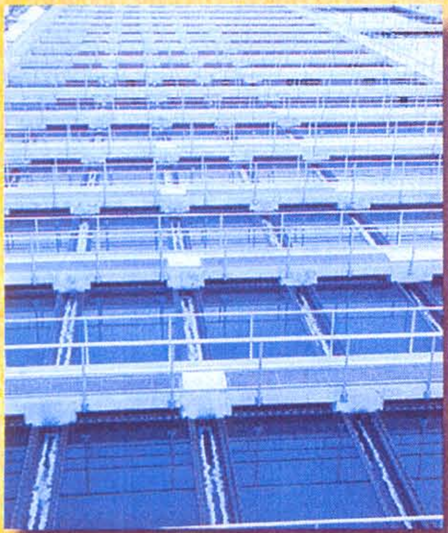
District of Columbia
Water and Sewer Authority

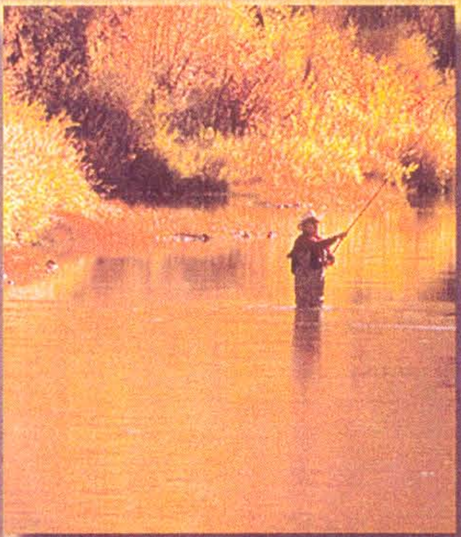
(A component unit of the Government of the District of Columbia)

Comprehensive Annual Financial Report

Fiscal Year Ended September 30, 2006

Olu Adebo, Acting *Chief Financial Officer*





2006

District of Columbia Water and Sewer Authority

Comprehensive Annual Financial Report

(A component unit of the Government of the District of Columbia)

Fiscal Year
October 1, 2005 to September 30, 2006

Prepared by:
Department of Finance and Budget

Olu Adebo, Acting Chief Financial Officer

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Certificate of Achievement for Excellence in Financial Reporting

Presented to

District of Columbia Water and Sewer Authority

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
September 30, 2005

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GOVERNMENT FINANCE OFFICERS ASSOCIATION OF THE UNITED STATES AND CANADA CORPORATION SEAL CHICAGO

President

Executive Director

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BOARD OF DIRECTORS

AS OF SEPTEMBER 30, 2006

PRINCIPAL MEMBERS	JURISDICTION
Glenn S. Gerstell	District of Columbia
David J. Bardin	District of Columbia
F. Alexis H. Roberson	District of Columbia
Lisa Morgan	District of Columbia
Vacant	District of Columbia
Vacant	District of Columbia
David J. Byrd	Prince George's County, MD
Dr. Jacqueline Brown.	Prince George's County, MD
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Bruce F. Romer	Montgomery County, MD
Anthony H. Griffin	Fairfax County, VA

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Kenneth Davis	District of Columbia
Steve McLendon	District of Columbia
Vacant	District of Columbia
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Paul E. Folkers	Montgomery County, MD
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Principal Staff Members

GENERAL MANAGER'S STAFF

Jerry N. Johnson .... **General Manager**
Avis Marie Russell .... General Counsel
Mujib Lodhi .... Chief Information Officer
Johnnie Hemphill .... Chief of Staff
Michael Hunter .... Internal Auditor
Michele Quander-Collins .... Director Public Affairs
Linda R. Manley .... Secretary to the Board

OFFICE OF THE CHIEF FINANCIAL OFFICER

Olu Adebo .... Acting, Chief Financial Officer
Yvonne Reid .... Acting, Controller
Tanya DeLeon .... Risk Manager

