



## **Financial Section**

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**KPMG LLP**  
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## **Independent Auditors' Report**

Board of Directors  
District of Columbia Water and Sewer Authority

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the District of Columbia Water and Sewer Authority (the Authority) as of and for the years ended September 30, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District of Columbia Water and Sewer Authority as of September 30, 2015 and 2014, and the changes in its financial position and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

### ***Other Matters***

#### ***Required Supplementary Information***

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 19 through 31 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### ***Other Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The introductory and statistical sections as listed in the table of contents have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

**KPMG LLP**

December 18, 2015

## DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

### Management's Discussion and Analysis (unaudited)

September 30, 2015 and 2014

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This section of the Authority's annual financial report presents our discussion and analysis of the Authority's financial position and changes in financial position as of and for the fiscal years ended September 30, 2015 and 2014. The Management's Discussion and Analysis ("MD&A") should be read in conjunction with the Authority's basic financial statements and the related notes to the financial statements, which immediately follow this section.

#### Financial Highlights – Fiscal 2015

- In November 2014, the Authority issued the subordinate lien revenue refunding bonds, 2014 Series C in the amount of \$377.7 million. The proceeds from the bonds were used to refund \$378.2 million of the Authority's outstanding bonds. The interest on the bonds are at fixed rates ranging from 3.0% to 5.0%.
- Operating revenues increased by \$76.1 million to \$549.9 million or 16.1%, primarily due to the retail rate increase of 7.5% and a 16.2% increase in wholesale waste water charges.
- Operating expenses increased by \$22.6 million to \$378.7 million or 6.4%, primarily due to increases in personnel, chemicals and supplies, depreciation expense, and payments-in-lieu of taxes (PILOT) and right-of-way fee offset by a decrease in contractual services expense.
- Capital assets, net of depreciation and amortization, increased by \$543.3 million to \$5.5 billion, or 11.0%, as a result of capital additions of \$627.2 million offset by depreciation and amortization of \$83.9 million. Capital additions incurred in 2015 were in line with the Authority's approved 10-year capital improvement program.
- Current assets decreased by \$70.6 million to \$512.2 million, or 12.1%, due to a decrease in cash, investments and receivables from other jurisdictions.
- The Authority's net position increased by \$179.1 million to \$1.5 billion, or 13.3%, as a result of current year operations and capital contributions.
- Effective October 1, 2014, the Authority raised its retail water and wastewater rates by 7.5%.

#### Financial Highlights – Fiscal 2014

- In July 2014, the Authority issued \$350.0 million of 2014 Series A fixed rate at 4.81% senior lien and \$100 million of 2014 Series B variable rate subordinate lien bonds. The 2014 Series A green century bonds have a 100 year maturity and are being used to fund the Clean Rivers Project. The 2014 Series B bonds mature in 2050 and will be used to fund the Authority's capital improvement program. Net proceeds from the bond issuance totaled approximately \$445.5 million including \$4.5 million of underwriter's discount and cost of issuance. The Authority's long-term debt, including current maturities, increased by \$421.7 million to \$2.5 billion, or 19.8%, primarily due to the \$450.0 million bond issuance.
- Operating revenues increased by \$34.7 million to \$473.8 million or 7.9%, primarily due to the retail rate increase of 5.5%.
- Operating expenses increased by \$2.1 million to \$356.0 million or 0.6% primarily due to increases in personnel, utilities and rent, chemicals and supplies, and water purchase expenses offset by a decrease in payments-in-lieu-of-taxes (PILOT) and right-of-way fee.

## DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

### Management's Discussion and Analysis (unaudited)

September 30, 2015 and 2014

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- Capital assets, net of depreciation and amortization, increased by \$641.3 million to \$4.9 billion, or 14.9% as a result of capital additions of \$719.1 million offset by depreciation and amortization of \$77.8 million. Capital additions incurred in 2014 were in line with the Authority's approved 10-year capital improvement program.
- Current assets increased by \$82.5 million to \$582.8 million, or 16.5%, due to increases in cash, investments and receivables from other jurisdictions.
- The Authority's net position increased by \$144.2 million to \$1.4 billion, or 11.9%, as a result of current year operations and capital contributions.
- Effective October 1, 2013, the Authority raised its retail water and wastewater rates by 5.5%.

#### Using This Annual Report

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

#### Required Financial Statements

*The Statements of Net Position* includes the Authority's assets plus deferred outflows of resources and liabilities plus deferred inflows of resources and provides information about the nature and amounts of investments in resources (assets) and nature and extent of obligations (liabilities) with the difference between them being reported as net position. It also provides the basis for computing the rates of return, evaluating the capital structure of the Authority, and assessing the liquidity and financial flexibility of the Authority.

*The Statements of Revenues, Expenses, and Changes in Net Position* presents the changes in net position from one reporting period to another by accounting for revenues and expenses and measuring the financial results of operations. This statement measures the profitability of the Authority's operations over the past year and can be used to determine whether the Authority has successfully recovered all of its costs through its user fees and other charges.

*The Statements of Cash Flows* provides information about the Authority's cash receipts, cash payments, and net changes in cash and cash equivalents resulting from operating, investing, and capital and non-capital financing activities. It also provides information regarding sources of cash, uses of cash, and changes in cash balances during the reporting period.

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

# DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

## Management's Discussion and Analysis (unaudited)

September 30, 2015 and 2014

### Financial Analysis of the Authority

#### Net Position

The Authority's total net position at September 30, 2015 was approximately \$1.5 billion, a \$179.1 million, or 13.3% increase from September 30, 2014. Total assets increased \$277.1 million, or 4.8% to \$6.1 billion, and total liabilities increased \$132.5 million, or 3.0%, to \$4.6 billion.

The Authority's total net position at September 30, 2014 was approximately \$1.4 billion, a \$144.2 million, or 11.9% increase from September 30, 2013. Total assets increased \$751.9 million, or 14.9% to \$5.8 billion, and total liabilities increased \$607.1 million, or 15.7%, to \$4.5 billion.

#### Summary of Net Position (\$ in 000's)

|                                   | Fiscal Year  |              |              | 2015 vs 2014 |        | 2014 vs 2013 |       |
|-----------------------------------|--------------|--------------|--------------|--------------|--------|--------------|-------|
|                                   | 2015         | 2014         | 2013         | Amount       | %      | Amount       | %     |
| Current assets                    | \$ 512,226   | \$ 582,782   | \$ 500,250   | (70,556)     | (12.1) | 82,532       | 16.5  |
| Restricted assets                 | 23,249       | 230,114      | 236,012      | (206,865)    | (89.9) | (5,898)      | (2.5) |
| Capital assets                    | 5,477,327    | 4,934,018    | 4,292,765    | 543,309      | 11.0   | 641,253      | 14.9  |
| Other noncurrent assets           | 70,696       | 59,449       | 25,474       | 11,247       | 18.9   | 33,975       | 133.4 |
| Total assets                      | 6,083,498    | 5,806,363    | 5,054,501    | 277,135      | 4.8    | 751,862      | 14.9  |
| Deferred outflows of resources    | 45,246       | 10,768       | 11,335       | 34,478       | 320.2  | (567)        | (5.0) |
| Current liabilities               | 471,766      | 434,141      | 412,768      | 37,625       | 8.7    | 21,373       | 5.2   |
| Long-term debt outstanding        | 2,520,046    | 2,520,935    | 2,100,495    | (889)        | (0.0)  | 420,440      | 20.0  |
| Long-term liabilities             | 1,606,990    | 1,511,240    | 1,345,937    | 95,750       | 6.3    | 165,303      | 12.3  |
| Total liabilities                 | 4,598,802    | 4,466,316    | 3,859,200    | 132,486      | 3.0    | 607,116      | 15.7  |
| Net investments in capital assets | 1,348,056    | 1,130,952    | 1,042,620    | 217,104      | 19.2   | 88,332       | 8.5   |
| Restricted                        | 27,054       | 28,863       | 29,010       | (1,809)      | (6.3)  | (147)        | (0.5) |
| Unrestricted                      | 154,832      | 191,000      | 135,006      | (36,168)     | (18.9) | 55,994       | 41.5  |
| Total net position                | \$ 1,529,942 | \$ 1,350,815 | \$ 1,206,636 | 179,127      | 13.3   | 144,179      | 11.9  |

The following is a discussion of the more significant changes in assets, liabilities and net position in 2015.

- Capital assets, net of depreciation and amortization, increased by \$543.3 million to \$5.5 billion, or 11.0%, as a result of capital additions of \$627.2 million offset by depreciation and amortization of \$83.9 million. Capital additions incurred in 2015 were in line with the Authority's approved 10-year capital improvement program which is discussed in more detail on page 13.
- Current assets decreased by \$70.6 million to \$512.2 million, or 12.1%, due to a decrease in cash, investments and receivables from other jurisdictions.

## DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

### Management's Discussion and Analysis (unaudited)

September 30, 2015 and 2014

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- Long-term debt, including current maturities, increased by \$1.1 million to \$2.5 billion, or 0.04%, primarily due to the \$377.7 million bond refunding in November 2014, which resulted in a net increase in long-term debt of approximately \$27.6 million, offset by scheduled principal payments on long-term debt of approximately \$26.5 million.
- Current liabilities increased by \$37.6 million to \$471.8 million, or 8.7%, primarily due to a \$50 million increase in commercial paper notes offset by a \$27.4 million decrease in accounts payable and accrued expenses, the majority of which relates to capital additions. The remaining increase is a result of increase in unearned revenues and accrued interest on long term debt.
- The Authority's net position increased by \$179.1 million to \$1.5 billion, or 13.3%, as a result of fiscal year 2015 operations and capital contributions.

The following is a discussion of the more significant changes in assets, liabilities and net position in 2014.

- Capital assets, net of depreciation and amortization, increased by \$641.3 million to \$4.9 billion, or 14.9% as a result of capital additions of \$719.1 million offset by depreciation and amortization of \$77.8 million. Capital additions incurred in 2014 were in line with the Authority's approved \$3.8 billion, 10-year capital improvement program which is discussed in more detail on page 13.
- Current assets increased by \$82.5 million to \$582.8 million, or 16.5%, due to increases in cash, investments and receivables from other jurisdictions.
- Long-term debt, including current maturities, increased by \$421.7 million to \$2.5 billion, or 19.8%, primarily due to the \$450.0 million bond issuance in July 2014.
- Current liabilities increased by \$21.4 million to \$434.1 million, or 5.2%, primarily due to \$17.8 million increase in unearned revenues from retail customers. The remaining increase is primarily a result of an increase in accrued interest payable on long-term debt offset by decreases in compensation payable and amounts due to jurisdictions.
- The Authority's net position increased by \$144.2 million to \$1.4 billion, or 11.9%, as a result of fiscal year 2014 operations and capital contributions.

## DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

### Management's Discussion and Analysis (unaudited)

September 30, 2015 and 2014

#### Changes in Net Position

The increase in net position at September 30, 2015 was \$179.1 million, or 13.3%, as compared with September 30, 2014. The Authority's total operating revenues increased by 16.1% to \$549.9 million and total operating expenses increased 6.4% to \$378.7 million.

The increase in net position at September 30, 2014 was \$144.2 million, or 11.9%, as compared with September 30, 2013. The Authority's total operating revenues increased by 7.9% to \$473.8 million and total operating expenses increased 0.6% to \$356.0 million.

|   | Change in Net Position<br>(\$ in 000's) |                     |                     |                   |             |                   |             |
|---|---|---------------------|---------------------|-------------------|-------------|-------------------|-------------|
|   | Fiscal Year                             |                     |                     | 2015 vs 2014      |             | 2014 vs 2013      |             |
|   | 2015                                    | 2014                | 2013                | Amount            | %           | Amount            | %           |
| Operating revenues                                  | \$ 549,915                              | \$ 473,824          | \$ 439,079          | \$ 76,091         | 16.1        | \$ 34,745         | 7.9         |
| Operating expenses                                  | 378,660                                 | 356,024             | 353,945             | 22,636            | 6.4         | 2,079             | 0.6         |
| Net non-operating revenues (expenses)               | (60,093)                                | (68,311)            | (62,761)            | 8,218             | (12.0)      | (5,550)           | 8.8         |
| Change in net position before capital contributions | 111,162                                 | 49,489              | 22,373              | 61,673            | 124.6       | 27,116            | 121.2       |
| Capital contributions                               | 67,965                                  | 94,690              | 58,310              | (26,725)          | (28.2)      | 36,380            | 62.4        |
| Change in net position                              | 179,127                                 | 144,179             | 80,683              | 34,948            | 24.2        | 63,496            | 78.7        |
| Net position - beginning of year, as restated       | 1,350,815                               | 1,206,636           | 1,125,953           | 144,179           | 11.9        | 80,683            | 7.2         |
| Net position - end of year                          | <u>\$ 1,529,942</u>                     | <u>\$ 1,350,815</u> | <u>\$ 1,206,636</u> | <u>\$ 179,127</u> | <u>13.3</u> | <u>\$ 144,179</u> | <u>11.9</u> |

The following provides a discussion as to the primary reasons for the more significant fluctuations in the Authority's revenues and expenses between fiscal years 2015 and 2014, and between fiscal years 2014 and 2013, respectively.

#### Fiscal Year 2015:

- Operating revenues increased by \$76.1 million to \$549.9 million or 16.1%, primarily due to a 7.5% rate increase on retail water and wastewater charges and \$15.7 million increase in wholesale wastewater charges.
- Operating expenses increased by \$22.6 million to \$378.7 million or 6.4% due to increase in personnel, utilities and rent, chemicals and supplies, and water purchase expenses offset by a decrease in PILOT and right-of-way fee.

# DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

## Management's Discussion and Analysis (unaudited)

September 30, 2015 and 2014

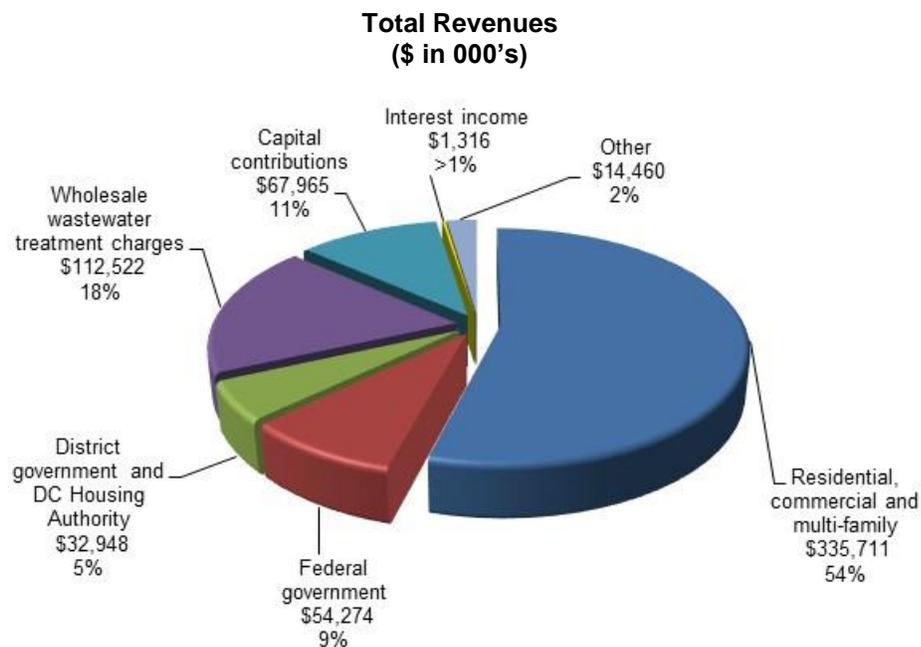
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Fiscal Year 2014:

- Operating revenues increased by \$34.7 million to \$473.8 million or 7.9%, primarily due to a 5.5% rate increase on retail water and wastewater charges.
- Operating expenses increased by \$2.1 million to \$356.0 million or 0.6% due to increase in personnel, utilities and rent, chemicals and supplies, and water purchase expenses offset by a decrease in PILOT and right-of-way fee.

### 2015 Total Revenues

Total revenues increased \$49.7 million or 8.7% to \$619.2 million in fiscal year 2015.



