



**Introductory Section  
(Unaudited)**

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January 28, 2019

Board of Directors  
District of Columbia Water and Sewer Authority  
5000 Overlook Avenue, S.W.  
Washington, D.C. 20032

Dear Members of the Board:

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, 2018. The Authority's financial statements were prepared in accordance with U.S. generally accepted accounting principles ("GAAP"), as promulgated by the Governmental Accounting Standards Board ("GASB") and audited by a firm of independent certified public accountants retained by DC Water. In accordance with the Authority's enabling legislation, DC Water is required to perform an annual audit of its financial statements and submit it to the District of Columbia's Mayor, Chief Financial Officer, and District Council.

Responsibility for 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 information contained in this report is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the Authority. All disclosures necessary for the reader to gain an understanding of DC Water's financial activity have been included.

DC Water's management is responsible for establishing and maintaining an internal control structure designed to ensure that its assets are adequately safeguarded against loss, theft, or misuse and to maintain accurate and reliable financial records for the preparation of financial statements and the representations made by management. 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. To the best of my knowledge and belief, DC Water's internal accounting controls adequately safeguard its assets and provide reasonable assurance of the proper recording of financial transactions in accordance with GAAP.

KPMG LLP, Certified Public Accountants, has been retained by DC Water to serve as its independent auditors and has issued an unmodified ("clean") opinion on DC Water's financial statements for the years ended September 30, 2018 and 2017. The independent auditors' report is located at the front of the financial section of this report.

GAAP requires that management provide a narrative introduction, overview and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis ("MD&A"). 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 independent auditors' report.

### **Overview of DC Water**

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 Authority, an independent authority of the District, was created in April 1996 and began operating on October 1, 1996 under and pursuant to an act of the Council of the District entitled the "Water and Sewer Authority and Department of Public Works Reorganization Act of 1996 (as amended)", and an Act of the United States Congress entitled the "District of Columbia Water and Sewer Authority Act of 1996". The Authority is considered a related organization of the District for purposes of presentation in the District's financial statements.

DC Water provides retail drinking water distribution and wastewater conveyance and treatment services to approximately 694,000 residential, commercial and governmental customers in the District of Columbia, and wholesale wastewater conveyance and treatment services to approximately 1.6 million users in Montgomery and Prince George's Counties in Maryland, and Fairfax and Loudoun Counties in Northern Virginia.

DC Water 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.

Budgets are prepared annually and reviewed and approved by The Authority's Board of Directors. After approval by the Board, DC Water is required to submit its annual budget to the District for inclusion in the Mayor's annual budget. The District then includes DC Water's budget as an enterprise fund as part of its own budget submission to the U.S. Congress for approval.

### **Economic Condition**

Washington, D.C., is not only known as being the nation's capital, but it is also an international city with a vibrant tourist industry and business climate. The U.S. Census Bureau estimated that there were 693,972 residents in Washington, D.C. in 2017, an increase of 1.9% from the same period of the prior year. The Washington Metropolitan Region has a population of more than 6.2 million individuals and is the sixth largest metropolitan area in the country.

The District's economic base is driven by the federal and local governments as well as diplomatic embassies and international organizations. The federal civilian workforce in the District averaged 236,318 employees, while thousands more are estimated to work elsewhere in the metropolitan area. The District is host to more than 180 foreign embassies and other recognized diplomatic missions. A number of international organizations, such as the International Monetary Fund, World Bank, Inter-American Development Bank and Organization of American States are headquartered in the District. An estimated 22.8 million people visit the Washington Metropolitan Region on an annual basis, not only to do business with the federal government and local firms, 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. The unemployment rate in the District decreased from 10.2% in 2011 to 6.0% in 2018. The District's economy grew consistently faster than the national economy for much of this decade and is expected to continue to grow in 2019. The District's economy is relatively more information and service industry dependent than most states, accounting for the region's relative insulation from the most recent national housing and credit centric recession.

## **Major Initiatives**

### *Capital Improvement Program*

DC Water's ultimate success in achieving its mission of providing world-class water and wastewater services as a leading steward of the environment depends in large part on the implementation of its 10-year \$4.0 billion capital improvement program ("CIP"). Approximately 36.0% of the CIP is either federally mandated or required by a court-ordered consent decree, including the Clean Rivers Project. DC Water plans to finance its \$4.0 billion capital improvement program from a variety of sources, including the issuance of revenue bonds, grants from the U.S. Environmental Protection Agency ("EPA"), federal appropriations, capital contributions from wholesale customers, and Pay-Go.

### *Blue Plains and Anacostia River Tunnels*

The first phase of the DC Clean Rivers Project Anacostia River Tunnel System, including 7 miles of tunnels, diversions for each of the remaining Anacostia River CSOs, and additional wet weather treatment facilities at Blue Plains, was placed into operation in March 2018 ahead of the consent decree deadline. It is projected that phase of the project will reduce combined sewer overflows into the Anacostia River by approximately 80 percent in an average year of rainfall.

In order to protect DC Water stakeholders, DC Water issued the industry's first Environmental Impact Bond. Similar in nature to "pay for success" bonds, the borrowing is designed to pay bondholders for successful results achieved in the GI projects or pay bondholders less in the event that successful results are not achieved. This historic issuance is expected to introduce the wastewater industry to alternative sources of funding for a national issue regarding EPA required effluent composition reductions to the nation's waterways.

### *Green Infrastructure*

DC Water completed the construction of 79 new green facilities in the Rock Creek Watershed, reaching substantial completion in October 2018. Measurement processes have been established to monitor their effectiveness which data is anticipated to aid in the enterprise's decision whether to continue with green infrastructure to achieve CSO reduction for Rock Creek. Establishment of an innovative certification program to train and hire workers in installation and maintenance of green infrastructure has produced tangible socioeconomic benefit.

