dc water is life

we are DC WATER




2010 Annual Report

A Year of Change

Fiscal Year 2010 was a year of profound, extraordinary change for the District of Columbia Water and Sewer Authority – perhaps more change than the Authority has seen since its inception 14 years ago. Here are some highlights:

New Leadership

Our year of change began with a new, but familiar, public face. In this space last year, I briefly introduced the Authority's new General Manager, George S. Hawkins. The Board unanimously appointed Mr. Hawkins to this post, in part because we knew his work from the District Department of the Environment and his exceptional leadership capabilities. Over the past year, I have come to appreciate the way Mr. Hawkins balances administrative expertise with fresh energy and new ideas.

Mr. Hawkins' leadership has attracted new, highly talented managers to DC Water. Along with the veterans and promotions from within, the executive team is now a group with decades of experience in operations, engineering, public health, government and public relations, finance and law. With excited, talented management, the Board is now able to spend additional time on broad, strategic issues rather than day-to-day management issues. As you will see in the pages of this report, this management team has led the Authority to win numerous industry awards for engineering, technology, finance and environmental stewardship. DC Water also continues to meet or exceed all public health and environmental mandates placed on us, while always looking for new ways to be an even better leader on these fronts.

We are DC Water

On June 15, the Mayor of the District of Columbia and other dignitaries joined us to unveil the new DC Water name and logo. DC Water is far from just a new identity package for the same old utility. "Water is Life" clearly states our responsibility in fulfilling a fundamental biological need for millions of people. Public health is our number one job, and we are investing in people, technology, and management practices to ensure we are the best. The green and blue colors in the logo represent the Authority's focus on environmental stewardship. And "DC" and "Water" reflect who we are and what we do every day. Our new name, logo, and tagline reflect the Authority's mission and the excitement that exists within the organization today.

The Business of Water

As our national and local economies continue their recovery, DC Water has yet again met our budget expectations and applied surplus funds to reduce rates for all customers. The Board has also increased the resources available to help our low-income customers pay their water bills at a time when government assistance programs are being cut.

In the year ahead, DC Water will continue to place a high priority on delivering the best possible value for the work we do. We are applying focused business management tools to our agency – analyzing costs, finding efficiencies, and always looking for ways to improve. This is an era of escalating infrastructure costs and declining water consumption, with a bottled-water industry that seems intent on persuading Americans to drink less and less tap water at a much higher financial and environmental cost to society. DC Water plans to confront these trends head-on, and implement new ways to provide safe, affordable drinking water and wastewater services to our customers.

A Changing Board

This has also been a year of change for our Board. Nearly a fourth of our 22 members are new this year. We have implemented a new committee structure to manage meetings and work assignments more efficiently while continuing the robust oversight an agency of DC Water's size and complexity demands. We now distribute all budget and meeting materials electronically, providing welcome savings on materials and environmental impact.

To my colleagues on the Board who dedicate significant time and talent to serving on the DC Water board, I extend my sincere thanks. To the employees and partners of DC Water, I extend my thanks and appreciation for the work you perform every day. And to the DC Water consumers we serve, I thank you for the trust you place in us and can assure you that everyone at DC Water is working daily to make DC Water the best water utility in the world.

William M. Walker, Chairman
DC Water Board of Directors









INSIDE

History
The District of Columbia Water and Sewer Authority was created by District law in 1996, with the approval of the United States Congress, as an independent authority of the District Government with a separate legal existence.

Age of Pipes
The median age of District water main pipes is 75 years old. Approximately 9 percent of the pipes were installed in the 1900s, with .2 percent of the system dating back to the1860s before the Civil War.

Service Area
DC Water provides more than 600,000 residents and 16.6 million annual visitors in the District of Columbia with water and wastewater (sewer) service. With a total service area of approximately 725 square miles, DC Water also treats wastewater for approximately 1.6 million people in Montgomery and Prince George's Counties in Maryland and Fairfax and Loudoun Counties in Virginia.

Employees
Approximately 1,000 people work for DC Water at various facilities throughout the District.

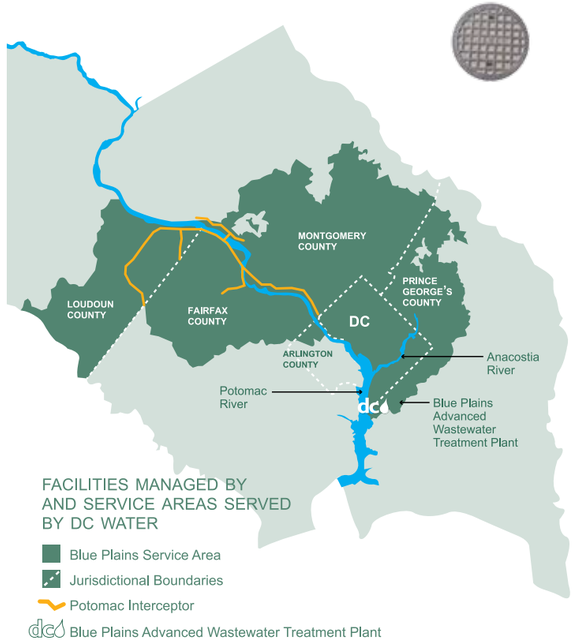
Drinking Water Quality
DC Water maintains a strong emphasis on water quality, which involves an annual flushing program, regulatory and voluntary water quality testing, ongoing system upgrades and lead service replacements. DC Water has a strong relationship with the U.S. Army Corps of Engineers Washington Aqueduct to ensure that the treatment process is optimal for delivering outstanding water quality throughout the year.