- Revenues from residential, commercial and multi-family customers increased by \$40.5 million to \$335.7 million, or 13.7%, primarily due to a 7.5% water and wastewater rate increase and a 41.0% increase in impervious area charges.
- Revenues from the Federal government increased by \$15.3 million to \$54.3 million, or 39.2%, primarily due to a 7.5% rate increase and due to the fiscal year 2014 revenues being impacted by a Federal government shutdown and consumption adjustments for several Federal agencies during FY2014.
- Revenues from the District government and the District Housing Authority increased by \$4.1 million to \$32.9 million, or 14.2%, primarily due to a 7.5% rate increase coupled with a 4.0% increase in consumption.

# DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

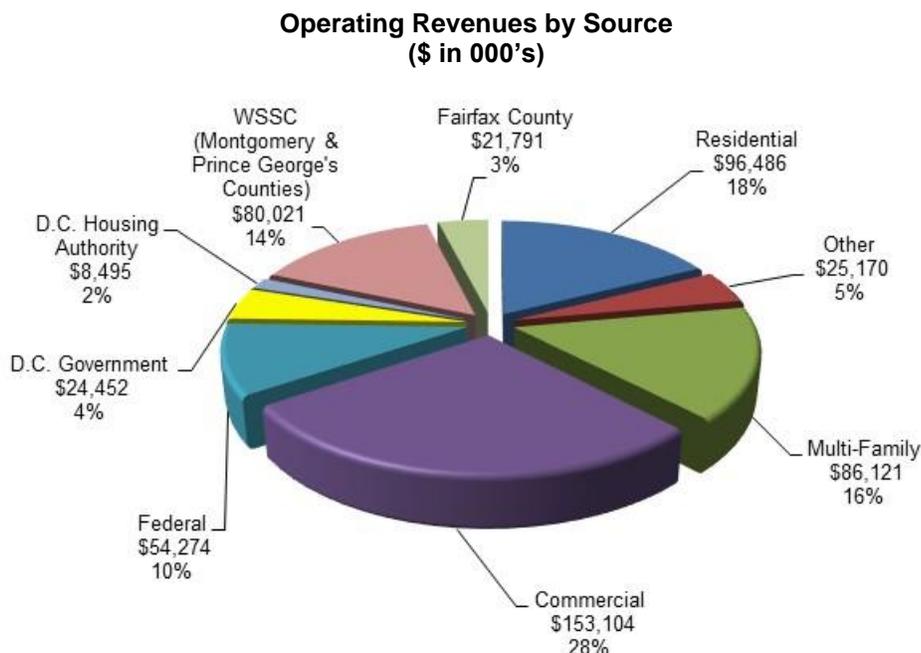
## Management's Discussion and Analysis (unaudited)

September 30, 2015 and 2014

- Revenues from wholesale wastewater treatment increased by \$15.7 million to \$112.5 million, or 16.2%, primarily due to a 22.7% increase in the Intermunicipal agreement (IMA) shareable operating costs of the Blue Plains Plant offset by reduced indirect cost charges.
- Other revenues increased by \$0.5 million to \$14.5 million, or 3.9%, primarily due to increased stormwater management fees.
- Capital contributions decreased by \$26.7 million or 28.2%, primarily due to a \$18.8 million reduction in capital contributions from the District government for the Northeast Boundary Neighborhood project and a \$8.0 million reduction in federal grants.

### Diversity and Stability of Operating Revenues

The Authority's operating revenue base is very diverse, including established customers such as the Federal government, the District government, surrounding jurisdictions in Maryland and Virginia, and commercial and residential customers within the District. As shown on the chart below, no one category accounts for more than 28% of total revenues.



(a) Other revenues include \$8.7 million from Loudoun County and \$2.0 million from Potomac Interceptor.

- Revenues from commercial and multi-family customers in the District comprise approximately 44% of the Authority's total operating revenues. Commercial revenues are reliable due to the presence of many national associations, law firms, consulting firms, and colleges and universities and foreign embassies in the District. The commercial customer category also includes multi-family dwellings.

## DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

### Management's Discussion and Analysis (unaudited)

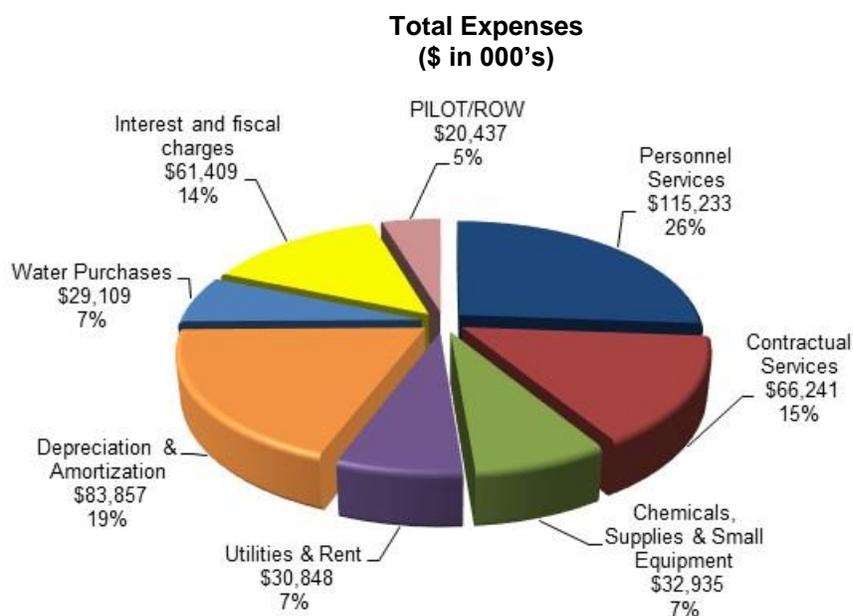
September 30, 2015 and 2014

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- The Authority provides wastewater conveyance and treatment services to Montgomery and Prince George's Counties in Maryland through the Washington Suburban Sanitary Commission ("WSSC") and Fairfax and Loudoun Counties in Northern Virginia. Operating revenues from WSSC and Fairfax County account for 17% of the Authority's revenues and are based on their share of operating costs at Blue Plains. Loudoun County and Potomac Interceptor customers account for an additional 2% of the Authority's revenues and are included in other revenues.
- Residential customers in the District account for 18% of total revenues.
- Revenues from the Federal government comprise 10% of the Authority's total operating revenues and include customers such as the U.S. Congress, the Smithsonian Institution, and a range of federal departments and agencies.
- Revenues from the Government of the District of Columbia and the District of Columbia Housing Authority make up 6.0% of total operating revenues.

#### 2015 Total Expenses

Total expenses increased \$14.8 million or 3.5% to \$440.1 million in fiscal year 2015.



- Personnel services increased by \$6.8 million to \$115.2 million, or 6.2%, primarily due to increases in wages, benefits and number of employees.
- Contractual services decreased by \$1.9 million to \$66.2 million, or 2.8%, due to a decrease in biosolids hauling costs stemming from newly installed digester operations at the Blue Plains facility.
- Chemicals, supplies and small equipment increased by \$1.2 million to \$32.9 million, or 3.7%, primarily due to an increase in methanol usage attributable to a change in sewage treatment process.

# DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

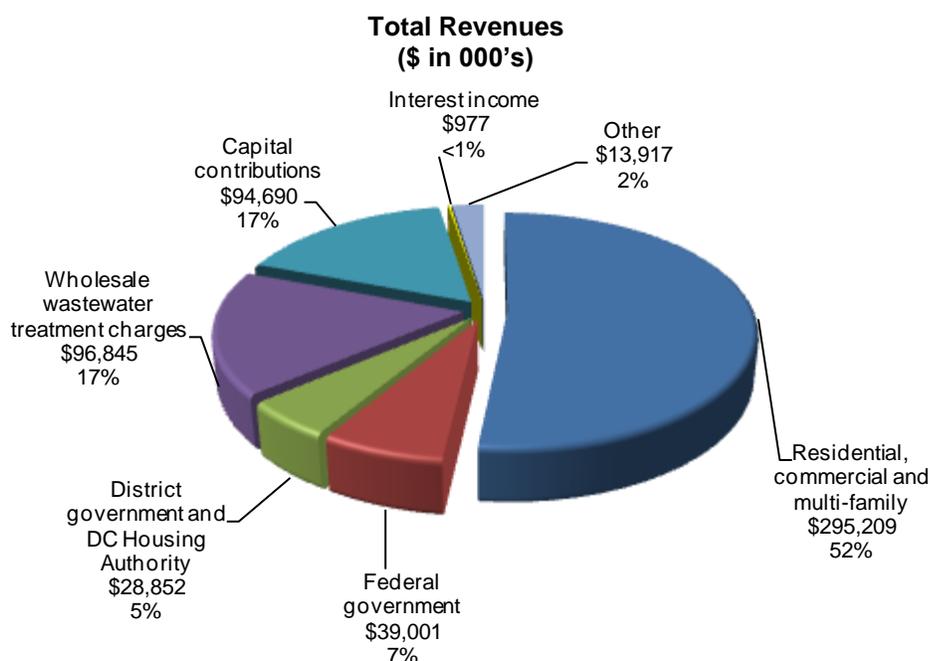
## Management's Discussion and Analysis (unaudited)

September 30, 2015 and 2014

- Utilities and rent increased by \$0.9 million to \$30.8 million, or 3.0%, primarily due to an increase in gas usage in producing steam converted to electricity for the Combined Heat Power (CHP) process.
- Depreciation and amortization increased by \$6.0 million to \$83.9 million, or 7.7%, primarily due to an increase in capital assets in service.
- Water purchases increased by \$0.7 million to \$29.1 million, or 2.5%, primarily due to a 9.9% increase in consumption offset by a reduction in unit cost per million gallons purchased.
- Interest expense and fiscal charges decreased by \$7.9 million to \$61.4 million, or 11.4% primarily due to an increase in the amount of capitalized interest related to the Authority's capital improvement program which increased from \$40.3 million in fiscal year 2014 to \$52.0 million in fiscal year 2015.

### 2014 Total Revenues

Total revenues increased \$71.0 million or 14.2% to \$569.5 million in fiscal year 2014.



- Revenues from residential, commercial and multi-family customers increased by \$19.9 million to \$295.2 million, or 7.2%, primarily due to a 5.5% rate increase.
- Revenues from the Federal government decreased by \$6.2 million to \$39.0 million, or 13.7%, primarily due to a 5.5% rate increase offset by a 31.1% decrease in consumption resulting from the Federal government shutdown and billing adjustments.
- Revenues from the District government and the District Housing Authority increased by \$7.2 million to \$28.9 million, or 33.1%, primarily due to a \$2.3 million billing adjustment in fiscal year 2013 relating to the St. Elizabeth Hospital and a 5.5% rate increase.

## DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

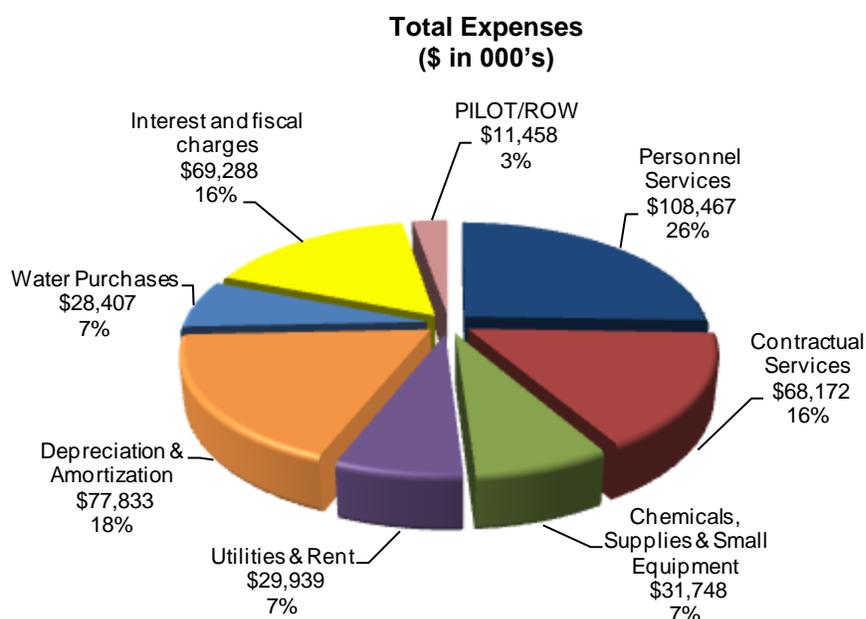
### Management's Discussion and Analysis (unaudited)

September 30, 2015 and 2014

- Revenues from wholesale wastewater treatment increased by \$9.7 million to \$96.8 million, or 11.1%, primarily due to a 6.1% increase in Intermunicipal agreement (IMA) shareable operating costs of the Blue Plains Plant.
- Other revenues increased by \$4.2 million to \$13.9 million, or 43.5%, primarily due to a fiscal year 2013 reduction in other revenues attributable to a \$2.9 million in rebates given to retail customers and a \$2.7 million reduction in special project billings to the District government.
- Capital contributions increased by \$36.4 million or 62.4%, primarily due to a \$38.8 million capital contribution from the District government for the Northeast Boundary Neighborhood project.

#### 2014 Total Expenses

Total expenses increased \$8.7 million or 2.1% to \$425.3 million in fiscal year 2014.



- Personnel services increased by \$4.6 million to \$108.5 million, or 4.4%, primarily due to increases in wages, benefits and number of employees.
- Contractual services decreased by \$0.2 million to \$68.2 million, or 0.4%, primarily due to a decrease in litigation costs.
- Chemicals, supplies and small equipment increased by \$2.8 million to \$31.7 million, or 9.5%, primarily due a general increase in unit cost of chemicals by 5.0%.
- Utilities and rent increased by \$3.8 million to \$29.9 million, or 14.7%, primarily due to an increase in electricity costs.
- Depreciation and amortization increased by \$0.5 million to \$77.8 million, or 0.7%, primarily due to increase in capital assets in service.

## DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

### Management's Discussion and Analysis (unaudited)

September 30, 2015 and 2014

- Water purchases increased by \$1.2 million to \$28.4 million, or 4.4%, primarily due to a 0.2% increase in consumption and a 9.0% rate increase from the Washington Aqueduct. These were offset by a \$1.3 million operating cost credit adjustment received from the Washington Aqueduct.
- Interest expense and fiscal charges increased by \$5.4 million to \$69.3 million, or 8.4% primarily due to a \$20.1 million increase in interest costs incurred in fiscal year 2014 as a result of the increase in borrowings, offset by a \$14.5 million increase in the amount of capitalized interest related to the Authority's capital improvement program during fiscal year 2014.

### Capital Assets and Debt Administration

#### Capital Assets

As of September 30, 2015 and 2014, respectively, the Authority had \$5.5 billion and \$4.9 billion of capital assets (net of depreciation). This includes wastewater collection, wastewater treatment, water distribution systems, purchased capacity, capital equipment and construction in progress. The Authority's net capital assets increased by approximately \$543.3 million, or 11.0%, during fiscal year 2015, primarily due to continued capital spending in accordance with the Authority's capital improvement program. See note 4 to the financial statements for more information on capital assets.

As of September 30, 2014 and 2013, respectively, the Authority had \$4.9 billion and \$4.3 billion of capital assets (net of depreciation). This includes wastewater collection, wastewater treatment, water distribution systems, purchased capacity, capital equipment and construction in progress. The Authority's net capital assets increased approximately \$641.3 million, or 14.9%, during fiscal year 2014, primarily due to continued capital spending in accordance with the Authority's capital improvement program which includes the Combined Sewer Overflow (CSO) projects, the Digester Project and numerous other water and wastewater improvement projects.

