issued \$266,120 of senior lien public utility revenue bonds 1998 Series. Gross proceeds from the Series 1998 Series 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 refunded bonds have been fully extinguished. 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.

# DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

## Notes to the Financial Statements

September 30, 2017 and 2016

(In thousands)

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

#### (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 September 2016 the Authority issued \$25,000 of tax-exempt public utility subordinate lien revenue bonds, 2016 Series B (Environmental Impact Bonds) (the "2016 Series B Bonds"). The 2016 Series B Bonds are multimodal variable rate bonds, initially issued bearing a 3.43% fixed rate through the mandatory tender date, April 1, 2021. The net proceeds (after payment of \$472 of issuance expenses) of \$24,528 of the 2016 Series B Bonds will be used for construction of green infrastructure (GI) in Rock Creek Project A (RC-A). The GI practices are designed to mimic natural processes to absorb and slow surges of stormwater during periods of heavy rainfall, reducing the incidence and volume of combined sewer overflows (CSOs) that pollute the District's waterways.

The 2016 Series B Bonds are designated as Environmental Impact Bonds and, as such, include provisions for the possibility of an Outcome Payment by the Authority to the Original Purchasers of the 2016 Series B Bonds of \$3,300 in the event of a runoff reduction greater than 41.3%, and for the possibility of a Risk Share Payment by the Original Purchasers to the Authority of \$3,300 in the event of a runoff reduction less than 18.6%. Runoff reduction means the percentage reduction of storm water runoff in RC-A per impervious acre treated to manage the volume of runoff produced by 1.2 inches of rain as compared to the existing conditions runoff in RC-A as defined in the Private Placement Agreement between the Authority and Original Purchasers. The potential obligation of the Authority to pay the Outcome Payment is an unsecured obligation. No provision has been included in these financial statements for the potential obligation related to the Outcome Payment due to the uncertainties surrounding the effectiveness of GI in RC-A, which will be independently assessed prior to the mandatory tender date.

In February 2016, the Authority issued subordinate lien revenue refunding bonds 2016 Series A for \$389,110. The proceeds from these bonds were used to advance refund \$67,295 of the remaining portion of subordinated lien revenue bonds 2007 Series A, \$141,555 of subordinate lien revenue bonds 2008 Series A, \$144,810 of senior lien revenue bonds 2009 Series A and current refund the remaining portion of \$48,285 of subordinated lien revenue bonds 2007 Series A. The proceeds from 2016 Series A were used to purchase securities that were placed in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded 2007 Series A, 2008 Series A and 2009 Series A bonds. As a result, the bonds are considered to be defeased and the liability for these bonds has been removed from the financial statements. The interest rates on the refunded bonds ranges from 3.0% to 6.0%. The cash flow required to make principal and interest payments on the refunding bonds is approximately \$78,672 less than the debt service requirements of the refunded bonds. The economic gain (the difference between the present values of the debt service payments on the old and new debt) obtained from the advance refunding is \$56,831.

# DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

## Notes to the Financial Statements

September 30, 2017 and 2016

(In thousands)

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

In October 2015, the Authority issued subordinate lien revenue bonds with a face value of \$350,000. The bonds were structured in two Series: 2015 Series A (Green Bonds) consisted of \$100,000 with interest rates ranging from 2.0% to 5.0% maturing in 2045; 2015 Series B consisting of \$250,000 with interest rates ranging from 5.0% to 5.25% maturing in 2044. Gross proceeds from the two series of 2015 Bonds totaled \$406,587, including \$56,587 of the original issue premium. Approximately \$115,869 of 2015 series A (Green Bonds) was used to fund a portion of the costs of the Authority's DC Clean Rivers Project; \$226,584 of the 2015 series B was used to fund various capital improvements to the system; \$62,000 of 2015 series B was used to pay principal of and interest on all or a portion of the Authority's outstanding commercial paper notes, Series B (the "Series 2015 B CP Notes), and \$2,134 was used to pay the underwriter's discount and cost of issuance.