Pumped and Treated Water Storage
DC Water pumped an average of 106 million gallons of water per day in Fiscal Year 2010. DC Water stores 61 million gallons of treated water at its eight facilities. An additional 49 million gallons is stored by the Washington Aqueduct.

Water Distribution System
1,350 miles of water pipe, four pumping stations, five reservoirs, three water tanks, 36,000 valves, and 9,089 fire hydrants comprise the DC Water distribution system.

Blue Plains Advanced Wastewater Treatment Plant
Located at the southernmost tip of the District and covering more than 150 acres along the Potomac River, Blue Plains is the largest advanced wastewater treatment facility in the world.

Wastewater Treatment Capacity
Blue Plains treats an average of 330 million gallons per day (MGD), and has the capacity to treat 370 MGD, with a peak capacity of more than 1 billion gallons per day.



Sewer System
DC Water operates 1,800 miles of sanitary and combined sewers, 22 flow-metering stations, nine off-site wastewater pumping stations, 16 stormwater pumping stations, 12 inflatable dams and a swirl facility.

Financial Performance
In Fiscal Year 2010, all three credit rating agencies reaffirmed DC Water's "AA" credit rating. In addition, DC Water received its 14th consecutive unqualified audit opinion of its financial statements.

Customer Service
DC Water provides information to customers through bill inserts, monthly newsletters, its website, and social media such as Facebook and Twitter. An interactive voice recognition system makes information available in more than 150 languages. A 24-hour Emergency Command Center, at (202) 612-3400, serves as a communication hub for receiving and responding to emergency calls from customers and the public.

Community Service
Giving back to the community and promoting volunteerism has been a hallmark of DC Water since its inception. All year, employees participate in a variety of company-sponsored and individual volunteer and charitable projects. Additionally, DC Water conducts science laboratory exercises in District high schools and tours of Blue Plains to engage the public.

Governance
A 22-member Board of Directors, with representatives from the District, Montgomery and Prince George's Counties in Maryland and Fairfax County in Virginia, establishes policies. The District members set rates, charges and policies for District services. The entire Board votes and establishes policies for joint-use services. The General Manager manages the daily operations and performance of the regional utility.

It's 7:30 a.m. in the District of Columbia. A newborn child opens her eyes for the first time at United Medical Center, east of the Anacostia River. A visitor from Wichita brushes her teeth, in a hotel room high above the museums and monuments that will capture her imagination for the rest of her stay. And the President of the United States strums his fingers on his desk, listening to his key advisers on the challenges of the hours ahead.

These are three very different starts to the same day. But what all three people have in common, along with some 16 million others every year, is that none of them could start their days without the life-giving service we provide.

Water is life. And to be sure, throughout history and around the world, lives have been lost by the millions for lack of access to clean water and sanitation. In the United States, most of us are fortunate to have both.

In fact, the reliability and relatively low cost of what we provide – especially compared to other utilities – might give the impression that the water business presents no real cause for public concern. This is far from the case.

I preside over a 1,000-strong workforce charged with maintaining and upgrading a labyrinthine underground system of pipes and valves – many of which predate even our grandparents – that is the subject of little thought by most until something goes wrong. To maintain this network in the face of economic pressures, declining consumption, stricter environmental mandates, and a customer base that may be unfamiliar (or even mistrustful) is an awesome, humbling challenge. It is also the job of a lifetime.

Since becoming General Manager a year ago, I have identified four primary areas of focus: aging infrastructure, regulatory compliance, internal change, and external communication.

Aging infrastructure

Every two minutes of every day, somewhere in the United States, a water main breaks. We are far from immune here in the District, with a median pipe age of 75 years. Roughly speaking, about 120 miles of our system went into the ground before 1900, with another three miles or so predating the Civil War! While we will always have the funding to respond to main breaks, and will always work to restore services and surfaces with great speed, we face an uphill battle with a water system that is only getting older. These pipes need to be replaced, not repaired again and again.

This year, the Board made the difficult choice to raise rates – the average homeowner in the District will see his or her water and sewer bill rise from $50.53 to $60.19. No increase in rates is a welcome one, especially in trying economic times. But the cost of maintaining and replacing our aging infrastructure continues to rise, while federal funding in this area is actually decreasing. We will triple the rate of our water main replacement program in the coming year, while aggressively pursuing federal investment with our regional congressional delegation and national industry partners.

Regulatory compliance

Along with most older cities, the District faces the problem of how to fix combined sewer overflows, which happen when heavy rain events overwhelm a system designed generations ago. The nationally accepted solution, and one we are adopting and calling the Clean Rivers Project, is to build a huge network of tunnels to hold the combined stormwater and sewage until the storm passes and send it to our treatment plant. Our agreement with the federal government requires $2.6 billion in spending over the next 15 years. But what if the tunnel system could be smaller and less expensive because we've reduced the amount of stormwater entering the system in the first place? Other cities, such as Philadelphia, are implementing technologies such as rain gardens and porous pavement to capture rain before it hits the pipes. Because greening a city also increases its quality of life, we are very interested in exploring this type of low-impact development.