#### Capital Assets Net of Accumulated Depreciation (\$ in 000's)

|                                  | As of September 30, |              |              |
|----------------------------------|---------------------|--------------|--------------|
|                                  | 2015                | 2014         | 2013         |
| Wastewater treatment plant       | \$ 2,367,163        | \$ 2,057,116 | \$ 1,945,920 |
| Wastewater collection facilities | 828,130             | 758,603      | 730,622      |
| Water distribution system        | 1,054,046           | 981,047      | 920,150      |
| Purchased capacity               | 341,974             | 334,174      | 326,290      |
| Capital equipment                | 203,573             | 191,409      | 178,620      |
| Construction in progress         | 2,033,657           | 1,879,678    | 1,381,652    |
| Less accumulated depreciation    | (1,351,216)         | (1,268,009)  | (1,190,489)  |
| Net capital assets               | \$ 5,477,327        | \$ 4,934,018 | \$ 4,292,765 |

The Authority's contractual commitments are primarily associated with the long-term capital improvement program. Outstanding contractual commitments related to the capital improvement program as of September 30, 2015 and 2014 were \$966,985 and \$1,255,496, respectively which will be financed primarily with unspent bond proceeds, proceeds from future bond issuances, capital contributions from IMA participants, Federal capital contributions and PAY-GO capital contributions from the Authority.

# DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

## Management's Discussion and Analysis (unaudited)

September 30, 2015 and 2014

### Debt Administration

At the end of fiscal year 2015, the Authority had a total of \$2.5 billion in long term debt outstanding, an increase of \$1.0 million, or 0.04%, over fiscal year 2014. See note 11 to the financial statements for more information on long-term debt outstanding.

At the end of fiscal year 2014, the Authority had a total of \$2.5 billion in long term debt outstanding, an increase of \$421.7 million, or 19.8%, over fiscal year 2013.

A schedule of long-term debt activity including current year maturities for the year ended September 30, 2015 is shown below:

| Description                 | Balance<br>9/30/2014 | Increases         | Decreases           | Balance<br>9/30/2015 |
|-----------------------------|----------------------|-------------------|---------------------|----------------------|
| Outstanding bonds and notes | \$ 2,473,790         | \$ 377,700        | \$ (404,693)        | \$ 2,446,797         |
| Unamortized bond premiums   | 76,098               | 51,085            | (23,123)            | 104,060              |
| Unamortized bond discounts  | (2,480)              | -                 | 129                 | (2,351)              |
| Total bonds and notes       | <u>\$ 2,547,408</u>  | <u>\$ 428,785</u> | <u>\$ (427,687)</u> | <u>\$ 2,548,506</u>  |

In November 2014, the Authority issued the subordinate lien revenue refunding bonds, 2014 Series C in the amount of \$377.7 million. The proceeds from the bonds were used to refund \$378.2 million of the Authority's outstanding bonds. The interest on the bonds are at fixed rates ranging from 3.0% to 5.0%.

The increases (decreases) in outstanding bonds and notes payable were related to new bond issuance and scheduled principal repayments. There was no bond issuance in fiscal year 2015, rather a refunding.

A schedule of long-term debt activity including current year maturities for the year ended September 30, 2014 is shown below:

| Description                 | Balance<br>9/30/2013 | Increases         | Decreases          | Balance<br>9/30/2014 |
|-----------------------------|----------------------|-------------------|--------------------|----------------------|
| Outstanding bonds and notes | \$ 2,048,957         | \$ 450,000        | \$ (25,167)        | \$ 2,473,790         |
| Unamortized bond premiums   | 79,313               | -                 | (3,215)            | 76,098               |
| Unamortized bond discounts  | (2,608)              | -                 | 128                | (2,480)              |
| Total bonds and notes       | <u>\$ 2,125,662</u>  | <u>\$ 450,000</u> | <u>\$ (28,254)</u> | <u>\$ 2,547,408</u>  |

In July 2014, the Authority issued \$350.0 million of 2014 Series A fixed rate at 4.81% senior lien and \$100 million of 2014 Series B variable rate subordinate lien bonds. The 2014 Series A green century bonds have a 100 year maturity and are being used to fund the Clean Rivers Project. The 2014 Series B bonds mature in 2050 and will be used to fund the Authority's capital improvement program. Net proceeds from the bond issuance totaled approximately \$445.5 million including \$4.5 million of underwriter's discount and cost of issuance.

The increases (decreases) in outstanding bonds and notes payable were related to the new bond issuance and scheduled principal repayments.

**DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY**

**Management’s Discussion and Analysis (unaudited)**

**September 30, 2015 and 2014**

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**Credit Ratings**

| Senior Debt Ratings           |     |                |
|-------------------------------|-----|----------------|
| Moody's Investors' Service    | Aa2 | Stable Outlook |
| Standard & Poor's Corporation | AA+ | Stable Outlook |
| Fitch Ratings                 | AA  | Stable Outlook |

| Commercial Paper Ratings      |              |                    |
|-------------------------------|--------------|--------------------|
|                               | Series A & B | Series C (taxable) |
| Moody's Investors' Service    | P-1          | P-1                |
| Standard & Poor's Corporation | A-1          | A-1+               |
| Fitch Ratings                 | F1           | F1+                |

**Rates**

Effective October 1, 2014, the Authority raised its retail water and wastewater rates by 7.5%. The Authority’s approved ten-year financial plan includes projected annual rate increases of 6.5% for fiscal year 2016 and 5% for each of the fiscal years 2017 to 2025 and also includes projected revisions to its metering, right-of-way fee and payment in lieu of taxes pass-through plus Clean River Impervious area charge (CRIAC) and the new Water System Replacement Fee (WSRF).

**Contacting the Authority’s Financial Management**

This financial report is designed to provide our customers and other stakeholder with a general overview of the Authority’s finances. If you have questions about this report or need additional financial information, contact the Office of the Chief Financial Officer at 5000 Overlook Avenue, S.W., Washington D.C. 20032 or call 202-787-2000. A copy of this report is also available on DC Water’s web site at [www.dcwater.com](http://www.dcwater.com).

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**DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY**

Statements of Net Position

September 30, 2015 and 2014

(In thousands)

| <b>Assets and Deferred Outflows of Resources</b>  | <b>2015</b>         | <b>2014</b>         |
|---|---------------------|---------------------|
| <b>Current assets:</b>  |                     |                     |
| Cash and cash equivalents (note 3)  | \$ 81,326           | \$ 149,927          |
| Investments (note 3)  | 115,758             | 89,998              |
| Restricted cash and cash equivalents (note 3)   | 152,323             | 96,525              |
| Restricted investments (note 3)   | —                   | 97,370              |
| Customer receivables, net of allowance for doubtful accounts<br>of \$12,364 in 2015 and \$10,255 in 2014 (note 7) | 62,653              | 49,501              |
| Due from other jurisdictions (note 8)   | 44,399              | 59,423              |
| Due from Federal government (note 6)  | 32,478              | 29,914              |
| Due from District government (note 13)  | 10,022              | —                   |
| Inventory   | 9,234               | 6,805               |
| Prepaid assets  | 4,033               | 3,319               |
| <b>Total current assets</b>   | <b>512,226</b>      | <b>582,782</b>      |
| <b>Noncurrent assets:</b>   |                     |                     |
| Restricted assets (note 3):   |                     |                     |
| Cash and cash equivalents   | —                   | 16,226              |
| Investments   | 23,249              | 213,888             |
| <b>Total restricted cash and cash equivalents and investments</b>   | <b>23,249</b>       | <b>230,114</b>      |
| <b>Capital assets (note 4):</b>   |                     |                     |
| In-service  | 4,794,886           | 4,322,349           |
| Less accumulated depreciation   | (1,351,216)         | (1,268,009)         |
| <b>Net capital assets in service</b>  | <b>3,443,670</b>    | <b>3,054,340</b>    |
| Construction-in-progress  | 2,033,657           | 1,879,678           |
| <b>Net capital assets</b>   | <b>5,477,327</b>    | <b>4,934,018</b>    |
| <b>Other noncurrent assets:</b>   |                     |                     |
| Due from District government (note 13)  | 51,711              | 37,669              |
| Due from other jurisdictions (note 8)   | 18,985              | 21,780              |
| <b>Total other noncurrent assets</b>  | <b>70,696</b>       | <b>59,449</b>       |
| <b>Total noncurrent assets</b>  | <b>5,571,272</b>    | <b>5,223,581</b>    |
| <b>Total assets</b>   | <b>6,083,498</b>    | <b>5,806,363</b>    |
| <b>Deferred Outflows of Resources</b>   |                     |                     |
| Deferred loss on debt refunding   | 45,246              | 10,768              |
| <b>Total assets and deferred outflows of resources</b>  | <b>6,128,744</b>    | <b>5,817,131</b>    |
| <b>Liabilities</b>  |                     |                     |
| <b>Current liabilities:</b>   |                     |                     |
| Accounts payable and accrued expenses   | 188,600             | 216,015             |
| Unearned revenue  | 79,369              | 69,451              |
| Accrued interest  | 57,447              | 52,933              |
| Commercial paper notes payable (note 10)  | 91,200              | 41,200              |
| Current maturities of long-term debt (note 11)  | 28,460              | 26,473              |
| Due to jurisdictions  | 8,344               | 9,038               |
| Compensation payable (note 9)   | 9,116               | 9,158               |
| Other liabilities (note 12)   | 9,230               | 9,873               |
| <b>Total current liabilities</b>  | <b>471,766</b>      | <b>434,141</b>      |
| <b>Noncurrent liabilities:</b>  |                     |                     |
| Long-term debt, excluding current maturities (note 11)  | 2,520,046           | 2,520,935           |
| Unearned revenue  | 1,578,504           | 1,472,700           |
| Unearned revenue - combined sewer overflow  | 1                   | 13,426              |
| Other liabilities (note 12)   | 13,891              | 11,675              |
| Compensated absences payable (note 9)   | 14,594              | 13,439              |
| <b>Total noncurrent liabilities</b>   | <b>4,127,036</b>    | <b>4,032,175</b>    |
| <b>Total liabilities</b>  | <b>4,598,802</b>    | <b>4,466,316</b>    |
| <b>Net Position</b>   |                     |                     |
| Net investments in capital assets   | 1,348,056           | 1,130,952           |
| Restricted for debt service   | 27,054              | 28,863              |
| Unrestricted  | 154,832             | 191,000             |
| <b>Total net position</b>   | <b>\$ 1,529,942</b> | <b>\$ 1,350,815</b> |

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

**DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY**

## Statements of Revenues, Expenses and Changes in Net Position

Years Ended September 30, 2015 and 2014

(In thousands)

|  | 2015         | 2014         |
|--|--------------|--------------|
| Operating revenues:                                      |              |              |
| Water and wastewater user charges:                       |              |              |
| Residential, commercial and multi-family customers       | \$ 335,711   | \$ 295,209   |
| Federal government                                       | 54,274       | 39,001       |
| District government and D.C. Housing Authority (note 13) | 32,948       | 28,852       |
| Charges for wholesale wastewater treatment               | 112,522      | 96,845       |
| Other  | 14,460       | 13,917       |
| Total operating revenues                                 | 549,915      | 473,824      |
| Operating expenses:                                      |              |              |
| Personnel services                                       | 115,233      | 108,467      |
| Contractual services                                     | 66,241       | 68,172       |
| Chemicals, supplies and small equipment                  | 32,935       | 31,748       |
| Utilities and rent                                       | 30,848       | 29,939       |
| Depreciation and amortization                            | 83,857       | 77,833       |
| Water purchases  | 29,109       | 28,407       |
| Payment in lieu of taxes and right of way fee (note 13)  | 20,437       | 11,458       |
| Total operating expenses                                 | 378,660      | 356,024      |
| Operating income   | 171,255      | 117,800      |
| Nonoperating revenues (expenses):                        |              |              |
| Interest income  | 1,316        | 977          |
| Interest expense and fiscal charges                      | (61,409)     | (69,288)     |
| Total nonoperating revenues (expenses)                   | (60,093)     | (68,311)     |
| Change in net position before capital contributions      | 111,162      | 49,489       |
| Capital contributions (note 5)                           | 67,965       | 94,690       |
| Change in net position                                   | 179,127      | 144,179      |
| Net position, beginning of year                          | 1,350,815    | 1,206,636    |
| Net position, end of year                                | \$ 1,529,942 | \$ 1,350,815 |

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

## DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

### Statements of Cash Flows

Years Ended September 30, 2015 and 2014

(In thousands)

|   | 2015              | 2014              |
|---|-------------------|-------------------|
| <b>Cash flows from operating activities:</b>  |                   |                   |
| Cash received from customers  | \$ 517,940        | \$ 466,713        |
| Cash paid to suppliers for goods and services   | (145,835)         | (160,212)         |
| Cash paid to employees for services   | (114,120)         | (110,675)         |
| Cash paid to District for PILOT and ROW   | (40,560)          | (12,079)          |
| <b>Net cash provided by operating activities</b>  | <b>217,425</b>    | <b>183,747</b>    |
| <b>Cash flows from capital and related financing activities:</b>                        |                   |                   |
| Proceeds from issuance of revenue bonds   | 428,785           | 445,524           |
| Proceeds from other jurisdictions   | 154,886           | 212,899           |
| Repayments of bond principal and notes payable to Federal government                    | (404,693)         | (25,168)          |
| Acquisition of capital assets   | (609,172)         | (701,998)         |
| Payments of interest and fiscal charges   | (166,393)         | (100,090)         |
| Contributions of capital from Federal government  | 35,893            | 33,094            |
| Proceeds from issuance of commercial paper  | 332,400           | 200,800           |
| Repayments of commercial paper  | (282,400)         | (200,800)         |
| <b>Net cash used in capital and related financing activities</b>                        | <b>(510,694)</b>  | <b>(135,739)</b>  |
| <b>Cash flows from investing activities:</b>  |                   |                   |
| Cash received for interest  | 1,994             | 615               |
| Investment purchases  | (252,076)         | (517,008)         |
| Investment maturities   | 514,322           | 453,490           |
| <b>Net cash provided by (used in) investing activities</b>                              | <b>264,240</b>    | <b>(62,903)</b>   |
| <b>Net decrease in cash and cash equivalents</b>  | <b>(29,029)</b>   | <b>(14,895)</b>   |
| <b>Cash and cash equivalents at beginning of year</b>                                   | <b>262,678</b>    | <b>277,573</b>    |
| <b>Cash and cash equivalents at end of year</b>   | <b>\$ 233,649</b> | <b>\$ 262,678</b> |
| <b>Operating income</b>   | <b>\$ 171,255</b> | <b>\$ 117,800</b> |
| Adjustments to reconcile operating income to net cash provided by operating activities: |                   |                   |
| Depreciation and amortization   | 83,857            | 77,833            |
| Change in operating assets and liabilities:   |                   |                   |
| (Increase) decrease in customer and other receivables                                   | (18,249)          | 1,094             |
| Increase in inventory and prepaid assets  | (3,143)           | (2,765)           |
| Decrease in payables and accrued liabilities  | (3,352)           | (7,705)           |
| Decrease in unearned revenue  | (12,943)          | (2,510)           |
| <b>Net cash provided by operating activities</b>  | <b>\$ 217,425</b> | <b>\$ 183,747</b> |
| <b>Noncash Investing, Capital and Financing Activities:</b>                             |                   |                   |
| Capital asset additions included in accounts payable                                    | \$ 144,651        | \$ 168,005        |
| Net decrease in the fair value of investments   | (232)             | —                 |

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

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# DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

## Notes to the Financial Statements

September 30, 2015 and 2014

(In thousands)

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### (1) Background, Governance, Operations and Reporting Entity

#### (a) Background

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

#### (b) Governance

The Authority is governed by a Board of Directors consisting of eleven principal and eleven alternate members. The Board is composed of six District of Columbia representatives, two each from Montgomery and Prince George's Counties in Maryland, and one from Fairfax County in Virginia. The Mayor of the District of Columbia appoints, and the DC Council confirms, all six District Board members and alternates, including the Chairman. In addition, the Mayor appoints the five principal and alternate members who represent the surrounding jurisdictions based on executive submissions from those jurisdictions.

#### (c) Operations

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

The Authority's wastewater service territory includes over 2.1 million people in Montgomery and Prince George's Counties in Maryland, Fairfax and Loudoun Counties in Virginia, and the District. The Blue Plains Intermunicipal Agreement between the Authority; the District; Fairfax County, Virginia; and the Washington Suburban Sanitary Commission ("WSSC"), which comprises Montgomery and Prince George's Counties in Maryland (collectively referred to as the "Participants"), was executed in September 1985, the "1985 IMA).