In November 2014, the Authority issued subordinate lien revenue refunding bonds 2014 Series C for \$377,700. The proceeds from these bonds were used to advance refund \$103,135 of subordinated lien revenue bonds 2007 Series A, \$93,560 of subordinate lien revenue bonds 2008 Series A, and \$128,835 of senior lien revenue bonds 2009 Series A; and to current refund \$52,690 of subordinate lien multimodal revenue bonds 2012 Subseries B-1.

The proceeds from 2014 Series C were used to purchase securities that were placed in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded 2007 Series A, 2008 Series A and 2009 Series A bonds. As a result, the bonds are considered to be defeased and the liability for these bonds has been removed from the financial statements. The interest rates on the refunded bonds ranges from 2.26% to 6.0%. The cash flow required to make principal and interest payments on the refunding bonds is approximately \$50,356 less than the debt service requirements of the refunded bonds. The economic gain (the difference between the present values of the debt service payments on the old and new debt) obtained from the advance refunding is \$35,266.

In July 2014, the Authority issued \$100,000 of tax-exempt 2014 Series B variable rate multimodal subordinate lien revenue bonds, maturing in 2050 to fund the Authority's capital improvement program. Net proceeds from the bond issuance totaled approximately \$99,500 including \$500 of underwriter's discount and cost of issuance. Initially, the 2014 Series B bonds will bear interest in a weekly rate period but may be converted to daily, index, short term, long term or fixed rate. Funds for the purchase of tendered bonds that are not remarketed will be provided initially by TD Bank, N.A. for a period of three years pursuant to a Standby Bond Purchase Agreement dated July 23, 2014.

In July 2013, the Authority issued \$300,000 of subordinate lien public utility revenue bonds with interest rates ranging from 4.75% to 5.0%, maturing in 2048 to fund the Authority's capital improvement program. Gross proceeds from the 2013 Series A bonds totaled \$298,921, including \$1,014 of original issue premium and \$2,093 of underwriter's discount and cost of issuance.

In March 2012, the Authority issued subordinate lien revenue bonds with a face value of \$440,645. The bonds were structured in three Series: 2012 Series A consisted of \$177,430 with interest rates ranging from 2.0% to 5.0% maturing in 2037; 2012 Series B consisting of \$100,000 with interest rate at 2.26% maturing in 2044; and 2012 Series C consisting of \$163,215 with interest rates ranging from 4.0% to 5.0% maturing in 2033. Gross proceeds from the three series of 2012 Bonds totaled \$493,934, including \$53,289 of the original issue premium.

# DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

## Notes to the Financial Statements

September 30, 2017 and 2016

(In thousands)

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

Approximately \$302,413 was used to fund various capital projects; \$188,688 was used to advance-refund series 2003 Series bonds, and \$2,833 was used to pay the underwriter's discount and cost of issuance. During fiscal years 2016 and 2015, the Authority current refunded \$47,310 and advance refunded \$52,690 of the series 2012 Series B-2 and 2012 Series B-1 bonds respectively. Details of the current and advance refunding are discussed above.

The Authority completed its advance-refunding of the 2003 Series bonds by using \$188,688 of bond proceeds from 2012 Series C 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. The refunded bonds have been fully extinguished.

In October 2010, the Authority issued the 2010 Series A public utility subordinate lien revenue bonds, 2010 Series A under the Federal government's Build America Bonds program. Under this program, the Federal government provides the Authority a federal subsidy in the amount of 35% of the interest paid on the bonds which reduces the Authority's effective interest costs to approximately 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 Authority's Digester Project and \$10,360 for capitalized interest. The interest subsidy received by the Authority for the fiscal years ended September 30, 2017 and 2016 amounted to \$5,316 and \$7,969, respectively. In fiscal years 2017 and 2016, the Authority received \$394 and \$597 less than expected due to budget sequester impacts experienced by the Federal government.

