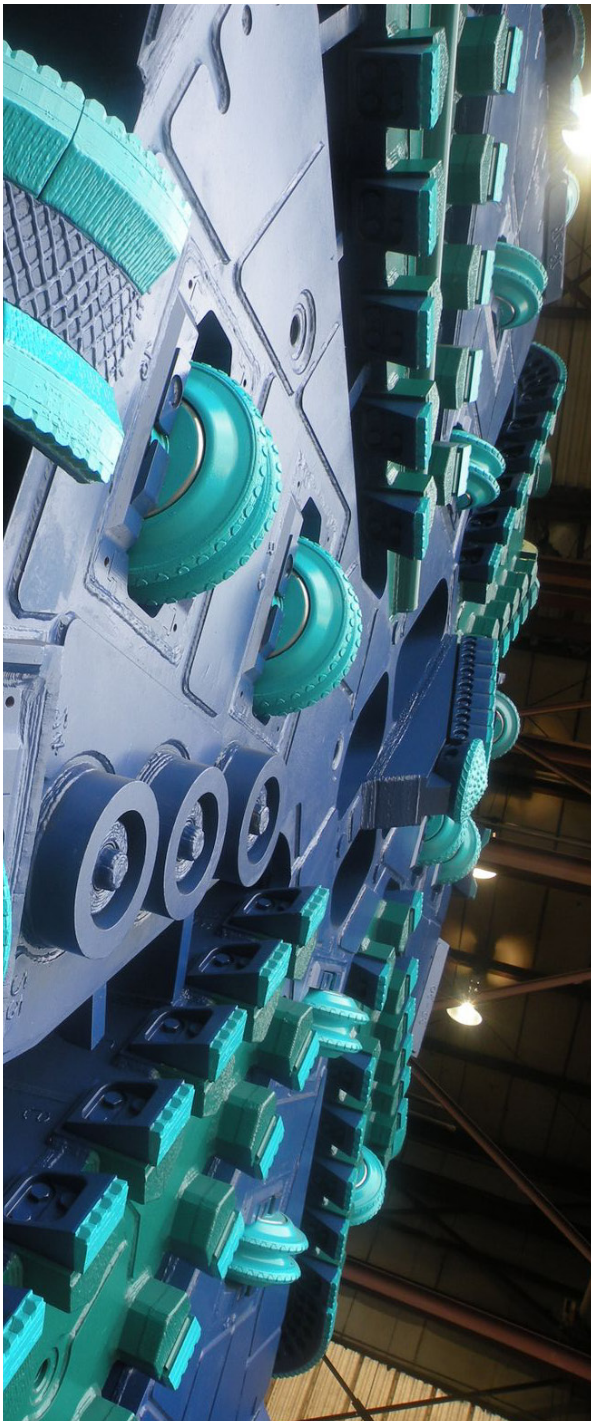


dc water is life

DC Water

COMPREHENSIVE ANNUAL FINANCIAL REPORT

Fiscal Year Ended September 30, 2011

William M. Walker, *Chairman of the Board*

George S. Hawkins, *General Manager*

Olu Adebo, *Chief Financial Officer*

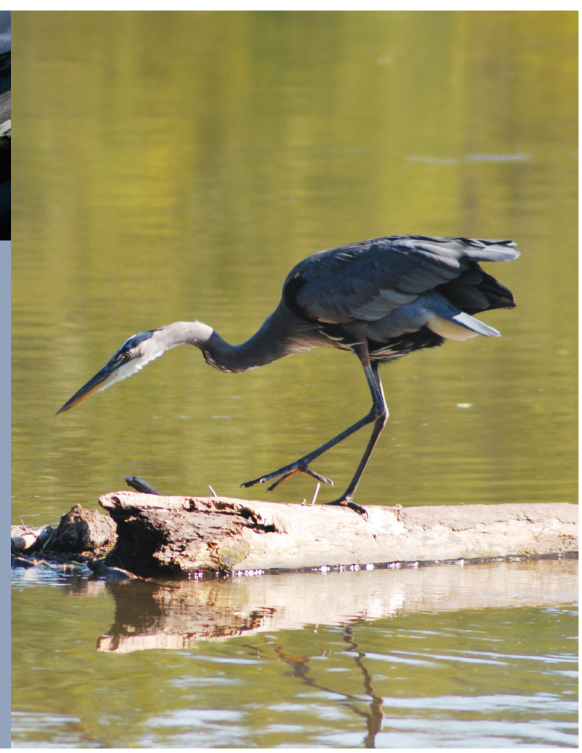
"All the water that will ever be is, right now".

– National Geographic, October 1993

District of Columbia Water and Sewer Authority

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

ENVIRONMENT,
INNOVATION,
SERVICE and
ACCOUNTABILITY



2011

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

Comprehensive Annual Financial Report

Fiscal Year
October 1, 2010 to September 30, 2011

Prepared by:
Department of Finance and Budget

Olu Adebo, Chief Financial Officer

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Certificate of Achievement for Excellence in Financial Reporting

Presented to

District of Columbia Water and Sewer Authority

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
September 30, 2010

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

Linda C. Davidson

President

Jeffrey R. Esser

Executive Director

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BOARD OF DIRECTORS

AS OF SEPTEMBER 30, 2011

PRINCIPAL MEMBERS	JURISDICTION
William M. Walker	District of Columbia
Allen Lew	District of Columbia
F. Alexis H. Roberson	District of Columbia
Alan J. Roth	District of Columbia
Alethia N. Nancoo	District of Columbia
Adam Clampitt	District of Columbia
Bradford Seamon.	Prince George's County, MD
Carla Reid	Prince George's County, MD
Timothy L. Firestine	Montgomery County, MD
Robert Hoyt	Montgomery County, MD
Anthony H. Griffin	Fairfax County, VA

ALTERNATE MEMBERS	JURISDICTION
Howard Gibbs	District of Columbia
Joseph Cotruvo	District of Columbia
Brenda L. Richardson	District of Columbia
Howard Croft	District of Columbia
Vacant	District of Columbia
Vacant	District of Columbia
Samuel Wynkoop	Prince George's County, MD
Dawn Hawkins-Nixon.	Prince George's County, MD
Kathleen Boucher	Montgomery County, MD
David W. Lake	Montgomery County, MD
James Patteson	Fairfax County, VA

PRINCIPAL STAFF MEMBERS

GENERAL MANAGER'S STAFF

George S. Hawkins .... **General Manager**
Randy E. Hayman .... General Counsel
Omer Siddiqui .... Chief Information Officer
Christopher J. Carew .... Chief of Staff
David Cross .... Director Organizational Development
Linda R. Manley .... Secretary to the Board
Alan Heymann .... Chief, External Affairs

OFFICE OF THE CHIEF FINANCIAL OFFICER

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

OPERATIONS

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

SUPPORT SERVICES

Katrina J. Wiggins .... Assistant General Manager, Support Services
Rosalind R. Inge .... Director Procurement Services
Rick Green .... Director Human Capital Management
O.Z. Fuller .... Director Fleet Management
Ayodele McClenney .... Director Occupational Safety and Health
Steven Caldwell .... Director Facilities and Security

ACKNOWLEDGEMENTS

John Madrid

Javed Awan

Temi Abosede

Val Blinkoff

Yvonne Reid

Syed Khalil

Robert Hunt

Tanya Deleon

Dionne Butcher-Wallace

Tameca Miles

Quang Pham

Michelle Hunter

Sandra Collins

James Myers

Yvette Downs

Cassandra Redd

Deborah Cole

Rodea Hines

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

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

January 26, 2012

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

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

I am pleased to present the District of Columbia Water and Sewer Authority's ("DC Water" or the "Authority") Comprehensive Annual Financial Report ("CAFR") for the fiscal year ended September 30, 2011. The financial statements were prepared in accordance with generally accepted accounting principles as promulgated by the Governmental Accounting Standards Board ("GASB") and audited by a firm of independent certified public accountants retained by DC Water. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with DC Water's management. To the best of my knowledge and belief, the enclosed financial statements and schedules are accurate, in all material respects, and are reported in a manner designed to present fairly the financial position and results of operations of DC Water. All disclosures necessary for the reader to gain an understanding of DC Water's financial activity have been included.

Despite a persistently sluggish economic year both nationally and locally, DC Water, in its fifteenth year, persevered in its commitment to provide world-class, cost-effective water and wastewater services to retail and wholesale customers and lead the industry as an environmental steward. We have fortified our strong financial foundation based on disciplined and conservative fiscal and financial and liquidity policies; historically strong debt coverage and liquidity levels; strong project planning, execution, and oversight; and transparency in communication of our financial strategy with internal and external stakeholders.

In fiscal year 2011, we again met or exceeded all of our financial targets, and we were in compliance with all Board of Directors' policies and bond covenants. The year ended with operating income of $89.0 million and a solid cash and investment balance of $182.7 million, which exceeded the Board's requirement of 120 days (or $125.5 million) of operating cash on hand.

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

REPORT SECTIONS

The CAFR describes DC Water's financial activities, condition and services. As such, the report covers information about DC Water's history, its organizational structure, and its financial data. This report is divided into three sections: Introductory, Financial, and Statistical.

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

- The **Financial Section** includes the independent auditor's report, Management's Discussion and Analysis ("MD&A"), DC Water's fiscal years 2011 and 2010 financial statements and notes to the financial statements.

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

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

DC WATER PROFILE

Reporting Entity

DC Water is an independent, multi-jurisdictional regional utility that provides retail drinking water distribution and wastewater conveyance and treatment services to approximately 600,000 residential, commercial and governmental customers in the District of Columbia, and wholesale wastewater conveyance and treatment to approximately 1.6 million users in Montgomery and

Prince George's Counties in Maryland and Fairfax and Loudoun Counties in Northern Virginia and approximately 16.6 million annual visitors.

DC Water has weathered an unprecedented recession well. DC Water serves a diverse client base supported by a core base of Federal employees but not concentrated in any one customer type. Approximately 33% of revenues are derived from highly rated customers, including the Federal Government, Fairfax County, Washington Suburban Sanitary Commission, and Loudoun County Sanitary Commission. Federal and wholesale customers pay for services on a quarterly basis in advance based on estimated provided by the Authority. Washington's unemployment rate is among the lowest for America's large metropolitan areas. Employment in the metro area has risen by about 84,000 over the past year—roughly 6.0% of America's job growth, in a region with just 2.0% of its population.

The operations of DC Water are accounted for as a component unit of the Government of the District of Columbia and are included in its Comprehensive Annual Financial Report. DC Water is considered a component unit, because the Government of the District of Columbia is ultimately legally responsible for a portion of DC Water's long-term debt. This Comprehensive Annual Financial Report is issued separately to provide the Board of Directors, DC Water customers, local and federal government officials, employees, investors, suppliers and other interested parties with comprehensive financial reporting of DC Water's operations and financial position for fiscal years 2011 and 2010.

History of DC Water

Legislative History and Relationship with the District of Columbia

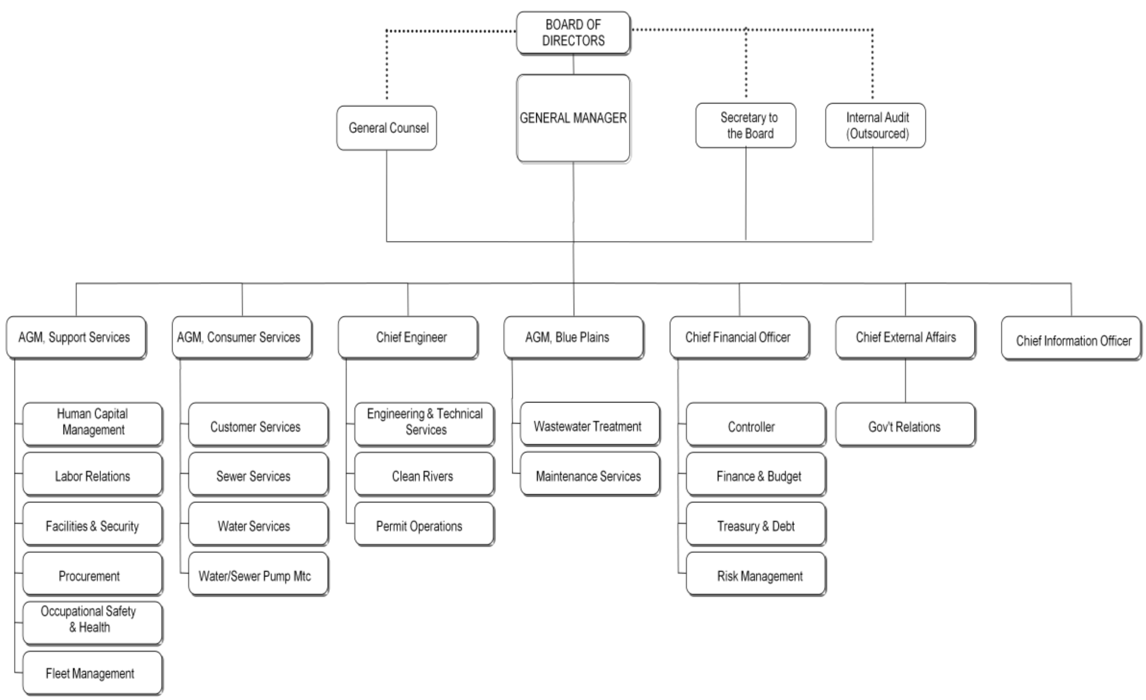
In 1996, the regional participants in DC Water's service area, including the District of Columbia, Montgomery and Prince George's Counties in Maryland, Fairfax and Loudoun Counties in Virginia, and the United States Congress, agreed to create an independent, multi-jurisdictional water and wastewater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

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

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

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

Governance and Organization Structure



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

Agreements with Other Jurisdictions and Entities

Wholesale Wastewater Treatment – Intermunicipal Agreements

In 1985, the District signed the Blue Plains Intermunicipal Agreement (the "IMA") with Fairfax County in Virginia, and Montgomery and Prince George's Counties in Maryland. The IMA outlines terms relating to facility location, sizing, capacity allocations and funding and long-term management of the wastewater treatment and disposal process. It also established a uniform payment basis for facilities and future improvements. IMA signatories share the cost of operations, maintenance, and the capital program of the Blue Plains facility; the three surrounding counties comprise approximately 60 percent of the Blue Plains capacity.

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

Other Wholesale Wastewater Treatment Agreements

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

Water Supply Agreements

DC Water purchases water from the Washington Aqueduct, which is owned by the federal government and operated by the United States Army Corps of Engineers under the direction of the Secretary of the Army. All water treated by the Washington Aqueduct is purchased by DC Water and the Aqueduct's two other customers, Arlington County and the City of Falls Church, Virginia. In July 1997, DC Water executed a new operating agreement with the U.S. Army Corps of Engineers that provides for the continued ownership and operation of the Aqueduct by the U.S. Army Corps of Engineers, but gives DC Water and other Aqueduct customers greater participation in budget preparation and oversight of operations. The agreement also outlines each customer's pro rata share of operating and capital costs based on water purchased; DC Water's pro rata share of Aqueduct expenses currently is approximately 75 percent.