The 1985 IMA was replaced in 2012 and became effective on April 3, 2013 by a new Intermunicipal Agreement (the "2012 IMA"), which was negotiated, approved and executed by each of the original signatories to the 1985 IMA. The IMA provides for the allocation of capital, operating, and maintenance costs among the Participants. Capital costs of the Plant are allocated among the Participants in proportion to their respective wastewater treatment capacity allocation as defined in the 2012 IMA. Operating costs are allocated based on wastewater flows from each participant.

# DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

## Notes to the Financial Statements

September 30, 2015 and 2014

(In thousands)

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### (1) Background, Governance, Operations and Reporting Entity (Continued)

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

The Authority purchases water from the Washington Aqueduct (the "Aqueduct"), which is owned by the Federal government and operated by the U.S. Army Corps of Engineers (USACE) under the direction of the Secretary of the Army. Since 1852, an act of Congress placed the care, management, and superintendence of the Washington Aqueduct under the USACE. Under the Act, USACE was given responsibility for supplying water in the District for use by the Federal government and for the use and benefit of the inhabitants of the District. The USACE operates two water purification plants at the Aqueduct, Dalecarlia and McMillan, for the exclusive benefit of the Authority, Arlington County and Fairfax County Water Authority ("FCWA"). The Aqueduct facilities supply treated water to distribution systems of the Authority, Arlington County, FCWA, the Federal government, and other parts of northern Virginia.

As of January 3, 2014, FCWA assumed ownership and operation of the water distribution system previously owned and operated by the City of Falls Church. The Authority is responsible for managing the treated Water System that serves the District and several other governmental customers outside the District. The Authority currently purchases approximately 73% of the finished water produced by the Aqueduct, and Arlington County and the FCWA purchase the remainder. Under this agreement, which remains in effect until September 30, 2023 and then thereafter until terminated, the Authority is responsible for funding approximately 73% of the Aqueduct's annual operating and capital costs. Additionally, the Authority obtains back-up and peak-day water supply from the Jennings Randolph Reservoir (Bloomington Dam) and Little Seneca Lake. The Jennings Randolph Reservoir was constructed by the Federal government and is operated by the USACE. The Little Seneca Lake was constructed and is operated by the WSSC.

#### (d) Reporting Entity

A financial reporting entity consists of a primary government and its component units. The criteria used to determine whether organizations are to be included as component units within the Authority's reporting entity are as follows:

- The Authority holds the corporate powers of the organization, and
- The Authority appoints a voting majority of the organization's board, and
- The Authority is able to impose its will on the organization, or
- The organization has the potential to impose a financial burden on, or provide a financial benefit to the Authority, or
- It would be misleading to exclude the organization from the Authority's financial statements.

# DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

## Notes to the Financial Statements

September 30, 2015 and 2014

(In thousands)

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### (1) Background, Governance, Operations and Reporting Entity (Continued)

Based on the application of the above criteria the Authority has no component units. Additionally, the Authority is not considered to be a component unit of the District as the District is not able to impose its will on the Authority, and the Authority does not impose a financial burden on or provide a financial benefit to the District.

### (2) Summary of Significant Accounting Policies

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

#### (a) *Measurement Focus and Basis of Accounting*

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Grants and similar items are recognized when all eligibility requirements imposed by the grantor have been met.

#### (b) *Cash and Cash Equivalents*

The Authority invests all unrestricted cash balances, in excess of the required compensating balances, in interest-bearing accounts. The Authority's cash equivalents at year end consist of unrestricted and restricted investments such as registered money market mutual and U.S. government agency obligations, which have an original maturity of 90 days or less, and are readily convertible to known amounts of cash. For purposes of the accompanying statements of cash flows, cash and cash equivalents also include the Authority's restricted cash and cash equivalents.

#### (c) *Investments*

The Authority's investments at year end consist of unrestricted and restricted U.S. government agency obligations, U.S. Treasury notes, commercial paper, FDIC insured and negotiable certificates of deposit, corporate notes and municipal bonds which have an original maturity in excess of 90 days. Investments were reported at fair value as of September 30, 2015 and reported at cost, which approximated fair value as of September 30, 2014.

#### (d) *Inventory*

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

# DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

## Notes to the Financial Statements

September 30, 2015 and 2014

(In thousands)

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### (2) Summary of Significant Accounting Policies (Continued)

#### (e) *Restricted Assets*

Restricted assets include unspent revenue bond proceeds and funds for the current payment of debt service. These assets, which cannot be used for routine operations, are classified as restricted assets since their use is limited by the applicable debt covenants and Federal Appropriations Act.

#### (f) *Capital Assets*

The Authority's capital assets are comprised of the wastewater treatment plant, wastewater collection facilities, the water distribution system, purchased capacity, and capital equipment and fleet. Capital assets are reported at historical costs and include all ancillary costs. The wastewater treatment plant, collections facilities and water distribution system include project construction and development costs, internal engineering and construction management personnel costs, and interest costs incurred during the construction period.

Normal recurring maintenance and repair costs are charged to operations, whereas major repairs, improvements and replacements, which extend the useful lives of the capital assets, are capitalized. Construction-in-progress is transferred to capital assets in-service upon substantial completion or when placed in service, with related depreciation commencing at that time. The Authority's capitalization thresholds are: \$500 for wastewater treatment plant and collection facilities, and water distribution systems improvements; and \$5 for capital equipment and fleet.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

| <u>Asset class</u>               | <u>Estimated useful lives</u> |
|----------------------------------|-------------------------------|
| Wastewater treatment plant       | 60 years                      |
| Wastewater collection facilities | 60 years                      |
| Water distribution systems       | 60 years                      |
| Purchased capacity               | 60 years                      |
| Capital equipment and fleet      | 3 - 20 years                  |

The Authority recognizes a half-year of depreciation in the year the capital asset is placed in service and a half-year in the year of disposal.

As discussed in Note 1, the Authority is responsible for approximately 73% of the Aqueduct's operating and capital costs. The Authority records its share of operating costs as water purchases and capital costs as purchased capacity, an intangible asset. The Authority's policy is to capitalize capital costs required to be funded under long-term water purchase agreements and to amortize such costs over the shorter of the term of the contractual agreement or estimated useful life of the assets. For purposes of the Aqueduct, the Authority considers the term of the water purchase agreement to be indefinite as USACE is required by law to provide the Authority with a source of

# DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

## Notes to the Financial Statements

September 30, 2015 and 2014

(In thousands)

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### (2) Summary of Significant Accounting Policies (Continued)

water from the Aqueduct and the Authority has no intent to terminate its Agreement to purchase water from USACE. Additionally, capital cost reimbursements made in prior years under the Authority's participation in the Jennings Randolph Reservoir (Bloomington Dam) and Little Seneca Lake projects are also included in purchased capacity.

#### (g) *Deferred Outflows of Resources*

Deferred outflows of resources are defined as a consumption of net position by the Authority that is applicable to a future reporting period. Deferred outflows of resources increase net position, similar to assets. Deferred loss on bond refunding resulted from the difference between the carrying value of the refunded debt and its reacquisition price. Net losses are deferred and amortized over the life of the refunded or refunding debt, whichever is shorter.

#### (h) *Compensated Absences*

Employees earn vacation and sick leave based on a prescribed formula, which allows employees to accumulate an unlimited amount of sick leave, and vacation leave up to the maximum amounts shown in the table below. Vacation leave earned but unused by employees vests and is accrued as a liability. Generally, sick leave does not vest, and accordingly, it is recorded when used. However, as further discussed in Note 14d, the Authority Retirement Health Savings (RHS) Plan allows non-union, non-federal employees to use sick leave that is usually forfeited upon termination, to fund an account that can be used to pay for eligible medical expenses. Eligibility is established upon termination if an employee has five years of service and 100 hours of sick leave.

Accordingly, the Authority has recorded an accrual for earned sick leave only to the extent it is probable that the benefits will result in termination payments. In developing this estimate the Authority has taken into consideration past experience in making termination payments for sick leave, adjusted for the effect of changes in our termination payment policy and other current factors.

| <u>Length of Service</u> | <u>Annual Carryover Limits</u> |
|--------------------------|--------------------------------|
| Regular Union employees: |                                |
| 1-3 years                | 240 hours                      |
| 4-14 years               | 240-320 hours                  |
| Over 15 years            | 240-360 hours                  |
| Non-union employees:     |                                |
| 1-2 years                | 240 hours                      |
| 3-6 years                | 320 hours                      |
| 7 years                  | 360 hours                      |

# DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

## Notes to the Financial Statements

September 30, 2015 and 2014

(In thousands)

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### (2) Summary of Significant Accounting Policies (Continued)

#### (i) *Bond Premiums, Discounts and Issuance Costs*

Bond premiums and discounts incurred to issue debt are capitalized and amortized as interest expense over the related bond issue period using the effective interest method. Bond issuance costs are expensed in the period incurred.

#### (j) *Net Position*

Net position is categorized into three components as follows:

- *Net investments in capital assets* – This component of net position consists of capital assets, net of accumulated depreciation and amortization and is reduced by the outstanding balances of any bonds or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are also included in this component.
- *Restricted* – This component of net position 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. When both restricted and unrestricted resources are available for use, generally it is the Authority's policy to use restricted resources first and the unrestricted resources when they are needed.
- *Unrestricted* – This component consists of net position that does not meet the definition of "restricted" or "net investments in capital assets."

#### (k) *Revenues and Expenses*

Revenues and expenses are distinguished between operating and non-operating items. Operating revenues generally result from providing services in connection with the Authority's principal ongoing operations.

The principal operating revenues of the Authority are water and wastewater user charges, and charges for wholesale wastewater treatment. Revenues from user charges and sales of services are recognized as the related services are provided.

Operating expenses include the costs associated with the conveyance of water and wastewater, treatment of wastewater, administrative expenses, District payments-in-lieu-of-taxes (PILOT) and right-of-way (ROW) fees, and depreciation and amortization of capital assets. All revenues and expenses not meeting these definitions are reported as non-operating revenues and expenses.

# DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

## Notes to the Financial Statements

September 30, 2015 and 2014

(In thousands)

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### (2) Summary of Significant Accounting Policies (Continued)

#### (l) *Retail Water and Wastewater User Charges*

Retail water and wastewater rates are approved by the Authority's Board of Directors. Charges to the District and the Federal government are the same as those charged to retail customers. Charges for services provided but unbilled at the end of the year are recorded as revenue on an estimated basis, which considers historical usage patterns and current rates. Allowances for customer receivables that ultimately may be uncollectible are estimated and charged to expense. Amounts received in advance or in excess of the user charge for a billing period are recorded as unearned revenues until such time as these amounts are either refunded or applied against future user charges.

#### (m) *Charges for Wholesale Wastewater Treatment and Unearned Revenue*

The cost of operating and maintaining the wastewater treatment plant and related collection facilities applicable to non-District users is billed to participating jurisdictions based upon their share of flows in accordance with terms of the IMA agreement discussed in Note 1c. The charges for operating and maintenance costs and for overhead costs incurred on capital projects are recorded as charges for wholesale wastewater treatment revenue in the year the costs are incurred. The costs of capital projects required for the joint use facilities are allocated to the participating jurisdictions based on their applicable capacity allocation as set forth in the 2012 IMA. The reimbursements for capital related costs are recorded as unearned revenue and are amortized into user charges for wholesale wastewater treatment revenues over the estimated useful lives of the related assets.

#### (n) *Contingencies*

Liabilities from loss contingencies arising from claims, assessments, litigation, fines and penalties, and other sources, are recorded when information available before the financial statements are issued indicates that it is probable that an asset has been impaired or a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. When the reasonable estimate of the loss is a range, and when no amount within the range is a better estimate than any other amount, the Authority accrues a loss for the minimum amount in the range.

#### (o) *Use of Estimates*

The preparation of financial statements in conformity with U.S generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities and deferred inflows of resources and disclosure of contingent assets and liabilities at the date of the basic financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

# DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

## Notes to the Financial Statements

September 30, 2015 and 2014

(In thousands)

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### (2) Summary of Significant Accounting Policies (Continued)

#### (p) Adoption of New Accounting Standards

During the fiscal year ended September 30, 2015, the Authority adopted the following new accounting standards issued by the Governmental Accounting Standards Board (GASB): Statement No. 68, *Accounting and Financial Reporting for Pensions (an amendment of GASB Statement No. 27)*; Statement No. 69, *Government Combinations and Disposals of Government Operations*; and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date (an amendment of GASB Statement No. 68)*. The Implementation of GASB Statement Nos. 68, 69 and 71 had no impact on the Authority's fiscal year 2015 financial statements.

#### (q) New Accounting Pronouncements to be Implemented in the Future

The Authority plans to implement the following GASB pronouncements by the required implementation dates:

| No. | Title  | Required<br>Implementation Date<br>(Period Beginning After) | Authority<br>Fiscal Year |
|-----|--|---|--------------------------|
| 72  | Fair Value Measurement and Application   | June 15, 2015   | 2016                     |
| 73  | Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68 | June 15, 2015 and 2016                                      | 2016 and 2017            |
| 74  | Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans  | June 15, 2016   | 2017                     |
| 75  | Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions   | June 15, 2017   | 2018                     |
| 76  | The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments  | June 15, 2015   | 2016                     |
| 77  | Tax Abatement Disclosures  | December 15, 2015   | 2017                     |

# DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

## Notes to the Financial Statements

September 30, 2015 and 2014

(In thousands)

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### (3) Cash Deposits and Investments

#### (a) *Authorized Cash Deposits and Investments*

The Authority's Investment Policy, which is compliant with the Authority's bond covenants and master indenture, requires that all cash and other deposits maintained in financial institutions be collateralized, including bank deposits and collateralized certificates of deposit. Collateral is required to be secured in accordance with the following policy: a) collateralization on all deposits of the Authority in excess of the amount protected by federal deposit insurance; and b) collateralization with any of the following: (i) U.S. Treasury obligations, (ii) Federal agency obligations, or (iii) a Letter of Credit issued by a Federal Home Loan Bank the amount of which shall be 102% of the deposits held. Collateral shall always be held by an independent third-party custodian in the name of the Authority.

The Authority's Investment Policy permits investments in the following securities:

- (1) *U.S. Treasury Obligations.* U.S. Treasury bills, notes, or any other obligation or security issued by or backed by the full faith and credit of the US Treasury. These securities shall be limited to a maximum maturity of five (5) years at the time of purchase.
- (2) *Registered Investment Companies (Mutual Funds).* Shares in open-end, no-load investment funds provided such funds are registered under the Federal Investment Company Act of 1940, invest exclusively in the securities permitted under this investment policy, provided that the fund is rated "AAAm" or "AAAm-G" or the equivalent.
- (3) *Repurchase Agreements.* Contracts shall be invested in only if certain conditions are met, including: a) the Repurchase Agreement has a term to maturity of no greater than ninety (90) days; b) the contract is fully secured by deliverable U.S. Treasury and Federal Agency obligations, having a market value at all times of at least one hundred two percent (102%) of the amount of the contract; and c) the counterparty meets certain criteria specified in the Investment Policy.
- (4) *Federal Agency Obligations.* Bonds, notes, debentures, or other obligations or securities issued by a Federal government agency or instrumentality, except Collateralized Mortgage Obligations, with a rating of at least "AA" or equivalent from two major rating agencies. These obligations shall be limited to a maximum maturity of five (5) years at the time of purchase.
- (5) *Bankers' Acceptances.* Issued by a domestic bank or a federally chartered domestic office of a foreign bank, which are eligible for purchase by the Federal Reserve System, may be purchased if the following conditions are met: a) the maturity is no greater than one hundred-eighty days (180) days; and b) it is rated not lower than 'A-1' or the equivalent.
- (6) *Commercial Paper.* Unsecured short-term debt of U.S. corporations may be purchased if certain conditions are met, including: a) the maturity is no greater than two hundred-seventy days (270) days; and b) the issuing corporation, or its guarantor, has a short-term

# DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

## Notes to the Financial Statements

September 30, 2015 and 2014

(In thousands)

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### (3) Cash Deposits and Investments (Continued)

debt rating of no less than "A-1" (or its equivalent) by at least two of the Nationally Recognized Statistical Rating Organizations ("NRSRO").