In April 2008, the Authority refunded the 2004 and 2007 Series B subordinate public utility revenue bonds for \$295,000 and \$59,000, respectively. Simultaneously, the Authority issued subordinate lien public utility revenue bonds 2008 Series A 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. The scheduled payments of principal and interest on the 2008 Series A bonds are guaranteed by a municipal bond insurance policy issued by the Assured Guaranty Program. During fiscal years 2015 and 2016, the Authority advance refunded \$93,560 and \$141,555 of the series 2008 Series A bonds respectively. Details of the advance refunding are discussed above. The remaining defeased 2008 Series A bonds outstanding as of September 30, 2016 will mature in fiscal years 2017 through 2019.

In June 2007, the Authority issued \$218,715 of tax-exempt subordinate lien public utility revenue bonds 2007 Series A and \$59,000 of taxable subordinate lien public utility revenue bonds 2007 Series B. Gross proceeds from the 2007 Series A 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.

# DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

## Notes to the Financial Statements

September 30, 2017 and 2016

(In thousands)

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

The scheduled payments of principal and interest on 2007 Series A bonds are guaranteed by a municipal bond insurance policy issued by the Financial Guaranty Insurance Company ("FGIC"). Gross proceeds from the 2007 Series B bonds totaled \$59,000. Proceeds from the 2007 Series B 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 2007 Series B bonds are guaranteed by a municipal bond insurance policy issued by CIFG Assurance North America, Inc. During fiscal year 2015, the Authority advance refunded \$103,135 of the 2007 Series A bonds. During fiscal year 2016, the Authority advance refunded \$67,295 of the 2007 Series A bonds and current refunded \$48,285 of the remaining portion of 2007 series A bonds. Details of the advance refunding and current refunding are discussed above.

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.

#### (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, 2017 and 2016. 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% of annual debt service on senior debt and (2) 100% 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 1998 Series bonds debt service reserve account balance as of September 30, 2017 and 2016 was \$23,624 and \$23,594, respectively, and is required to be maintained at 125% of current and future average annual 1998 Series debt service.

*Operating Reserve Fund* — The Master Indenture creates an Operating Reserve Fund in which the Authority must maintain a balance equal to at least 60 days of operating and maintenance expenses of the prior year. Moneys in the Operating Reserve Fund shall be used to pay, to the extent necessary, operating expenses of the Authority.

# DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

## Notes to the Financial Statements

September 30, 2017 and 2016

(In thousands)

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

In addition, to the extent that moneys on deposit in the Bond Fund are insufficient to make the required interest and principal payments, moneys in the Operating Reserve Fund shall be used prior to any withdrawal from the Debt Service Reserve Fund to satisfy any such deficiencies. The Board has adopted a policy of funding operating reserves to a level in excess of that required by the Master Indenture.

#### (d) Debt Service to Maturity

The future debt-service obligations at September 30, 2017 are as follows:

Fiscal year	Principal	Interest	Total
2018	\$ 30,840	\$ 137,914	\$ 168,754
2019	36,038	136,234	172,272
2020	39,697	134,398	174,095
2021	46,135	132,353	178,488
2022	53,516	129,968	183,484
2023 - 2027	309,260	609,222	918,482
2028- 2032	384,954	526,096	911,050
2033 - 2037	495,252	424,783	920,035
2038 - 2042	552,192	302,823	855,015
2043 - 2047	536,410	165,700	702,110
2048 - 2052	156,580	98,373	254,953
2053 - 2057	13,000	84,570	97,570
2058 - 2062	—	84,245	84,245
2063 - 2067	—	84,245	84,245
2068 - 2072	—	84,245	84,245
2073 - 2077	—	84,245	84,245
2078 - 2082	—	84,245	84,245
2083 - 2087	—	84,245	84,245
2088 - 2092	—	84,245	84,245
2093 - 2097	—	84,245	84,245
2098 - 2102	—	84,245	84,245
2103 - 2107	57,489	80,126	137,615
2108 - 2112	169,760	46,658	216,418
2113 - 2117	122,751	6,094	128,845
	<u>\$ 3,003,874</u>	<u>\$ 3,773,517</u>	<u>\$ 6,777,391</u>

**DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY**

**Notes to the Financial Statements**

**September 30, 2017 and 2016**

**(In thousands)**

**(11) Long-Term Debt (Continued)**

**(e) Outstanding Debt Defeased**

The Authority defeased certain revenue bonds in current and prior years by placing cash or the proceeds of new revenue bonds in irrevocable trusts to provide for all future debt service payments on the defeased bonds. Accordingly, the Trust account assets and the liability for the defeased bonds are not reflected in the Authority's financial statements. At September 30, 2017 and 2016, the following outstanding revenue bonds are considered defeased.