### *Water Meter Rehabilitation Project*

The DC Water Meter Rehabilitation Project is focusing on replacing meters and meter transmitting units that are nearing the end of their useful life in various locations throughout the District of Columbia. This project supports

the rehabilitation of DC Water's Automated Meter Reading (AMR) system, which uses radio transmitters wired to water meters to convey data to a network of radio receivers, also referred to as Advanced Metering Infrastructure (AMI). These new meters and transmitting units have improved capabilities compared to the last series of meters and promote timely and accurate monthly bills for customers. As of September 30, 2018, DC Water has installed 79,500 new meters, which increased overall transmissions to 86%. Installment of these meters required cooperation with multiple departments and all costs remain within the approved budget. This project exceeded the contract goal of scheduling 60% of more inside appointments and has maintained a potential claims rate of 0.03%.

#### *Credit Rating Upgrades*

In April 2018, DC Water issued \$300 million in tax-exempt, fixed rate bonds, including \$100 million designated as Green Bonds, leveraging the AAA credit rating upgrade by S&P and its GB1 rating, Moody's highest possible green bond assessment.

Combined, these two ratings made DC Water's bonds highly desirable. Strong credit ratings enable the Authority to issue debt at lower borrowing costs, which in turn reduces ratepayer costs in the long run.

#### **Awards and Acknowledgements**

##### *CAFR Award*

The Authority's 2017 CAFR received the Government Finance Officers Association's ("GFOA") Certificate of Achievement for Excellence in Financial Reporting. The CAFR was judged based on its conformity to GAAP and its compliance with other financial, legal and contractual provisions. The Certificate of Achievement is the highest form of recognition in governmental accounting and financial reporting, and its attainment represents a significant accomplishment for any municipality or government agency. To date, DC Water has received the GFOA's CAFR award for every year of its existence as an independent Authority, for a total of twenty-one consecutive awards.

##### *Acknowledgements*

With deep appreciation, I wish to recognize the outstanding leadership and personal commitment of Controller John Madrid and his dedicated team of professionals for their collective effort in drafting DC Water's FY 2018 Comprehensive Annual Financial Report.

Respectfully submitted,



Matthew T. Brown  
Chief Financial Officer



## BOARD OF DIRECTORS

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**BIJU GEORGE**, CHIEF OPERATING OFFICER

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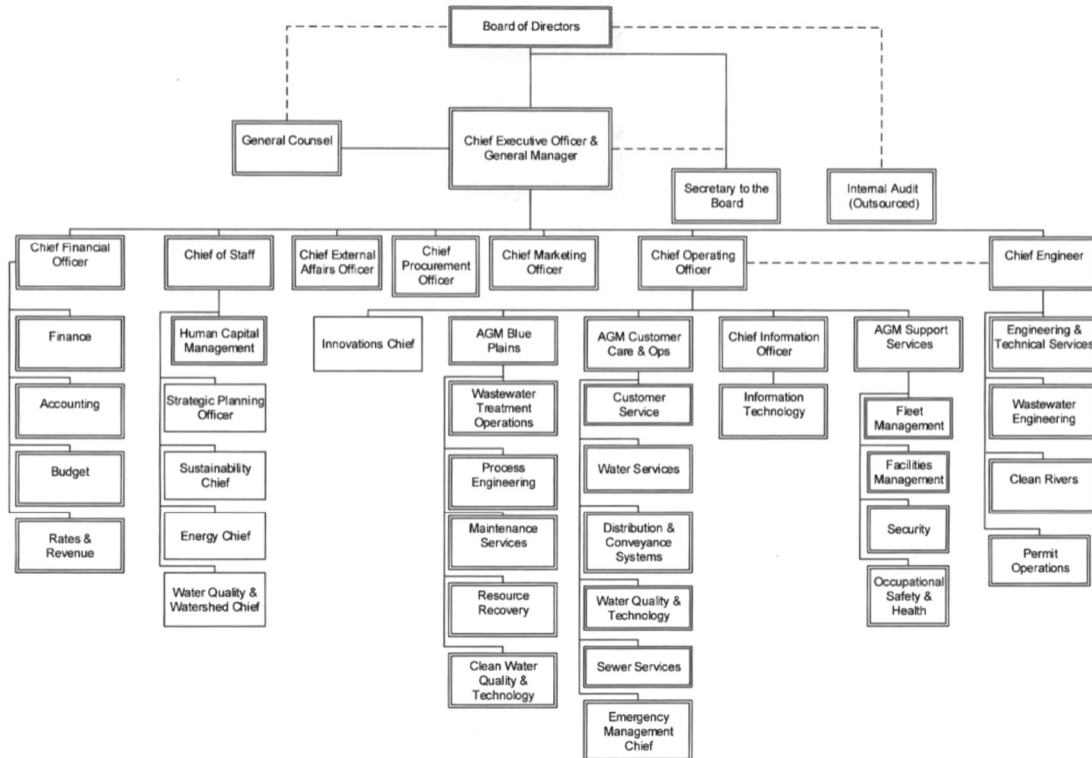
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**LOLA OYEYEMI**, BUDGET DIRECTOR  
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**CHARLES W. KIELY**, ASSISTANT GENERAL MANAGER  
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## Governance and Organizational Structure







Government Finance Officers Association

**Certificate of  
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Presented to

**District of Columbia  
Water and Sewer Authority**

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

**September 30, 2017**

*Christopher P. Morrell*

Executive Director/CEO

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