Our Blue Plains facility is the largest point source in the Chesapeake Bay watershed, and the only enterprise to meet its 2010 Bay goals – largely because of about $1 billion in upgrades over the past decade. Although more progress is possible, we will not achieve a healthy Bay (or tributaries such as the Potomac and Anacostia) unless we reduce pollutants from nonpoint sources, especially runoff from development and agricultural lands. Farmers have successfully made a compelling case that the costs of reducing nutrients will be hard to bear. But our ratepayers already know this to be true. With other wastewater utilities, we will continue to advocate for shared responsibility in this area.

Internal change

As a government agency with a monopoly on its service, we must fight the complacency and inertia that are inherent in our very organizational structure. Since joining the Authority in 2009, I have worked with my management team to build unprecedented lines of communication with Team Blue – a workforce represented by five unions and scattered across the entire District. I literally opened the doors to the General Manager's office before ultimately having them removed, along with many of the walls surrounding them. My staff went on a listening tour to every DC Water facility, and ultimately heard firsthand from more than 700 employees. We also launched the Team Blue Challenge, a contest that rewarded the best new ideas to come from within, and have already begun to implement the results.

External communication

Finally, and perhaps most importantly, we must do a better job communicating with our customers. Known since our inception in 1996 as DC WASA, the Authority began doing business this year as DC Water. The goal of our new name and logo was to be a more visible and approachable utility for our customers, and to hear from local and national stakeholders on how to innovate. One of my favorite reminders of the rebrand's effectiveness is when a customer tells me he or she now sees our trucks all over the District. (Our trucks have always been all over the District.)

In the pages ahead, you will see snapshots of our finances and operations over the past fiscal year. I would encourage you to visit *dcwater.com* to learn more, or even to contact our Public Affairs office to schedule a tour of our facilities. Please feel free to contact me at gmsuggestions@dcwater.com with any specific questions. We are always happy to hear from the people we serve.

George S. Hawkins
November 2010

TEAM BLUE

BOARD OF DIRECTORS

William M. Walker
Chairman
Principal Member
District of Columbia

Neil O. Albert
Principal Member
District of Columbia

David J. Bardin
Principal Member
District of Columbia

F. Alexis H. Roberson
Principal Member
District of Columbia

Alan J. Roth
Principal Member
District of Columbia

Alethia Nancoo
Principal Member
District of Columbia

Ralph Moultrie
Principal Member
Prince George's
County, MD

David J. Byrd
Principal Member
Prince George's
County, MD

Timothy L. Firestine
Principal Member
Montgomery
County, MD

Robert Hoyt
Principal Member
Montgomery
County, MD

Anthony H. Griffin
Principal Member
Fairfax County, VA

Howard C. Gibbs
Alternate Member
District of Columbia

Brenda Richardson
Alternate Member
District of Columbia

Maurice Boissiere
Alternate Member
District of Columbia

Joseph Cotruvo
Alternate Member
District of Columbia

Howard Croft
Alternate Member
District of Columbia

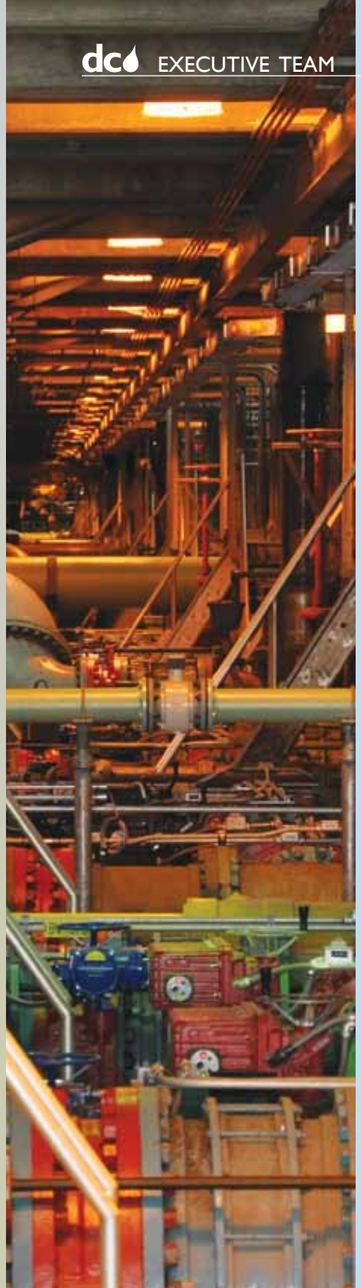
Paivi Spoon
Alternate Member
Prince George's
County, MD

Beverly Warfield
Alternate Member
Prince George's
County, MD

David W. Lake
Alternate Member
Montgomery
County, MD

Kathleen Boucher
Alternate Member
Montgomery
County, MD

James Patteson
Alternate Member
Fairfax County, VA



EXECUTIVE TEAM

George S. Hawkins
General Manager

Olu Adebo
Chief Financial
Officer

Walter F. Bailey
Assistant General
Manager of
Wastewater Treatment

Leonard R. Benson
Acting Chief Engineer
Deputy General
Manager

Christopher Carew
Chief of Staff

Randy Hayman
General Counsel
(November 2010
to present)

Alan Heymann
Director, Office of
Public Affairs

Charles Kiely
Assistant General
Manager of
Consumer Services

Mujib U. Lodhi
Chief Information
Officer

Avis M. Russell
General Counsel
(Through October 2010)

Katrina J. Wiggins
Assistant General
Manager of
Support Services

Rebranding Campaign

On June 15, 2010, DC WASA became DC Water. Working with elements submitted in a public contest that brought in 178 entries, the Office of Public Affairs created a simple, clean logo that uses only three characters to describe an entire agency. The new name and logo, and "Water is Life" tagline, are the highlights of the Authority's re-introduction to its customers. We aim to be a highly visible, accessible agency known for reliable, affordable service – not an entity only considered when something goes wrong.

