
**DISTRICT OF COLUMBIA
STORM WATER PERMIT COMPLIANCE
ENTERPRISE FUND**

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT**

YEARS ENDED SEPTEMBER 30, 2006 AND 2005

THOMPSON, COBB, BAZILIO & ASSOCIATES, P.C.

Certified Public Accountants and Management, Systems and Financial Consultants

Main:
1101 15th Street, N.W.
Suite 400
Washington, D.C. 20005
(202) 737-3300
Fax: (202) 737-2684

Regional:
100 Pearl Street
14th Floor
Hartford, CT 06103
(203) 249-7246
Fax: (203) 275-6504

Regional:
21250 Hawthorne Boulevard
Suite 500
Torrance, California 90503
(310) 792-7001
Fax: (310) 792-7004

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Financial Statements

September 30, 2006 and 2005

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Independent Auditor's Report

The Advisory Committee of the District of Columbia Storm Water Permit Compliance Enterprise Fund and Members of the District of Columbia City Council:

We have audited the accompanying statements of net assets of the District of Columbia Storm Water Permit Compliance Enterprise Fund (the Fund) (a component unit of the District of Columbia) as of September 30, 2006 and 2005, 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 Fund'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 District of Columbia Storm Water Permit Compliance Enterprise Fund as of September 30, 2006 and 2005, and the results of its operations and its 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 2 through 6 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. 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 20, 2006

Thompson, Cobb, Bazilio : Associates, P.C.

DISTRICT OF COLUMBIA STORM WATER PERMIT COMPLIANCE ENTERPRISE FUND

Management's Discussion and Analysis

This section of the District of Columbia Storm Water Permit Compliance Enterprise Fund's ("Fund") financial statements presents the analysis of the Fund's financial performance during the fiscal year that ended on September 30, 2006. The Management's Discussion and Analysis (MD&A) should be read in conjunction with the Fund's basic financial statements (beginning on page 7).

Financial Highlights

- The Fund's net assets increased by \$0.5 million, to \$7.9 million, or 6.8 percent, as a result of this year's operations.
- Operating revenues remained stable at \$3.3 million.
- Operating expenses increased by \$0.8 million, to \$3.1 million, or 32.1 percent, primarily due to higher contractual expenses incurred by all participating district agencies.
- The Fund's cash balance increased by \$0.9 million, to \$8.6 million or 11.3 percent.

USING THIS ANNUAL REPORT

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

Required Financial Statements

The financial statements of the Fund report information about the Fund using accounting methods similar to those used by private sector companies. These statements offer short-term (current) and long-term (non current) financial information about its activities. The *Statement of Net Assets* includes all of the Fund's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and obligations to creditors (liabilities). It also provides the basis for computing operating results, evaluating the capital structure of the Fund and assessing the liquidity and financial flexibility of the Fund. All of the current year's revenues and expenses are accounted for in the *Statement of Revenues, Expenses, and Change in Net Assets*. This statement measures the success of the Fund's operations over the past year, and can be used to determine whether the Fund has successfully recovered its costs through its user fees and other charges, and to assess its profitability, and credit worthiness. The final required financial statement is the *Statement of Cash Flows*. The primary purpose of this statement is to provide information about the Fund's cash receipts, cash payments, and net changes in cash resulting from operations, investing, and capital and non-capital financing activities. It also provides information regarding sources of cash, uses of cash, and the change in the cash balance during the reporting period.

DISTRICT OF COLUMBIA STORM WATER PERMIT COMPLIANCE ENTERPRISE FUND

Management's Discussion and Analysis

FINANCIAL ANALYSIS OF THE FUND AS A WHOLE

The *Statement of Net Assets* and the *Statement of Revenues, Expenses and Change in Net Assets* report information about the Fund's financial condition. The Fund'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 Fund'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 Fund's financial condition.

The Fund's financial performance was strong in fiscal year 2006, with total net assets increasing by \$0.5 million. Further indication of the strong financial performance of the Fund includes the cash balance of \$8.6 million and restricted net assets of about \$7.4 million as of September 30, 2006.

The analysis below focuses on the Fund's net assets (Table 1) and changes in net assets (Table 2) during the year.

Table 1
Condensed Statements of Net Assets
(In Thousands)

	<u>9/30/2006</u>	<u>9/30/2005</u>	<u>9/30/2004</u>
Current and other assets	\$ 9,313	\$ 8,334	\$ 6,758
Capital equipment, net	<u>501</u>	<u>50</u>	<u>57</u>
Total assets	<u>9,814</u>	<u>8,384</u>	<u>6,815</u>
Current liabilities	<u>1,957</u>	<u>1,025</u>	<u>620</u>
Total liabilities	<u>1,957</u>	<u>1,025</u>	<u>620</u>
Net assets			
Invested in capital assets	501	50	57
Restricted	<u>7,356</u>	<u>7,309</u>	<u>6,138</u>
Total net assets	<u>\$ 7,857</u>	<u>\$ 7,359</u>	<u>\$ 6,195</u>

Analysis of Net Assets

The Fund's total assets exceeded liabilities by \$7.9 million at the close of fiscal year 2006. The Fund's net assets include investment of \$0.5 million in capital assets. The remaining balance of \$7.4 million is restricted.

