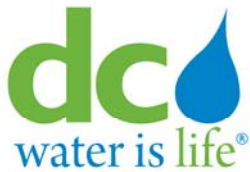




**Introductory Section
(Unaudited)**

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January 27, 2020

Board of Directors
District of Columbia Water and Sewer Authority
1385 Canal Street, SE
Washington, D.C. 20003

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, 2019. 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, 2019 and 2018. 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 702,000 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 702,455 residents in Washington, D.C. in 2018, an increase of 1.2% 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 234,424 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 23.8 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 5.3% in 2019. 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 \$5.0 billion capital improvement program ("CIP"). Approximately 26.0% 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 \$5.0 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.

Northeast Boundary Tunnel

DC Water's Clean Rivers (DCCR) Project has initiated construction of the Northeast Boundary Tunnel (NEBT). The NEBT is the largest component of the Clean Rivers Project and starts south of RFK Stadium and extends north to Rhode Island Avenue NE and west to 6th Street NW. The Clean Rivers Project will reduce combined sewer overflow volume annually by 96 percent system-wide and provide flood relief at the Northeast Boundary.

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 clean rivers 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.

DC Water's roles as public servant and environmental steward are well served by the green bond certification provided by Vigeo's independent second party opinion of DC Water's sustainable management of the DCCR project. Vigeo is a leading European sustainability consultant and was commissioned by DC Water to provide an opinion on its practices and performance on internationally accepted environmental, social and governance standards. The Authority welcomes the transparency and accountability provided by Vigeo's green bond opinion, which can be found at www.dcwater.com.

Green Infrastructure

DC Water completed the construction of 79 new green facilities in the Rock Creek sewershed, reaching substantial completion in October 2018. Final completion is anticipated in December of 2019. In the Potomac sewershed, DC Water completed the construction of 44 new green infrastructure facilities, and reached final completion in August of 2019. Measurement processes have been established to monitor green infrastructure effectiveness, the collected data will aid in the enterprise's decision whether to continue with green infrastructure to achieve CSO reduction for the Rock Creek and Potomac River. Monitoring for both sewersheds will continue into the spring and summer of 2020. Establishment of an innovative certification program to train and hire workers in installation and maintenance of green infrastructure has produced tangible socioeconomic benefits.

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. DC Water completed Phase 1 of this project in March of 2019 and launched Phase 2 in September of 2019 to finalize the remaining 11,000 meters. As of September 30, 2019, DC Water has installed 84,534 new meters, which increased overall transmissions to 92.4%. Installation 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%.

New Customer Assistance Programs

DC Water joined DC Government to create a \$13 million hardship fund to assist customers who have been impacted by their water bills. In a unanimous vote, DC Water's Board of Directors voted to create two additional levels of Customer Assistance Programs for customers who do not qualify for the Authority's existing program. These programs now assist customers with household incomes of up to \$121,300 and the discounts range from approximately \$188 and \$550 per year.

Headquarters

Early in 2019, DC Water opened its brand-new headquarters building located along the Anacostia River in the Capital Riverfront neighborhood. This new facility has allowed DC Water to consolidate all administrative offices to one location, terminate costly office leases around the city, and facilitate future growth at our treatment plant. This building will be certified LEED Platinum Class A and uses numerous environmentally sustainable features including sewer heat recovery and the use of rainfall for non-potable water needs. Most importantly, this new location allows DC Water to more-closely interact with our customers and educate them about our mission.

BLOOM

DC Water produces Class A Exceptional Quality biosolids at our Blue Plains Advanced Wastewater Treatment Plant that can be added to the soil and can help plants grow. Some of the biosolids produced at Blue Plains are exported and applied to farms in Maryland and Virginia as a soil amendment. Applying biosolids to the land helps capture carbon and prevents it from being released to the atmosphere, helps to recycle important nutrients like phosphorous and nitrogen back into the soil instead of releasing them into our waterways, and reduces our carbon footprint and saves energy when compared to conventional petroleum based fertilizers.