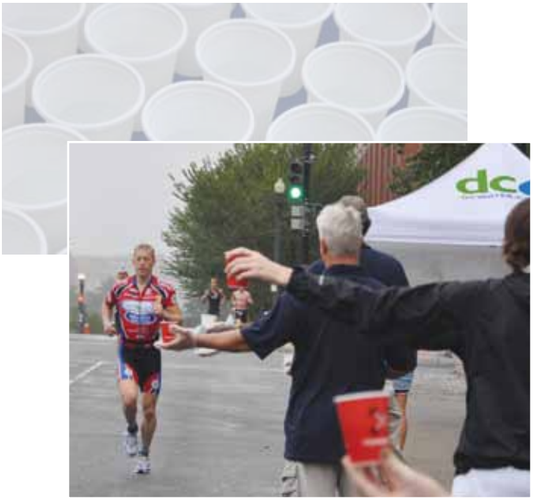
The most dramatic moment in our rebranding campaign came when a facilities crew unveiled a sign, nearly seven feet in height, at the top of our Central Operations Facility. Powered by solar energy, the sign announces to the world what kind of work we do at Blue Plains – the first such visual reminder in the plant's 72-year history.

Team Blue approached the rebranding process gradually, placing new decals on our fleet during routine maintenance, replacing shoulder patches on existing uniforms and using up printed materials.

Town Halls and Community Outreach

For the first time, the Authority conducted a series of town hall meetings as part of the ratemaking process this year. Rather than simply explain and justify a series of proposed rates, General Manager Hawkins convened representatives of every major department to join the meetings. Customers with specific billing questions, water quality concerns or employment inquiries could receive answers in person and on the spot. The meetings took place in six of the District's eight wards.

Led by the Office of Public Affairs, DC Water staff from across the agency took part in 119 outreach events in Fiscal Year 2010. Highlights included a Contractor Opportunity Fair aimed at residents and business owners east of the Anacostia River, and water distribution to thousands of athletes at the Nation's Triathlon.



In the News

The General Manager was the subject of a front-page profile in the *New York Times* that focused on the national need for water infrastructure upgrades, and appeared on the NBC *Today* show to discuss water filters. The July 25 "Unseen Washington" issue of the *Washington Post Magazine* featured several DC Water facilities, including a staircase at Fort Reno on the cover. Press conferences on the rebranding campaign, the renewal of the Authority's EPA discharge permit for Blue Plains, and the launch of an odor-control project on the Potomac Interceptor sewer received favorable news coverage. DC Water also held a first-ever roundtable and open house for neighborhood bloggers at the Bryant Street Pumping Station.

More Ways to Get in Touch

The Information Technology Department added phone, email and SMS text capabilities to DC Water's award-winning high use notification alert system. The system works with our advanced meter reading systems to detect unusually high amounts of water going to a customer's home, and helps avoid high bills by allowing customers to find and repair leaks quickly.

Fiscal Year 2010 also saw the launch of the Authority's Facebook page and Twitter feed. Work zone alerts now go out to the public automatically via Twitter, and customers use the technology to share information about service outages and to report problems.

Helping Those in Need

DC Water joined other area utilities in hosting the annual Joint Utility Discount Day, which gave more than 5,700 low-income customers an easy way to apply for discounts and grants to make their bills more affordable. Qualifying DC Water customers can receive discounts of as much as $30.08 per month off their bills.

Team Blue received the Top Divisional Fundraising Team in Local Government Division award for its participation in the Susan G. Komen Global Race for the Cure. Staff members raised nearly $3,000, and walked in memory of Faye White, who lost her battle with cancer in February.

DC Water employees continued their individual and group fundraising efforts throughout the year. In June, a staff yard sale at Blue Plains raised nearly $2,500 for the Authority's SPLASH program, which helps low-income customers pay their bills.

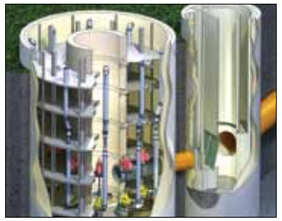
Water is essential to all life. The staff at DC Water takes great pride in providing this life-giving resource, then reclaiming and cleansing it for a safe return to the environment. The water we use today is the same water that will be on our planet 10 years, 100 years and 1,000 years from now. We are humbled by the role we play in keeping this resource fresh and clean for our children and our grandchildren.

The core operations at DC Water are water distribution, and wastewater collection and treatment. We purchase treated tap water from the Washington Aqueduct, a unit of the U.S. Army Corps of Engineers, and pump it through an elaborate 1,300-mile distribution system to arrive at faucets, spigots and fire hydrants around the District.

Once the water is used, it enters DC Water's wastewater collection system. After traveling through the 1,800-mile sewer system and pumping stations, the sewage finally arrives at the Blue Plains Advanced Wastewater Treatment Plant. The plant treats enough wastewater each day to fill RFK Stadium twice before discharging it – nearly clean enough to drink – into the Potomac River.