- (7) *Collateralized Certificates of Deposit* in state chartered banks or federally chartered banks. Collateralized Certificates of Deposit shall be collateralized at 102%.
- (8) *Corporate Notes*. High quality corporate notes that meet the following criteria: 1) a rating of at least 'AA' (or its equivalent) from at least one NRSRO and a rating of at least 'A' (or its equivalent) from a second NRSRO; and 2) the final maturity shall not exceed a period of five (5) years from the time of purchase.
- (9) *FDIC insured Certificates of Deposit obtained through Certificate of Deposit placement services including the Certificate of Deposit Account Registry Service (CDARS)*. In 2012, the Authority began participating in CDARS program. The program allows the Authority to allocate funds into certificates of deposit in increments, which ensure the funds are eligible for full FDIC insurance.
- (10) *Federal Agency Mortgage-Backed Securities*. Issued by Fannie Mae, Freddie Mac, or the Government National Mortgage Association (GNMA) that meet the following criteria: 1) a rating of at least "AA" (or its equivalent) by two NRSROs; 2) The weighted average life (WAL) shall not exceed a period of five (5) years from the time of purchase.
- (11) *Negotiable Certificates of Deposit and Bank Deposit Notes of domestic banks and domestic offices of foreign banks with:* a) ratings of at least 'A-1' (or its equivalent) by two NRSROs for maturities of one (1) year or less; b) a rating of at least 'AA' (or its equivalent) from at least one NRSRO and a rating of at least 'A' (or its equivalent) from a second NRSRO for maturities over one (1) year; and c) the final maturity shall not exceed a period of five (5) years from the time of purchase.
- (12) *Supranational Bonds*. Obligations, participations or other instruments of any Federal agency, instrumentality or United States government-sponsored enterprise, including those issued or fully guaranteed as to the principal and interest by Federal agencies, instrumentalities or United States government sponsored enterprises, provided that: 1) at time of purchase the maturity does not to exceed five (5) years; and 2) have a rating of at least 'A' (or its equivalent) from at least two NRSROs.
- (13) *Municipal Obligations*. Municipal bonds, notes and other evidences of indebtedness of the District or any state or local government may be purchased that meet certain criteria, including: a) final maturity on the date of investment not to exceed five (5) years; b) rated in either of the two highest rating categories by a NRSRO; and c) the total holdings of any single issue do not represent more than 25% of the total issue.

# DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

## Notes to the Financial Statements

September 30, 2015 and 2014

(In thousands)

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### (3) Cash Deposits and Investments (Continued)

Additionally, the Authority's Investment Policy has established the following limits as to the maximum percentage of the investment portfolio that is permitted to be invested in each type of eligible security:

| <u>Security</u>                      |      | <u>Security</u>                           |     |
|--------------------------------------|------|---|-----|
| Collateralized Bank Deposits         | 100% | Collateralized Certificates of Deposit    | 30% |
| U.S. Treasury Obligations            | 100% | Corporate Notes                           | 30% |
| Registered Money Market Mutual Funds | 100% | FDIC-insured Certificates of Deposit      | 30% |
| Repurchase Agreements                | 100% | Federal Agency Mortgage-Backed Securities | 30% |
| Federal Agency Obligations           | 80%  | Negotiable Certificates of Deposit        | 30% |
| Bankers' Acceptances                 | 40%  | Supranational Bonds                       | 30% |
| Commercial Paper                     | 35%  | Municipal Obligations                     | 20% |

The Authority's Investment Policy also stipulates that no more than 5% of the Authority's portfolio will be invested in the securities of any single issuer with following exceptions:

|  |              |
|--|--------------|
| U.S. Treasury                          | 100% maximum |
| Each Mutual Fund                       | 50% maximum  |
| Each Repurchase Agreement Counterparty | 50% maximum  |
| Each Federal Agency                    | 40% maximum  |

For the years ended September 30, 2015 and 2014, the Authority was in full compliance with the Investment Policy.

#### (b) Cash Deposits

At September 30, 2015 and 2014, the carrying amounts of the Authority's unrestricted and restricted bank deposits were \$71,214 and \$153,176, respectively. These bank deposits were entirely insured or collateralized with securities or letters of credit at 102% of the market value of principal, plus accrued interest held by the Authority's independent agent in the Authority's name.

# DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

## Notes to the Financial Statements

September 30, 2015 and 2014

(In thousands)

### (3) Cash Deposits and Investments (Continued)

#### (c) Cash Equivalents and Investments

As of September 30, 2015 and 2014, the Authority held the following cash equivalents and investments:

| Cash equivalents and investments       | 2015             | Weighted Average<br>Maturity (Years) | 2014             | Weighted Average<br>Maturity (Years) |
|--|------------------|--------------------------------------|------------------|--------------------------------------|
| Registered money market mutual         | \$162,436        | 0.083                                | \$ 94,504        | 0.083                                |
| U.S. Treasury notes                    | 54,610           | 1.596                                | 46,377           | 1.966                                |
| Corporate notes                        | 26,313           | 2.153                                | 4,867            | 2.396                                |
| FDIC-insured certificates of deposit   | 25,220           | 0.214                                | 30,196           | 0.243                                |
| U.S. government agency obligations     | 18,965           | 0.965                                | 209,351          | 0.530                                |
| Negotiable certificates of deposit     | 11,986           | 1.168                                | 3,598            | 1.323                                |
| Commercial paper                       | 1,792            | 0.589                                | 121,865          | 0.421                                |
| Municipal bonds                        | 120              | 2.033                                | -                | 0.000                                |
| Total cash equivalents and investments | <u>\$301,442</u> | <u>0.651</u>                         | <u>\$510,758</u> | <u>0.558</u>                         |

The Authority's exposure to foreign currency risk, interest rate risk, credit risk and custodial risk associated with its cash deposits and investments are described below:

*Foreign Currency Risk* – Foreign currency risk is the risk that changes in the exchange rates will adversely impact the fair values of an investment. The Authority's investments are not subject to foreign currency risk as the Authority held no investments denominated in foreign currency as of and for the years ended September 30, 2015 and 2014, respectively.

*Interest Rate Risk* – Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, an investment with a longer maturity will have a greater sensitivity to fair value changes that are related to market interest rates. As a means of limiting its exposure to fair value losses resulting from rising interest rates, the Authority's Investment Policy limits the Authority's investment portfolio to investments with certain maximum maturities.

# DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

## Notes to the Financial Statements

September 30, 2015 and 2014

(In thousands)

### (3) Cash Deposits and Investments (Continued)

The following are the maximum maturities established by the Authority's investment policy:

| Security                               | Maturities | Security                                  | Maturities |
|--|------------|---|------------|
| U.S. Treasury Obligations              | 5 years    | Corporate Notes                           | 5 years    |
| Registered Money Market Mutual Funds   | NA         | FDIC-insured Certificates of Deposit      | NA         |
| Repurchase Agreements                  | 90 days    | Federal Agency Mortgage-Backed Securities | 5 years    |
| Federal Agency Obligations             | 5 years    | Negotiable Certificates of Deposit        | 5 years    |
| Bankers' Acceptances                   | 180 days   | Supranational Bonds                       | 5 years    |
| Commercial Paper                       | 270 days   | Municipal Obligations                     | 5 years    |
| Collateralized Certificates of Deposit | NA         |   |            |

Additionally, the Authority monitors the interest rate risk inherent in its portfolio by measuring the weighted average maturity of its portfolio of debt instruments.

As reflected in the table on the previous page, the weighted average maturity of the Authority's investment portfolio was 0.651 years and 0.558 years as of September 30, 2015 and 2014, respectively.

*Credit Risk* – Generally, credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized rating organization. The Authority manages this risk by establishing minimum credit ratings in its investment policy.

The table below reflects the allocation of the Authority's investments by credit quality rating as of September 30, 2015:

| Investment Type                      | Credit Quality Rating |              |             |             |             |             |             |              |             |
|--------------------------------------|-----------------------|--------------|-------------|-------------|-------------|-------------|-------------|--------------|-------------|
|                                      | AAA                   | AA+          | AA          | AA-         | A+          | A-1         | A-1+        | AAAm         | Not Rated   |
| U.S. government agency obligations   |                       | 6.3%         |             |             |             |             |             |              |             |
| Commercial paper                     |                       |              |             |             |             | 0.6%        |             |              |             |
| Registered money market mutual       |                       |              |             |             |             |             |             | 53.9%        |             |
| U.S. Treasury notes                  |                       | 18.1%        |             |             |             |             |             |              |             |
| FDIC-insured certificates of deposit |                       |              |             |             |             |             |             |              | 8.4%        |
| Corporate notes                      | 0.6%                  | 0.6%         | 1.1%        | 4.2%        | 2.1%        |             |             |              |             |
| Negotiable certificates of deposit   |                       |              |             | 1.0%        |             | 2.4%        | 0.6%        |              |             |
| Municipal bond                       |                       |              | 0.1%        |             |             |             |             |              |             |
|                                      | <u>0.6%</u>           | <u>25.0%</u> | <u>1.2%</u> | <u>5.2%</u> | <u>2.1%</u> | <u>3.0%</u> | <u>0.6%</u> | <u>53.9%</u> | <u>8.4%</u> |

At September 30, 2015, the Authority's investments with exposure to credit risk met the minimum credit ratings required in the Authority's investment policy.

# DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

## Notes to the Financial Statements

September 30, 2015 and 2014

(In thousands)

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### (3) Cash Deposits and Investments (Continued)

*Custodial Credit Risk – Deposits* is the risk that, in the event of the failure of the depository financial institution, the Authority will not be able to recover the deposits or collateral securities that are in the possession of an outside party. The Authority had no custodial credit risk associated with cash deposits as all other bank deposits were entirely insured or collateralized with securities or letters of credit at 102% of the market value of principal, plus accrued interest and held by the Authority's independent agent in the Authority's name.

*Custodial Credit Risk – Investments* is the risk that in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of the outside party. The Authority has no custodial credit risk as all Authority investments are held in the Authority's name by an independent custodial agent for the term of the agreement and investments in obligations of the United States or its agencies are held by the Federal Reserve in a custodial account.

*Other Required Disclosures* – As of and for the years ended September 30, 2015 and 2014, the Authority did not have any:

- Commitments to resell securities under yield maintenance agreements;
- Losses due to defaults by counterparties or recoveries from prior period losses; and
- Investments in any one issuer that represent 5% or more of total investments, excluding investments explicitly guaranteed by the U.S. government and its agencies and investments in mutual funds, external investment pools and other pooled investments that are excluded from this disclosure requirement.

**DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY**

**Notes to the Financial Statements**

**September 30, 2015 and 2014**

**(In thousands)**

**(3) Cash Deposits and Investments (Continued)**

**(d) Cash and Investment Schedule**

A schedule of cash, cash equivalents and investments as of September 30, 2015 and 2014 follows:

| Description                                | 2015         |            |            | 2014         |            |            |
|--|--------------|------------|------------|--------------|------------|------------|
|  | Unrestricted | Restricted | Total      | Unrestricted | Restricted | Total      |
| Cash and cash equivalents                  |              |            |            |              |            |            |
| Demand deposits                            | \$ 71,214    | \$ -       | \$ 71,214  | \$ 139,750   | \$ 13,426  | \$ 153,176 |
| Registered money market mutual             | 10,113       | 152,323    | 162,436    | 10,177       | 84,327     | 94,504     |
| U.S. government agency obligations         | -            | -          | -          | -            | 14,998     | 14,998     |
| Total cash and cash equivalents            | 81,327       | 152,323    | 233,650    | 149,927      | 112,751    | 262,678    |
| Investments                                |              |            |            |              |            |            |
| U.S. Treasury notes                        | 41,396       | 13,214     | 54,610     | 37,985       | 8,392      | 46,377     |
| Corporate notes                            | 26,313       | -          | 26,313     | 4,867        | -          | 4,867      |
| FDIC-insured certificates of deposit       | 25,220       | -          | 25,220     | 30,196       | -          | 30,196     |
| U.S. government agency obligations         | 8,930        | 10,035     | 18,965     | 8,559        | 185,794    | 194,353    |
| Negotiable certificates of deposit         | 11,986       | -          | 11,986     | 3,598        | -          | 3,598      |
| Commercial paper                           | 1,792        | -          | 1,792      | 4,793        | 117,072    | 121,865    |
| Municipal bonds                            | 120          | -          | 120        | -            | -          | -          |
| Total Investments                          | 115,757      | 23,249     | 139,006    | 89,998       | 311,258    | 401,256    |
| Total cash, cash equivalents & investments | \$ 197,084   | \$ 175,572 | \$ 372,656 | \$ 239,925   | \$ 424,009 | \$ 663,934 |

**DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY**

**Notes to the Financial Statements**

**September 30, 2015 and 2014**

**(In thousands)**

**(3) Cash Deposits and Investments (Continued)**

**(e) Restricted Cash and Investment Schedule**

A schedule of restricted cash, cash equivalents and investments as of September 30, 2015 and 2014 follows:

| Description   | 2015       | 2014       |
|---|------------|------------|
| Restricted cash and cash equivalents (current and noncurrent) |            |            |
| Revenue bonds 2014A   | \$ 67,604  | \$ 5,646   |
| Principal payment, 1998 revenue bonds                         | 13,138     | 12,393     |
| Interest payment, 2014 C revenue bonds                        | 8,763      | -          |
| Interest payment, 2014 A revenue bonds                        | 8,426      | -          |
| Interest payment, 2012 A,C revenue bonds                      | 8,156      | 8,237      |
| Interest payment, 2013 revenue bonds                          | 7,529      | 7,529      |
| Principal payment, 2008 revenue bonds                         | 6,435      | 6,346      |
| Interest payment, 1998 revenue bonds                          | 5,981      | 6,087      |
| Interest payment, 2010 revenue bonds                          | 5,511      | 8,157      |
| Principal payment, 2012 revenue bonds                         | 4,751      | 4,585      |
| Interest payment, 2009 revenue bonds                          | 4,284      | 7,943      |
| Interest payment, 2008 revenue bonds                          | 4,205      | 6,708      |
| Principal payment, 2009 revenue bonds                         | 3,175      | 2,790      |
| Interest payment, 2007 revenue bonds                          | 2,840      | 5,678      |
| Interest payment, commercial paper                            | 642        | 464        |
| Principal payment, 2014 C revenue bonds                       | 570        | -          |
| Debt service reserve account, 1998 revenue bonds              | 218        | 47         |
| Interest payment, 2012 B-1,2 revenue bonds                    | 60         | 1,697      |
| Interest payment, 2014 B revenue bonds                        | 34         | -          |
| Revenue bonds 2014B   | -          | 15,018     |
| Combined sewer overflow (CSO) federal appropriations          | 1          | 13,426     |
| Total restricted cash and cash equivalents                    | 152,323    | 112,751    |
| Restricted investments (current and noncurrent)               |            |            |
| Debt service reserve account, 1998 revenue bonds              | 23,249     | 23,569     |
| Revenue bonds 2014A   | -          | 257,698    |
| Revenue bonds 2014B   | -          | 29,991     |
| Total restricted investments                                  | 23,249     | 311,258    |
| Total restricted cash, cash equivalents & investments         | \$ 175,572 | \$ 424,009 |

# DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

## Notes to the Financial Statements

September 30, 2015 and 2014

(In thousands)