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

AUTHORITY FACILITIES

The Wastewater System

History and Service Area

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

Sewage Collection

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

DC Water has commenced DC Clean Rivers Project, formerly named Long-Term Control Plan ("LTCP") for Combined Sewer Overflow ("CSO") to provide for wet weather excess flow treatment. This program which was commenced by a federal consent decree and entered into court in 2005, is a twenty-year program estimated to cost $2.6 billion. For additional information, see DC Clean Rivers Project under Highlights and Major Initiatives.

Biosolids Disposal

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

The Biosolids Management Program ("BMP"), developed by DC Water through a stakeholders group that included neighboring jurisdictions, and adopted by the Board of Directors in 1999, calls for full biosolids digestion as our primary long-term solution and continuing land application as long as it is financially advantageous. In 2006, the project was temporarily deferred after unacceptably high bids for construction of egg-shaped digesters were received. After further study, a new method was selected that will be more efficient, use less energy and lower the cost of processing the effluent. Engineering and design work have commenced again on this new design, which includes construction of four Cambi thermal hydrolysis trains, four digesters, new dewatering equipment and a combined heat and power plant. The project is expected to be completed in 2014.

The Water System

History and Service Area

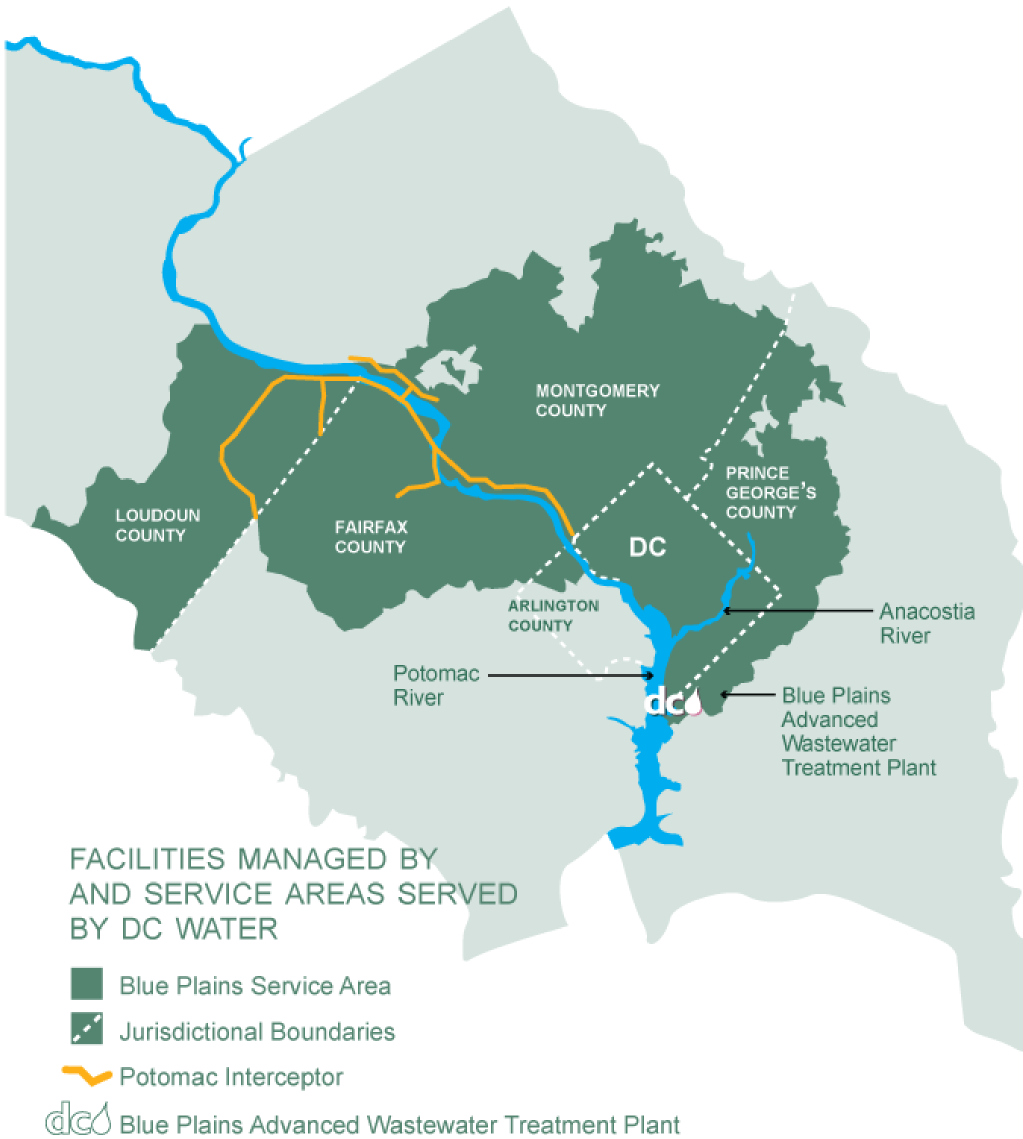
Prior to the establishment of the Washington Aqueduct Division of the United States Army Corps of Engineers (the "Aqueduct") in 1858, residents of the District obtained their drinking water from springs and wells. The distribution system consisted primarily of bored logs and some cast iron pipes. Water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

Water Treatment and Distribution System

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

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

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



RECENT ACCOMPLISHMENTS

Fiscal year 2011 marked DC Water's fifteenth year in operation as an independent agency of the Government of the District of Columbia. Using the framework of policies the Board of Directors established in fiscal year 1998, the four Strategic Focus Areas developed by the Board in fiscal year 2003, and its recently adopted 2008 – 2013 Strategic Plan, "A Guide for Measurable Progress and Achievement", DC Water and its management continued to build on the successes of its previous fourteen years of operations. Major accomplishments in fiscal year 2011 were:

Financial Accomplishments

- Issuance of $300.0 million of Public Utility Subordinate Lien Revenue Bonds. These bonds were successfully issued in late October 2010 as taxable Build America Bonds, taking advantage of the federal stimulus package that provided a 35.0% subsidy. The bonds were well received by investors in a volatile market and were issued at the unprecedented low rate of 3.6 percent (net of subsidy) with an average life of 27 years.

- DC Water ended fiscal year 2011 with strong financial performance as reflected in its year-end cash balance of $182.7 million, or $57.2 million above the Board established reserved requirements of $125.5 million. On a cash basis, actual revenues for the year exceeded budget by $4.9 million, and actual expenses were favorable to budget by $36.3 million.

- DC Water Board policy requires senior debt service coverage of at least 140.0 percent. DC Water's senior debt service coverage in fiscal year 2011 was 321.0 percent.

- DC Water continued its aggressive monitoring of its accounts receivable. In fiscal year 2011, retail accounts receivable over 90 days continued on its excellent low trend to $5.5 million, $0.6 million above the all-time low level of $4.9 million.

- Following the successful implementation of an impervious area charge ("IAC") in 2009, and in furtherance of our plan to continue to enhance the program to ensure equitable allocation of costs amongst our customers, DC Water modified the residential IAC from a flat rate to all customers to a six-tier rate based on the amount of impervious area owned. In fiscal year 2011, ninety percent of DC Water's customers had no increase or a lower IAC under the new structure.

Other Accomplishments

- On October 12, 2011, DC Water broke ground on its twenty-year, $2.6 billion DC Clean Rivers Project which aims to reduce combined sewer overflows to the Anacostia and Potomac rivers and the Rock Creek by 96 percent, thereby improving the health of the Chesapeake Bay.

- On May 17, 2011, DC Water broke ground on the $0.5 billion Biosolids Digester project at Blue Plains. This project is the first project to deploy thermal hydrolysis for wastewater treatment in North America and will become the largest source of renewable energy in the region, reducing the amount of biosolids from Blue Plains by 50.0%. The Biosolids Digester Project is expected to generate an estimated $10.0 million in savings on annual electricity costs.
- The Water Environment Research Foundation ("WERF") recognized DC Water with its award for Excellence in Innovation for its Biosolids Program.
- On July 20, 2011, the National Association of Clean Water Agencies ("NACWA") presented DC Water with its highest award, the Platinum Peak Performance Award, for excellence in plant performance for an outstanding six-year record. Blue Plains not only met, but exceeded, the National Pollutant Discharge Elimination System ("NPDES") permit issued by the U.S. Environmental Protection Agency.

HIGHLIGHTS AND MAJOR INITIATIVES

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

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

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

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

This $2.6 billion plan includes a variety of improvements throughout the District:

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

- Pumping station improvements
- Rehabilitation of the inflatable dams
- Targeted separation of combined sewers in several sections of the District that include areas in Anacostia
- Consolidation and elimination of 14 of 59 outfalls, including 4 outfalls on the Anacostia River
- Funds for Low Impact Development ("LID") at DC Water's facilities and to encourage LID across the District

In fiscal year 2010, the NPDES Permit was revised and reissued to DC Water by the U.S. EPA. The NPDES Permit became effective on September 30, 2010 and expires on September 30, 2015. DC Water is currently meeting the very stringent removal goals of the expired NPDES Permit and was the first agency to meet the voluntary nutrient reduction goals of the 1987 Chesapeake Bay Agreement.

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

Blue Plains Enhanced Nitrogen Removal Program

In June 2007, the EPA issued a modification to the permit, reducing the total nitrogen effluent limit to 4.7 million pounds per year (equivalent to 4.2 milligrams per liter at 370 million gallons per day average annual flow). Blue Plains Enhanced Nitrogen Removal Program ("ENR") provides for new facilities and upgrades to existing facilities that are needed at Blue Plains to meet the new total nitrogen discharge limit that has been included in DC Water's NPDES permit. Projects included in this program were identified through a strategic planning process that resulted in development of DC Water's proposed Total Nitrogen-Wet Weather ("TN/WW") Plan, which addresses the requirements of the CSO LTCP as well as the Chesapeake Bay Tributary Strategies for reducing nitrogen discharged into the Chesapeake Bay. The recommended alternative in the TN/WW Plan removes additional nitrogen from the wastewater prior to discharge and improves the quality of discharge to the Potomac and Anacostia Rivers during wet weather events. Some projects in this program are in the planning or design phase while construction has started on others. The lifetime budget for this program is $989 million.

Digester Project

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

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

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

Customer Service Initiatives

In fiscal year 2011, DC Water continued to make investments in its employees, process improvements and technology, all to ensure better service delivery to our customers. These improvements include the following:

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

- We continued our commitment to help improve the quality of life for those of our customers who are least able to pay, by providing relief through our Customer Assistance Program ("CAP"). Since 2001, we have provided eligible customers a discount of 4 Ccfs per month on their water bills. The value of the CAP discount continued to increase, and in fiscal year 2011, a total of 6,025 customers received a discount on their bills for a total of $1.38 million. We further assisted our customers through our Serving People by

Lending a Helping Hand Program (“SPLASH”). Contributions to this program have grown due to the convenience of the bill round-up feature which enables customers to make donations with their payments to assist other customers in paying their water and sewer bills. In fiscal year 2011, we received contributions totaling approximately $100.0 thousand and assisted over 300 customers. The Greater Washington Urban League administers this program for DC Water.

- We are working with IBM to develop innovative uses of evaluating meter reading data that will identify meters in potential need of repair. We are also working with L-Tron, a leading provider of meter technology solutions, to use sound wave technology to improve leak detection along water distribution mains. Both efforts will serve to reduce unmetered water losses.
- We upgraded technologies used in our office and in the field, including a new call recording system that will provide improved evaluation of the quality of our service to customers.
- We implemented a multi-tier approach to billing the Clean Rivers Impervious Area Charge (“IAC”), to improve the distribution of the costs of the DC Clean Rivers Project among residential properties with different amounts of impervious area.

Technology Initiatives

As technology initiatives maintained their alignment with the Board approved Information Technology Strategic Plan. Fiscal year 2011 was a year of transition both in terms of a change in leadership and in review of the Authority’s fundamental technology foundation and direction. As a result, DC Water is now well positioned to support and carry on the growth in operational efficiencies and continuous improvements in delivery of services to our customers.

Key to the effort is the continued modernization and virtualization of our technology infrastructure. This has already yielded significant return on investment in our ability to do more with less and also places us in the top tier of technology-oriented companies globally and is an enabling platform for innovation to carry us through the next decade. This activity was also essential to insure our information security protocols and procedures are not only up to date but exceed industry norms in light of a significant uptrend in the number of cyber attacks on critical infrastructure elements within the United States and abroad.

Another area of transitional focus was in existing enterprise systems. Several major upgrades were accomplished with little to no end user impact, including Lawson Financial, Enterprise Document Management, the Automated Meter Reading system, and the voice mail system. As part of these upgrades, significant effort was dedicated to insure DC Water personnel were properly engaged and receiving value from the systems. These efforts will be ongoing and provide validation that these systems are driving business value into enterprise operations as well as providing some side benefits for green initiatives and reductions in consumable supplies costs.

In spite of the focus on fundamentals, strategic enterprise efforts continued to make progress in accordance with the strategic plan. A few key examples of this effort are already underway or will begin in the near future and include:

- The Authority continued to implement additional aspects of its Total Enterprise Asset Management System ("TEAMS-Maximo System") and Geographic Information System ("GIS"). TEAMS-Maximo and GIS are the systems that have been integrated and deployed at DC Water to manage the maintenance and repair of the Authority's plant equipment, buildings and grounds and water/sewer infrastructure. Accomplishments this past fiscal year include additional enhancements, development and deployment of a mobile field computing application to manage hydrant inspections and repairs. This unique mobile application is now being extended to other areas of the organization to support field computing. Additional initiatives were: a multi-phased project focused on configuring the TEAMS Maximo System to provide better facilities management through the use of a custom screen, performance tracking dashboards and reports, and the deployment of a new application to simplify the submission of service requests by DC Water personnel.

- We continued a joint project titled "Analytics Driven Asset Management" ("ADAM") with IBM which is part of IBM's "Smarter Planet" initiative. Highlights from this year include successful pilots launched and completed, involving work planning/route optimization and water meter anomaly detection. The work planning/route optimization pilot resulted in DC Water staff more effectively planning, scheduling and executing infrastructure repairs. The results of the water meter anomaly detection pilot indicate that the ADAM tool positively identified failing meters the majority of the time. DC Water is in the process of recouping lost water revenue and averting future revenue loss, while minimizing the overall expense of performing meter tests.

- A major upgrade to enterprise Call Recording was accomplished, providing a full capture capability through an integrated recording and monitoring system. This solution is far advanced compared to the previous technology available to the Customer Service Department for recording calls. The new tool offers web-based supervisor generalized user interface ("GUI") for system-wide views, web-based agent GUI for individual agent view, record and playback from any location, real-time and off-site silent monitoring of agents, synchronized audio and screen capture, record-on-demand from an IP phone, and agent performance evaluation. This solution is utilized by the Customer Service Department and provides them with the ability to provide quality assurance and quality control with respect to customer calls and to focus on enhancing the quality of customer service.

- Fiscal year 2011 marked the fourth year that DC Water has worked in tight collaboration with the DC Fire and EMS Department to perform hydrant condition assessments. The system had to be further enhanced to accommodate the business need for 2 inspections per year. GIS was effectively used to map out the operations of each group. System enhancements were implemented to provide the ability to view Maximo data directly from the viewer, along with the location of the hydrant crew vehicles. This application allows the Water Services to be more efficient in their response to water quality complaints being reported by DC Water's customers by allowing the staff to visualize where the inspections are being done in relation to the Water Quality complaints logged in Maximo.