We face a monumental task in simply managing such a large system. But the District, like most older cities, is also challenged with aging infrastructure in need of replacement. Environmental mandates call for continuous process improvement and technological advances. Team Blue members continue to prove they are up to the challenge.

Clean Rivers Project



The Authority's 20-year Long-Term Control Plan to reduce combined sewer overflows received a more fitting name this year, as the Clean Rivers Project name and logo were unveiled. More importantly, the first visual indication of the immense tunneling project became evident when demolition and site preparation began on the Blue Plains plant. This is the future site of the end of the Blue Plains Tunnel and the pumping station that will lift the combined sewage from the tunnel 140 feet underground for treatment at the plant. When completed in 2025, the three tunnels will reduce combined sewer overflows to the Anacostia River by 98 percent and to all three waterways—Rock Creek and the Anacostia and Potomac Rivers—by 96 percent.

DC Water has already reduced combined sewer overflows by 40 percent through other measures such as tide gates, pumping station improvements, inflatable dams and screens that filter debris.

Nutrient Removal at Blue Plains to Protect the Chesapeake Bay

Blue Plains was the first wastewater treatment plant in the Chesapeake Bay watershed to meet its program goals, and has met or exceeded them since 2000. The first major step was a program to reduce nitrogen from the plant by 40 percent over the 1985 levels.

The next generation of nitrogen removal will break ground in 2011 after many years of planning. This project will allow Blue Plains to meet the newest federal permit requirements that go into effect in July 2014 for nitrogen, as it already does for phosphorus. The Enhanced Nutrient Removal program will cost approximately $950 million. It will operate in conjunction with the Clean Rivers Project, another federally mandated program.

Digester project burns methane to generate power and reduce carbon footprint

In 2010 the Board of Directors approved the funding plan for the Blue Plains digester project. DC Water will soon be the first utility in North America to use thermal hydrolysis for wastewater treatment, and when completed, Blue Plains will be the largest thermal hydrolysis plant in the world.

Blue Plains, as a 24/7/365 operation, is the largest consumer of electricity in the District of Columbia. Using thermal hydrolysis and anaerobic digestion together will generate power to help operate the plant. Analysts estimate the power generation at approximately 13 megawatts. This represents an enormous cost savings—as much as $10 million a year in electricity.

In addition to the production of clean, green renewable power, the new process reduces the amount of solid material to be hauled away. The 30 fewer trucks each day, or 11,000 fewer per year, will reduce truck emissions and gasoline costs. Together, these benefits will dramatically decrease the Blue Plains carbon footprint.

The end product is a better class of biosolids—Class A— that has many more applications. Class A biosolids can be used in many recycling applications including agriculture, reclamation, silviculture, and products for gardening, landscaping, green roofs and urban forestry.

The price tag of the complete project is about $400 million and is scheduled for groundbreaking in 2011. It should be operational in mid-2014. Many eyes will be watching, as leaders in the water sector eagerly await the results of DC Water's undertaking.

Operation Clean Air provides odor resolution

In May 2010, DC Water and the National Park Service hosted a groundbreaking for four of six new odor-scrubbing facilities in the District, Maryland and Virginia. More than 10 years in the making, "Operation Clean Air" finally entered the construction phase after DC Water secured nearly 40 permits for the District site.

The new facilities will enable DC Water to remove almost all of the vents along the 50-mile long Potomac Interceptor sewer. These vents have for years emitted sewer gases to the open air above. Venting helps protect the sewer pipes from corrosive gases, but also presents odor problems – especially along the picturesque C&O Canal, a favorite destination for outdoor enthusiasts.

The District and Maryland facilities are scheduled for completion in late 2011. The total project cost for Operation Clean Air is about $14 million.

The General Manager and Board share a vision of establishing DC Water as the best-managed water and sewer utility in the world. This lofty ambition is anchored in an understanding of the value of an organization's human assets in general, and a belief in DC Water's management and staff in particular.

The key to realizing this vision is a culture of teamwork and collaborative problem solving within DC Water. Through improved communication, the General Manager worked to ensure that the managers and workforce impacted by changes at DC Water will continue to be more involved in the decisions driving those changes. People will determine the success or failure of the changes we make.
New organizational initiatives in Fiscal Year 2010 included:

- Team Blue meetings with the entire DC Water workforce and management team
- Regular meetings between the chief of staff and foremen
- Expanded email and internet access for field staff
- Mandatory Dale Carnegie leadership training for managers and supervisors
- BlueStat meetings to address high-priority, cross-departmental issues

The emphasis on teamwork and communication has led to many concrete accomplishments to improve operational effectiveness, with many more to come.

Safety and Security

During FY 2010, DC Water placed a renewed emphasis on safety and security, with the safety of our customers and workforce as a top priority. DC Water hired a director of safety and security after a national search, and an emergency operations coordinator. The agency began work on threat assessments, developing an all-hazards emergency response plan and expanding incident command training. The DC Water safety team continues to build a strong partnership with union leadership on all safety-related matters. For example, the Team Blue facility tours, which included the chief of staff and executive management, were led by union-appointed front-line workers.