OPERATIONS

John Dunn .... Deputy General Manager and Chief Engineer
Leonard Benson .... Director Engineering and Technical Services
Walter M. Bailey .... Director Wastewater Treatment
R. Wayne Raither .... Director Maintenance Services
Charles W. Kiely .... Assistant General Manager Consumer Services
Cuthbert Braveboy .... Director Sewer Services
Louis Jarvis .... Director Water Services
Eva Liggins .... Director Customer Services

SUPPORT SERVICES

Barbara Grier .... Assistant General Manager and Acting Director, Procurement Services
Katrina J. Wiggins .... Director Human Resources
O.Z. Fuller .... Director Fleet Management
Everett Lallis .... Director Occupational Safety and Health
James McQueen .... Director Facilities

DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY
5000 OVERLOOK AVENUE, S.W., WASHINGTON, D.C. 20032

February 6, 2007

Glenn S. Gerstell, Chairman
and Members of the Board of Directors
Jerry N. Johnson, General Manager
5000 Overlook Avenue, S.W.
Washington, D.C. 20032

Dear Mr. Chairman, Members of the Board, and Mr. General Manager:

I am pleased to submit the District of Columbia Water and Sewer Authority's (the "Authority" or "WASA") Comprehensive Annual Financial Report (CAFR) for the fiscal year ended September 30, 2006.

The financial position of the Authority remained strong in fiscal year 2006; we continued our trend of consistent, solid financial performance. The year ended with revenues exceeding expenses (change in net assets) by $54.1 million. As required by Board policy, the Authority maintained cash reserves in excess of 180 days operating and maintenance costs ($102.4 million in fiscal year 2006), and was in compliance with all bond covenants (see Statistical Section, Exhibit 5). The Authority ended fiscal year 2006 with operating expenditures under budget (see Statistical Section, Exhibit 20) and revenues in excess of budget. The Authority maintained its "AA" category bond ratings, which is the second highest rating category available to state and local governments.

These financial accomplishments are due in large part to the leadership of the Board of Directors, particularly because of your development of and adherence to sound financial policies.

Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with WASA's management. To the best of my knowledge and belief, the enclosed financial statements and schedules are accurate in all material respects and are reported in a manner designed to present fairly the financial position and results of operations of the Authority.

REPORT SECTIONS

This report (CAFR) describes the Authority's financial activities, condition and services as a whole. As such, the report covers information about the Authority's history, its organizational structure, and its financial data. This report is divided into three sections: Introductory, Financial, and Statistical.

- The **Introductory Section**, which is not audited, includes the Authority's organizational structure, a list of board members and senior management, a history of governance and operations, a description of facilities, a summary of the budget process, internal controls and accounting standards, the Authority's recent accomplishments and major initiatives, a discussion of economic conditions of the metropolitan Washington, D.C. area, and a description of the Authority's risk management program.

- The **Financial Section** includes the independent auditor's report, Management's Discussion and Analysis (MD&A), the Authority's fiscal year 2006 and fiscal year 2005 financial statements, and notes to the financial statements.

- The **Statistical Section**, which is not audited, presents selected financial and operating indicators of the Authority and statistics about the economic condition of the metropolitan Washington, D.C. area.

This letter of transmittal is designed to supplement the MD&A and should be read in conjunction with it. The Authority's MD&A is located immediately following the auditor's report.

RECENT ACCOMPLISHMENTS

The end of fiscal year 2006 marks the Authority's tenth year in operation as an independent agency. Using the framework of policies the Board of Directors established in fiscal year 1998, the four Strategic Focus Areas developed by the Board in fiscal year 2003, and in light of the Board's recent planning session where it reaffirmed its four core strategic goals, the Authority and its management continued to build on the successes of its previous nine years of operations. Major accomplishments in fiscal year 2006 were:

Financial Accomplishments

- WASA collected $22.4 million from one of its large wholesale customers, the Washington Suburban Sanitary Commission (WSSC), for repayment of a longstanding construction claim and agreement on several smaller cost allocation issues.