External Affairs and Community Service

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

The Authority embarked on its first-ever tap water marketing campaign. In an effort to remind the public that tap water is a safe, inexpensive alternative to bottled water, staff from the Office of External Affairs placed paid advertising, added messages to DC Water vehicles, and established the TapIt program. TapIt is a network of more than 120 restaurants across the District of Columbia where customers may fill their own reusable containers with tap water at no charge.

DC Water has an ongoing commitment to community service and volunteerism. Throughout the year, employees participate in numerous community and charitable events to support an array of worthy causes. Joint Utility Discount Day, Bread for the Soul, DC Public Schools, Aids Walk Washington, Susan G. Komen Breast Cancer Walk, Bike to Work Day and the District's Second Annual Nation's Triathlon were among some of the projects supported during the past year.

Employee Relations

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

- In fiscal year 2011, projects in the areas of safety and asset management were identified as priorities, and teams were formed based on skills, knowledge, and leadership qualities to identify and implement improvements.
- DC Water continued its focus on management training and development with Dale Carnegie seminars on communication, performance enhancement, supervisory skills, and team-building.
- Management and staff development strengthened its focus on success in endeavor, achievement, and leadership through DC Water's decision to contract Willie Jolly, award-winning inspirational speaker and author, to speak to all employees.
- DC Water initiated the PACT management program. PACT stands for positive attitude, accountability, communication, and teamwork. This program is designed to focus management attention on actions needed to achieve DC Water's mission.
- Management identified efficiencies to improve benefits administration with respect to the Family Leave Medical Act and the Consolidated Omnibus Reconciliation Act with software modules related to DC Water's current provider of Human Resource and Payroll services. Implementation is anticipated in 2012.
- The Human Resources Department was re-named as the Human Capital Management Department, fortifying its commitment to recruit, select, develop, and retain the highest quality workforce available and to provide human resources services with integrity, objectivity, responsiveness, sensitivity, and confidentiality to the employees of DC Water.

Capital Improvement Program

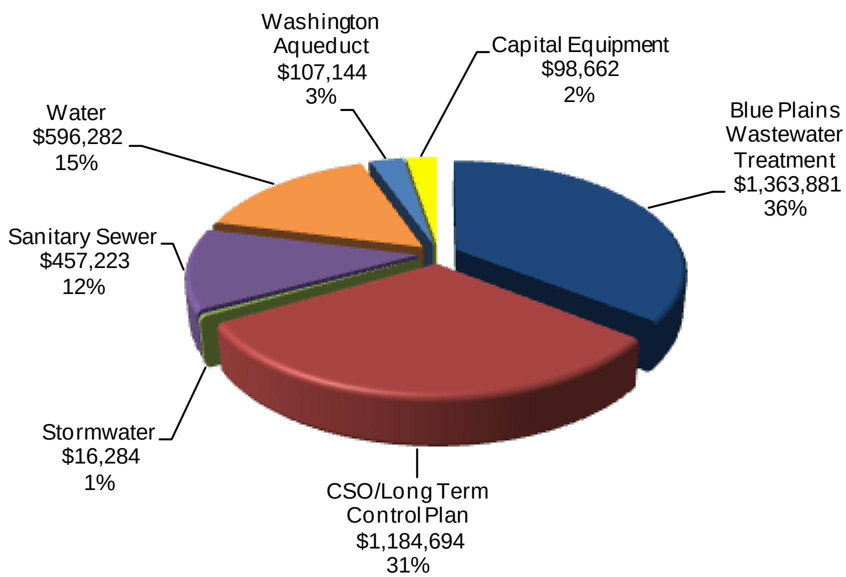
DC Water's ultimate success in achieving its operational goals, customer service goals, and continuing success in regulatory compliance depends in large part on the implementation of its 10-year capital improvement program proposed at $3.8 billion. Approximately 44% of the capital improvement program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

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

DC Water also made significant progress on CSO LTCP projects over the past few years. Projects include rehabilitation of four major pumping stations to increase their capacity: three of these stations (Potomac, Main & O Street and East Side) are near completion, and additional work at Poplar Point is underway. DC Water is also in the process of completing the facility plan for the Anacostia tunnels.

The proposed fiscal year 2011 – 2020 capital improvement program is broken into seven service areas, as shown in the following graph.

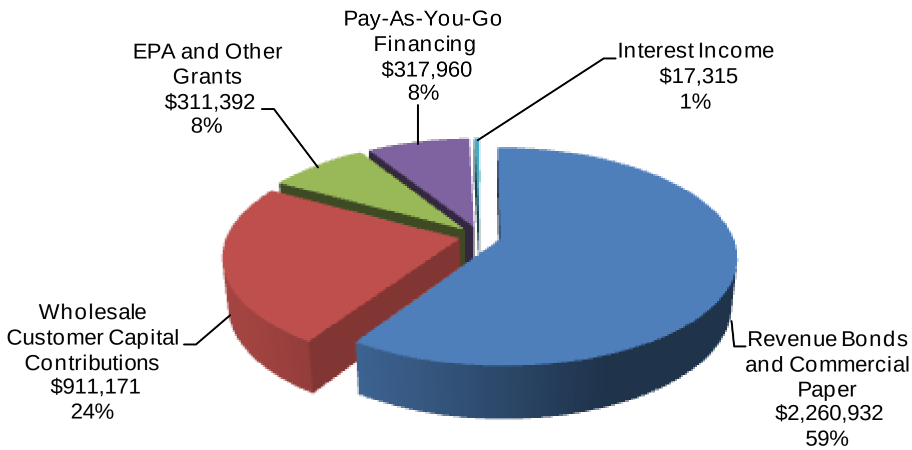
FY 2011 – FY 2020 Capital Improvement Program
Uses of Funds
($ in 000's)



Capital Financing and Debt Administration

DC Water plans to finance its $3.8 billion capital improvement program from a variety of sources, including the issuance of revenue bonds/commercial paper, grants from the U.S. EPA and other agencies, capital contributions from wholesale customers and pay-as-you-go financing. Interim financing through issuance of commercial paper notes will be periodically converted to long-term financing through the issuance of bonds. As shown on the following chart, 59 percent of capital financing will come from debt issuance.

FY 2011 – 2020 Capital Improvement Program
Sources of Funds
($ in 000's)



Cash Position

Unrestricted cash and investments were $182.7 million as of September 30, 2011. Board policy requires Authority reserves in excess of 120 days, (or $125.5 million) of operating cash. Rate stabilization fund deposits may be used to fund portions of the capital program on a pay-as-you-go basis. Cash held for overnight deposit is collateralized at 102% of the investments with government securities.

ACCOUNTING AND BUDGET PROCESSES

Basis of Accounting

DC Water prepares financial statements in accordance with accounting principles generally accepted in the United States as a single enterprise fund and maintains accounting records on the accrual basis of accounting. Under this basis of accounting, revenues are recorded when earned, and expenses are recorded when goods and services are received. DC Water follows the Governmental Accounting Standards Board ("GASB") pronouncements; and Financial Accounting Standards Board ("FASB") pronouncements issued on or before November 30, 1989, unless those pronouncements conflict or contradict GASB pronouncements.

Internal Control

During fiscal year 2009, the Board of Directors approved the reorganization of the Internal Audit function to use an outsourced model and selected an outside independent accounting firm, Stout, Causey & Horning ("SC&H"), to provide DC Water with a broader range and depth of resources commencing in fiscal year 2010. In fiscal year 2010, SC&H completed a comprehensive enterprise-wide risk assessment and presented a two-year audit plan, prioritizing audits of areas with higher risk levels, which was approved by the Board of Directors. SC&H has conducted numerous audits in accordance with its risk assessment plan in the past two fiscal years. Notable audit areas reviewed in 2011 were: Engineering Project Planning and Design; IT External Network; Legal and Regulatory Compliance Monitoring; Procurement; Washington Aqueduct Water Sales Agreement; Pumping and Storage – Water Leakage; IT Disaster Response Plans; Automated Meter Reading and Customer Billing; Fire Hydrant Maintenance; and Fleet Management. In addition to activities performed by the Internal Auditors, the Controller's Department continues to monitor internal control activities through its Internal Control and Assessment Monitoring Program that provides reviews of compliance with controls throughout the organization.

Independent Audit

DC Water's fiscal year is from October 1st to September 30th, and its financial statements are subject to an annual audit by independent certified public accountants. Thompson, Cobb, Bazilio & Associates, PC ("TCBA") audited DC Water's financial statements for fiscal year 2011. TCBA's opinion, dated December 15, 2011, is included in the Financial Section.

Budgetary Control

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

Annual Budget Process

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

TEN-YEAR FINANCIAL PLAN

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

- To proactively address all known regulatory requirements and other major infrastructure and operating issues, including the Internal Improvement Plan, over the ten-year planning period.

- To project rates that are needed to meet its long-term operating, capital and financial policy requirements.

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

FINANCIAL POLICIES

During fiscal year 1998, DC Water adopted stringent policies for financing, rate setting and cash management which were updated in 2009. The rate setting policy was replaced in 2011. These policies have served as the key parameters used to successfully develop DC Water's ten-year financial plan, capital improvement program and operating budgets. The policies will continue to guide the development and implementation of DC Water's long term plans in the future. A summary of these policies follows.

Financing Policies

The primary objective of the financing policies is to ensure that DC Water's financial practices result in high quality investment-grade bond ratings to achieve the lowest reasonable cost of debt necessary to finance DC Water's long-term capital program. DC Water is committed to 140 percent debt service coverage on senior lien debt service and maintaining an operating cash reserve equivalent to 120 days of operating and maintenance expenses. In addition, DC Water uses any excess operating reserve amounts for capital financing or repayment of higher-cost debt and that, whenever possible, the least costly capital financing be used for capital projects.

Rate Setting Policies

In January 2011, DC Water's rate setting policy was replaced with a new policy that strives to achieve the following tenets:

- Rates that, together with other revenues, cover current costs and meet or exceed all bond and other financial requirements, as well as goals set by the Board.
- Rates that yield reliable and predictable stream of revenues, taking into account trends in costs and in units of service.
- Rates based on annually updated forecasts of operating and capital budgets.
- Rate structures that are legally defensible, based on objective criteria, and transparently designed.
- Rate structures that customers can understand and DC Water can implement efficiently and efficaciously.
- Rate increases, if required, that are implemented transparently and predictably.

To the extend annual revenues exceed costs, the Board's policy will continue to utilize all available options to mitigate future customer impact and annual rate increases, including transferring some or all of such excess funds to the Rate Stabilization Fund. At September 30, 2011, the rate stabilization fund balance was $16.7 million.

Cash Management and Investment Policies

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

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

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

In October 2011, the Board amended the Statement of Investment Policy to include the following:

- Changed the rating requirement for Federal agency obligations from AAA and a maximum of 100% allocation of the portfolio to AA from two rating agencies with a maximum of 80% allocation.

- Added to authorized investments – FDIC-insured certificates of deposit through placement services, including the Certificate of Deposit Account Registry Service.

- Added to the eligible collateralization of bank deposits to include a letter of credit issued by a Federal Home Loan Bank, established at 102% of the deposit held.

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

RISK MANAGEMENT

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

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

ECONOMIC CONDITION AND OUTLOOK

The District of Columbia is not only known for being the nation's capital, but it is also an international city with a vibrant tourist industry and business climate. It is also the nucleus of the fifth largest metropolitan area in the United States. The U.S. Census Bureau estimated that there were 617,996 residents in Washington, DC, as of July 1, 2011, an increase of 2.2% from the same period last year. The yearend estimate for District population is not yet available.

The District's economic base is driven by the federal and local governments and the related diplomatic embassies and international organizations. The federal civilian workforce in the District averaged 198,567 employees, while an additional 117,778 federal employees worked elsewhere in the metropolitan area. The District is host to more than 187 foreign embassies and other recognized diplomatic missions. A number of international organizations, such as the International Monetary Fund, the World Bank, the Inter-American Development Bank, and the Organization of American States are headquartered in the District. An estimated 16 million people visit the Washington Metropolitan Area, annually not only to do business with federal government and regional enterprises, but also to visit the national monuments, historic sites, museums and other major cultural attractions.

Income has grown considerably in the District in recent years. From 2007 to 2011, personal income grew approximately 17.2% in the District as compared to 8.5% nationally. District's economy grew consistently faster than the national economy for much of this decade and is expected to continue to grow in 2012. The District's economy is much more heavily information and service dependent than most states, accounting for the region's insulation from the national housing and credit centric recession.

AWARDS

The GFOA awarded a Certificate of Achievement for Excellence in Financial Reporting to DC Water for its comprehensive annual financial report for the fiscal year ended September 30, 2010 (see page 3). The Certificate of Achievement is a prestigious national award, recognizing conformance with the highest standards for preparation of financial reports. DC Water believes its current report continues to conform to the Certificate of Achievement program requirements, and plans to submit it to GFOA. DC Water has thus far received the GFOA Award for every year of its existence.

DC Water received the GFOA's *Distinguished Budget Presentation Award* for its fiscal year 2011 Operating and Capital budgets for the seventh consecutive time. In order to qualify for the distinguished Budget Presentation Award, DC Water's budget document was judged to be proficient in several categories, including presentation as a policy document, financial plan, operations guide and a communication device.

ACKNOWLEDGEMENTS

The preparation of this report could not have been accomplished without the professionalism and collective effort of many DC Water personnel, including the dedicated staff of the Comptroller's Financial Reporting section; the financial operations group as a whole; personnel from office of the General Manager and External Affairs; and personnel from various operating departments in the organization. I sincerely appreciate the dedicated efforts of all these individuals.

This CAFR reflects the Board of Director's commitment to our various stakeholders, including; the City Council, our customers in the District of Columbia, Fairfax, Loudon, Montgomery and Prince Georges County; the environmental community; our regulators; our vendors; our employees; and the financial community to maintain financial statements in conformance with the highest standards of financial accountability.

As we look forward to another successful financial year, with its many challenges and opportunities, I would like to express my profound gratitude to all members of the Board of Directors, led by our chairman, William M. Walker, and our General Manager, George S. Hawkins, for their leadership and commitment to excellence. Our continued success and strong financial performance are a testimony to their valiant efforts.

Respectfully submitted,

Olu Adebo
Chief Financial Officer

water is life

Financial Section

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TCBA

THOMPSON, COBB, BAZILIO & ASSOCIATES, PC

Certified Public Accountants and Management, Systems and Financial Consultants

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Independent Auditor's Report

Board of Directors
District of Columbia Water and Sewer Authority:

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of September 30, 2011 and 2010, and the changes in its financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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

Washington, DC
December 15, 2011

Thompson, Cobb, Bazilio & Associates, PC

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DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

Management's Discussion and Analysis

This section of the District of Columbia Water and Sewer Authority's ("DC Water" or the "Authority") annual financial report presents the analysis of the Authority's financial performance during the fiscal year that ended on September 30, 2011. The Management's Discussion and Analysis ("MD&A") should be read in conjunction with the Authority's basic financial statements, beginning on page 49.