Information Technology

Our information technology team developed a generic mobile geographic information systems viewer for computers in the field with union participation. IT staff continued to use electronic geographic data for precise information about DC Water infrastructure – including the automated meter reading (AMR) dashboard – enabling more efficient responses to issues in the field.

Fiscal Year 2010 also saw an exciting, collaborative research partnership with IBM to integrate AMR and asset management data to improve ratepayer value and customer service, and to recover lost revenue. IBM has dedicated research teams and resources from around the world to this effort, a recognition of the excellent leadership, staff and existing IT infrastructure at DC Water.

Performance Management

The Office of the General Manager now houses a full-time process improvement and performance management team.
In the past year, this team:

- Supported the independent internal auditor to identify and respond to specific process, personnel and organizational improvements needed
- Established, through a collaborative process with management, key performance indicators in every department
- Aligned individual and departmental performance measures
- Identified program opportunities for improvement in each department
- Re-engineered the inventory management function at the Bryant Street pump station

Human Resources

To advance a career path system for DC Water's existing and future workforce, the Human Resources Department undertook a job reclassification project, with union member and leadership involvement. This project will ensure job descriptions align properly with the work performed.

The department also:

- Provided a wide range of training opportunities for DC Water staff, to develop and enhance individual skills
- Recruited and hired for several key positions, including general counsel, director of safety and security and director of policy and government relations
- Offered a progressive wellness program for employees to promote healthier lifestyle choices
- Advanced a revised incentive-based duty station training program that increased participation, and diversified wastewater treatment operator skill sets







Innovation to Implementation

DC Water is unique in the water sector in its scientific approach to integrating technology into planning and operations. While a top-notch staff maintains daily operations and executes engineering projects today, the Blue Plains engineers are looking further ahead—five to 10 years into the future – in the regulatory, policy, science and technology environments.

These engineers continuously identify emerging technologies and keep an eye toward upcoming regulatory changes. They investigate concepts and plan and undertake scientific research, the most promising of which leads to recommendations for the Authority. From concept to recommendation typically takes approximately five years, and it may be another five years to implementation.

Advancing Science and Technology on a Global Scale

Blue Plains operates a year-round internship program that hosts numerous Ph.D. and master's degree candidates. These students perform research for DC Water as they pursue their university degrees, while advancing the body of science and technology for the entire water sector. The research that comes from Blue Plains is recognized globally —the staff has been awarded numerous industry awards for innovation, and Blue Plains is the destination for dozens of international delegations investigating next-generation wastewater treatment technologies.

This cycle of innovation to implementation exists for all major projects at Blue Plains. For example, before the digester project or Enhanced Nitrogen Removal project secured approval for construction, many years of scientific inquiry, research, planning, modeling and evaluation were performed. The Blue Plains engineers formed the plan for the technology and the basis for the architecture and engineering of multi-billion dollar, and first-of-its-kind, projects.

In the last eight years alone, Blue Plains has sponsored more than 75 master's and Ph.D. candidates doing their full-time investigation on DC Water science and technology projects. These students have been from the University of Maryland, Virginia Polytechnic Institute and State University (Virginia Tech), George Washington University, Howard University, Bucknell University, and the University of Innsbruck at Austria, among others.

Drinking Water Quality and Distribution Research

In addition to the comprehensive science and technology research programs at Blue Plains, DC Water personnel also perform research on drinking water quality. DC Water staff, and master's degree candidates, are active participants in Water Research Foundation research projects, as well as in-house research projects.

AWARDS

Finance

Distinguished Budget Presentation Award
For Fiscal Year Beginning October 1, 2010
Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting For its Comprehensive Annual Financial Report For Fiscal Year Ended September 30, 2009
Government Finance Officers Association

Fleet Management

2010 Honorable Mention Certificate of Award for the 100 Best Fleets of North America
The Government Fleet

Information Technology

2010 W³ Silver Award
Judged by International Academy of the Visual Arts

2010 CIO 100 Award
CIO Magazine

2010 Laureate
The Computerworld Honors Program

2010 21st Century Achievement Award Finalist
The Computerworld Honors Program

Recognition for Geographic Information System
Environmental Systems Research Institute

Public Affairs

2010 Excellence in Community Service
Communitas Awards

Safety and Security

2010 George W. Burke, Jr. Facility Safety Award
Water Environment Federation

Sewer Services

2010 Golden Manhole Award
Water Environment Federation

Wastewater Treatment

2010 Gascoigne Wastewater Treatment Plant Operational Improvement Medal
Water Environment Federation

2010 National Environmental Achievement Award
National Association of Clean Water Agencies

2010 Platinum Peak Performance Award
National Association of Clean Water Agencies

Financial Performance

In Fiscal Year 2010, consistent with our history, DC Water ended the year with strong positive financial performance. These results included positive budget to actual result; operating revenues that exceeded expenditures; strong liquidity and cash position and delinquent (over 90 days) customer receivables that were less than 3 percent of billings. DC Water received its fourteenth consecutive unqualified audit opinion on its financial statements, and the DC Water Board authorized the transfer of $16.1 million in excess cash over the operating reserve requirement to replenish the rate stabilization fund to a balance of $16.7 million.