BLOOM is sold by Blue Drop, LLC, the Authority's non-ratepayer revenue affiliate. In FY 2019, 40,514 tons of Blue Drop were sold resulting in \$147,000 of revenue and over \$1 million in net savings. BLOOM has resulted in a total net savings of \$1.8 million since production started in 2017.

Credit Rating Upgrades

In August 2019, Fitch Ratings upgraded DC Water's credit rating to AA+ for senior lien revenue bonds and the Authority maintained a AAA credit rating by S&P and an Aa1 by Moody's. DC Water also maintained a GB1 rating for green bonds, Moody's highest possible green bond assessment.

Combined, these 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 2018 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 22 consecutive awards.

Acknowledgements

With deep appreciation, I wish to recognize the outstanding leadership and personal commitment of Controller John Madrid through fiscal year 2019 as well as DC Water's dedicated team of finance professionals for their collective effort in drafting DC Water's FY 2019 Comprehensive Annual Financial Report.

Respectfully submitted,



Matthew T. Brown
Chief Financial Officer and Executive Vice President
Finance and Procurement



BOARD OF DIRECTORS

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BIJU GEORGE, EXECUTIVE VICE PRESIDENT, OPERATIONS AND ENGINEERING

OFFICE OF FINANCE AND PROCUREMENT

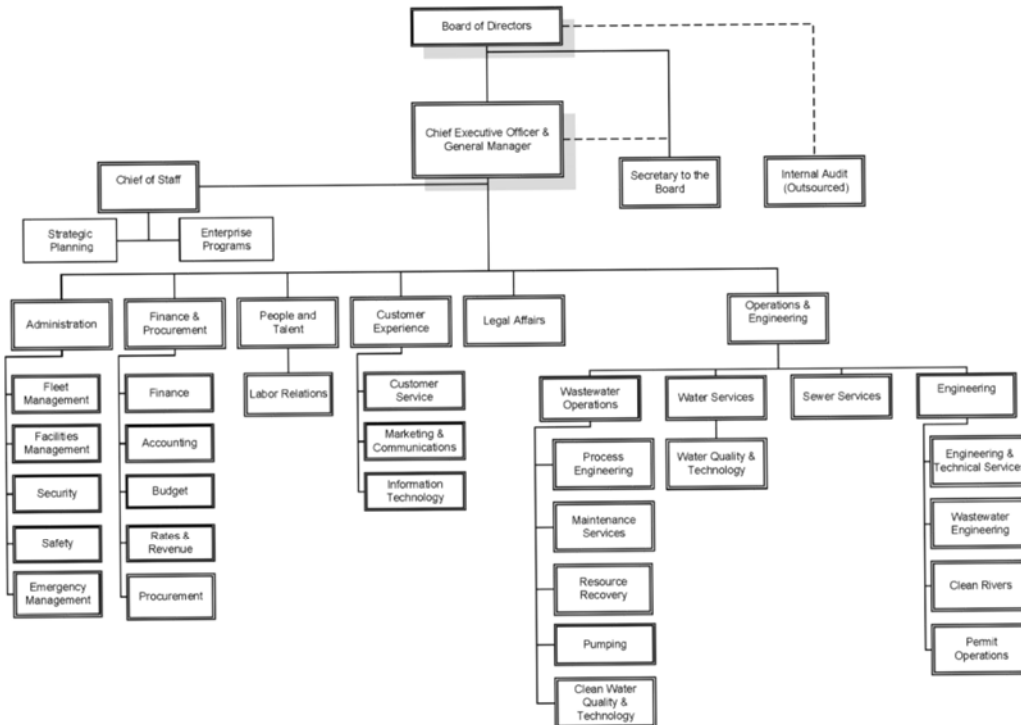
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Governance and Organizational Structure





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**District of Columbia
Water and Sewer Authority**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

September 30, 2018

Christopher P. Morrell

Executive Director/CEO