HIGHLIGHTS

Financial Highlights – 2011

- The Authority's net assets increased by $44.7 million to $1.1 billion, or 4.4 percent, as a result of fiscal year 2011 operations and capital contributions (see "Analysis of Net Assets" on page 40).
- Operating expenses increased by $10.6 million to $319.3 million, or 3.5 percent due to increases in: personnel services, contractual services, and depreciation and amortization expense, partially offset by reductions in chemicals and water purchases (see "Expenses" on pages 44 and 45).
- Operating revenues increased by $44.5 million to $408.3 million or 12.2 percent primarily due to increased revenues from residential and commercial customers, Federal government and wholesale wastewater charges.
- Current assets increased by $18.8 million to $266.1 million, or 7.6 percent, primarily due to an increase in cash and cash equivalents and receivables from other jurisdictions, partially offset by a decrease in receivables from the Federal government.
- Restricted assets increased by $124.4 million to $281.2 million, or 79.3 percent, primarily due to proceeds from issuance of the 2010 revenue bonds.
- Net utility plant (capital assets) increased by $275.2 million to $3.1 billion, or 9.9 percent due to a planned increase in capital expenditures in line with the Authority's approved $3.8 billion, 10-year capital improvement program.
- The Authority's long-term debt, including current maturities, increased $282.2 million to $1.5 billion, or 22.7 percent, primarily due to the $300.0 million bond issuance in October 2010.

Financial Highlights - 2010

- The Authority's net assets increased by $8.2 million to $1.0 billion, or 0.8 percent, as a result of fiscal year 2010 operations and capital contributions (see "Analysis of Net Assets" on page 40).
- Operating expenses increased by $15.3 million to $308.7 million, or 5.2 percent due to increases in: personnel services, contractual services, water purchases and depreciation and amortization expense (see "Expenses" on pages 44 and 45).
- Operating revenues increased by $31.4 million to $363.7 million or 9.4 percent primarily due to increased revenues from residential and commercial customers, Federal government and wholesale wastewater charges.
- Current assets decreased by $64.1 million to $247.4 million, or 20.6 percent, primarily due to decrease in investment balances and decrease in receivables from the Federal government and other jurisdictions.
- Restricted assets decreased by $120.5 million to $156.8 million, or 43.5 percent, primarily due to planned draw downs on the 2009 construction fund account during the year.
- Net utility plant (capital assets) increased by $196.5 million to $2.8 billion, or 7.6 percent due to a planned increase in capital expenditures in line with the Authority's approved $3.8 billion, 10-year capital improvement program.
- The Authority's long-term debt, including current maturities, decreased by $14.1 million to $1.253 billion, or 1.1 percent, primarily due to principal payments of $13.1 million on the series 1998 bonds and the general obligation bonds.

Authority Highlights - 2011

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

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

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

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

Authority Highlights - 2010

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

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

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

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

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

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

USING THIS ANNUAL REPORT

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

Required Financial Statements

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

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

- The final required financial statement is the Statement of Cash Flows. The primary purpose of this statement is to provide information about the Authority's cash receipts, cash payments, and net changes in cash and cash equivalents resulting from operations, investing, and capital and non-capital financing activities. It also provides information regarding sources of cash, uses of cash, and changes in cash balances during the reporting period.

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

FINANCIAL ANALYSIS OF THE AUTHORITY AS A WHOLE

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

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

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

Analysis of Net Assets

The Authority's total assets exceeded liabilities by $1.1 billion and $1.0 billion for the fiscal years ended September 30, 2011 and 2010, respectively. The Authority's net assets include its investment of $946.9 million and $880.9 million in utility plant (e.g., infrastructure, buildings, equipment and fleet) for the fiscal years ended September 30, 2011 and 2010, respectively; less any related outstanding debt used to acquire those assets. The Authority uses these capital assets to provide services to its customers. Although the Authority's investment in its utility plant is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be liquidated for these liabilities. An additional portion of the Authority's net assets, $62.5 million and $44.3 million represents resources that are subject to external restrictions (primarily related to the Authority's bond indentures) on how they may be used. The remaining balance of $62.8 million and $102.2 million for the fiscal years ended September 30, 2011 and 2010, respectively, are unrestricted.

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

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

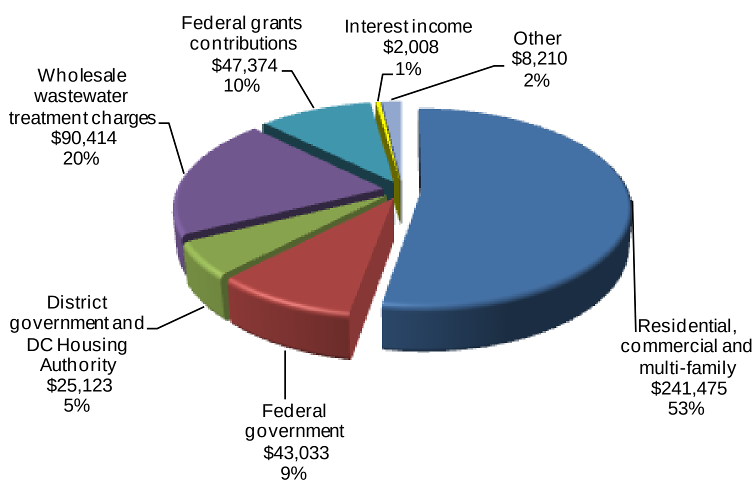
Analysis of Change in Net Assets

The Authority's financial performance remained stable in fiscal year 2011 with net assets exceeding $1.1 billion, an increase of $44.7 million over fiscal year 2010, including Federal grants and contributions. Excluding non-operating revenues (expenses) and Federal grants and contributions, which can vary significantly from year to year based on capital spending and other factors, operating income was $89.0 million, an increase of $33.9 million compared to fiscal year 2010 (see Statements of Revenues, Expenses and Change in Net Assets on page 50).

Total Revenues

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

Fiscal Year 2011
Total Revenues
($ in 000's)



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

- Water and wastewater user charges from residential, commercial and multi-family customers increased by $31.7 million to $241.5 million, or 15.1 percent over fiscal year 2010, primarily due to a rate increase in fiscal year 2011.

- Water and wastewater user charges from Federal government customers were $43.0 million in fiscal year 2011, an increase of $5.2 million or 13.7 percent, primarily due to a rate increase in fiscal year 2011.

- Water and wastewater user charges from the District government and the District of Columbia Housing Authority were $25.1 million, an increase of $3.2 million, or 14.5 percent primarily due to a rate increase in fiscal year 2011.

- Wholesale wastewater treatment charges were $90.4 million, an increase of $2.9 million, or 3.3 percent over fiscal year 2010, primarily due to increased revenues from IMA participants. According to the Blue Plains Intermunicipal Agreement ("IMA") (see Note 1), wholesale customers pay a share of both the operating and capital costs of the plant. The payments for capital costs are amortized and recognized as income over the depreciable life of assets purchased (i.e., 60 years).

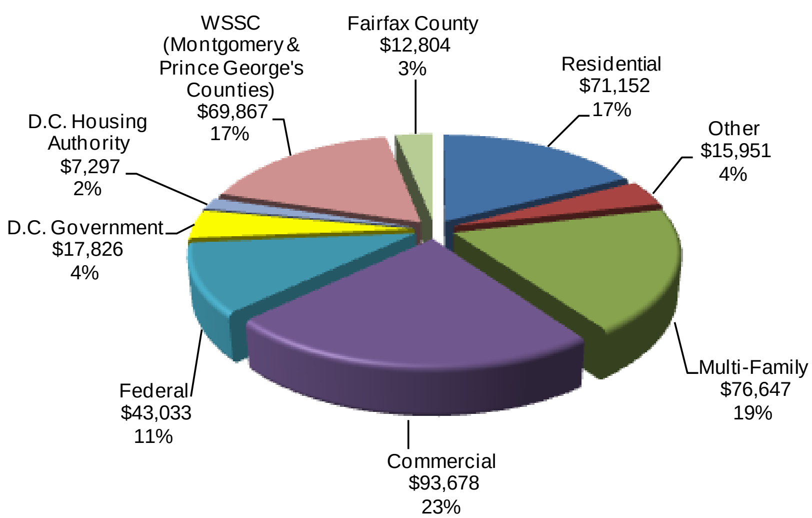
- Interest income, a non-operating revenue item, was $2.0 million, an increase of $0.4 million, or 28.6 percent over the prior year, primarily due to increased holdings of cash and investments.

- Federal grant contributions were $47.4 million, an increase of $17.0 million, or 55.8 percent compared to last year, primarily due to increased capital construction spending in fiscal year 2011 on grant-eligible combined sewer overflow projects.

Diversity and Stability of Operating Revenues

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

Fiscal Year 2011
Operating Revenues by Source
($ in 000's)



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

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

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

- The Authority provides wastewater conveyance and treatment services to Montgomery and Prince George's Counties in Maryland through the Washington Suburban Sanitary Commission ("WSSC") and Fairfax and Loudoun Counties in Northern Virginia. Operating revenues from WSSC and Fairfax County account for 20.0 percent of the Authority's revenues and are based primarily on their share of operating costs at Blue Plains. Loudoun County and Potomac Interceptor customers account for an additional 2.0 percent of the Authority's revenues and are included in other revenues. Operating costs are allocated to each user based on its sewer flows and purchased capacity at Blue Plains.

- Residential customers in the District account for 17.0 percent of total revenues.

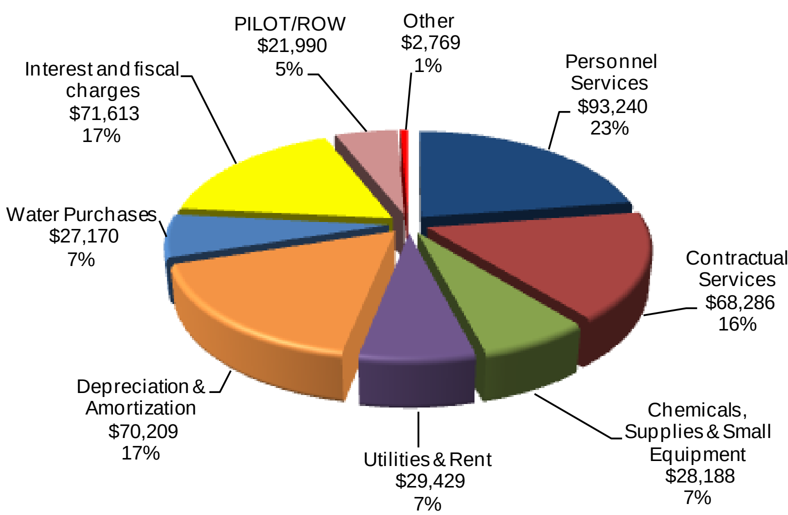
- Payments from the Federal government comprise 11.0 percent of the Authority's total operating revenues and include customers such as the U.S. Congress, the Smithsonian Institution, and a range of federal departments and agencies.

- Revenues from the Government of the District of Columbia and the District of Columbia Housing Authority make up 6.0 percent of total operating revenues.

Expenses

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

Fiscal Year 2011
Total Expenses
($ in 000's)



A detailed analysis of the operating expenses follows:

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

UTILITY PLANT AND DEBT ADMINISTRATION

Utility Plant

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

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

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

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

Debt Administration

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

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

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

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

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

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

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

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

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

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

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

Table 5
DC Water Bond Ratings

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

In November 2001, the Authority closed on its $100.0 million commercial paper program. This program provides interim financing for a portion of the Authority's approved $3.8 billion capital improvement program. Other financing sources include long-term revenue bonds, United States Environmental Protection Agency grants, wholesale customer contributions, and pay-as-you-go financing. Under the commercial paper program, the Authority issues fixed-rate, short-term (no greater than 270 days) notes. The Authority's commercial paper program is backed by a direct pay letter of credit issued by Westdeutsche Landesbank Giroznetrale ("West LB"). The notes are rated based on West LB's rating; in effect the letter of credit of the bank substitutes the Authority's security with the paying ability of the bank, enhancing the appeal and marketability of the notes. There was $35.2 million in outstanding taxable and tax-exempt commercial paper at the end of fiscal year 2011.

Table 6
DC Water Commercial Paper Ratings

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

RATES

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

CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

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

DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

Statements of Net Assets

September 30, 2011 and 2010

(In thousands)

Assets	2011	2010
Current assets:		
Cash and cash equivalents (note 3)	$ 112,944	$ 81,069
Investments (note 3)	69,764	70,255
Customer receivables, net of allowance for doubtful accounts of $14,350 in 2011 and $11,975 in 2010 (note 7)	39,252	39,742
Due from Federal government (note 6)	20,505	40,077
Due from other jurisdictions (note 8)	16,202	8,531
Inventory	7,264	7,339
Prepaid assets	204	371
Total current assets	266,135	247,384
Noncurrent assets:		
Restricted assets (note 3):		
Cash and cash equivalents	98,054	116,786
Investments	183,121	40,027
Total restricted cash equivalents and investments	281,175	156,813
Utility plant (note 4):		
In-service	3,547,829	3,365,892
Less accumulated depreciation	(981,030)	(916,505)
Net utility plant in service	2,566,799	2,449,387
Construction-in-progress	485,497	327,738
Net utility plant	3,052,296	2,777,125
Other noncurrent assets:		
Purchased capacity, net of accumulated amortization of $60,543 in 2011 and $55,591 in 2010 (note 5)	247,050	223,687
Unamortized bond issuance costs	17,430	15,716
Due from other jurisdictions, net of allowance for doubtful accounts of $305 in 2011 and $187 in 2010 (note 8)	6,639	7,990
Total other noncurrent assets	271,119	247,393
Total noncurrent assets	3,604,590	3,181,331
Total assets	3,870,725	3,428,715

Liabilities	2011	2010
Current liabilities:		
Accounts payable and accrued expenses	119,850	88,684
Compensation payable (note 9)	16,748	15,043
Accrued interest	39,945	32,289
Due to jurisdictions	8,500	6,500
Due to District government (note 13)	1,563	382
Due to Storm Water Fund (note 13)	417	132
Deferred revenue	33,568	25,354
Commercial paper notes payable (note 11)	35,200	29,200
Current maturities of long-term debt (note 10)	18,721	17,793
Total current liabilities	274,512	215,377
Noncurrent liabilities:		
Deferred revenue	918,787	852,010
Deferred revenue - combined sewer overflow	43,314	62,843
Other liabilities (note 12)	31,720	20,568
Long-term debt, excluding current maturities (note 10)	1,530,174	1,250,442
Total noncurrent liabilities	2,523,995	2,185,863
Total liabilities	2,798,507	2,401,240

Net Assets	2011	2010
Invested in utility plant, net of related debt	946,868	880,934
Restricted for:		
Debt service	50,872	34,747
Capital projects	11,633	9,586
Unrestricted	62,845	102,208
Total net assets	$ 1,072,218	$ 1,027,475

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

DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

Statements of Revenues, Expenses and Change in Net Assets

Years Ended September 30, 2011 and 2010

(In thousands)

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

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

DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

Statements of Cash Flows

Years Ended September 30, 2011 and 2010

(In thousands)

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

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

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(1) Reporting Entity

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

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

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

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

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

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

(2) Summary of Significant Accounting Policies

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

(a) Measurement Focus and Basis of Accounting

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

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

As allowed by GASB 20, the Authority accounts for its regulatory assets and liabilities in accordance with FASB Accounting Standards Codification (ASC) 980-10, *Regulated* Operations: Overall, (formerly Statement of Financial Accounting Standards Board Statement No. 71, *Accounting for the Effects of Certain Types of Regulation*). In general, FASB ASC 980-10 covers the type of regulation that permits rates to be set at levels intended to recover the estimated costs of providing regulated services, including the cost of capital. There are times in which the revenues intended to cover certain costs are provided either before or after the costs have been incurred. If the costs will be recovered in the future, a regulatory asset is capitalized and reduced as the related revenues are provided. If the current recovery is for costs that will be incurred in future periods, regulatory liabilities are accrued and reduced as those costs are incurred. As of September 30, 2011 and 2010, no regulatory assets or liabilities were required to be reported in accordance with FASB ASC 980-10.