DISTRICT OF COLUMBIA STORM WATER PERMIT COMPLIANCE ENTERPRISE FUND

Management's Discussion and Analysis

Table 2
Condensed Statements of Revenues,
Expenses, and Change in Net Assets
(In Thousands)

	<u>9/30/2006</u>	<u>9/30/2005</u>	<u>9/30/2004</u>
Revenues			
Stormwater fees	\$ 3,336	\$ 3,273	\$ 3,117
Interest income	362	164	41
Total revenues	<u>3,698</u>	<u>3,437</u>	<u>3,158</u>
Expenses			
WASA	1,163	1,253	879
DC Dept of Environment	1,136	602	210
Dept of Public Works	447	512	674
DC Dept of Transportation	350	—	—
Bad debt expense	53	(108)	267
Depreciation expense	51	14	13
Total expenses	<u>3,200</u>	<u>2,273</u>	<u>2,043</u>
Changes in net assets	498	1,164	1,115
Net assets at beginning of year	<u>7,359</u>	<u>6,195</u>	<u>5,080</u>
Net assets at end of year	<u>\$ 7,857</u>	<u>\$ 7,359</u>	<u>\$ 6,195</u>

Analysis of Changes in Net Assets

Operating and Non-operating Revenues

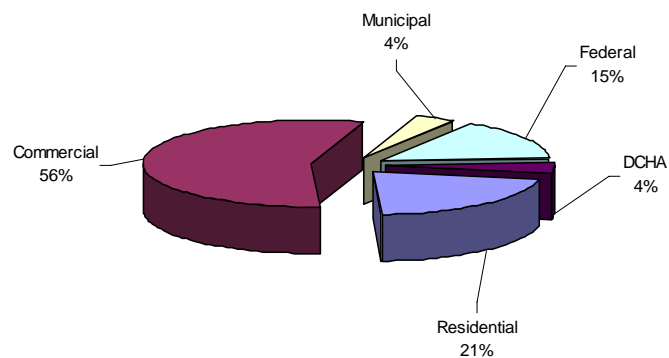
Total operating and non-operating revenues increased by \$0.3 million, or 8.9 percent in fiscal year 2006, mainly due to increase in interest income.

DISTRICT OF COLUMBIA STORM WATER PERMIT COMPLIANCE ENTERPRISE FUND

Management's Discussion and Analysis

The Chart below shows the percentage of the Fund's operating revenues generated by each customer class in fiscal year 2006. The principal operating revenues of the Fund are from storm water fees charged to the Water and Sewer Authority's ("WASA") retail customers.

**Operating Revenues by Customer Class
Year Ended September 30, 2006**



Expenses

Operating expenses increased by \$0.8 million, or 32.1 percent in fiscal year 2006, primarily due to increased contractual service costs from all participating District Agencies. These include costs incurred by the Department of Environment in monitoring of storm water quality, the Department of Public Works in collecting household hazardous chemicals for safe disposal and purchasing new generation of street sweepers, Department of Transportation for monitoring effectiveness of storm water pollution control systems, and by WASA in managing the District's Storm Water Administration.

DISTRICT OF COLUMBIA STORM WATER PERMIT COMPLIANCE ENTERPRISE FUND

Management's Discussion and Analysis

CAPITAL ASSETS

During fiscal year 2006, the Fund purchased \$503,000 in office equipment increasing its capital equipment to \$598,000 compared to \$95,000 in fiscal year 2005. The following table summarizes the Fund's capital assets, net of accumulated depreciation as of September 30, 2006, 2005 and 2004:

Table 4.
Capital Assets
(In Thousands)

	Balance 9/30/2006	Balance 9/30/2005	Balance 9/30/2004
Capital equipment	\$ 598	\$ 95	\$ 89
Less: accumulated depreciation	(97)	(45)	(32)
Capital equipment, net	<u>\$ 501</u>	<u>\$ 50</u>	<u>\$ 57</u>

CONTACTING THE FUND'S FINANCIAL MANAGEMENT

This financial report is designed to provide our customers and creditors with a general overview of the Fund's finances and to demonstrate the Fund'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.