Bond issue	Principal Outstanding
2009 Series A Public Utility Revenue Bonds: interest at 3.0% to 6.0%, maturing in 2039	\$ 273,645
2008 Series A Public Utility Revenue Bonds: interest at 4.0% to 5.0%, maturing in 2034	235,115
2007 Series A Public Utility Revenue Bonds: interest at 4.75% to 5.50%, maturing in 2041	170,430
Total Principal Outstanding	<u>\$ 679,190</u>

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

A schedule of other liabilities as of September 30, 2017 and 2016 is shown below:

Description	2017	2016
Risk management contingency	\$ 11,670	\$ 11,818
Rolling owner controlled insurance program	7,141	6,518
Litigation contingency	669	2,998
Contractual obligations	825	825
Retirement health savings plan	2,760	2,536
Total other liabilities	<u>23,065</u>	<u>24,695</u>
Less: current portion	13,621	11,926
Noncurrent portion	<u>\$ 9,444</u>	<u>\$ 12,769</u>

The current portion of other liabilities represents management's estimate of the amounts that will be paid in next fiscal year.

# DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

## Notes to the Financial Statements

September 30, 2017 and 2016

(In thousands)

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

#### (a) 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 self-insurance programs.

For each of the three most recent years, settlement of claims has not exceeded insurance coverage. Additionally, there has not been a significant reduction in insurance coverage from coverage in the prior year.

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 per occurrence. A lower deductible of \$10 per occurrence applies to scheduled watercraft and mobile equipment.

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 self-insured retention 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 per claim.

The Authority self-insures the first \$1,000 per occurrence 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 and include a provision for allocated and unallocated claim adjustment expenses.

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. The Authority has not discounted these estimated liabilities to present value.



# DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

## Notes to the Financial Statements

September 30, 2017 and 2016

(In thousands)

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

Changes in the Authority's estimated risk management liabilities related to workers' compensation and general liability claims during the years ended September 30, 2017, 2016 and 2015 were as follows:

Description	2017	2016	2015
Balance, beginning of year	\$ 11,818	\$ 11,615	\$ 11,645
Current year claims and changes in estimates	2,169	2,935	2,796
Claim payments	(2,317)	(2,732)	(2,826)
Balance, end of year	<u>\$ 11,670</u>	<u>\$ 11,818</u>	<u>\$ 11,615</u>

#### (b) Rolling Owner Controlled Insurance Program

The Authority procures insurance for the majority of its construction contractors through the Authority's Rolling Owner Controlled Insurance Program (ROCIP). Construction contractors who do not participate in the ROCIP are required to procure insurance on their own. Coverage for participating construction contractors includes general liability, umbrella and workers' compensation insurance. Both general liability and workers' compensation have a \$500 per occurrence deductible. There is also \$100,000-\$200,000 excess general liability coverage in place. The workers' compensation loss coverage is statutory, and unlimited above the retention. For each of the three most recent years, settlement of claims has not exceeded insurance coverage. Additionally, there has not been a significant reduction in insurance coverage from coverage in the prior year.

Liabilities for the self-insured exposure for workers' compensation claims and general liability claims under the ROCIP 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 and include a provision for allocated and unallocated claim adjustment expenses. 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. The Authority has not discounted these estimated liabilities to present value.