- The Authority contributed $27.0 million to the rate stabilization fund at the end of fiscal year 2006, raising the balance to $58.5 million. The rate stabilization fund will be used in the future to smooth out peak rate increases at the Authority's discretion and in accordance with the Board's policy of gradual and predictable rate increases.

- The Authority received $7.0 million in additional appropriation from the U.S. Government to be used, with matching funds, for capital projects aimed at reducing Combined Sewer Overflows (CSO). This raised the total federal appropriation to $91.2 million through the end of fiscal year 2006.

- WASA's bond ratings remained at the "AA" level, the second highest rating category available to state and local issuers, helping reduce the interest rates we pay on our debt borrowings, resulting in lower bills to our customers.

- The Authority received its tenth consecutive unqualified audit opinion on its financial statements in fiscal year 2006.

- Residential, commercial and multi-family customer receivables over 90 days including bad debt continued on its downward trend, declining to $7.4 million at the end of fiscal year 2006 from $10.9 million at the end of fiscal year 2005. This reduction is largely due to the comprehensive Arrears Management Program that was implemented in fiscal year 2004. This program emphasizes improved performance in the daily administration of accounts receivable management through activities such as stepped up collection efforts, more systematic field service collections, and the "Dialing for Dollars" program.

- In FY 2006, the Authority successfully renewed all insurance policies at essentially the same coverage and terms at a net increase of 2 percent over the previous year, lower than anticipated market increase of 9 percent.

Operational Accomplishments

- The Authority spent $200 million on capital construction in fiscal year 2006. Major projects at the Blue Plains Wastewater Treatment Plant included improvements to primary and secondary treatment processes, chemical distribution systems, rehabilitation of the influent grit and screening facility, process computer control system, and additional dewatering facilities. In the water service area, the major rehabilitation of the Bryant Street and Anacostia pumping stations and implementation of the Board-adopted lead service line replacement program continued in fiscal year 2006.

- The Authority made significant progress on the Board's lead service line replacement program in fiscal year 2006. The Authority replaced over 4,000 lead service lines in public space, bringing the total number of replacements to approximately 10,500. Recent water test results also show lead levels continue to fall since December 2004.

- In fiscal year 2006, WASA received the prestigious gold award from the National Association of Clean Water Agencies (NACWA, formerly Association of Metropolitan Sewerage Agencies, AMSA) for the calendar year ending December 2005, adding to five gold and three silver awards over the previous eight years. This award recognizes the

Authority's high level of compliance with federal standards for discharges from the Blue Plains Wastewater Treatment Plant into the Potomac River.

HIGHLIGHTS AND MAJOR INITIATIVES

Combined Sewer Overflow Long Term Control Plan

Approximately one-third of the District of Columbia is served by a combined sewer system, in which both sanitary waste and storm water flow through the same pipes. When the collection system and/or the Blue Plains treatment plant reach capacity, typically during periods of heavy rainfall, the system is designed to overflow the excess water. These events are referred to as combined sewer overflows. Combined sewers are common in older wastewater collection systems.

In December 2004, the Authority reached an agreement with the Federal government on a twenty year CSO Long-Term Control Plan (CSO LTCP). A judicial consent decree entered by the U.S. District Court in March 2005 formalized the agreement and calls for WASA to complete the CSO LTCP over a twenty-year period. This program, totaling $2.2 billion including inflation, is projected to result in improved water quality and a significant reduction in debris in our national capital's waterways, by CSO reductions of 96 percent (98 percent on the Anacostia River alone) and includes the following components:

- Three large storage tunnels, which will store the combined flow from storm events until those flows are conveyed to the Blue Plains Plant for treatment;
- Pumping station improvements;
- Targeted separation of combined sewers in several sections of the District;
- Consolidation and elimination of 14 of 59 outfalls, including 4 outfalls on the Anacostia River; and
- Low impact development projects at WASA facilities.