Other financial highlights for the year included:

- Planning for the issuance of $300 million of Public Utility Subordinate Lien Revenue Bonds. These bonds were successfully issued in late October 2010 as taxable Build America Bonds, taking advantage of the federal stimulus package that provided a 35 percent subsidy. The bonds were well received by investors in a volatile market and were issued at the unprecedented low rate of 3.6 percent (net of subsidy) with an average life of 27 years.
- For better alignment to the size of our capital improvement program, we were successful in expanding the size of our commercial paper program from $100 million to $225 million. Letters of credit were obtained from highly rated banks to support the program at very competitive rates in an extremely difficult credit market.
- A review of our electricity purchasing strategy and stable cost alternatives culminated in electricity costs of $22.8 million, a $6.5 million savings from the budget.
- Following the successful implementation of an impervious area charge (IAC) in 2009, to ensure equitable allocation of costs among our customers, the Authority modified the residential IAC from a flat rate to all customers to a six tier rate based on the amount of impervious area owned. It is expected that more than 90 percent of the Authority's customers will have no increase or a lower IAC under the new structure.

- The DC Water Board of Directors demonstrated its continued commitment to fund the Authority's expanding CIP program by adopting retail customer rate increases effective October 1, 2009. These increases resulted in approximately $4.70 increase (or 10 percent) on an average residential customer monthly bill.

Other financial metrics include the following:

Operating Revenues

Operating revenues increased by $31.3 million to $363.7 million. This resulted primarily from the retail water and sewer rate increases adopted by the Board.

Operating Expenditures

Operating expenditures increased by $15.3 million to $308.7 million, primarily for increases in personnel, chemical, water purchase and depreciation.

Capital Disbursements

In FY 2010, acquisition of utility plant and purchased capacity totaled $270.5 million, bringing the utilities investment in capital assets to $2.8 billion.

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, 2010 and 2009, 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, 2010 and 2009, and 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 two through twelve 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, 2010 Thompson, Cobb, Bazilio & Associates, PC

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FINANCE AND BUDGET – Statements of Net Assets
September 30, 2010 and 2009 (In thousands)

Assets	2010	2009
Current assets:		
Cash and cash equivalents (note 3)	$ 81,069	$ 75,123
Investments (note 3)	70,255	90,982
Customer receivables, net of allowance for doubtful accounts of $11,975 in 2010 and $9,936 in 2009 (note 7)	39,742	33,787
Due from Federal government (note 6)	40,077	69,857
Due from District government (note 13)	—	3,213
Due from other jurisdictions (note 8)	8,531	28,617
Inventory	7,339	9,369
Prepaid assets	371	588
Total current assets	247,384	311,536
Noncurrent assets:		
Restricted assets (note 3):		
Cash and cash equivalents	116,786	247,327
Investments	40,027	29,975
Total restricted cash equivalents and investments	156,813	277,302
Utility plant (note 4):		
In-service	3,365,892	3,038,807
Less accumulated depreciation	(916,505)	(858,964)
Net utility plant in service	2,449,387	2,179,843
Construction-in-progress	327,738	400,826
Net utility plant	2,777,125	2,580,669
Other noncurrent assets:		
Due from other jurisdictions, net of allowance for doubtful accounts of $187 in 2010 and $614 in 2009 (note 8)	7,990	9,800
Purchased capacity, net of accumulated amortization of $55,591 in 2010 and $51,198 in 2009 (note 5)	223,687	189,262
Total other noncurrent assets	231,677	199,062
Total noncurrent assets	3,165,615	3,057,033
Total assets	3,412,999	3,368,569
Liabilities		
Current liabilities:		
Accounts payable and accrued expenses	88,684	92,570
Compensation payable (note 9)	15,043	13,316
Accrued interest	32,289	32,700
Due to jurisdictions	6,500	6,160
Due to District government (note 13)	382	—
Due to Storm Water Fund (note 13)	132	64
Deferred revenue	25,354	22,103
Commercial paper notes payable (note 11)	29,200	29,200
Current maturities of long-term debt (note 10)	17,793	13,846
Total current liabilities	215,377	209,959
Noncurrent liabilities:		
Deferred revenue	852,010	806,990
Deferred revenue - combined sewer overflow	62,843	58,789
Other liabilities (note 12)	20,568	20,795
Long-term debt, excluding current maturities (note 10)	1,234,726	1,252,778
Total noncurrent liabilities	2,170,147	2,139,352
Total liabilities	2,385,524	2,349,311
Net Assets		
Invested in utility plant, net of related debt	880,934	806,276
Restricted for:		
Debt service	34,747	33,743
Capital projects	9,586	10,967
Unrestricted	102,208	168,272
Total net assets	$ 1,027,475	$ 1,019,258

FINANCE AND BUDGET – Statements of Revenues, Expenses and Change in Net Assets
Years Ended September 30, 2010 and 2009 (In thousands)

	2010	2009
Operating revenues:		
Water and wastewater user charges:		
Residential, commercial and multi-family customers	$ 209,796	$ 191,543
Federal government	37,845	35,195
District government and D.C. Housing Authority (note 13)	21,947	16,804
Charges for wholesale wastewater treatment	87,505	85,519
Other	6,655	3,337
Total operating revenues	363,748	332,398
Operating expenses:		
Personnel services	88,210	82,248
Contractual services	66,747	61,277
Chemicals, supplies and small equipment	29,003	29,074
Utilities and rent	29,929	32,813
Depreciation and amortization	64,425	59,291
Water purchases	27,587	25,371
Other	2,750	3,236
Total operating expenses	308,651	293,310
Operating income	55,097	39,088
Non-operating revenues (expenses):		
Interest income	1,561	2,285
Payment in lieu of taxes and right of way fee (note 13)	(20,474)	(19,183)
Interest expense and fiscal charges	(58,370)	(51,431)
Total non-operating revenues (expenses)	(77,283)	(68,329)
Change in net assets before Federal grants and contributions	(22,186)	(29,241)
Federal grants and contributions	30,403	27,752
Change in net assets	8,217	(1,489)
Net assets, beginning of year	1,019,258	1,020,747
Net assets, ending of year	$ 1,027,475	$ 1,019,258