(2) Summary of Significant Accounting Policies (Continued)

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

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

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

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

(b) Revenues and Expenses

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

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

(2) Summary of Significant Accounting Policies (Continued)

Water and Wastewater User Charges

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

Charges for Wholesale Wastewater Treatment and Deferred Revenue

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

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

(c) Cash and Cash Equivalents

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

(d) Investments

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

(e) Restricted Assets

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

(2) Summary of Significant Accounting Policies (Continued)

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

(f) Utility Plant

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

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

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

(g) Purchased Capacity

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

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

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

(In $ thousands)

(2) Summary of Significant Accounting Policies (Continued)

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

(h) Inventory

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

(i) Debt Financing Costs

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

(j) Reclassifications

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

(k) Use of Estimate and Assumptions

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

(l) Vacation and Sick Leave

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

Employees Length of servcice	Union Employees	Non-union Employees
1 - 3 years	240 hours	240 hours
4 - 14 years	240 hours	320 hours
Over 15 years	240 hours	360 hours

(In $ thousands)

(3) Cash Deposits and Investments

(a) Cash Deposits

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

(b) Cash Equivalents and Investments

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

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

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

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

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

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

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

(In $ thousands)

(3) Cash Deposits and Investments (Continued)

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

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

(c) Cash and Investment Schedule

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

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

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

(In $ thousands)

(3) Cash Deposits and Investments (Continued)

(d) Restricted Cash and Investment Schedule

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

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

(In $ thousands)

(4) Utility Plant

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

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

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

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

(In $ thousands)

(5) Purchased Capacity

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

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

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

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

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

(In $ thousands)

(6) Due from Federal Government

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

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

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

(7) Customer Receivables

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

(8) Due from Other Jurisdictions

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

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

(a) Northern Virginia

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

(In $ thousands)

(9) Compensation Payable (Compensated Absences)

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

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

(In $ thousands)

(10) Long-Term Debt

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

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

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

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

(In $ thousands)

(10) Long-Term Debt (Continued)

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

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

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

(a) Senior Debt

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

(10) Long-Term Debt (Continued)

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

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

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

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

(b) Subordinate Debt

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

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

(10) Long-Term Debt (Continued)

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

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

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

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

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

(10) Long-Term Debt (Continued)

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

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

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

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

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

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

(In $ thousands)

(10) Long-Term Debt (Continued)

(c) Bond Covenants

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

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

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

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

(d) Debt Service to Maturity

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

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

(In $ thousands)

(11) Commercial Paper

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

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

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

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

(12) Commitments and Contingencies – Other Liabilities

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

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

(a) Federal Grants

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

(In $ thousands)

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

(b) Litigation

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

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

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

(c) Rolling Owner Controlled Insurance Program (ROCIP)

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

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

(d) Risk Management

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

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

(In $ thousands)

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

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

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

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

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

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

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

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

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

(e) Construction Commitments

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

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

(In $ thousands)

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

(f) Lease Commitments

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

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

	2011	2010
Facilities leases	$ 1,364	$ 1,279
Automobile equipment leases	2	5
Machinery leases	413	700
Total	$ 1,779	$ 1,984

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

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

(13) Related Party and Similar Transactions

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

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

(13) Related Party and Similar Transactions (Continued)

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

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

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

(14) Employee Benefits

(a) Defined Benefit Plans

Employees hired prior to October 1, 1987 participate in certain federal benefit plans administered by the federal government's Office of Personnel Management (OPM). The plans are cost sharing multi-employer plans, which provide retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan participants and beneficiaries. In fiscal year 2011, there were 225 DC Water employees covered by these plans. The OPM issues a publically available financial report that includes financial statements and required supplementary information, which may be obtained at www.opm.gov.

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

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

(14) Employee Benefits (Continued)

(b) Defined Contribution Plans

Defined Contribution Plan - Employees who were hired after September 30, 1987, participate in the U.S. Social Security system and a defined contribution plan sponsored by the Authority. The District of Columbia Water and Sewer Authority Defined Contribution Plan is a qualified trust under Internal Revenue Code Section 401. During fiscal years 2011, 2010 and 2009, the Authority's contribution was seven percent of base pay up to the social security wage base, plus 5% of base pay in excess of the social security wage base for each eligible employee. Employees do not contribute to the plan. Employees become 100 percent vested in their account balance after three years of service.

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

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

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

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

(c) Post-Employment Insurance Plans

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

(d) Retirement Health Savings Plan

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

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Statistical Section

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

The statistical section is divided into five sections as follows:

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

1. Financial Trends

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

EXHIBIT 1: SUMMARY OF NET ASSETS
FY 2002 - 2011
($000)

	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Net Assets:										
Invested in utility plant, net of related debt	$534,819	$588,294	$651,250	$713,470	$749,965	$777,968	$ 764,291	$ 806,276	$ 880,934	$ 946,868
Restricted for debt service	23,481	22,356	38,302	39,765	39,730	44,802	32,122	33,743	34,747	50,872
Restricted for capital projects	18,115	5,038	815	2,146	5,158	9,170	10,199	10,967	9,586	11,633
Unrestricted	178,351	188,285	142,341	125,347	139,965	148,950	214,135	168,272	102,208	62,845
Total Net Assets:	$754,766	$803,973	$832,708	$880,728	$934,818	$980,890	$1,020,747	$1,019,258	$1,027,475	$1,072,218

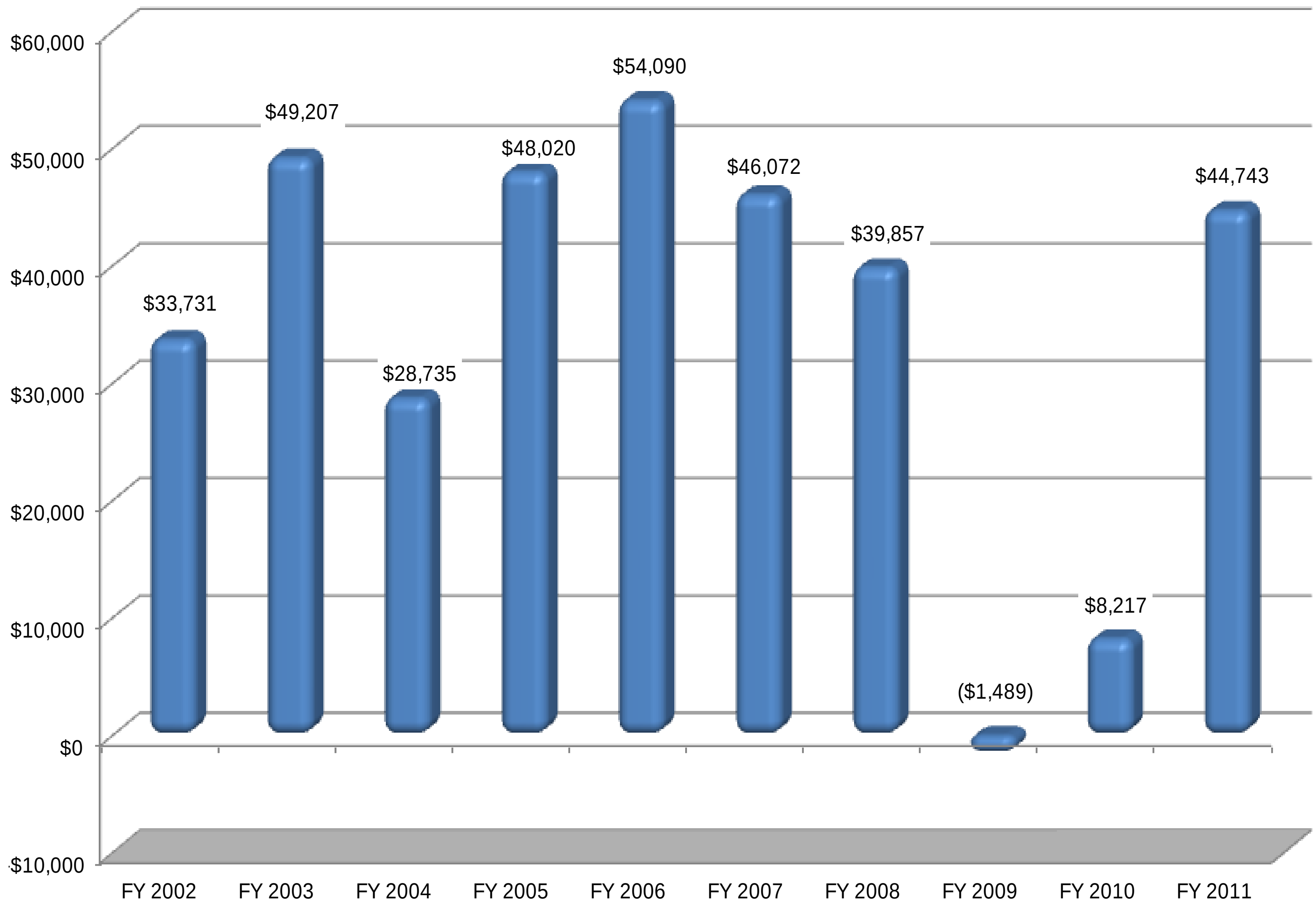
Source: FY 2002 - 2011 Audited Statements of Net Assets.

EXHIBIT 2: CHANGE IN NET ASSETS
FY 2002 - 2011
($000)

	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Revenues										
Operating revenues:										
Residential, commercial and multi-family customers	$ 148,134	$ 147,870	$ 159,165	$ 166,045	$ 174,159	$ 182,327	$ 183,553	$ 191,543	$ 209,796	$ 241,475
Federal government	28,501	26,884	26,444	24,770	31,100	30,751	35,888	35,195	37,845	43,033
District government and DC Housing Authority	16,496	16,072	15,464	15,436	16,463	17,266	16,193	16,804	21,947	25,123
Charges for wholesale wastewater treatment	53,211	61,682	60,834	62,126	67,966	73,378	82,854	85,519	87,505	90,414
Other	2,387	3,287	2,427	4,366	3,845	2,735	3,846	3,337	6,655	8,210
Total Operating Revenues	248,729	255,795	264,334	272,743	293,533	306,457	322,334	332,398	363,748	408,255
Non-operating revenues:										
Interest income	6,825	3,090	3,472	12,612	16,091	20,239	13,573	2,285	1,561	2,008
Total Revenues	255,554	258,885	267,806	285,355	309,624	326,696	335,907	334,683	365,309	410,263
Expenses										
Operating expenses:										
Personnel services	62,162	64,091	62,449	64,038	66,942	70,956	75,838	82,248	88,210	93,240
Contractual services	59,166	63,065	61,491	54,156	49,970	52,116	55,127	61,277	66,747	68,286
Chemicals, supplies and small equipment	13,683	14,768	17,384	22,062	23,482	24,510	28,816	29,074	29,003	28,188
Utilities and rent	20,071	20,804	22,217	25,562	31,151	32,238	37,843	32,813	29,929	29,429
Depreciation and amortization	37,099	39,524	40,500	41,069	44,149	49,355	54,418	59,291	64,425	70,209
Water purchases	16,904	13,723	20,692	19,625	22,745	24,042	25,746	25,371	27,587	27,170
Other	-	-	3,955	3,679	4,218	4,452	3,603	3,236	2,750	2,769
Total operating expenses	209,085	215,975	228,688	230,191	242,657	257,669	281,391	293,310	308,651	319,291
Non-operating expenses										
Interest expense and fiscal charges	16,339	17,816	26,060	25,415	20,881	30,524	39,342	51,431	58,370	71,613
Payment in lieu of taxes and right of way fee	15,247	15,513	15,778	16,307	16,923	17,514	17,525	19,183	20,474	21,990
Total non-operating expenses	31,586	33,329	41,838	41,722	37,804	48,038	56,867	70,614	78,844	93,603
Total expenses	240,671	249,304	270,526	271,913	280,461	305,707	338,258	363,924	387,495	412,894
Income before Federal grants and contributions	14,883	9,581	(2,720)	13,442	29,163	20,989	(2,351)	(29,241)	(22,186)	(2,631)
Federal grants and contributions	18,848	39,626	31,455	34,578	24,927	25,083	42,208	27,752	30,403	47,374
Change in net assets	33,731	49,207	28,735	48,020	54,090	46,072	39,857	(1,489)	8,217	44,743
Net assets, beginning of year	721,035	754,766	803,973	832,708	880,728	934,818	980,890	1,020,747	1,019,258	1,027,475
Net assets, end of year	$ 754,766	$ 803,973	$ 832,708	$ 880,728	$ 934,818	$ 980,890	$ 1,020,747	$ 1,019,258	$ 1,027,475	$ 1,072,218

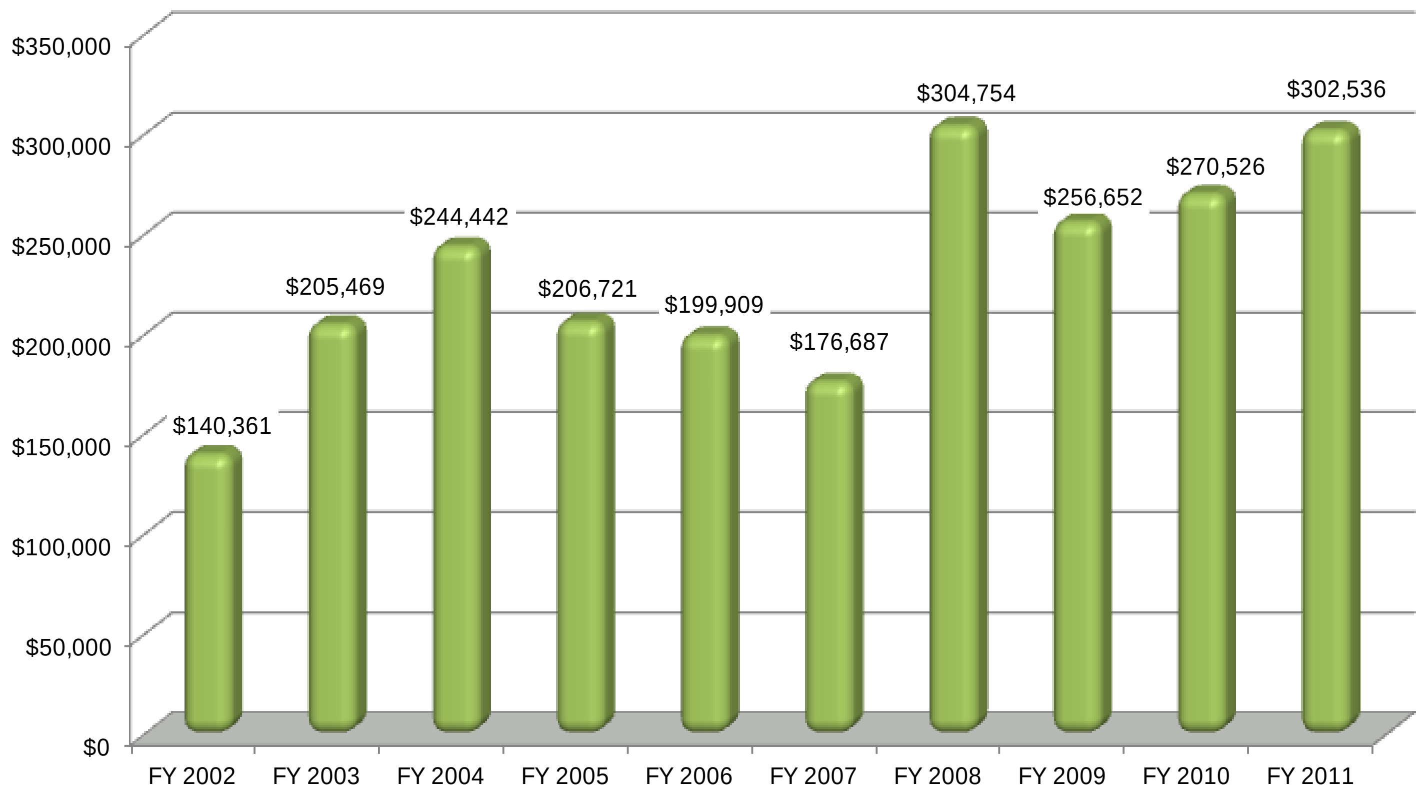
Source: FY 2002 - 2011 Audited Statements of Revenues, Expenses and Change in Net Assets.