WASA is implementing the CSO LTCP consistent with the Total Maximum Daily Pollutant Loads (TMDL) developed by EPA for the Anacostia River. A recent U.S. Court Appeals decision ruled that TMDLs should be implemented on a daily basis, not over a longer period; this contradicts the prior court decision, which allows more flexible implementation of TMDLs. The short-term impact of this decision is a possible delay in implementation of the CSO LTCP. WASA is actively working with EPA to seek a resolution of this issue to ensure that Anacostia's water quality objective will be met.

The CSO LTCP is projected to increase retail rates by an average of approximately three percent annually above the Authority's already planned rate increases of five to nine and half percent. The current rate projections assume no additional funding beyond the $91.2 million already received through U.S. Government appropriations. The Authority is pursuing additional federal funding to significantly reduce the impact on ratepayers.

Customer Service Initiatives

- In fiscal year 2006, WASA implemented improvements to the new Interactive Voice Response Technology (IVR) system, which takes advantage of newer voice technologies. IVR enables customers to perform many self-service applications through voice communications available 24-hours a day, including bill payments, water usage information, bill payment arrangements and other services. Also in fiscal year 2006, WASA began to provide work zone information by phone to ensure that if there is emergency work in a customer's zone the information is readily available.

- WASA expanded the High Usage Notification Application in fiscal year 2006 to include e-mail and telephone notification. This is the first application of its kind in the water industry and places WASA in the forefront of innovative technology that improves its service delivery to customers. This feature capitalizes on the automated meter reading (AMR) technology that WASA has been installing throughout the District. Once they sign up for the service, customers can access this data through WASA's website. It provides graphical illustrations of the AMR data that allows customers to pinpoint high usage on the exact day it occurred.

- Collections Process Notification pilot program. The objective of the pilot is to provide delinquent customers with a friendly reminder and prevent the cost and inconvenience of service deactivation. The pilot project identifies customers that fall into one of three collections profiles (payment reminder, disconnect, and Intent to Lien) and stages automated outbound calling to the customers using personalized account information and customized scripting based upon the type of calling.

- The final phase of the AMR project began in fiscal year 2006. The AMR project is 96 percent complete with approximately 119,000 meters installed throughout the District. AMR enables WASA to bill most customers for actual usage, virtually eliminating estimated billing.

- In fiscal year 2006, WASA implemented a language line service, which provides over 90 languages and billing information to our diverse customer base. We continue to look for better ways to communicate and further assist all of our customers.

- In fiscal year 2006, WASA's sold vs. pumped ratio increased to 76.35 percent, from a previous five year range of 66.10 to 69.20 percent. Unlike many other utilities, we do not modify the ratio to reflect normal uses of water for activities such as firefighting, street cleaning, and system maintenance (including flushing, cleaning and lining). A portion of the increase recognized in the sold pumped ratio is attributable to new meters and we are projecting a five percent increase in billed consumption for the remaining large commercial and federal meters scheduled for installation over the next year.

Technology Initiatives

In December 2001, the Authority presented its Information Technology Strategic Plan (IT Plan) to the Board of Directors, which provided a vision for the delivery of information technology services at WASA through fiscal year 2006. The plan included a recommended methodology for prioritization of projects, suggested network security and infrastructure improvements, project management initiatives, and other organizational enhancements. The IT Plan called for completion of several major projects over the planning period, and significant work continued on several major projects in the plan. All of our IT projects are focused on improving service to our customers.

- In fiscal year 2006, WASA continued implementation of its Total Enterprise Asset Management System (TEAMS). Ultimately TEAMS will integrate WASA's systems and facilities for customer information, facility operations, finance, records and document management and improve both the management and maintenance of our water and sewer infrastructure. This system represents a significant improvement in the automation and business process improvements for the entire water infrastructure management and maintenance life cycle.

- A Geographical Information System (GIS) was identified as integral to the success of the implementation of TEAMS. GIS offers integrated technology that will provide historical data by locations. This data is useful to various departments in providing timely response to customer inquiries and request for service. We are integrating GIS and WASA's inventory management system (Maximo) so that users can look-up an asset in Maximo and then view the geographical location of that asset with the click of a button. GIS implementation began in fiscal year 2006 and we will complete the project during fiscal year 2007.