**DISTRICT OF COLUMBIA STORM WATER PERMIT COMPLIANCE
ENTERPRISE FUND**

Statements of Net Assets
September 30, 2006 and 2005
(In thousands)

	2006	2005
Assets		
Current assets:		
Cash	\$ 8,622	\$ 7,745
Customer receivables, net of allowance for doubtful accounts of \$213 in 2006 and \$159 in 2005	691	589
Total current assets	9,313	8,334
Non-current assets:		
Capital equipment (note 3)	598	95
Less accumulated depreciation	(97)	(45)
Net capital equipment	501	50
Total Assets	9,814	8,384
Liabilities		
Current liabilities:		
Due to other District Agencies (note 4)	1,957	1,025
Total current liabilities	1,957	1,025
Net assets		
Invested in capital assets	501	50
Restricted	7,356	7,309
Total net assets	\$ 7,857	\$ 7,359

See accompanying notes to financial statements.

**DISTRICT OF COLUMBIA STORM WATER PERMIT COMPLIANCE
ENTERPRISE FUND**

Statements of Revenues, Expenses and Change in Net Assets
Years Ended September 30, 2006 and 2005
(In thousands)

	2006	2005
Operating revenue:		
Stormwater fees (note 2)	\$ 3,336	\$ 3,273
Total operating revenue	3,336	3,273
Operating expenses:		
Contractual services	3,096	2,367
Depreciation expense	51	14
Total operating expenses	3,147	2,381
Operating income	189	892
Nonoperating revenue (expense):		
Interest income	362	164
Other	(53)	108
Total nonoperating revenue (expense)	309	272
Change in net assets	498	1,164
Total net assets, beginning of year	7,359	6,195
Total net assets, end of year	\$ 7,857	\$ 7,359

See accompanying notes to financial statements.

**DISTRICT OF COLUMBIA STORM WATER PERMIT COMPLIANCE
ENTERPRISE FUND**

Statements of Cash Flows
Years Ended September 30, 2006 and 2005
(In thousands)

	2006	2005
Cash flows from operating activities:		
Cash received from customers	\$ 3,181	\$ 3,708
Cash paid to suppliers for goods and services	(2,164)	(1,962)
Net cash provided by operating activities	1,017	1,746
Cash flows from capital and related financing activities:		
Acquisition of capital equipment	(502)	(7)
Cash flows from investing activities:		
Cash received for interest	362	164
Net increase in cash	877	1,903
Cash at beginning of year	7,745	5,842
Cash at end of year	\$ 8,622	\$ 7,745
Operating income	\$ 189	\$ 892
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	51	14
Change in operating assets and liabilities:		
Increase/(Decrease) in customer and other receivables	(155)	435
Increase in payables and accrued liabilities	932	405
Net cash provided by operating activities	\$ 1,017	\$ 1,746

See accompanying notes to financial statements.

DISTRICT OF COLUMBIA STORM WATER PERMIT COMPLIANCE ENTERPRISE FUND

Notes to Financial Statements

September 30, 2006 and 2005

(In thousands)

(1) Reporting Entity

The District of Columbia Storm Water Permit Compliance Enterprise Fund (“Fund”) was established on October 18, 2000, by the District of Columbia City Council pursuant to the Clean Water Act, 33 U.S.C. §1251. The City Council legislation was entitled *Storm Water Permit Compliance Amendment Act of 2000 (the Act)*.

The Act established the Storm Water Advisory Panel (Panel) consisting of five (5) members, for the purpose of preparing comprehensive recommendations to the Council that identify the best means by which the District of Columbia can meet all present and future federal regulatory and permit requirements pertaining to the discharge of storm water into receiving waters. The Act also established the District of Columbia Water and Sewer Authority (“WASA”), as the Storm Water Administrator, whose responsibility includes monitoring and coordinating activities of all District agencies, including the activities of the Administrator, which are required to maintain compliance with the Storm Water Permit. The legislation also required the Water and Sewer Authority to charge and collect a Storm Water fee on its water bill to its retail customers.

All revenues collected for the Fund shall only be used to pay for any District agency’s costs of complying with the Storm Water Permit, including all administrative, operating and capital costs, and WASA’s cost of billing and collecting the Storm Water fees. The Fund is reported as part of the District of Columbia General Fund.

In February 2006, the District created the “District Department of Environment (DOE) Establishment Act”. Section 103 E (2) of the Act provides for the transfer of the administration from WASA to the District’s DOE within one year. WASA will continue to contribute towards storm water pollution control as the administrator during this time and will remain engaged consistent with our responsibility after the transfer.

(2) Summary of Significant Accounting Policies

The financial statements of the Fund 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 principles. The Fund’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 Fund’s operating statements. The Fund is accounted for on the flow of “economic resources” measurement focus. 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 non-current) associated with their activities are reported and equity is reported as net assets.

DISTRICT OF COLUMBIA STORM WATER PERMIT COMPLIANCE ENTERPRISE FUND

Notes to Financial Statements

September 30, 2006 and 2005

(In thousands)

(2) Summary of Significant Accounting Policies (Continued)

The term “basis of accounting” is used to determine when a transaction or event is recognized in the Fund’s statements. The Fund uses 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 Fund has elected, as allowed in paragraph 7 of *GASB Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting*, not to follow FASB pronouncements issued subsequent to November 30, 1989.