Changes in the Authority's estimated ROCIP liabilities related to workers' compensation and general liability claims during the years ended September 30, 2017, 2016 and 2015 were as follows:

Description	2017	2016	2015
Balance, beginning of year	\$ 6,518	\$ 5,702	\$ 5,242
Current year increase (decrease) in ROCIP liability	11,245	12,239	5,163
ROCIP administration and claim payments	(10,622)	(11,423)	(4,703)
Balance, end of year	<u>\$ 7,141</u>	<u>\$ 6,518</u>	<u>\$ 5,702</u>

# DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

## Notes to the Financial Statements

September 30, 2017 and 2016

(In thousands)

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

#### (c) *Litigation*

The Authority is a party in various administrative proceedings, legal actions and claims brought by or against it in the normal course of operations by employees, contractors, and other parties. The following table reflects the changes in the Authority's estimated liabilities for litigation contingencies where the risk of loss is probable during the years ended September 30, 2017 and 2016:

Description	2017	2016
Balance, beginning of year	\$ 2,998	\$ 3,024
Current year claims and changes in estimates	1,264	2,050
Claim payments	(3,593)	(2,076)
Balance, end of year	<u>\$ 669</u>	<u>\$ 2,998</u>

Although the ultimate outcome of these legal proceedings are unknown, 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, results of operations, or cash flows of the Authority.

#### (d) *Federal Grants*

The Authority's federal capital grants are subject to financial and compliance audits by the federal grantors or their 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.

#### (e) *Construction and Other Significant Commitments*

The Authority's contractual commitments are primarily associated with the long-term capital improvement program. Outstanding contractual commitments related to the capital improvement program as of September 30, 2017 and 2016 were \$1,134,208 and \$861,685, respectively. Outstanding construction commitments are not recorded in the financial statements until goods and services have been received by the Authority in accordance with the terms of the related contracts.

#### (f) *Lease Commitments*

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

# DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

## Notes to the Financial Statements

September 30, 2017 and 2016

(In thousands)

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

The Authority's rental expense for the years ended September 30, 2017 and 2016 were as follows:

Description	2017	2016
Facilities leases	\$ 2,100	\$ 1,396
Automobile equipment leases	116	65
Machinery leases	588	216
Other Rentals	4	-
Total	<u>\$ 2,808</u>	<u>\$ 1,677</u>

Future minimum non-cancelable lease payments on existing operating leases at September 30, 2017, which have an initial term of one year or more, are as follows.

Fiscal Year	Amount
2018	\$1,772
2019	580
2020	212
2021	219
2022	223
2023-2027	<u>576</u>
Total	<u>\$3,582</u>

### (13) Related Party and Similar Transactions

#### (a) Water and Wastewater User Charges

The enabling legislation, described in Note 1, established that the District would pay for water and wastewater services. The Authority recorded revenues of \$30,428 and \$28,890 from the District government and \$10,055 and \$9,295 from the District of Columbia Housing Authority ("DCHA") for fiscal years 2017 and 2016, 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 position.

#### (b) PILOT and ROW Fees

On October 2, 2014, DC Water entered into a Right-of-Way memorandum of understanding (ROW MOU) establishing an annual payment of \$5,100 to the District in fiscal years 2015 through 2024. DC Water will make the payment in four equal quarterly installments of \$1,275 due on the 15th of November, February, May and August of each year.

# DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

## Notes to the Financial Statements

September 30, 2017 and 2016

(In thousands)

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

On December 15, 2014, DC Water entered into a Payment In Lieu of Taxes memorandum of understanding (PILOT MOU) establishing a fiscal year 2015 PILOT payment of \$15,337 to the District for services provided in fiscal year 2015. In fiscal years 2016 through 2024, DC Water will increase the PILOT payment by 2.0% per annum based upon the amount of the prior fiscal year's annual PILOT payment. In addition, the MOU stipulates that the Authority is entitled to offset this payment for services rendered to the District under our fire protection program.

The Authority recorded an expense of \$15,957 and \$15,644 for payments-in-lieu-of-taxes (PILOT) to the District for services such as road repairs, fire protection, police protection, and other services for each of the years ended September 30, 2017 and 2016.