### (4) Capital Assets

The following tables present the activity in capital assets for the years ended September 30, 2015 and 2014:

|                                  | Balance<br>9/30/2014 | Additions | Disposals | Transfers  | Balance<br>9/30/2015 |
|----------------------------------|----------------------|-----------|-----------|------------|----------------------|
| Capital Assets                   |                      |           |           |            |                      |
| Wastewater treatment plant       | \$2,057,116          | \$ -      | \$ -      | \$ 310,047 | \$2,367,163          |
| Wastewater collection facilities | 758,603              | -         | -         | 69,527     | 828,130              |
| Water distribution system        | 981,047              | -         | -         | 72,999     | 1,054,046            |
| Purchased capacity               | 334,174              | 7,800     | -         | -          | 341,974              |
| Capital equipment                | 191,409              | (12)      | (651)     | 12,827     | 203,573              |
| Total capital assets in service  | 4,322,349            | 7,788     | (651)     | 465,400    | 4,794,886            |
| Less accumulated depreciation:   |                      |           |           |            |                      |
| Wastewater treatment plant       | (550,483)            | (37,909)  | -         | -          | (588,392)            |
| Wastewater collection facilities | (240,961)            | (12,846)  | -         | -          | (253,807)            |
| Water distribution system        | (239,989)            | (16,633)  | -         | -          | (256,622)            |
| Purchased capacity               | (76,844)             | (5,696)   | -         | -          | (82,540)             |
| Capital equipment                | (159,732)            | (10,774)  | 651       | -          | (169,855)            |
| Total accumulated depreciation   | (1,268,009)          | (83,858)  | 651       | -          | (1,351,216)          |
| Net capital assets in service    | 3,054,340            | (76,070)  | -         | 465,400    | 3,443,670            |
| Construction-in-progress         | 1,879,678            | 619,379   | -         | (465,400)  | 2,033,657            |
| Net capital assets               | \$4,934,018          | \$543,309 | \$ -      | \$ -       | \$5,477,327          |

|                                  | Balance<br>9/30/2013 | Additions | Disposals | Transfers  | Balance<br>9/30/2014 |
|----------------------------------|----------------------|-----------|-----------|------------|----------------------|
| Capital Assets                   |                      |           |           |            |                      |
| Wastewater treatment plant       | \$1,945,920          | \$ -      | \$ -      | \$ 111,196 | \$2,057,116          |
| Wastewater collection facilities | 730,622              | -         | -         | 27,981     | 758,603              |
| Water distribution system        | 920,150              | -         | -         | 60,897     | 981,047              |
| Purchased capacity               | 326,290              | 7,884     | -         | -          | 334,174              |
| Capital equipment                | 178,620              | -         | (313)     | 13,102     | 191,409              |
| Total capital assets in service  | 4,101,602            | 7,884     | (313)     | 213,176    | 4,322,349            |
| Less accumulated depreciation:   |                      |           |           |            |                      |
| Wastewater treatment plant       | (516,832)            | (33,651)  | -         | -          | (550,483)            |
| Wastewater collection facilities | (228,885)            | (12,076)  | -         | -          | (240,961)            |
| Water distribution system        | (224,746)            | (15,243)  | -         | -          | (239,989)            |
| Purchased capacity               | (71,279)             | (5,565)   | -         | -          | (76,844)             |
| Capital equipment                | (148,747)            | (11,298)  | 313       | -          | (159,732)            |
| Total accumulated depreciation   | (1,190,489)          | (77,833)  | 313       | -          | (1,268,009)          |
| Net capital assets in service    | 2,911,113            | (69,949)  | -         | 213,176    | 3,054,340            |
| Construction-in-progress         | 1,381,652            | 711,202   | -         | (213,176)  | 1,879,678            |
| Net capital assets               | \$4,292,765          | \$641,253 | \$ -      | \$ -       | \$4,934,018          |

# DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

## Notes to the Financial Statements

September 30, 2015 and 2014

(In thousands)

### (4) Capital Assets (Continued)

For the years ended September 30, 2015 and 2014, total interest expense incurred was \$57,341 and \$65,262, and total capitalized interest was \$52,028 and \$40,327, respectively.

The following tables present the activity in purchased capacity for the years ended September 30, 2015 and 2014:

|                                | Balance<br>9/30/2014 | Additions       | Balance<br>9/30/2015 |
|--------------------------------|----------------------|-----------------|----------------------|
| Purchased capacity             |                      |                 |                      |
| Washington aqueduct            | \$ 301,984           | \$ 7,800        | \$ 309,784           |
| Jennings randolph reservoir    | 19,863               | -               | 19,863               |
| Little seneca lake             | 12,327               | -               | 12,327               |
| Total in service               | <u>334,174</u>       | <u>7,800</u>    | <u>341,974</u>       |
| Less accumulated depreciation: |                      |                 |                      |
| Washington aqueduct            | (62,141)             | (5,098)         | (67,239)             |
| Jennings randolph reservoir    | (8,644)              | (393)           | (9,037)              |
| Little seneca lake             | (6,059)              | (205)           | (6,264)              |
| Total accumulated depreciation | <u>(76,844)</u>      | <u>(5,696)</u>  | <u>(82,540)</u>      |
| Purchased capacity, net        | <u>\$ 257,330</u>    | <u>\$ 2,104</u> | <u>\$ 259,434</u>    |
|                                |                      |                 |                      |
|                                | Balance<br>9/30/2013 | Additions       | Balance<br>9/30/2014 |
| Purchased capacity             |                      |                 |                      |
| Washington aqueduct            | \$ 294,100           | \$ 7,884        | \$ 301,984           |
| Jennings randolph reservoir    | 19,863               | -               | 19,863               |
| Little seneca lake             | 12,327               | -               | 12,327               |
| Total in service               | <u>326,290</u>       | <u>7,884</u>    | <u>334,174</u>       |
| Less accumulated depreciation: |                      |                 |                      |
| Washington aqueduct            | (57,174)             | (4,967)         | (62,141)             |
| Jennings randolph reservoir    | (8,251)              | (393)           | (8,644)              |
| Little seneca lake             | (5,854)              | (205)           | (6,059)              |
| Total accumulated depreciation | <u>(71,279)</u>      | <u>(5,565)</u>  | <u>(76,844)</u>      |
| Purchased capacity, net        | <u>\$ 255,011</u>    | <u>\$ 2,319</u> | <u>\$ 257,330</u>    |

# DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

## Notes to the Financial Statements

September 30, 2015 and 2014

(In thousands)

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### (5) Capital Contributions

Capital contributions consist of the following for the years ended September 30, 2015 and 2014, respectively:

| Description                            | 2015             | 2014             |
|--|------------------|------------------|
| Federal grants and appropriations      | \$ 47,943        | \$ 55,908        |
| Contributions from District government | 20,022           | 38,782           |
| Total                                  | <u>\$ 67,965</u> | <u>\$ 94,690</u> |

Capital contributions consist principally of Federal grants and appropriations and certain capital costs incurred by the Authority in fiscal year 2015 and 2014 to be reimbursed by the District government pursuant to the Memorandum of Understanding between the Authority and the District discussed in Note 13(c).

### (6) Due from Federal Government

The amount due from the Federal government consists of the following at September 30, 2015 and 2014, respectively:

| Description                 | 2015             | 2014             |
|-----------------------------|------------------|------------------|
| Washington aqueduct advance | \$ 24,233        | \$ 20,282        |
| Federal grants receivable   | 8,245            | 9,632            |
| Total                       | <u>\$ 32,478</u> | <u>\$ 29,914</u> |

The Washington Aqueduct advance consists of unexpended capital advances and an operating escrow of \$4,675 required under the Water Sales Agreement. Federal grants receivable represent amounts due from the Environmental Protection Agency related to allowable construction costs incurred but not billed and/or reimbursed as of the fiscal year end.

### (7) Customer Receivables

Customer receivables include unbilled revenues of \$19,042 and \$15,248 at September 30, 2015 and 2014, respectively.

# DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

## Notes to the Financial Statements

September 30, 2015 and 2014

(In thousands)

### (8) Due from Other Jurisdictions

The amount due from other jurisdictions under the 2012 IMA consists of the following at September 30, 2015 and 2014:

| Description                             | 2015      | 2014      |
|---|-----------|-----------|
| Current:                                |           |           |
| Washington Suburban Sanitary Commission | \$ 31,971 | \$ 46,068 |
| Fairfax                                 | 8,368     | 8,749     |
| Loudoun County Sanitation Authority     | 3,121     | 4,012     |
| Northern Virginia                       | 90        | 87        |
| Potomac Interceptor                     | 849       | 507       |
| Total current                           | 44,399    | 59,423    |
| Noncurrent:                             |           |           |
| Washington Suburban Sanitary Commission | 12,149    | 14,499    |
| Northern Virginia                       | 3,082     | 3,172     |
| Fairfax                                 | 2,601     | 2,818     |
| Loudoun County Sanitation Authority     | 1,153     | 1,291     |
| Total noncurrent                        | 18,985    | 21,780    |
| Total due from other jurisdictions      | \$ 63,384 | \$ 81,203 |

### (9) Compensated Absences

The following table reflects the activity associated with accrued compensated absences for the years ended September 30, 2015 and 2014, respectively:

| Description           | 2015     |          |           | 2014     |          |           |
|-----------------------|----------|----------|-----------|----------|----------|-----------|
|                       | Vacation | Sick     | Total     | Vacation | Sick     | Total     |
| Beginning of year     | \$ 7,683 | \$ 6,897 | \$ 14,580 | \$ 6,961 | \$ 5,802 | \$ 12,763 |
| Increased (incurred)  | 1,963    | 1,688    | 3,651     | 1,608    | 1,158    | 2,766     |
| Decreases             | (1,393)  | (780)    | (2,173)   | (886)    | (63)     | (949)     |
| End of year           | 8,253    | 7,805    | 16,058    | 7,683    | 6,897    | 14,580    |
| Less: current portion | 1,106    | 359      | 1,464     | 905      | 236      | 1,141     |
| Noncurrent portion    | \$ 7,147 | \$ 7,446 | \$ 14,594 | \$ 6,778 | \$ 6,661 | \$ 13,439 |

The current portion of compensated absences is included in compensation payable in the accompanying statements of net position.

# DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

## Notes to the Financial Statements

September 30, 2015 and 2014

(In thousands)

### (10) Short-Term Debt—Commercial Paper

The Authority has established a commercial paper (“CP”) program to provide interim financing for the Authority’s capital improvement program. Two series of notes have been issued under the commercial paper program: the tax-exempt Series B CP Notes in an aggregate principal amount not to exceed \$100,000, and the taxable Series C CP Notes in an aggregate principal amount not to exceed \$50,000, (collectively, the “Commercial Paper Notes”), each as subordinate debt to the senior debt discussed in Note 11. To provide liquidity and credit support for the Commercial Paper Notes, the Authority obtained irrevocable, direct-pay letters of credit (the “Letters of Credit”) issued by Landesbank Hessen-Thüringen Girozentrale, New York Branch (the “Bank”) which currently expire on May 15, 2020. In connection with the Bank’s issuance of the Letters of Credit, the Authority and the Bank entered into a Reimbursement Agreement for each series of CP Notes, each dated as of May 1, 2015, each as amended (collectively, the “Reimbursement Agreements”) that obligates the Authority to pay Bank Obligations and Reimbursement Obligations (both as defined in the Eleventh Supplemental Indenture relating to the Commercial Paper Notes) and Fee Obligations (as defined in each Reimbursement Agreement) to the Bank. The Bank Obligations, the Reimbursement Obligations and Fee Obligations are Subordinate Debt under the Indenture.

A schedule of Commercial Paper activity for the years ended September 30, 2015 and 2014 follows:

| Description   | Balance          | 2015               |                   | Balance          |
|---|------------------|--------------------|-------------------|------------------|
|   | 9/30/2014        | Maturities         | Re-Issuance       | 9/30/2015        |
| Series C, interest from 0.15% to 0.24%,<br>maturities ranged from 1 to 97 days  | \$ 29,200        | \$(204,400)        | \$ 204,400        | \$ 29,200        |
| Series B, interest from 0.03% to 0.12%,<br>maturities ranged from 36 to 89 days | 12,000           | (78,000)           | 128,000           | 62,000           |
|   | <u>\$ 41,200</u> | <u>\$(282,400)</u> | <u>\$ 332,400</u> | <u>\$ 91,200</u> |

| Description  | Balance          | 2014               |                   | Balance          |
|--|------------------|--------------------|-------------------|------------------|
|  | 9/30/2013        | Maturities         | Re-Issuance       | 9/30/2014        |
| Series C, interest from 0.16% to 0.18%,<br>maturities ranged from 84 to 112 days | \$ 29,200        | \$(116,800)        | \$ 116,800        | \$ 29,200        |
| Series B, interest from 0.05% to 0.11%,<br>maturities ranged from 20 to 126 days | 12,000           | (84,000)           | 84,000            | 12,000           |
|  | <u>\$ 41,200</u> | <u>\$(200,800)</u> | <u>\$ 200,800</u> | <u>\$ 41,200</u> |

# DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

## Notes to the Financial Statements

September 30, 2015 and 2014

(In thousands)

### (11) Long-Term Debt

A schedule of long-term debt activity for the year ended September 30, 2015 is shown below:

| Description   | Balance<br>9/30/2014 | Increases | Decreases   | Balance<br>9/30/2015 | Due Within<br>One Year |
|---|----------------------|-----------|-------------|----------------------|------------------------|
| 2014 Public Utility Revenue Bonds:  |                      |           |             |                      |                        |
| Series A interest at 4.81%, maturing in 2114  | \$ 350,000           | \$ -      | \$ -        | \$ 350,000           | \$ -                   |
| Series B-1 interest at 3.25%, maturing in 2050  | 50,000               | -         | -           | 50,000               | -                      |
| Series B-2 interest at 3.25%, maturing in 2050  | 50,000               | -         | -           | 50,000               | -                      |
| Series C interest at 3.0 % to 5.0%, maturing in 2044  | -                    | 377,700   | -           | 377,700              | 590                    |
| 2013 Public Utility Revenue Bonds:  |                      |           |             |                      |                        |
| interest at 4.75% to 5.0%, maturing in 2049   | 300,000              | -         | -           | 300,000              | -                      |
| 2012 Public Utility Revenue Bonds:  |                      |           |             |                      |                        |
| Series A interest at 2.0 % to 5.0%, maturing in 2037  | 172,990              | -         | (4,585)     | 168,405              | 4,750                  |
| Series B-1 interest at 2.26%, maturing in 2044  | 52,690               | -         | (52,690)    | -                    | -                      |
| Series B-2 interest at 2.26%, maturing in 2040  | 47,310               | -         | -           | 47,310               | -                      |
| Series C interest at 4.0% to 5.0%, maturing in 2033   | 163,215              | -         | -           | 163,215              | -                      |
| 2010 Series A Public Utility Revenue Bonds:   |                      |           |             |                      |                        |
| interest at 4.1% to 5.5%, maturing in 2044  | 300,000              | -         | -           | 300,000              | -                      |
| 2009 Series A Public Utility Revenue Bonds:   |                      |           |             |                      |                        |
| interest at 3.0% to 6.0%, maturing in 2039  | 291,145              | -         | (131,625)   | 159,520              | 3,175                  |
| 2008 Series A Public Utility Revenue Bonds:   |                      |           |             |                      |                        |
| interest at 4.0% to 5.0%, maturing in 2034  | 268,095              | -         | (99,905)    | 168,190              | 6,435                  |
| 2007 Series A Public Utility Revenue Bonds:   |                      |           |             |                      |                        |
| interest at 4.75% to 5.50%, maturing in 2041  | 218,715              | -         | (103,135)   | 115,580              | -                      |
| 1998 Public Utility Revenue Bonds:  |                      |           |             |                      |                        |
| interest ranges from 5.5% to 6.0%, maturing in 2028   | 196,050              | -         | (12,390)    | 183,660              | 13,135                 |
| Notes payable to the Federal Government for Jennings<br>Randolph Reservoir (Bloomington Dam): |                      |           |             |                      |                        |
| interest at 3.25%, maturing in 2041   | 13,580               | -         | (363)       | 13,217               | 375                    |
| Subtotal  | 2,473,790            | 377,700   | (404,693)   | 2,446,797            | 28,460                 |
| Unamortized bond premiums   | 76,098               | 51,085    | (23,123)    | 104,060              | -                      |
| Unamortized bond discounts  | (2,480)              | -         | 129         | (2,351)              | -                      |
| Total bonds and notes   | \$2,547,408          | \$428,785 | \$(427,687) | \$2,548,506          | \$ 28,460              |

# DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

## Notes to the Financial Statements

September 30, 2015 and 2014

(In thousands)