- The Process Computer Control System (PCCS) will result in better management of chemical usage, better management of electricity consumption (minimizing peak demand usage), and other operating efficiencies. This project is critical to achieving the goals laid out in the Blue Plains internal improvement plan, and continues the Authority's efforts to integrate information technology with operational functions. Process control implementation including upgrading to fiber optical cable infrastructure is underway in the primary, secondary, and the solids processing areas.

- In 2005, WASA initiated a project to implement an Enterprise Records and Document Management System (ERDMS) to assist in the management of documents and records throughout their lifecycle, including creation, capture, management, retention and disposition. In fiscal year 2006, we selected software and conducted an inventory assessment of old documents (we identified 14,000 cubic feet of documents). This information was helpful in developing and recommending changes to improve our workflow and business processes.

Lead Service Line Replacement Program

This year's Capital Improvement Plan (CIP) reflects continuation of the Board's 2004 goal of replacing the original inventory of 23,000 lines by 2010 with a lifetime budget of $438 million. In fiscal year 2006, the Authority replaced over 4,000 public lines, bringing the total number of replacements to date to approximately 10,500. During the last four sampling semesters of 2006 and 2005, WASA was below the EPA action level for lead. EPA mandated replacement requirements ended January 2006, however WASA will continue the replacement program through 2016.

Storm Water System and Management

The District of Columbia Storm Water Permit Compliance Enterprise Fund ("Fund") was established on October 18, 2000, by the District of Columbia City Council pursuant to the Clean Water Act, 33 U.S.C. §1251. The City Council legislation was entitled *Storm Water Permit Compliance Amendment Act of 2000 (the Act).* The Act established WASA as the Storm Water Administrator, whose responsibility includes monitoring and coordinating activities of all District agencies to maintain compliance with the Storm Water Permit. The legislation also required WASA to charge and collect a Storm Water fee on its water bills to its retail customers.

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

Community Service

As part of our service to customers and the Board's strategic goal on community service, WASA emphasizes extending a helping hand to the community. During the past year, employees have worked together on such projects as Joint Utility Discount Day, Martin Luther King Jr. parade, Green DC Week, Bread for the Soul, DC Public Schools, One Fund, Aids Walk Washington, Susan G. Komen Breast Cancer Walk and Girls and Boys Town of Washington.

Owner-Controlled Insurance Program

In FY 2004 and 2005, the Authority implemented a rolling owner controlled insurance program (ROCIP). Under this program, WASA procures insurance for all contractors working on construction projects at Blue Plains and WASA work outside of Blue Plains. The benefits of this program are broader coverage, enhanced safety and loss control, which should result in fewer claims, minority participation in capital projects (use of subcontractors who could not participate because of insufficient insurance coverage) and finally, potential cost savings. At the end of fiscal year 2006, 34 projects were enrolled in the program; 24 prime contractors and approximately 80 lower sub tiers. We estimate savings of approximately $500,000 to date. Over the life of the five-year program, we anticipate enrolling 120 projects and anticipate savings in the $4 million range.

Employee Relations

The Authority's employees are its most valuable asset and are key to accomplishing its mission and the Board's strategic goals. The Authority continued to invest in its employees by funding training and development efforts that provide skills training in the areas of safety, technology, government regulations, and professional and career development to ensure a skilled, safe and competent workforce that is fully capable of supporting our customer's needs. Other major highlights of the Authority's employee relations are:

- Wellness program – includes seminars and workshops on a variety of health topics, various workplace health screenings and fitness tests, and opportunities to participate in exercise activities and programs.
- Retirement counseling – provides counseling on retirement planning for employees who are participants in the Civil Service Retirement System (CSRS).
- Investment counseling – provides counseling on investing retirements funds for employees in the WASA 401(a) plan.
- Health benefits renewal – In fiscal year 2006, the Authority rebid all of its health insurance HMO and PPO plans. The Authority will reduce rates over current premiums by $450,000 in fiscal year 2007 as a result of selecting a new medical vendor.
- In fiscal year 2006, WASA completed its first Employee Climate Survey. The purpose of this two-phased survey was to gauge the impact of organizational changes on operations and the workforce and to facilitate two-way communication between management and employees. An independent consultant collected data on individual values, commitment to the job, and satisfaction with various WASA programs.