FINANCE AND BUDGET – Statements of Cash Flows
Years Ended September 30, 2010 and 2009 (In thousands)

	2010	2009
Cash flows from operating activities:		
Cash received from customers	$ 346,029	$ 317,778
Cash paid to suppliers for goods and services	(145,876)	(150,125)
Cash paid to employees for services	(86,483)	(80,956)
Net cash provided by operating activities	113,670	86,697
Cash flows from capital and related financing activities:		
Proceeds from other jurisdictions	87,097	62,138
Repayments of bond principal and notes payable to Federal and District governments	(14,273)	(13,714)
Acquisition of utility plant and purchased capacity	(270,526)	(256,652)
Payments of interest and fiscal charges	(68,224)	(54,102)
Contributions of capital from Federal government	36,126	33,656
Proceeds from issuance of revenue bonds	—	299,034
Proceeds from issuance of commercial paper	—	50,000
Repayments of commercial paper	—	(64,800)
Net cash provided by (used in) capital and related financing activities	(229,800)	55,560
Cash flows from non-capital financing activities:		
Transfers out (payment in lieu of taxes and right of way fee)	(20,474)	(17,514)
Net cash used by non-capital financing activities	(20,474)	(17,514)
Cash flows from investing activities:		
Cash received for interest	1,330	2,518
Investment purchases	(260,421)	(320,452)
Investment maturities	271,100	338,691
Net cash provided by (used in) investing activities	12,009	20,757
Net increase (decrease) in cash and cash equivalents	(124,595)	145,500
Cash and cash equivalents (including restricted) at beginning of year	322,450	176,950
Cash and cash equivalents (including restricted) at end of year	$ 197,855	$ 322,450
Operating income	$ 55,097	$ 39,088
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	64,425	59,291
Change in operating assets and liabilities:		
Decrease (increase) in customer and other receivables	275	(923)
Decrease (increase) in inventory	2,248	(1,194)
Increase in payables and accrued liabilities	8,770	5,819
Decrease in deferred revenue	(17,145)	(15,384)
Net cash provided by operating activities	$ 113,670	$ 86,697

FINANCE AND BUDGET – Change in Net Assets
Fiscal Years 2002 – 2010 (In thousands)

	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
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
Federal government	28,501	26,884	26,444	24,770	31,100	30,751	35,888	35,195	37,845
District government and DC Housing Authority	16,496	16,072	15,464	15,436	16,463	17,266	16,193	16,804	21,947
Charges for wholesale wastewater treatment	53,211	61,682	60,834	62,126	67,966	73,378	82,854	85,519	87,505
Other	2,387	3,287	2,427	4,366	3,845	2,735	3,846	3,337	6,655
Total Operating Revenues	248,729	255,795	264,334	272,743	293,533	306,457	322,334	332,398	363,748
Non-operating revenues:									
Interest income	6,825	3,090	3,472	12,612	16,091	20,239	13,573	2,285	1,561
Total Revenues	255,554	258,885	267,806	285,355	309,624	326,696	335,907	334,683	365,309
Expenses									
Operating expenses:									
Personnel services	62,162	64,091	62,449	64,038	66,942	70,956	75,838	82,248	88,210
Contractual services	59,166	63,065	61,491	54,156	49,970	52,116	55,127	61,277	66,747
Chemicals, supplies and small equipment	13,683	14,768	17,384	22,062	23,482	24,510	28,816	29,074	29,003
Utilities and rent	20,071	20,804	22,217	25,562	31,151	32,238	37,843	32,813	29,929
Depreciation and amortization	37,099	39,524	40,500	41,069	44,149	49,355	54,418	59,291	64,425
Water purchases	16,904	13,723	20,692	19,625	22,745	24,042	25,746	25,371	27,587
Other	-	-	3,955	3,679	4,218	4,452	3,603	3,236	2,750
Total operating expenses	209,085	215,975	228,688	230,191	242,657	257,669	281,391	293,310	308,651
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
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
Total non-operating expenses	31,586	33,329	41,838	41,722	37,804	48,038	56,867	70,614	78,844
Total expenses	240,671	249,304	270,526	271,913	280,461	305,707	338,258	363,924	387,495
Income before Federal grants and contributions	14,883	9,581	(2,720)	13,442	29,163	20,989	(2,351)	(29,241)	(22,186)
Federal grants and contributions	18,848	39,626	31,455	34,578	24,927	25,083	42,208	27,752	30,403
Change in net assets	33,731	49,207	28,735	48,020	54,090	46,072	39,857	(1,489)	8,217
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
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

Note: As a result of GASB 34 implementation in FY 2002, only nine years are presented.
Source: FY 2002 - 2010 Audited Statements of Revenues, Expenses and Change in Net Assets.

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