### (11) Long-Term Debt (Continued)

A schedule of long-term debt activity for the year ended September 30, 2014 is shown below:

| Description   | Balance<br>9/30/2013 | Increases  | Decreases   | Balance<br>9/30/2014 | Due Within<br>One Year |
|---|----------------------|------------|-------------|----------------------|------------------------|
| 2014 Public Utility Revenue Bonds:  |                      |            |             |                      |                        |
| Series A interest at 4.81%, maturing in 2114  | \$ -                 | \$ 350,000 | \$ -        | \$ 350,000           | \$ -                   |
| Series B-1 variable interest rate, maturing in 2050   | -                    | 50,000     | -           | 50,000               | -                      |
| Series B-2 variable interest rate, maturing in 2050   | -                    | 50,000     | -           | 50,000               | -                      |
| 2013 Public Utility Revenue Bonds:  |                      |            |             |                      |                        |
| interest at 4.75% to 5.0%, maturing in 2049   | 300,000              | -          | -           | 300,000              | -                      |
| 2012 Public Utility Revenue Bonds:  |                      |            |             |                      |                        |
| Series A interest at 2.0 % to 5.0%, maturing in 2037  | 177,430              | -          | (4,440)     | 172,990              | 4,585                  |
| Series B-1 interest at 2.26%, maturing in 2044  | 52,690               | -          | -           | 52,690               | -                      |
| Series B-2 interest at 2.26%, maturing in 2040  | 47,310               | -          | -           | 47,310               | -                      |
| Series C interest at 4.0% to 5.0%, maturing in 2033   | 163,215              | -          | -           | 163,215              | -                      |
| 2010 Series A Public Utility Revenue Bonds:   |                      |            |             |                      |                        |
| interest at 4.1% to 5.5%, maturing in 2044  | 300,000              | -          | -           | 300,000              | -                      |
| 2009 Series A Public Utility Revenue Bonds:   |                      |            |             |                      |                        |
| interest at 3.0% to 6.0%, maturing in 2039  | 293,720              | -          | (2,575)     | 291,145              | 2,790                  |
| 2008 Series A Public Utility Revenue Bonds:   |                      |            |             |                      |                        |
| interest at 4.0% to 5.0%, maturing in 2034  | 274,210              | -          | (6,115)     | 268,095              | 6,345                  |
| 2007 Series A Public Utility Revenue Bonds:   |                      |            |             |                      |                        |
| interest at 4.75% to 5.50%, maturing in 2041  | 218,715              | -          | -           | 218,715              | -                      |
| 1998 Public Utility Revenue Bonds:  |                      |            |             |                      |                        |
| interest ranges from 5.5% to 6.0%, maturing in 2028   | 207,735              | -          | (11,685)    | 196,050              | 12,390                 |
| Notes payable to the Federal Government for Jennings<br>Randolph Reservoir (Bloomington Dam): |                      |            |             |                      |                        |
| interest at 3.25%, maturing in 2041   | 13,932               | -          | (352)       | 13,580               | 363                    |
| Subtotal  | 2,048,957            | 450,000    | (25,167)    | 2,473,790            | 26,473                 |
| Unamortized bond premiums   | 79,313               | -          | (3,215)     | 76,098               | -                      |
| Unamortized bond discounts  | (2,608)              | -          | 128         | (2,480)              | -                      |
| Total bonds and notes   | \$2,125,662          | \$ 450,000 | \$ (28,254) | \$ 2,547,408         | \$ 26,473              |

# DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

## Notes to the Financial Statements

September 30, 2015 and 2014

(In thousands)

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### (11) Long-Term Debt (Continued)

#### (a) *Senior Debt*

The 2014 Series A, 2009 Series A and 1998 Series public utility revenue bonds are considered senior debt under the related Master Indenture of Trust (“Master Indenture”). Payment of the principal and interest on Authority’s senior debt is secured by a pledge of Authority’s gross revenues (excluding any capital contributions or grants) after provisions for payment of operating expenses.

In July 2014, the Authority issued \$350.0 million of senior lien public utility revenue bonds 2014 Series A. The 2014 Series A bonds are federally taxable green bonds with a fixed rate of 4.81% and a 100 year final maturity in 2114. The proceeds of the issuance will be used to help finance the construction of the Authority’s DC Clean Rivers Project. Net proceeds from the bond issuance totaled approximately \$346.0 million including \$4.0 million of underwriter’s discount and cost of issuance.

In January 2009, the Authority issued senior lien public utility revenue bonds 2009 Series A with a face value of \$300,000, consisting of \$38,355 in Serial Bonds and \$261,645 in Term Bonds. The Serial Bonds have maturity dates and interest rates ranging from 2010-2030 and 3.0% to 5.4%, respectively. The Term Bonds have maturity dates and interest rates ranging from 2024-2039 and 4.8% to 6.0%, respectively. Debt proceeds were used to refinance \$14,800 of the taxable Series A Commercial Paper Notes and \$50,000 of the tax exempt Series B Commercial Paper Notes with the remainder used to finance the ongoing capital improvement program. During fiscal year 2015, the Authority advance refunded \$128,835 of the 2009 Series A bonds. Details of the advance refunding are discussed below.

In April 1998, the Authority issued \$266,120 of senior lien public utility revenue bonds 1998 Series. Gross proceeds from the Series 1998 Series bonds totaled \$285,200, including \$18,800 of the original issue premium. Approximately \$77,200 was used to fund various capital projects; \$181,000 was used to repay the outstanding balances of a revolving line of credit and certain notes payable to the Federal government and to advance-refund approximately \$152,200 of District general obligation bonds. The refunded bonds have been fully extinguished. The remainder of the gross proceeds, approximately \$27,000, was used to fund the debt service reserve fund and to pay the cost of issuance. The payment of principal and interest on the Series 1998 bonds is insured by Financial Security Assurance, Inc.

#### (b) *Subordinate Debt*

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

In November 2014, the Authority issued subordinate lien revenue refunding bonds 2014 Series C for \$377,700. The proceeds from these bonds were used to advance refund \$103,135 of subordinated lien revenue bonds 2007 Series A, \$93,560 of subordinate lien revenue bonds 2008 Series A, and \$128,835 of senior lien revenue bonds 2009 Series A; and to current refund \$52,690 of subordinate lien multimodal revenue bonds 2012 Subseries B-1.

# DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

## Notes to the Financial Statements

September 30, 2015 and 2014

(In thousands)

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### (11) Long-Term Debt (Continued)

The proceeds from 2014 Series C were used to purchase securities that were placed in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded 2007 Series A, 2008 Series A and 2009 Series A bonds. As a result, the bonds are considered to be defeased and the liability for these bonds has been removed from the financial statements. The interest rates on the refunded bonds ranges from 2.26% to 6.0%. The cash flow required to make principal and interest payments on the refunding bonds is approximately \$50,356 less than the debt service requirements of the refunded bonds. The economic gain (the difference between the present values of the debt service payments on the old and new debt) obtained from the advance refunding is \$35,266.

In July 2014, the Authority issued \$100 million of tax-exempt 2014 Series B variable rate multimodal subordinate lien revenue bonds, maturing in 2050 to fund the Authority's capital improvement program. Net proceeds from the bond issuance totaled approximately \$99.5 million including \$0.5 million of underwriter's discount and cost of issuance. Initially, the 2014 Series B bonds will bear interest in a weekly rate period but may be converted to daily, index, short term, long term or fixed rate. Funds for the purchase of tendered bonds that are not remarketed will be provided initially by TD Bank, N.A. for a period of three years pursuant to a Standby Bond Purchase Agreement dated July 23, 2014.

In July 2013, the Authority issued \$300,000 of subordinate lien public utility revenue bonds with interest rates ranging from 4.75% to 5.0%, maturing in 2049 to fund the Authority's capital improvement program. Gross proceeds from the 2013 Series A bonds totaled \$298,921, including \$1,014 of original issue premium and \$2,093 of underwriter's discount and cost of issuance.

In March 2012, the Authority issued subordinate lien revenue bonds with a face value of \$440,645. The bonds were structured in three Series: 2012 Series A consisted of \$177,430 with interest rates ranging from 2.0% to 5.0% maturing in 2037; 2012 Series B consisting of \$100,000 with interest rate at 2.26% maturing in 2044; and 2012 Series C consisting of \$163,215 with interest rates ranging from 4.0% to 5.0% maturing in 2033. Gross proceeds from the three series of 2012 Bonds totaled \$493,934, including \$53,289 of the original issue premium. Approximately \$302,413 was used to fund various capital projects; \$188,688 was used to advance-refund series 2003 Series bonds, and \$2,833 was used to pay the underwriter's discount and cost of issuance. During fiscal year 2015, the Authority current refunded \$52,690 of the 2012 Series B-1 bonds. Details of the current refunding are discussed above.

The Authority completed its advance-refunding of the 2003 Series bonds by using \$188,688 of bond proceeds from 2012 Series C to purchase securities that were placed in an irrevocable trust with an escrow agent to provide for all future debt service payments on the bonds. As a result, the bonds are considered to be defeased and the liability for those bonds has been removed from the financial statements. This refunding decreases total debt service payments by approximately \$25,478 resulting in an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$17,843. The refunded bonds have been fully extinguished.

# DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

## Notes to the Financial Statements

September 30, 2015 and 2014

(In thousands)

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### (11) Long-Term Debt (Continued)

In October 2010, the Authority issued the 2010 Series A public utility subordinate lien revenue bonds, 2010 Series A under the Federal government's Build America Bonds program. Under this program, the Federal government provides the Authority a federal subsidy in the amount of 35% of the interest paid on the bonds which reduces the Authority's effective interest costs to approximately 3.6%. The \$300,000 par amount consisted of \$18,550 in serial bonds maturing in 2033 and gross interest rates ranging from 4.1% to 4.6%, \$30,950 in term bonds maturing in 2028 and a gross interest rate of 5.4%, and \$250,500 in index term bonds maturing in 2044 and a gross interest rate of 5.5%. Approximately \$214,640 was issued to fund costs of certain capital improvements, including \$2,420 for the cost of issuance and underwriter's discount. In addition, approximately \$75,000 was issued to fund the Authority's Digester Project and \$10,360 for capitalized interest. The interest subsidy received by the Authority for the fiscal years ended September 30, 2015 and 2014 amounted to \$2,647 and \$5,299, respectively. In fiscal years 2015 and 2014, the Authority received \$208 and \$411 less than expected due to budget sequester impacts experienced by the Federal government.

In April 2008, the Authority refunded the 2004 and 2007 Series B subordinate public utility revenue bonds for \$295,000 and \$59,000, respectively. Simultaneously, the Authority issued subordinate lien public utility revenue bonds 2008 Series A with a face value of \$290,375 which are due in 2034. The interest rate on these securities is fixed and will have an effective average rate of 4.7% over the life of the bonds. There was \$11,678 of original issue premium and approximately \$5,888 for the cost of issuance, bond insurance and underwriter's discount costs associated with this issuance. The scheduled payments of principal and interest on the 2008 Series A bonds are guaranteed by a municipal bond insurance policy issued by the Assured Guaranty Program. During fiscal year 2015, the Authority advance refunded \$93,560 of the series 2008 Series A bonds. Details of the advance refunding are discussed above.

In June 2007, the Authority issued \$218,715 of tax-exempt subordinate lien public utility revenue bonds 2007 Series A and \$59,000 of taxable subordinate lien public utility revenue bonds 2007 Series B. Gross proceeds from the 2007 Series A bonds totaled \$234,923, including \$15,661 of original issue premium. Approximately \$30,000 was used to repay outstanding commercial paper, and \$2,824 was used to pay the underwriter's discount, insurance and the cost of issuance. The scheduled payments of principal and interest on 2007 Series A bonds are guaranteed by a municipal bond insurance policy issued by the Financial Guaranty Insurance Company ("FGIC"). Gross proceeds from the 2007 Series B bonds totaled \$59,000. Proceeds from the 2007 Series B bonds were used entirely to fund the Authority's share of capital improvements to the Washington Aqueduct. The scheduled payments of principal and interest on 2007 Series B bonds are guaranteed by a municipal bond insurance policy issued by CIFG Assurance North America, Inc. During fiscal year 2015, the Authority advance refunded \$103,135 of the 2007 Series A bonds. Details of the advance refunding are discussed above.

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

# DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

## Notes to the Financial Statements

September 30, 2015 and 2014

(In thousands)

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### (11) Long-Term Debt (Continued)

#### (c) *Bond Covenants*

The Master Indenture sets forth the establishment of accounts, the application of revenues, and certain other covenants to ensure proper operation and maintenance of the water and wastewater system and payment of debt service. Management believes the Authority was in compliance with all bond covenants as of and for the years ended September 30, 2015 and 2014. The primary requirements of the Master Indenture are summarized below:

*Rate Covenant* — The Authority has covenanted to establish and maintain rates and charges to produce revenues sufficient to pay operating expenses and annual debt service on senior and subordinate debt, to fund certain required reserves, to fund any payment in lieu of taxes, and to produce net revenues sufficient at least equal to the sum of: (1) 120% of annual debt service on senior debt and (2) 100% of annual debt service on subordinate debt. Net revenues are defined generally as all Authority revenues (excluding capital contributions from wholesale customers, Federal grants, or any proceeds derived from the sale of capital assets), less operating and maintenance expenses (excluding any payment in lieu of taxes, depreciation and amortization charges and certain extraordinary, nonrecurring expenses).

*Debt Service Reserve Fund* — The Authority has established debt service reserve accounts for certain series of bonds, which are only to be used to pay debt service in the event of insufficient funds. The 1998 Series bonds debt service reserve account balance as of September 30, 2015 and 2014 was \$23,633 and \$23,616, respectively, and is required to be maintained at 125% of current and future average annual 1998 Series debt service.

*Operating Reserve Fund* — The Master Indenture creates an Operating Reserve Fund in which the Authority must maintain a balance equal to at least 60 days of operating and maintenance expenses of the prior year. Moneys in the Operating Reserve Fund shall be used to pay, to the extent necessary, operating expenses of the Authority. In addition, to the extent that moneys on deposit in the Bond Fund are insufficient to make the required interest and principal payments, moneys in the Operating Reserve Fund shall be used prior to any withdrawal from the Debt Service Reserve Fund to satisfy any such deficiencies. The Board has adopted a policy of funding operating reserves to a level in excess of that required by the Master Indenture.

# DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

## Notes to the Financial Statements

September 30, 2015 and 2014

(In thousands)

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### (11) Long-Term Debt (Continued)

#### (d) Debt Service to Maturity

The future debt-service obligations at September 30, 2015 are as follows:

| Fiscal year | Principal           | Interest            | Total               |
|-------------|---------------------|---------------------|---------------------|
| 2016        | \$ 28,460           | \$ 111,600          | \$ 140,060          |
| 2017        | 29,317              | 111,367             | 140,685             |
| 2018        | 30,840              | 109,856             | 140,696             |
| 2019        | 32,413              | 108,261             | 140,674             |
| 2020        | 34,652              | 106,527             | 141,179             |
| 2021 - 2025 | 220,080             | 503,087             | 723,167             |
| 2026 - 2030 | 279,473             | 444,787             | 724,260             |
| 2031 - 2035 | 354,087             | 371,014             | 725,100             |
| 2036 - 2040 | 450,457             | 274,836             | 725,292             |
| 2041 - 2045 | 473,228             | 166,130             | 639,358             |
| 2046 - 2050 | 152,290             | 97,427              | 249,717             |
| 2051 - 2055 | 11,500              | 84,245              | 95,745              |
| 2056 - 2060 | —                   | 84,245              | 84,245              |
| 2061 - 2065 | —                   | 84,245              | 84,245              |
| 2066 - 2070 | —                   | 84,245              | 84,245              |
| 2071 - 2075 | —                   | 84,245              | 84,245              |
| 2076 - 2080 | —                   | 84,245              | 84,245              |
| 2081 - 2085 | —                   | 84,245              | 84,245              |
| 2086 - 2090 | —                   | 84,245              | 84,245              |
| 2091 - 2095 | —                   | 84,245              | 84,245              |
| 2096 - 2100 | —                   | 84,245              | 84,245              |
| 2101 - 2105 | —                   | 84,245              | 84,245              |
| 2106 - 2110 | 154,524             | 62,627              | 217,151             |
| 2111 - 2115 | 195,476             | 19,704              | 215,180             |
|             | <u>\$ 2,446,797</u> | <u>\$ 3,413,918</u> | <u>\$ 5,860,714</u> |

# DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

## Notes to the Financial Statements

September 30, 2015 and 2014

(In thousands)

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

A schedule of other liabilities as of September 30, 2015 and 2014 is shown below:

| Description                                | 2015             | 2014             |
|--|------------------|------------------|
| Risk management contingency                | \$ 11,615        | \$ 11,645        |
| Rolling owner controlled insurance program | 5,702            | 5,242            |
| Litigation contingency                     | 3,024            | 2,990            |
| Contractual obligations                    | 825              | -                |
| Retirement health savings plan             | 1,955            | 1,671            |
| Total other liabilities                    | 23,121           | 21,548           |
| Less: current portion                      | 9,230            | 9,873            |
| Noncurrent portion                         | <u>\$ 13,891</u> | <u>\$ 11,675</u> |

The current portion of other liabilities represents management's estimate of the amounts that will be paid in next fiscal year.