The Authority also recorded an expense of \$5,100 for the District's right-of-way (ROW) fee, respectively charged to all area utilities for infrastructure occupancy in public streets, for each of the years ended September 30, 2017 and 2016. As of September 30, 2017 there was no outstanding balance due to the District related to these fees.

#### (c) Due from District Government

The amounts due from the District government as of September 30, 2017 and 2016 were \$45,241 and \$53,275, respectively. Such amounts were comprised of the following at September 30, 2017 and 2016, respectively:

Description	2017	2016
Northeast Boundary Neighborhood Protection Project	\$ 46,864	\$ 52,271
Storm Water Fees (13 d )	(2,446)	(1,123)
Other miscellaneous items	823	2,127
Total due from District government	45,241	53,275
Less: current portion	4,235	6,411
Noncurrent portion	<u>\$ 41,006</u>	<u>\$ 46,864</u>

On September 11, 2014, the District and the Authority entered into a Memorandum of Understanding (MOU) whereby the District agreed to fund up to \$58,579 of costs incurred by the Authority on the Northeast Boundary Neighborhood Protection Project. Amounts due from the District as of September 30, 2017 and 2016 under this agreement amounted to \$46,864 and \$52,271, respectively. Amendment No. 1 of the MOU dated September 1, 2015, calls for ten (10) equal installment payments of \$5,858. The parties agreed that each installment payment is due on January 15th of each year until the costs are paid in full.

# DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

## Notes to the Financial Statements

September 30, 2017 and 2016

(In thousands)

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

#### (d) Storm Water Fee Billings and Collections

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.

During the years ended September 30, 2017 and 2016, the activity associated with the Authority providing this service to the District was as follows:

Description	2017	2016
Due from (to) the District-beginning of year	\$ (1,123)	\$ 3,335
Collections on behalf of the District	(13,431)	(15,567)
Remittances to the District	12,583	11,123
Expenses incurred by the Authority	1,124	934
Expenses reimbursed by the District	(1,599)	(948)
Due from (to) the District-end of year	<u>\$ (2,446)</u>	<u>\$ (1,123)</u>

Billings and collections associated with the District’s Storm Water fees are not reflected in the Authority’s financial statements as these are not billings and collections of the Authority. However, reimbursable expenses incurred and the related revenues from the District to cover such expenses are reflected in the accompanying statements of revenues, expenses and changes in net position.

The due (to) from the District has been reported in Due from District Government on the statement of net position as of September 30, 2017 and 2016, respectively.

# DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

## Notes to the Financial Statements

September 30, 2017 and 2016

(In thousands)

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### (14) Employee Benefits

#### (a) *Federal Benefit Plans*

Certain DC Water employees who were previously employed by the District of Columbia government prior to October 1, 1987, are eligible to continue to participate in certain federal benefit plans administered by the federal government's Office of Personnel Management ("OPM"). The plans provide retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan participants and beneficiaries. In fiscal years 2017 and 2016, there were 106 and 133 DC Water employees covered by these plans, respectively.

The OPM issues a publically available financial report that includes financial statements and required supplementary information, which may be obtained at [www.opm.gov](http://www.opm.gov).

Employees and the Authority each contribute 7% of the employees' salaries to OPM. The contribution requirements of the plan members are established by OPM. During fiscal years 2017, 2016 and 2015, the Authority's contributions to the plans were \$649, \$791 and \$924, respectively. These amounts were 100% of the required contributions under the plans for each of the fiscal years presented.

DC Water is only responsible for funding the employer contributions for participating employees while employed by the Authority. DC Water is not responsible for any unfunded liability for this plan. Under current law, this liability will be paid off eventually through the series of 30-year amortizations payments from the general fund of the U.S. Treasury to the Civil Service Retirement and Disability Fund.

#### (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 administered 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).

The Authority established a retirement plan committee that oversees the 401(a) and 457(b) retirement plans. The committee meets on a semiannual basis to make decisions regarding the plan. Pursuant to the 401(a) plan, employees not reaching the 100% vesting period of three years of service will forfeit amounts related to Basic, Matching, and Discretionary Contributions and may be used to pay for plan expenses or reduce future Authority contributions. There are no amounts of forfeitures reflected in the pension expense reported in fiscal years 2017, 2016, and 2015.