- WASA's current collective bargaining agreement will expire in September 2007. Early in fiscal year 2007, WASA will begin negotiations for a new agreement. We are optimistic that we will successfully reach an agreement that provides fair compensation and appropriate working conditions to our employees and which will help WASA meet the organizational challenges it faces over the next few years.

The Authority will continue to evaluate new enhancements to current benefits that will keep WASA competitive with other employers in the region.

Cost of Service Study

In fiscal year 2006, WASA conducted a cost of service study for our retail customers. The purpose of the study was to determine if projected revenues through proposed rates were sufficient to cover the actual cost of providing water and wastewater services to this customer group. The study also included a review of WASA's existing rate structure and analysis of alternate rate structures. An independent consulting group performed the study and concluded that WASA's proposed rates adequately reflect its cost of providing services. The study also concluded that WASA' s existing rate structure, with the exception of recovering costs related to implementing the CSO LTCP and storm water was in line with similar water utilities, and adequately meets the WASA Board's criteria for rate setting. The consultants recommended a change in WASA's metering fee to include the full cost of service and not just the cost of meter installations.

Governance Study

In fiscal year 2005, the Board created a special ad hoc committee to reexamine the issue of WASA's governance. This study is a follow-up to an initial study that was completed in December 2000; the Authority's enabling legislation required that it conduct a regionalization study to "determine the feasibility of establishing the Authority as an independent regional authority and to make recommendations for the ongoing relationship of user jurisdictions to the Authority." The conclusion of the 2000 study was that the Authority's then-current structure should be retained, but that the Board should revisit this issue.

In fiscal year 2006, the Governance Committee engaged a multi-disciplinary consulting team to examine a variety of issues, including effectiveness of the Board and its current structure and better integration of water treatment and distribution functions in the District of Columbia. The consulting team interviewed a wide variety of stakeholders in the District and across the region, and presented conclusions to the Board in March 2006. The 2006 study endorsed the existing structure and suggested that the report should serve as a working document. As a result, the Board incorporated the study's recommendations into the various Board Committee work plans to allow for additional review and planning.

One of the major issues raised during the Governance Study was integration for the District's production, treatment and distribution of water. Over the next two years, the Board, through its designated committees, will continue to discuss the multiple benefits and challenges related to this recommendation.

Energy Management Program

Electricity costs represent a significant portion of WASA's budget, approved at $24 million in fiscal year 2006 out of $290 million operating budget. Prices have risen significantly over the past couple of years, due to a combination of factors including deregulation in the District, rising oil prices, inclement weather, record global demand for power and oil, and regional transmission and grid changes. In fiscal year 2005, WASA entered into a successive five-year contract for generation that allows WASA to lock in blocks of power at a fixed price when futures pricing meets budget targets. To the degree that WASA does not lock in blocks, pricing will be established each day at market rates with direct pass-through of all costs. The contract includes an enhanced process for block power purchases that gives WASA access to the wholesale market and provides more transparency in reviewing the bids from wholesalers. To mitigate our exposure from higher energy prices that occurred during the year, we locked in portions of our electricity load, especially for the summer period. We monitor the electricity market continuously and explore other cost avoidance alternatives in electricity procurement.

Capital Improvement Program

WASA's ultimate success in achieving its operational goals, customer service goals, and continuing success in regulatory compliance depends in large part on the implementation of our 10-year capital improvement program of $2.2 billion, approximately $22.2 million less than last year. The reduction is primarily due to lower projected disbursements in the wastewater and water service areas as we approach the tail end of the ten-year plan.