#### (a) Risk Management

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Effective April 7, 1998, the Authority purchased certain commercial insurance coverage. Prior to that date, the Authority was either self-insured or covered under District self-insurance programs.

For each of the three most recent years, settlement of claims has not exceeded insurance coverage. Additionally, there has not been a significant reduction in insurance coverage from coverage in the prior year.

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

The Authority has purchased liability insurance coverage to protect it from claims alleging damages and injuries caused by automobile accidents, damaged utilities, construction, and other activities. Limits of \$100,000 have been secured in excess of a deductible of \$1,000 for each occurrence. Public Officials' liability insurance has been secured with limits of \$20,000 in excess of a deductible of \$250 to \$500 per claim.

# DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

## Notes to the Financial Statements

September 30, 2015 and 2014

(In thousands)

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

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

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

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

These liabilities are computed using a combination of actual claims experience and statistically estimated amounts. The Authority has not discounted these estimated liabilities to present value.

Changes in the Authority's estimated risk management liabilities related to workers' compensation and general liability claims during the years ended September 30, 2015, 2014 and 2013 were as follows:

| Description                                  | 2015             | 2014             | 2013             |
|--|------------------|------------------|------------------|
| Balance, beginning of year                   | \$ 11,645        | \$ 11,782        | \$ 12,453        |
| Current year claims and changes in estimates | 2,796            | 2,842            | 2,250            |
| Claim payments                               | (2,826)          | (2,979)          | (2,921)          |
| Balance, end of year                         | <u>\$ 11,615</u> | <u>\$ 11,645</u> | <u>\$ 11,782</u> |

#### (b) *Rolling Owner Controlled Insurance Program*

The Authority procures insurance for the majority of its construction contractors through the Authority's Rolling Owner Controlled Insurance Program (ROCIP). Construction contractors who do not participate in the ROCIP are required to procure insurance on their own. Coverage for participating construction contractors includes general liability, umbrella and workers' compensation insurance. Both general liability and workers' compensation have a \$500 per occurrence deductible. There is also \$100,000 excess policy in place over general liability. The workers' compensation loss coverage is statutory, and unlimited above the retention. For each of the three most recent years, settlement of claims has not exceeded insurance coverage. Additionally, there has not been a significant reduction in insurance coverage from coverage in the prior year.

# DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

## Notes to the Financial Statements

September 30, 2015 and 2014

(In thousands)

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

Liabilities for the self-insured exposure for workers' compensation claims and general liability claims under the ROCIP are recognized when it is probable that losses have occurred and the amounts of the losses can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported to date and include a provision for allocated and unallocated claim adjustment expenses. Because actual claims liabilities depend on such complex factors as inflation, changes in governing laws and standards, and court awards, the process used in computing claims liabilities is reevaluated periodically to take into consideration the history, frequency and severity of recent claims and other economic and social factors.

These liabilities are computed using a combination of actual claims experience and statistically estimated amounts. The Authority has not discounted these estimated liabilities to present value.

Changes in the Authority's estimated ROCIP liabilities related to workers' compensation and general liability claims during the years ended September 30, 2015, 2014 and 2013 were as follows:

| Description   | 2015            | 2014            | 2013             |
|---|-----------------|-----------------|------------------|
| Balance, beginning of year                          | \$ 5,242        | \$ 11,827       | \$ 10,332        |
| Current year increase (decrease) in ROCIP liability | 5,163           | (2,410)         | 9,498            |
| ROCIP administration and claim payments             | (4,703)         | (4,175)         | (8,003)          |
| Balance, end of year                                | <u>\$ 5,702</u> | <u>\$ 5,242</u> | <u>\$ 11,827</u> |

#### (c) *Litigation*

The Authority is a party in various administrative proceedings, legal actions and claims brought by or against it in the normal course of operations by employees, contractors, and other parties. The following table reflects the changes in the Authority's estimated liabilities for litigation contingencies where the risk of loss is probable during the years ended September 30, 2015 and 2014:

| Description                                  | 2015            | 2014            |
|--|-----------------|-----------------|
| Balance, beginning of year                   | \$ 2,990        | \$ 3,220        |
| Current year claims and changes in estimates | 502             | 962             |
| Claim payments                               | (468)           | (1,192)         |
| Balance, end of year                         | <u>\$ 3,024</u> | <u>\$ 2,990</u> |

Although the ultimate outcome of these legal proceedings are unknown, in the opinion of the Authority's management and legal counsel, the ultimate resolution of these actions and claims will not materially affect the financial position, results of operations, or cash flows of the Authority.

# DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

## Notes to the Financial Statements

September 30, 2015 and 2014

(In thousands)

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

#### (d) *Federal Grants*

The Authority's federal capital grants are subject to financial and compliance audits by the U.S. Environmental Protection Agency, the grantor, or its representatives. The Authority's management does not expect that the results of these audits will have a material adverse effect on the accompanying financial statements, as this has been the case since fiscal year 2001. As a result, the Authority no longer maintains the reserve for grant revenues.

#### (e) *Construction and Other Significant Commitments*

The Authority's contractual commitments are primarily associated with the long-term capital improvement program. Outstanding contractual commitments related to the capital improvement program as of September 30, 2015 and 2014 were \$966,985 and \$1,255,496, respectively. Outstanding construction commitments are not recorded in the financial statements until goods and services have been received by the Authority in accordance with the terms of the related contracts.

#### (f) *Lease Commitments*

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

The Authority's rental expense for the years ended September 30, 2015 and 2014 were as follows:

| Description                 | 2015            | 2014            |
|-----------------------------|-----------------|-----------------|
| Facilities leases           | \$ 1,362        | \$ 1,360        |
| Automobile equipment leases | 70              | 27              |
| Machinery leases            | 211             | 95              |
| Total                       | <u>\$ 1,643</u> | <u>\$ 1,482</u> |

# DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

## Notes to the Financial Statements

September 30, 2015 and 2014

(In thousands)

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

Future minimum non-cancelable lease payments on existing operating leases at September 30, 2015, which have an initial term of one year or more, are as follows.

| <u>Fiscal Year</u> | <u>Amount</u>   |
|--------------------|-----------------|
| 2016               | \$ 1,113        |
| 2017               | 1,142           |
| 2018               | 1,170           |
| 2019               | 1,051           |
| 2020               | 1,082           |
| 2021-2025          | <u>1,019</u>    |
| Total              | <u>\$ 6,577</u> |

### (13) Related Party and Similar Transactions

#### (a) Water and Wastewater User Charges

The enabling legislation, described in Note 1, established that the District would pay for water and wastewater services. The Authority recorded revenues of \$24,452 and \$21,205 from the District government and \$8,496 and \$7,647 from the District of Columbia Housing Authority (“DCHA”) for fiscal years 2015 and 2014, respectively. Both the District government and DCHA revenues are included in water and wastewater user charges in the accompanying statements of revenues, expenses and changes in net position.

#### (b) PILOT and ROW Fees

On October 2, 2014, DC Water entered into a Right-of-Way memorandum of understanding (ROW MOU) establishing an annual payment of \$5,100 to the District in fiscal years 2015 through 2024. DC Water will make the payment in four equal quarterly installments of \$1,275 due on the 15th of November, February, May and August of each year.

On December 15, 2014, DC Water entered into a Payment In Lieu of Taxes memorandum of understanding (PILOT MOU) establishing a fiscal year 2015 PILOT payment of \$15,337 to the District for services provided in fiscal year 2015. In fiscal years 2016 through 2024, DC Water will increase the PILOT payment by 2.0% per annum based upon the amount of the prior fiscal year’s annual PILOT payment. In addition, the MOU stipulates that the Authority is entitled to offset this payment for services rendered to the District under our fire protection program. The PILOT MOU also required for the Authority to make a one-time payment in the amount of \$15,022 within 30 days of the execution of the agreement as full payment for any outstanding amounts due and claimed for services rendered by the District prior to fiscal year 2015.

The Authority recorded an expense of \$15,337 and \$6,358 for payments-in-lieu-of-taxes (PILOT) to the District for services such as road repairs, fire protection, police protection, and other services for each of the years ended September 30, 2015 and 2014.

# DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

## Notes to the Financial Statements

September 30, 2015 and 2014

(In thousands)

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### (13) Related Party and Similar Transactions (Continued)

The Authority also recorded an expense of \$5,100 for the District's right-of-way (ROW) fee, respectively charged to all area utilities for infrastructure occupancy in public streets, for each of the years ended September 30, 2015 and 2014.

As of September 30, 2015 there was no outstanding balance due to the District related to these fees. As of September 30, 2014 outstanding balance due to the District related to these fees was \$20,122. Such amount is included in accounts payable and accrued expenses in the accompanying statements of net position.

#### (c) Due from District Government

The amounts due from the District government as of September 30, 2015 and 2014 were \$61,733 and \$37,669, respectively. The amount due from the District at September 30, 2015 and 2014 also includes approximately \$829 and \$1,349 in billings to the District's Department of Transportation (DDOT) for job inspections and approximately \$1,191 in payables to DDOT for construction of the Authority's infrastructure projects. The amounts due from the District also include amounts associated with the Authority's billing of the District Storm Water Fees.

On September 11, 2014, the District and the Authority entered into a Memorandum of Understanding (MOU) whereby the District agreed to fund up to \$58,579 of costs incurred by the Authority on the Northeast Boundary Neighborhood Protection Project. Amounts due from the District as of September 30, 2015 and 2014 under this agreement amounted to \$58,579 and \$38,772, respectively. Amendment No. 1 of the MOU dated September 1, 2015, calls for ten (10) equal installment payments of \$5,858. The parties agreed that the first installment payment is due on January 2016 and that each additional installment payment is due on January 15 of each year thereafter until the costs are paid in full.

#### (d) Storm Water Fee Billings and Collections

The District of Columbia Council created the Storm Water Compliance Amendment Act of 2000 which established the Authority as the Storm Water Administrator and a fund was established. The administration of the fund was transferred to the District Department of the Environment ("DDOE") in 2007. The Authority continues to bill and collect storm water fees as a separate item and transfers the funds to the DDOE quarterly. During the years ended September 30, 2015 and 2014, the activity associated with the Authority providing this service to the District was as follows:

| Description                                  | 2015            | 2014            |
|--|-----------------|-----------------|
| Due from (to) the District-beginning of year | \$ (770)        | \$ 43           |
| Collections on behalf of the District        | (12,386)        | (14,109)        |
| Remittances to the District                  | 16,674          | 13,814          |
| Expenses incurred by the Authority           | 887             | 1,115           |
| Expenses reimbursed by the District          | (1,070)         | (1,633)         |
| Due (to) from the District-end of year       | <u>\$ 3,335</u> | <u>\$ (770)</u> |

# DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

## Notes to the Financial Statements

September 30, 2015 and 2014

(In thousands)

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### (13) Related Party and Similar Transactions (Continued)

Billings and collections associated with the District's Storm Water fees are not reflected in the Authority's financial statements as these are not billings and collections of the Authority. However, reimbursable expenses incurred and the related revenues from the District to cover such expenses are reflected in the accompanying statements of revenues, expenses and changes in net position.

The due (to) from the District has been reported in Due from District Government on the statement of net position as of September 30, 2015 and 2014, respectively.

### (14) Employee Benefits

#### (a) *Defined Benefit Plans*

Employees hired prior to October 1, 1987, participate in certain federal benefit plans administered by the federal government's Office of Personnel Management ("OPM"). The plans are cost sharing multi-employer plans, which provide retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan participants and beneficiaries. In fiscal years 2015 and 2014, there were 156 and 168 DC Water employees covered by these plans, respectively.

The OPM issues a publically available financial report that includes financial statements and required supplementary information, which may be obtained at [www.opm.gov](http://www.opm.gov).

Employees and the Authority each contribute 7% of the employees' salaries to OPM. The contribution requirements of the plan members are established by OPM. During fiscal years 2015, 2014 and 2013, the Authority's contributions to the plans were \$924, \$931 and \$980, respectively. These amounts were 100% of the required contributions under the plans for each of the fiscal years presented.

DC Water is only responsible for funding the employer contributions for participating employees while employed by the Authority. DC Water is not responsible for any unfunded liability for this plan. Under current law, this liability will be paid off eventually through the series of 30-year amortizations payments from the general fund of the U.S. Treasury to the Civil Service Retirement and Disability Fund.

#### (b) *Defined Contribution Plans*

*Defined Contribution Plan* - Employees who were hired after September 30, 1987, participate in the U.S. Social Security system and a defined contribution plan administered by the Authority. The District of Columbia Water and Sewer Authority Defined Contribution Plan is a qualified trust under Internal Revenue Code Section 401(a).

# DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

## Notes to the Financial Statements

September 30, 2015 and 2014

(In thousands)

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### (14) Employee Benefits (Continued)

The Authority established a retirement plan committee that oversees the 401(a) and 457(b) retirement plans. The committee meets on a semiannual basis to make decisions regarding the plan. Pursuant to the 401(a) plan, employees not reaching the 100% vesting period of three years of service will forfeit amounts related to Basic, Matching, and Discretionary Contributions and may be used to pay for plan expenses or reduce future Authority contributions. There are no amounts of forfeitures reflected in the pension expense reported in fiscal years 2015, 2014, and 2013.

As Plan Administrator, the Authority maintains the plans' records, determines issues related to eligibility as they relate to participation and benefits, interprets the plans, communicates with participants and their beneficiaries and responsible for the plans' operations. Fidelity Investments is the Plan Trustee.

*Defined Contribution Plan* - During fiscal years 2015, 2014 and 2013, the Authority's contribution was 7% of base pay up to the social security wage base, plus 5% of base pay in excess of the social security wage base for each eligible employee. Employees do not contribute to the plan.

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

The Authority makes a matching contribution of 100% of the amount that the employee defers to the 457(b) Deferred Compensation Plan; up to a maximum contribution of 5% of base pay for eligible employees. There is no waiting period before an employee can elect to become a participant of this plan and employees are always 100% vested in their contributions.

The Authority's matching contribution is vested after three years of service. During fiscal years 2015, 2014 and 2013, the Authority's contributions to both defined contribution plans were \$7,519, \$7,053 and \$6,260, respectively. The amount of the Authority's outstanding liability at the end of fiscal years 2015, 2014 and 2013 were \$1,122, \$989 and \$720, respectively.

#### (c) *Post-Employment Insurance Plans*

The Authority does not provide post employment health and life insurance benefits to any employees hired after September 30, 1987. The federal government provides healthcare and life insurance benefits to certain retired employees under the Federal Employees' Health Benefits Program and the Federal Employee's Group Life Insurance Program at no cost to the Authority.

# DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

## Notes to the Financial Statements

September 30, 2015 and 2014

(In thousands)

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### (14) Employee Benefits (Continued)

#### (d) *Retirement Health Savings Plan*

In fiscal year 2007, the Authority implemented a Retirement Health Savings Plan for non-union employees hired after September 30, 1987. The Plan allows eligible employees to receive a benefit for their unused sick leave upon separation of service. Funds are transferred to a third party (Maritain) to pay for post-employment medical expenses at the termination of employment.

### (15) Subsequent Events

The Authority has evaluated events subsequent to September 30, 2015 through December 18, 2015, the date the financial statements were available to be issued. During this period, the Authority has issued \$100.0 million of Public Utility Subordinate Lien Revenue Bonds, 2015 Series A (Green Bonds) and \$250.0 million of 2015 Series B Public Utility Subordinate Lien Revenue Bonds.

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