EXHIBIT 3: CHANGE IN NET ASSETS
FY 2002 - 2011
($000)



Source: FY 2002 – 2011 Audited Statements of Revenue, Expenses and Changes in Net Assets.

EXHIBIT 4: CAPITAL DISBURSEMENTS
FY 2002 - 2011
($000)



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

Source: FY 2002 – 2011 Audited Statements of Cash Flows.

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2. Revenue Capacity

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

EXHIBIT 5: SUMMARY OF REVENUES AND RATE INCREASES FY 2002 - 2011 ($000)

	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Operating Revenues:										
Retail Customers										
Residential, Commercial and Multifamily	$ 148,134	$ 147,870	$ 159,165	$ 166,045	$ 174,159	$ 182,327	$ 183,553	$ 191,543	$ 209,796	$ 241,475
Federal Government	28,501	26,884	26,444	24,770	31,100	30,751	35,888	35,195	37,845	43,033
DC Government	10,293	9,943	9,129	8,968	9,617	10,580	9,391	10,116	15,628	17,827
DC Housing Authority	6,203	6,129	6,335	6,468	6,846	6,686	6,802	6,688	6,319	7,296
Other Revenues	2,387	3,287	2,427	4,366	3,845	2,735	3,846	3,337	6,655	8,210
Total Retail Customers	195,518	194,113	203,500	210,617	225,567	233,079	239,480	246,879	276,243	317,841
Wholesale Customers										
Charges for Wholesale Wastewater Treatment	53,211	61,682	60,834	62,126	67,966	73,378	82,854	85,519	87,505	90,414
Total Operating Revenues	248,729	255,795	264,334	272,743	293,533	306,457	322,334	332,398	363,748	408,255
Nonoperating Revenues:										
Interest Income	6,825	3,090	3,472	12,612	16,091	20,239	13,573	2,285	1,561	2,008
Total Operating and Nonoperating Revenues:	$ 255,554	$ 258,885	$ 267,806	$ 285,355	$ 309,624	$ 326,696	$ 335,907	$ 334,683	$ 365,309	$ 410,263
Retail Rate Increases	0.00%	-5.25%	2.50%	5.00%	5.50%	5.00%	5.50%	7.50%	9.00%	12.50%

Source: FY 2002 - 2011 Audited Statements of Revenue, Expenses and Changes in Net Assets

EXHIBIT 6: NUMBER AND TYPE OF CUSTOMER ACCOUNTS FY 2002 – 2011

TYPE OF ACCOUNTS	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Retail Accounts										
Residential	101,219	101,783	102,188	102,418	102,655	103,263	103,674	103,665	103,315	103,857
Commercial [(A)]	17,817	18,111	18,283	18,337	18,489	18,513	18,528	19,060	19,049	19,165
Governmental										
Federal	537	538	529	526	526	531	533	540	546	549
District of Columbia	574	565	569	565	582	589	590	606	603	607
DC Housing Authority	1,503	1,469	1,196	1,179	1,173	1,175	1,218	1,220	1,431	1,431
Total Retail Accounts	121,650	122,466	122,765	123,025	123,425	124,071	124,543	125,091	124,944	125,609
DC Water	29	29	29	29	29	30	30	30	35	35
Washington Aqueduct			1	1	1	1	2	2	1	2
Wholesale	7	7	7	7	7	7	7	7	7	7
Total Number of Accounts	121,686	122,502	122,802	123,062	123,462	124,109	124,582	125,130	124,987	125,653

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

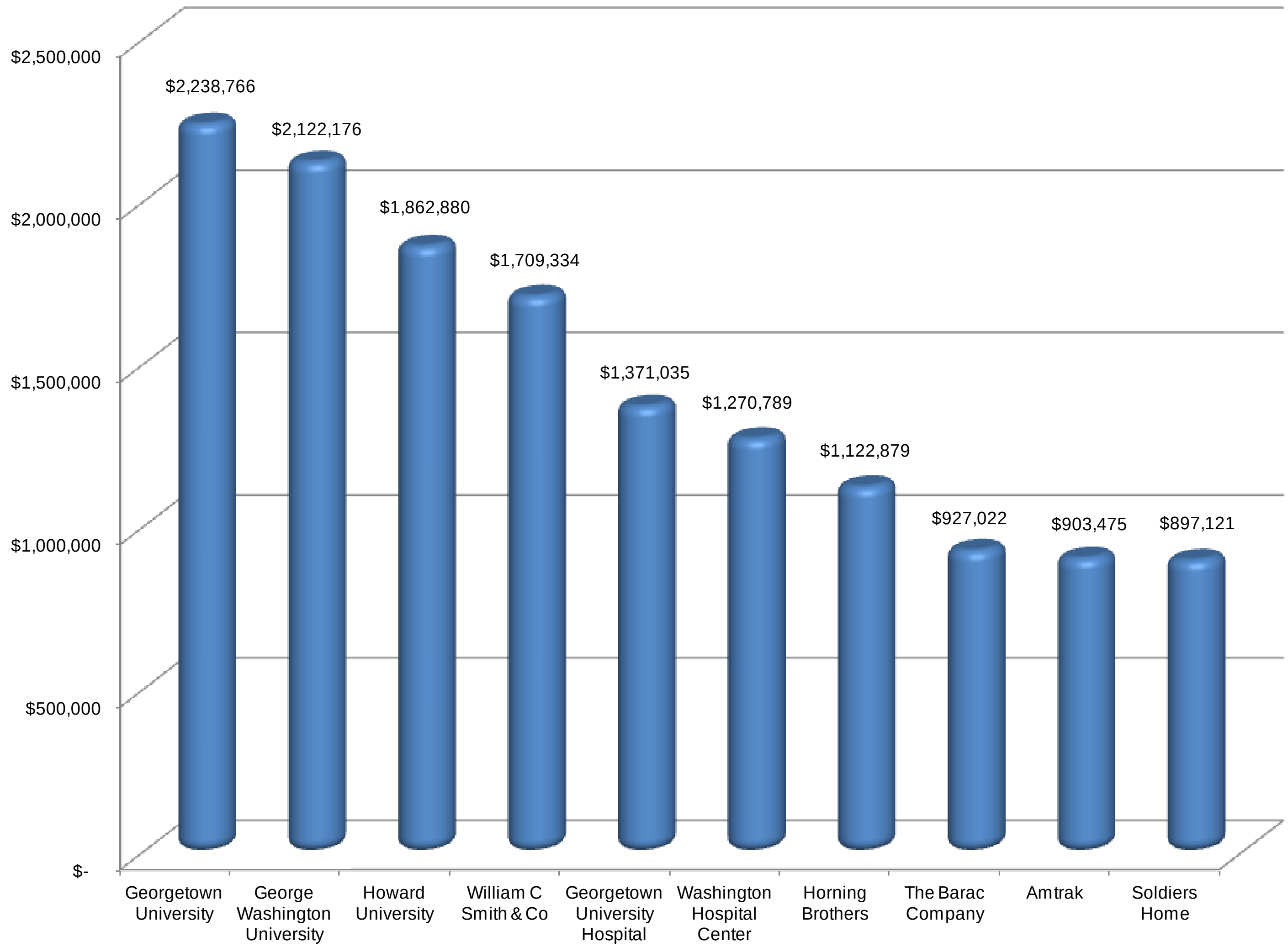
Source: D.C. Water Department of Customer Service

EXHIBIT 7: FIVE LARGEST COMMERCIAL CUSTOMER ACCOUNTS BY REVENUES FY 2002 - 2011

CUSTOMER	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Georgetown University	$ 1,382,043	$ -	$1,373,516	$ 971,014	$ 723,604	$1,068,115	$2,055,644	$2,135,768	$2,100,705	$2,238,766
George Washington University	1,028,883	1,036,396	1,382,116	1,601,369	1,519,286	1,570,881	2,020,849	1,777,659	1,618,618	2,122,176
Howard University	-	1,788,134	1,744,217	1,612,565	1,584,501	1,751,425	1,706,124	1,640,815	1,735,598	1,862,880
William C Smith & Co	-	-	-	-	-	-	-	-	1,505,145	1,709,334
Georgetown University Hospital	-	770,637	583,335	-	-	821,239	-	-	-	1,371,035
American University	767,434	-	-	738,628	-	-	948,708	1,524,262	-	-
Marriott Wordman Park Hotel	-	-	-	-	-	-	-	1,037,663	-	-
Children's Hospital	-	-	-	-	-	-	841,774	-	-	-
Washington Hilton Hotel	566,333	-	-	-	716,612	753,277	-	-	-	-
Soldiers' Home	-	649,981	-	-	-	-	-	-	-	-
Washington Hospital Center	596,310	530,154	741,166	800,082	782,404	-	-	-	1,113,672	-

Source: DC Water Department of Customer Service

EXHIBIT 8: TEN LARGEST COMMERCIAL CUSTOMER ACCOUNTS BY REVENUES FY 2011



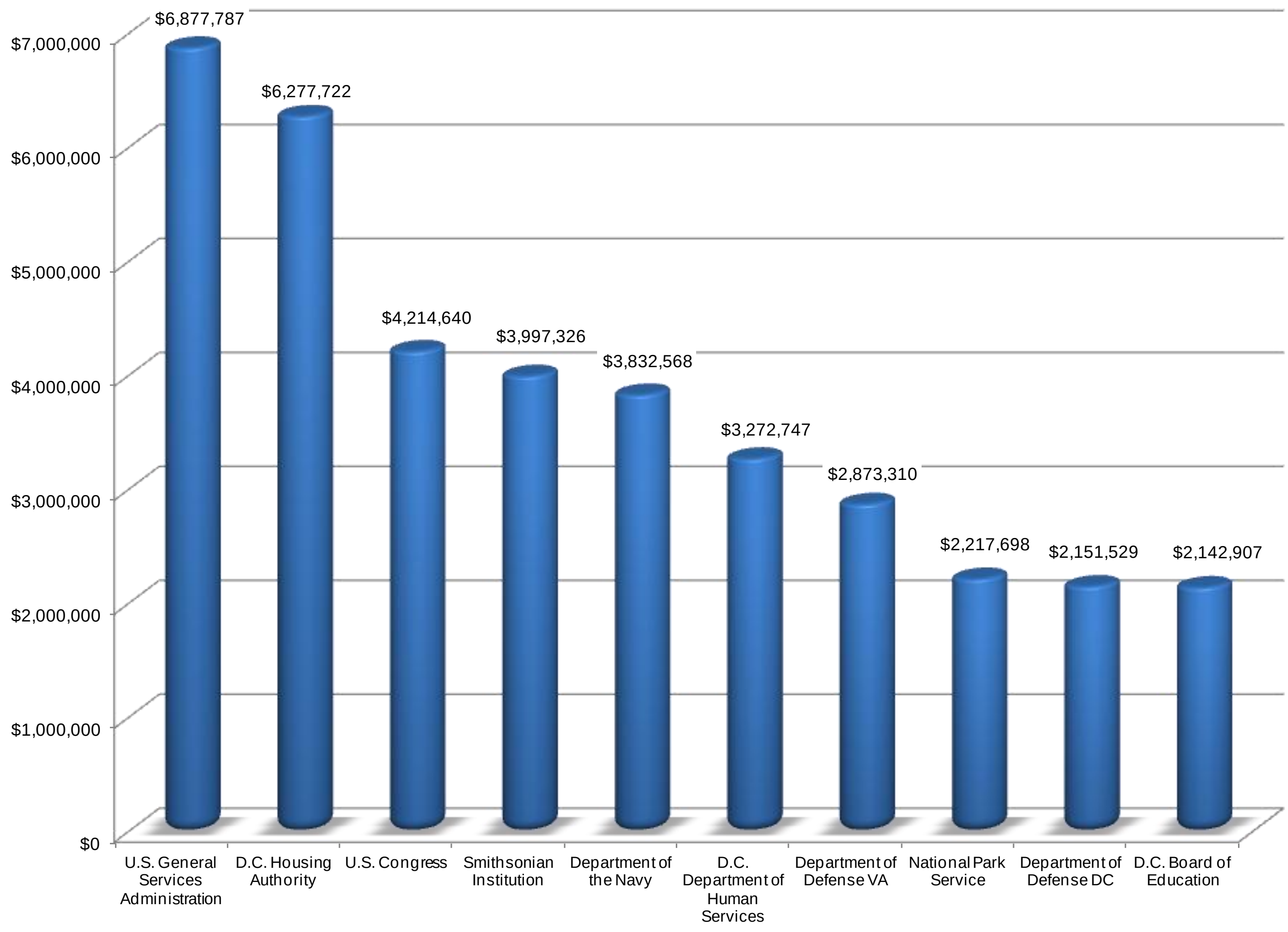
Source: DC Water Department of Customer Service

EXHIBIT 9: FIVE LARGEST GOVERNMENT CUSTOMER ACCOUNTS BY REVENUES FY 2002 – 2011

CUSTOMER	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
U.S. General Services Administration	$8,170,058	$7,595,917	$8,577,887	$8,092,600	$7,916,072	$7,324,115	$8,199,985	$6,773,195	$6,575,977	$6,877,787
D.C. Housing Authority	-	6,292,037	5,871,752	6,036,527	6,514,112	6,122,875	6,339,434	6,266,786	5,750,927	6,277,722
U.S. Congress	2,606,519	2,592,498	3,014,968	2,655,930	3,320,538	-	4,096,695	4,028,564	3,559,903	4,214,640
Smithsonian Institution	2,836,136	-	2,518,991	-	3,443,695	3,196,837	4,325,576	3,605,478	-	3,997,326
Department of the Navy	-	-	-	-	-	-	-	3,504,547	2,851,611	3,832,568
Department of Defense DC	-	-	-	2,184,982	-	3,907,312	3,292,402	-	-	-
D.C. Board of Education	2,462,458	2,453,574	2,728,892	2,669,214	2,934,220	3,344,959	-	-	-	-
D.C. Department of Human Services	2,413,678	2,456,904	-	-	-	-	-	-	-	-
Department Defense VA	-	-	-	-	-	-	-	-	2,759,264	-