As Plan Administrator, the Authority maintains the plans' records, determines issues related to eligibility as they relate to participation and benefits, interprets the plans, communicates with participants and their beneficiaries and responsible for the plans' operations. Fidelity Investments is the Plan Trustee.

# DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

## Notes to the Financial Statements

September 30, 2017 and 2016

(In thousands)

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### (14) Employee Benefits (Continued)

*Defined Contribution Plan* - During fiscal years 2017, 2016 and 2015, the Authority's contribution was 7% 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.

*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 administered 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% of the amount that the employee defers to the 457(b) Deferred Compensation Plan; up to a maximum contribution of 5% 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% vested in their contributions.

The Authority's matching contribution is vested after three years of service. During fiscal years 2017, 2016 and 2015, the Authority's contributions to both defined contribution plans were \$9,286, \$8,357 and \$7,519 respectively. The amount of the Authority's outstanding liability at the end of fiscal years 2017, 2016 and 2015 were \$746, \$638, and \$1,122, respectively.

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

The Authority does not provide post employment health and life insurance benefits to any employees hired after September 30, 1987. The federal government provides healthcare and life insurance benefits to certain retired employees under the Federal Employees' Health Benefits Program and the Federal Employee's Group Life Insurance Program at no cost to the Authority.

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

In fiscal year 2007, the Authority implemented a Retirement Health Savings Plan for non-union employees hired after September 30, 1987. 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 (Maritain) to pay for post-employment medical expenses at the termination of employment.

### (15) Subsequent Events

The Authority has evaluated events subsequent to September 30, 2017 through December 20, 2017, the date the financial statements were available to be issued. During this period, the Authority has determined there have not been any events that have occurred that would require adjustments to the financial statements.

# DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

## Notes to the Financial Statements

September 30, 2017 and 2016

(In thousands)

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### (16) Blended Component Unit Condensed Financial Statements

The following are the condensed financial statements of Blue Drop, LLC as of and for the year ended September 30, 2017. As required, all intra-entity activities between Blue Drop and the Authority have been eliminated in the consolidation of Blue Drop, LLC's financial statements with those of the Authority. Such intra-entity activities were comprised of: \$863 of support provided by DC Water to Blue Drop including \$308 in cash transfers, shared services of \$434 for donated employee time, and \$84 for donated office space; \$31 in marketing fees paid by DC Water to Blue Drop; and intra-entity receivables and payables amounting to \$22 and \$15, respectively.

Condensed Statement of Net Position - Blended Component Unit - Blue Drop, LLC as of September 30, 2017:

Current assets	\$	330
Due from DC Water		22
Total assets		<u>352</u>
Current liabilities		12
Due to DC Water		15
Total liabilities		<u>27</u>
Unrestricted net position	\$	<u>325</u>

Condensed Statement of Revenues, Expenses, and Changes in Net Position - Blended Component Unit - Blue Drop, LLC for the year ended September 30, 2017:

DC Water support	\$	863
Sales of Bloom, Net of cost of sales		(59)
Consulting revenue		128
Marketing fees, DC Water		31
Total revenues		<u>963</u>
Personnel services		495
Contractual services		42
Supplies		16
Utilities and rent		85
Total operating expenses		<u>638</u>
Change in Net Position		325
Net Position, Beginning of Year		-
Net Position, End of Year	\$	<u>325</u>



**DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY**

**Notes to the Financial Statements**

**September 30, 2017 and 2016**

**(In thousands)**

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**(16) Blended Component Unit Condensed Financial Statements (Continued)**

Condensed Statement of Cash Flows - Blended Component Unit - Blue Drop, LLC  
For the year ended September 30, 2017

Net cash provided by operating activities	\$	302
Increase in cash		302
Cash, Beginning of Year		-
Cash, End of Year	\$	302

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