Therefore, the Fund follows all GASB pronouncements; and FASB pronouncements issued on or before November 30, 1989, unless those pronouncements conflict or contradict GASB pronouncements.

The Fund has adopted provisions of Governmental Accounting Standards Board Statement No. 34 “*Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments.*” Statement 34 established standards for external financial reporting for all state and local governmental entities, which includes a statement of net assets, a statement of revenues, expenses and changes in net assets and a statement of cash flows. It 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 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.”

(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 Fund’s principal ongoing operations. The principal operating revenues of the Fund are storm water fees charged on WASA’s water bill to its retail customers.

Operating expenses are any District agency’s costs of complying with the Storm Water Permit, including all administrative, operating and capital costs, and WASA’s cost of billing and collecting the Storm Water fees.

DISTRICT OF COLUMBIA STORM WATER PERMIT COMPLIANCE ENTERPRISE FUND

Notes to Financial Statements

September 30, 2006 and 2005

(In thousands)

(2) Summary of Significant Accounting Policies (Continued)

All revenues and expenses not meeting these definitions are reported as non-operating revenues and expenses.

(c) Cash

The Fund's cash is maintained in a bank account separate from the District government and the Water and Sewer Authority's cash in accordance with the Act. This account is insured or fully collateralized.

(d) Capital Equipment

Capital Equipment is defined as an item that has a useful life of at least three years and a cost of more than five thousand dollars. Capital Equipment is stated at original cost. Normal recurring maintenance and repair costs are charged to operations, whereas major repairs and improvements and replacements, which materially extend the useful lives of the assets, are capitalized. Capital equipment is depreciated on a straight-line basis over an estimated useful life of three to ten years, using the half-year convention.

The following estimated useful lives are used to compute depreciation:

<u>Description</u>	<u>Estimated Useful Lives</u>
Office equipment	3-5 years
Fleet	5-10 years
Heavy machinery	20 years

(e) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

(3) Capital Equipment

The net capital equipment of \$501 consists of the following at September 30, 2006:

	<u>Balance</u> <u>9/30/2005</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>9/30/2006</u>
Capital equipment	\$ 95	\$ 503	\$ -	\$ 598
Less: accumulated depreciation	(45)	(52)	-	(97)
Capital equipment, net	<u>\$ 50</u>	<u>\$ 451</u>	<u>\$ -</u>	<u>\$ 501</u>

DISTRICT OF COLUMBIA STORM WATER PERMIT COMPLIANCE ENTERPRISE FUND

Notes to Financial Statements

September 30, 2006 and 2005

(In thousands)

(3) Capital Equipment (Continued)

The net capital equipment of \$50 consists of the following at September 30, 2005:

	Balance 9/30/2004	Additions	Disposals	Balance 9/30/2005
Capital equipment	\$ 89	\$ 6	\$ -	\$ 95
Less: accumulated depreciation	(32)	(13)	-	(45)
Capital equipment, net	<u>\$ 57</u>	<u>\$ (7)</u>	<u>\$ -</u>	<u>\$ 50</u>

(4) Due To Other District Agencies

The following schedules list authorized and approved amounts incurred by other District agencies for Storm Water permit compliance activities not yet reimbursed by the Fund at September 30, 2006 and 2005. The amount due from WASA is for Storm Water permit fees collected but not transferred to the Fund at September 30, 2006 and 2005.

	2006	2005
Due to WASA	\$ 518	\$ 315
Due to DC Dept of Environment	901	538
Due to Dept of Public Works	475	276
Due to DC Dept of Transportation	238	-
Gross Due to other District Agencies	<u>2,132</u>	<u>1,129</u>
Less: Due from WASA	175	104
Due to other District Agencies, net	<u>\$ 1,957</u>	<u>\$ 1,025</u>

DISTRICT OF COLUMBIA STORM WATER PERMIT COMPLIANCE ENTERPRISE FUND

Notes to Financial Statements

September 30, 2006 and 2005

(In thousands)

(5) Related Party and Similar Transactions

During the fiscal years ended September 30, 2006 and September 30, 2005, WASA collected \$3,336 and \$3,273, respectively, in fees for the Storm Water Fund from its customers. The Fund also recognized the following expenses from the participating District Agencies for the years ended September 30, 2006 and September 30, 2005.

	<u>2006</u>	<u>2005</u>
WASA	\$ 1,163	\$ 1,253
DC Dept of Environment	1,136	602
Dept of Public Works	447	512
DC Dept of Transportation	350	-
Total expenses	<u>\$ 3,096</u>	<u>\$ 2,367</u>