The lifetime budget for the Wastewater Treatment Service Area is $1.4 billion dollars, reflecting a $36.2 million net increase over last year's budget, due primarily to increased construction contract bid prices that WASA and other utilities have experienced in fiscal year 2006. Major capital activities that were placed in service in fiscal year 2006 at the Blue Plains Wastewater Treatment Plant were:

- Secondary treatment facility upgrades - the West Process secondary treatment facilities including the concrete sedimentation building structures, sludge and scum collection equipment and aeration blowers and motors have been rebuilt;
- Grit and screen facility upgrades - the grit collection bridges in the West Process grit chamber building and all of the influent fine screens have been placed in service;

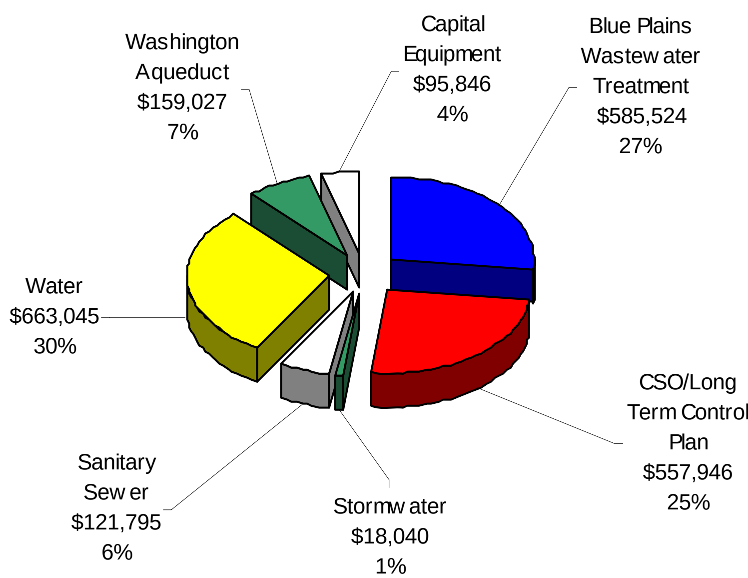
- Additional dewatering facilities - seven new centrifuges and two new sludge storage vessels are in service. The East Process grit and collection bridges and grit conveyance systems have also been placed in service;

- Process Computer Control System has been completed in stages that are tied to each of the major long-term upgrade projects. The ability to monitor and control process systems and equipment is provided as the facilities are upgraded.

The Authority also made significant progress on CSO LTCP projects over the last three years. Construction is well underway with completion of approximately $170 million of projects. The Authority has undertaken the rehabilitation of four major pumping stations to increase their capacity: three of these stations (Potomac, Main & O Street and East Side) are in the construction phase, while the fourth (Poplar Point) is still in the design phase.

The proposed FY 2006 – 2015 capital improvement program is $2.2 billion on a disbursements basis. The plan is broken into seven service areas, as shown in the graph below.

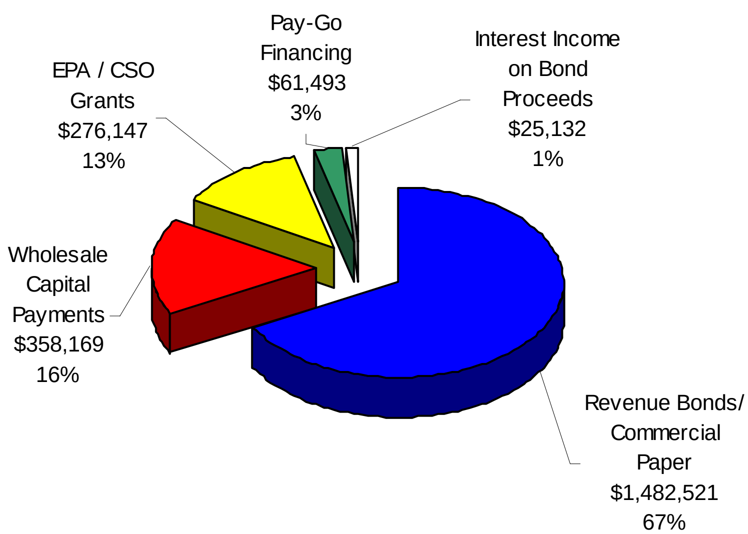
FY 2006 – FY 2015 Capital Improvement Program
($ in 000's)