Source: DC Water Department of Customer Service

EXHIBIT 10: TEN LARGEST GOVERNMENT CUSTOMER ACCOUNTS BY REVENUES FY 2011



Source: DC Water Department of Customer Service

EXHIBIT 11: HISTORY OF RETAIL WATER AND SEWER RATES (PER Ccf)
FY 1980 – 2011

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

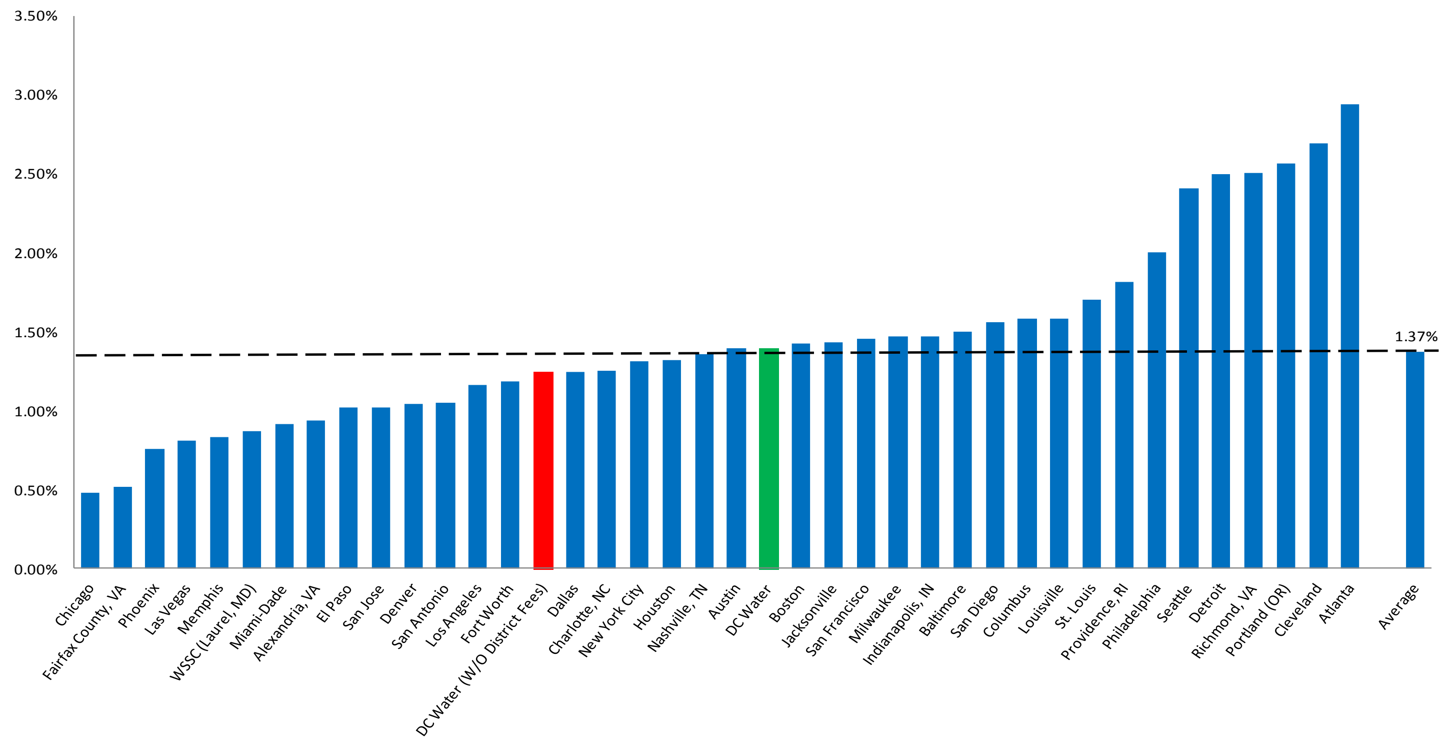
[1] All rates are for one hundred cubic feet (1 Ccf) consumption with the exception of the flat metering fee, which became effective on October 1, 2002.

[2] Average residential customer consumption is 6.69 Ccf per month.

[3] Per Equivalent Residential Unit (ERU).

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

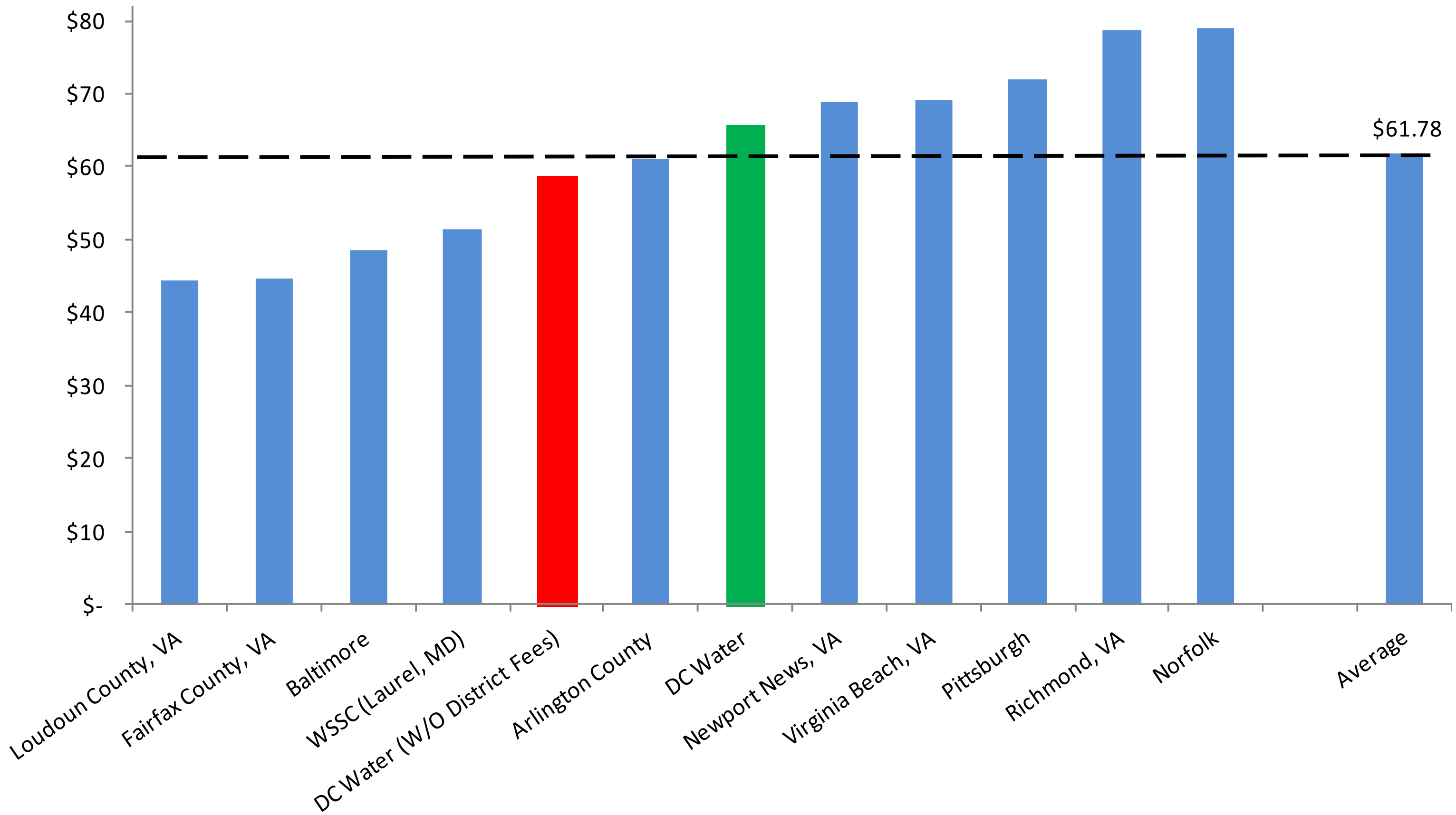
EXHIBIT 12: RESIDENTIAL WATER AND WASTEWATER BILL COMPARISONS AS A PERCENTAGE OF MEDIAN HOUSEHOLD INCOME (1)



(1) This analysis is based on a single family residential monthly bill as a percentage of median household income for large national utilities based on rates in effect fall 2011.

Source: DC Water Department of Finance & Budget

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



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

Source: DC Water Department of Finance & Budget

3. Debt Capacity

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

EXHIBIT 14: TOTAL OUTSTANDING DEBT
FY 2002 - 2011
($000, EXCEPT PER CAPITA)

	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Senior Debt										
1998 Public Utility Revenue Bonds	$ 266,120	$ 266,120	$ 266,120	$ 266,120	$ 266,120	$ 266,120	$ 257,645	$ 248,705	$ 239,270	$ 229,315
2009 Series A Public Utility Revenue Bonds	-	-	-	-	-	-	-	300,000	300,000	298,225
Notes Payable to the Federal Government for Washington Aqueduct	7,984	1,173	-	-	-	-	-	-	-	-
Total Senior Debt	274,104	267,293	266,120	266,120	266,120	266,120	257,645	548,705	539,270	527,540
Subordinate Debt										
2010 Series A Public Utility Revenue Bonds	-	-	-	-	-	-	-	-	-	300,000
2008 Series A Public Utility Revenue Bonds	-	-	-	-	-	-	290,375	290,375	290,000	285,540
2007 Series A Public Utility Revenue Bonds	-	-	-	-	-	218,715	218,715	218,715	218,715	218,715
2007 Series B Public Utility Revenue Bonds	-	-	-	-	-	59,000	-	-	-	-
2004 Public Utility Revenue Bonds	-	-	295,000	295,000	295,000	295,000	-	-	-	-
2003 Public Utility Revenue Bonds	-	176,220	176,220	176,220	176,220	176,220	176,220	176,220	176,220	176,220
Notes Payable to the Federal Government for Bloomington Dam	17,143	16,895	16,640	16,376	16,104	15,823	15,532	15,232	14,922	14,603
DC General Obligation Bonds	79,070	65,645	51,215	35,385	22,299	15,060	9,905	5,180	1,490	245
Notes Payable to WSSC for Little Seneca	531	360	357	317	285	251	216	179	142	104
Total Subordinate Debt	96,744	259,120	539,432	523,298	509,908	780,069	710,963	705,901	701,489	995,427
Total Debt	$ 370,848	$ 526,413	$ 805,552	$ 789,418	$ 776,028	$ 1,046,189	$ 968,608	$ 1,254,606	$ 1,240,759	$ 1,522,967
Debt per capita	$ 640	$ 911	$ 1,389	$ 1,356	$ 1,329	$ 1,784	$ 1,642	$ 2,092	$ 2,062	N/A

N/A: Population not available

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

EXHIBIT 15: DEBT SERVICE COVERAGE AND DEBT RATIOS FY 2002 - 2011

	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Debt Service Coverage:										
Senior Debt Service Coverage	3.51	5.07	4.60	5.62	6.24	3.43	4.68	2.97	2.75	3.21
Subordinate Debt Service Coverag	2.87	2.76	1.78	2.11	2.72	2.07	1.86	1.61	1.71	1.82
Combined Debt Service Coverage	2.07	2.05	1.52	1.76	2.13	1.58	1.57	1.34	1.36	1.45
Debt Service As Percentage of Total										
Operating Expenditures	25.0%	27.0%	29.0%	33.0%	35.0%	36.0%	21.0%	22.9%	24.4%	26.9%
Debt Service As Percentage of										
Fixed Assets	33.1%	34.1%	46.2%	41.2%	37.6%	47.7%	43.0%	48.8%	44.7%	49.9%

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

EXHIBIT 16: CALCULATION OF DEBT SERVICE COVERAGE FY 2011 ($000)

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

ANALYSIS OF CASH FLOWS AND RESERVE REQUIREMENTS	
Retail revenues	278,327
Wholesale revenues	69,261
Other non-operating revenues	46,887
TOTAL REVENUES	394,474
OPERATING EXPENSES	249,186
REVENUES LESS OPERATING EXPENSES	145,288
SENIOR DEBT SERVICE	41,511
SUBORDINATE DEBT SERVICE	50,377
TOTAL DEBT SERVICE	91,888
PAYMENT IN LIEU OF TAXES / RIGHT OF WAY FEE	20,618
ANNUAL BALANCE FROM OPERATIONS	32,782
BEGINNING CASH RESERVE BALANCE	131,996
CASH RESERVE BALANCE BREAKDOWN	
Beginning Undesignated Reserve Balance	56,292
Additions to / (Payments from) Undesignated Reserve	
Annual balance from operations	32,782
Prior year federal billing reconciliation	1,669
(Refund to) / Payment from wholesale customers	(3,861)
Pay-as-you-go capital financing	(2,551)
(Additions to) / Transfers from DC PILOT Fund	(10,000)
(Additions to) / Transfers from 60-Day Operating Reserve	(809)
Ending Undesignated Reserve Balance	73,522
Beginning 60-Day Operating Reserve Balance	40,704
Additions to / (Transfers from) 60-Day Operating Reserve	809
Ending 60-Day Operating Reserve Balance	41,514
Beginning Renewal & Replacement Reserve Balance	35,000
Additions to / (Transfers from) Renewal & Replacement Reserve	-
Ending Renewal & Replacement Reserve Balance	35,000
ENDING CASH RESERVE BALANCE	**150,035**
Cash Reserve Requirement Based on Board Policy	**125,500**
Beginning Rate Stabilization Fund Balance	16,700
Additions to / Transfers from Rate Stabilization Fund	-
Ending Rate Stabilization Fund Balance	16,700
ANALYSIS OF DEBT SERVICE COVERAGE	
CALCULATION OF NET REVENUES AVAILABLE FOR SENIOR DEBT SERVICE	
Revenues Less Operating Expenses	145,288
Prior year federal billing reconciliation	1,669
(Additions to) / Transfers from DC PILOT Fund	(10,000)
(Refund to) / Payment from wholesale customers	(3,861)
NET REVENUES AVAILABLE FOR SENIOR DEBT SERVICE	133,096
SENIOR DEBT SERVICE COVERAGE	3.21x
CALCULATION OF SUBORDINATE DEBT SERVICE COVERAGE	
Net revenues available for senior debt service	133,096
Less senior debt service	(41,511)
NET REVENUES AVAILABLE FOR SUBORDINATE DEBT SERVICE	91,585
SUBORDINATE DEBT SERVICE COVERAGE	1.82x
COMBINED DEBT SERVICE COVERAGE	1.45x

4. Demographic and Economic Information

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

EXHIBIT 17: POPULATION OF SERVICE AREA JURISDICTIONS
FY 2002 - 2011

JURISDICTION	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
District of Columbia	579,585	577,777	579,796	582,049	583,978	586,409	590,074	599,657	601,723	N/A
Montgomery County	906,145	914,893	920,965	928,916	935,168	941,491	953,685	971,600	971,777	N/A
Prince George's County	824,290	830,923	836,103	840,513	836,644	832,699	830,514	834,560	863,420	N/A
Fairfax County	989,551	992,494	996,798	1,002,375	998,841	1,005,531	1,019,402	1,037,605	1,081,726	N/A
Loudoun County	203,122	219,577	237,162	253,332	265,240	277,459	290,121	301,171	312,311	N/A

N/A: Not Available

Source: United States Census Bureau

EXHIBIT 18: PERSONAL INCOME FY 2002 – 2011 ($000)

JURISDICTION	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
District of Columbia	26,564,377	27,544,363	29,728,668	31,964,976	34,786,968	37,525,123	40,634,602	41,282,434	N/A	N/A
Montgomery County	46,951,186	48,650,108	52,238,928	55,846,295	60,372,289	62,643,745	64,809,366	64,438,944	N/A	N/A
Prince George's County	25,757,453	26,644,565	28,115,765	29,434,782	30,306,871	31,753,583	32,835,002	33,079,238	N/A	N/A
Fairfax County	54,722,960	56,954,646	60,930,780	65,598,555	69,554,932	73,256,103	75,338,631	74,380,758	N/A	N/A
Loudoun County	7,723,430	8,361,268	9,384,197	10,854,613	12,394,528	13,875,373	14,943,238	15,575,527	N/A	N/A

N/A: Not Available

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

EXHIBIT 19: PER CAPITA PERSONAL INCOME
FY 2002 – 2011

JURISDICTION	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
District of Columbia	45,833	47,673	51,274	54,918	59,569	63,991	68,864	68,843	N/A	N/A
Montgomery County	51,814	53,176	56,722	60,120	64,558	66,537	67,957	66,323	N/A	N/A
Prince George's County	31,248	32,066	33,627	35,020	36,224	38,133	39,536	39,637	N/A	N/A
Fairfax County	53,532	55,546	59,184	63,364	67,361	70,446	71,423	69,241	N/A	N/A
Loudoun County	38,024	38,079	39,569	42,847	46,729	50,009	51,507	51,717	N/A	N/A

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

N/A: Not Available

EXHIBIT 20: UNEMPLOYMENT RATES
FY 2002 – 2011

JURISDICTIONS	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
District of Columbia	6.7%	7.0%	7.5%	6.5%	5.7%	5.4%	6.5%	9.6%	9.9%	10.2%
Montgomery County	3.5%	3.3%	3.2%	3.1%	2.8%	2.7%	3.3%	5.4%	5.6%	5.2%
Prince George's County	4.9%	4.7%	4.5%	4.5%	4.1%	3.7%	4.5%	7.1%	7.4%	7.0%
Fairfax County	3.4%	3.1%	2.7%	2.5%	2.2%	2.2%	2.9%	4.9%	4.9%	4.2%
Loudoun County	3.7%	3.2%	2.6%	2.4%	2.1%	2.1%	2.8%	4.8%	4.8%	4.1%

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

EXHIBIT 21: EMPLOYMENT BY SECTOR

	DISTRICT OF COLUMBIA	MONTGOMERY COUNTY	PRINCE GEORGE'S COUNTY	FAIRFAX COUNTY	LOUDOUN COUNTY
Agriculture, Forestry, Mining, etc.	0.07%	0.41%	0.21%	0.25%	1.51%
Construction	1.76%	5.57%	8.81%	4.97%	9.71%
Manufacturing	0.22%	2.27%	2.53%	1.16%	2.75%
Transportation & Public Utilities	1.07%	1.37%	3.68%	(D)	6.63%
Wholesale & Retail Trade	3.21%	10.08%	13.77%	10.21%	10.75%
Finance, Insurance & Real Estate	5.57%	11.96%	7.08%	9.83%	7.43%
Services	56.17%	54.12%	41.10%	60.32%	47.96%
Government (Federal, State & Local)	29.49%	13.23%	21.03%	12.35%	12.64%
Military	2.41%	0.99%	1.78%	0.90%	0.61%
TOTAL	100.00%	100.00%	100.00%	100.00%	100.00%

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

Source: U.S. Department of Commerce, Bureau of Economic Analysis
Latest available data is for 2009

5. Operating Information

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

EXHIBIT 22: WATER DELIVERED (PUMPED) AND BILLED (SOLD) FY 2002 – 2011

FISCAL YEAR	TREATED WATER DELIVERED (MG)	WATER BILLED (MG)	SOLD/PUMPED RATIO
2002	48,634	32,147	66.10%
2003	45,655	31,335	68.63%
2004	46,725	31,634	67.70%
2005	45,057	31,179	69.20%
2006	41,541	31,717	76.35%
2007	41,687	31,581	75.76%
2008	40,755	30,603	75.09%
2009	39,998	29,344	73.36%
2010	38,589	29,004	75.16%
2011	37,556	29,040	77.32%

Source: DC Water Department of Customer Service

EXHIBIT 23: WATER DEMAND FY 2002 - 2011

FISCAL YEAR	ANNUAL DELIVERIES TO SYSTEM (MG)	AVERAGE DAY (MG)	MAXIMUM MONTH AVERAGE (MGD)	MAXIMUM DAY (MGD)	TOTAL ANNUAL WATER SOLD (MGD)	AVERAGE DAY (MG)
2002	48,634	133.2	152.1	170.3	32,147	88.1
2003	45,655	125.1	141.2	164.9	31,335	85.8
2004	46,725	128.0	146.5	164.6	31,634	86.7
2005	45,057	123.4	133.7	149.6	31,179	85.4
2006	41,541	113.8	137.8	161.6	31,717	86.9
2007	41,687	114.2	133.7	156.5	31,581	86.5
2008	40,755	111.7	130.1	150.5	30,603	83.8
2009	39,998	109.6	123.2	150.4	29,344	80.4
2010	38,589	105.7	130.5	146.9	29,004	79.5
2011	37,556	102.9	121.6	143.7	29,040	79.6

Source: DC Water Department of Water Services and Washington Aqueduct

EXHIBIT 24: MISCELLANEOUS STATISTICS ABOUT AUTHORITY OPERATIONS FY 2002 - 2011

	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Utilities and Supplies (Capacity) Per Day at Blue Plains										
Electric Power (KWH)	745,000	745,000	745,000	745,000	745,000	745,000	745,000	700,000	700,000	700,000
Natural Gas (CF)	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000
Sodium Hypochlorite (gallons)	2,500	2,500	6,850	6,850	6,850	6,850	6,850	6,850	6,850	6,850
Sodium Bisulfite (pounds)	5,600	5,600	5,600	5,600	5,600	5,600	5,600	5,600	5,600	5,600
Water (gallons)	525,000	525,000	525,000	525,000	525,000	525,000	525,000	525,000	525,000	525,000
Lime (tons, pounds)	83,500	83,500	72,050	72,050	72,050	72,050	72,050	72,050	72,050	72,050
Sodium Hydroxide (pounds)	49,400	49,400	26,100	26,100	26,100	26,100	26,100	26,100	26,100	26,100
Methanol (gallons)	15,000	15,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000
Ferric Chloride (10% Iron) (gallons)	10,500	10,500	12,900	12,900	12,900	12,900	12,900	12,900	12,900	12,900
Wastewater Treatment Capacity										
Average Day (MGD)	370	370	370	370	370	370	370	370	370	370
Peak 4 Hour Flow, through complete process (MGD)	740	740	740	740	740	740	740	740	740	740
Excess Storm Flow, primary treatment only (MGD)	336	336	336	336	336	336	336	336	336	336
Peak Flow (MGD)	1,076	1,076	1,076	1,076	1,076	1,076	1,076	1,076	1,076	1,076
Number of DC Water Employees	1,017	981	931	923	920	948	961	1,000	1,004	1,032

EXHIBIT 24: MISCELLANEOUS STATISTICS ABOUT AUTHORITY OPERATIONS FY 2011 (Continued)

Wastewater Plant Permit Limitations

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

Wastewater Plant Processes

Primary Treatment

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

EXHIBIT 24: MISCELLANEOUS STATISTICS ABOUT AUTHORITY OPERATIONS FY 2011 (Continued)

Secondary Treatment

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

NIitrification/Denitrification

Number of reactors	12
Total reactor volume	55.2 MG
Aerobic Volume	33.1-44.2MG
Anoxic Volume	11.0-22.1MG
Number of clarifiers	28
Average reactor detention time	3.3 hours
Average clarifier hydraulic loading	755-gal/sq ft/day
Number of centrifugal blowers	5
Total blower capacity	291,500 cu ft/minute
Number of turbine aerators	120
Average MLSS	1,800 mg/L
Average reactor pH	7.3
Average SRT	21 days
Average SVI	80 – 110 ml/g
Effluent alkalinity	110 mg/L as $CaC0_3$

Effluent dissolved oxygen	6.8 – 7.2 mg/L
(Post - Aeration)	
Dual purpose sedimentation tanks (in either secondary treatment or nitrification)	8
Total Dual Purpose Surface Area	197,160 sq ft

Filtration & Disinfection

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

EXHIBIT 25: SCHEDULE OF INSURANCE AS OF SEPTEMBER 30, 2011

TYPE OF COVERAGE	COMPANY	POLICY PERIOD	COVERAGE LIMITS
Blanket Property and Boiler & Machinery	Public Entity Property Insurance Program (PEPIP)	July 1, 2011 – July 1, 2012	$1,000,000,000 Blanket Buildings and Contents – (Specified Locations) and Mobile Equipment $100,000,000 Boiler and Machinery $25,000,000 Miscellaneous Locations $100,000,000 Earth Movement $100,000,000 Flood, except $25,000,000 Locations within 100 Year Flood Zone (e.g. Blue Plains) Terrorism: $550,000,000 per occurrence, $850,000,000 annual aggregate ($100,000,000 of occurrence and aggregate limit dedicated solely to DC Water) $25,000,000 Transit Per Shipment Deductibles: $1,000,000 Any Loss, except $10,000 Equipment
Fidelity & Crime Insurance	Travelers Insurance	July 1, 2011 – July 1, 2012	$5,000,000 - Employee Dishonesty, Forgery, Funds Transfer Fraud, Money & Securities Deductible: $50,000 Per Occurrence
Commercial General Liability	Self-Funded		$1,000,000 each occurrence
Commercial Automobile	Self-Funded		$1,000,000 any one accident 100% Physical Damage - self-funded
Worker's Compensation	Self-Funded		$1,000,000 each accident Statutory WC Benefits Employer's Liability - $1,000,000 Each Accident; $1,000,000 Disease/ Employee
Excess Worker's Compensation Insurance	Safety National	July 1, 2011 – July 1, 2012	Unlimited - WC Benefits; $3,000,000 - Employer's Liability (Included - Terrorism) Retentions: $1,000,000/accident; $1,000,000 Disease/ Employee.
Excess General Liability, Automobile Liability, and Employers Liability Insurance	Alliant National Municipal Liability Program (ANML)	July 1, 2011 – July 1, 2012	$25,000,000 in excess of $1,000,000 (Included - Terrorism)
Excess Liability	Catastrophe Liability Insurance Program (CLIP)	July 1, 2011 – July 1, 2012	$75,000,000 in excess of $25,000,000 ($25,000,000 - Terrorism sublimit)
Public Official Liability	RSUI Indemnity / Allied World Assurance Company (AWAC)	July 1, 2011 – July 1, 2012	$20,000,000 Each Loss / Aggregate Retentions: $250,000 per wrongful act
Fiduciary Liability	Travelers Insurance	June 1, 2011 – July 1, 2012	$3,000,000 Each Loss / Aggregate Deductible: $10,000 per claim

EXHIBIT 26: SUMMARY OF MAJOR PERMITS AND ADMINISTRATIVE ORDERS FY 2011

Wastewater	Description	Expiration Date	Current Status
National Pollutant Discharge Elimination System Permit # DC0021199	Authorizes discharge of treated wastewater from Blue Plains into the Potomac River and from the combined sewer system into Rock Creek, the Anacostia River, and the Potomac River. Prescribes operating conditions for the plant and sewer system.	September 30, 2015	In Compliance
National Pollutant Discharge Elimination System Municipal Separate Strom Sewer (MS4) Permit # DC0000221	Permit issued to Government of District of Columbia which prescribes certain actions to DC Water including: Responding to sanitary sewer overflows (SSO) Reporting SSOs that overflow to MS4 system to public health agencies Cleaning catch basins and removing trash from waterbodies Maintaining storm sewer system infrastructure Collection of stormwater fees	October 7, 2016	In Compliance
1995 Consent Decree Civil Action No.: 90-1643-JGP and 84-2842-JGP	Requires certain actions including: Review procurement practices & maintenance procedures Undertake Operational Capability Review Conduct a pilot project for biological nitrogen reduction	N/A	In Compliance All items completed; awaiting action to terminate decree
1996 Stipulated Agreement & Order Civil Action No.: 96-669-TFH	Requires certain actions including: Rehabilitate and maintain certain facilities and capital equipment in good operating condition Maintain certain records and data for status reports and prepare monthly reports on status of compliance Maintain user fees in separate accounts and make timely payment of invoices	N/A	In Compliance All items completed; awaiting action to terminate agreement and order
2003 Consent Decree Civil Action No.: 1:00CV00183TFH Civil Action No.: 02-2511 (TFH)	Requires certain actions including: Replacement/repair of control structures Cleaning/inspection of catch basins Rehabilitation of pumping stations Rehabilitation of Blue Plains grit chambers and influent screens Inspection of certain sewers and siphons Public education/outreach activities Payment of civil penalty of $250,000 Conduct/support of supplemental environmental projects	N/A	In Compliance
2005 Consent Decree for CSS LTCP Consolidate Civil Action No; 1:00CV00183TFH	Requires implementing various components of the combined sewer system (CSS) long term control plan (LTCP)	March 18, 2025	In Compliance

EXHIBIT 27: BUDGETARY COMPARISON SCHEDULE FOR FISCAL YEAR 2011

	Approved Budget	Actual Expenditure	Variance
Expenses:			
Personnel services	$ 104,422	$ 103,145	$ 1,277
Contractual services	76,801	71,067	5,734
Water purchases	33,872	27,170	6,702
Chemicals and supplies	30,080	26,412	3,668
Utilities and rent	36,225	29,429	6,796
Small equipment	974	694	280
Interest and fiscal charges (debt service)	103,354	91,888	11,466
Payment in lieu of tax & right of way fee	22,365	21,982	383
Total budget expenses	$ 408,093	$ 371,787	$ 36,306
Increase (decrease) to reconcile budgetary to GAAP			
Personnel expense transferred to capital fund		(9,906)	
Depreciation expense		70,209	
Long-term debt principal payments		(17,793)	
Long-term debt - capitalized interest		(11,205)	
Build america bonds subsidy		5,298	
Long-term debt - transfers to escrow		892	
Inventory issuance		1,081	
Non-budgeted expenses		2,531	
Total GAAP expenses		$ 412,894	

EXHIBIT 27: BUDGETARY COMPARISON SCHEDULE FOR FISCAL YEAR 2011 (Continued)

BUDGETARY ACCOUNTING AND CONTROL

Budget Law

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

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

Budget Accounting

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

Budget Requirements

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