Capital Financing and Debt Administration

The Authority plans to finance its $2.2 billion capital improvement program from a variety of sources, including the issuance of revenue bonds/commercial paper, grants from the U.S. Environmental Protection Agency (EPA) and other agencies, contributions from wholesale customers, and pay-as-you-go financing. Interim financing through issuance of commercial paper notes will be periodically converted to long-term financing through the issuance of bonds. The Authority currently projects that it would begin utilizing its $100 million commercial paper program in mid FY 2007, with its next issuance of long-term debt anticipated in spring 2007. As shown on the following chart, 67 percent of capital financing will come from debt issuance.

FY 2006 – 2015 Capital Improvement Program
Sources of Funds
($ in 000's)



Cash Position

Unrestricted cash and investments totaled $192 million as of September 30, 2006. Board policy requires Authority reserves in excess of 180 days operating and maintenance costs and rate stabilization fund deposits to be used to fund portions of the capital program on a pay-as-you-go basis.

ACCOUNTING AND BUDGET PROCESSES

Basis of Accounting

The Authority is a single enterprise fund and maintains accounting records using the accrual basis of accounting. Under this basis of accounting, revenues are recorded when earned, and expenses are recorded when goods and services are received.

Internal Control

The Authority's management is responsible for establishing and maintaining an internal control structure designed to ensure that the Authority assets are adequately safeguarded against loss from unauthorized use or disposition and to maintain reliable financial records for the preparation of financial statements. The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: 1) the cost of internal controls should not exceed the benefits derived from the controls; and 2) the evaluation of costs and benefits requires management's exercise of judgment. We believe the Authority's internal accounting controls adequately safeguard its assets and provide reasonable assurance of the proper recording of financial transactions.

Independent Audit

The Authority's fiscal year is from October 1 to September 30, and the Authority's financial statements are subject to an annual audit by independent certified public accountants. Thompson, Cobb, Bazilio & Associates, P.C. (TCBA) audited the Authority's financial statements for fiscal year 2006. TCBA's opinion is included in the Financial Section.

Budgetary Control

Budgetary control begins with the preparation of the annual operating and capital budgets, which are developed on an expenditure basis. After three months of extensive review by the Board's Finance and Budget, Environmental Quality and Operations, and Retail Rates Committees, the budgets are approved by the Board of Directors. The budgets are loaded into the Authority's financial management system, which prevents overspending without appropriate approvals. The Department of Finance and Budget prepares daily and monthly management reports for each operating unit. They also prepare monthly reports for the Board of Directors and its various committees. The reports are reviewed and acted upon each month to ensure the Authority complies with its authorized budget levels.

Annual Budget Process

After approval by the Board of Directors, the Authority is required to submit its annual operating and capital budgets to the Mayor and Council of the District of Columbia for their review and comment; however, neither can change the annual budgets of the Authority. The District then includes the Authority's budgets as an enterprise fund in the budget that it sends to the United States Congress for approval.

TEN-YEAR FINANCIAL PLAN

First developed in fiscal year 1997, the Authority's ten-year financial plan serves as its road map to strong and predictable long-term financial performance. This plan is updated and adopted annually by the Board of Directors. The Authority's ten-year financial plan and overall emphasis on long and short term planning are regularly cited by the rating agencies as critical factors in WASA's bond ratings. The objectives of the ten-year financial plan are:

- To proactively address all known regulatory requirements and other major infrastructure and operating issues, including the Internal Improvement Plan, over the ten-year planning period;

- To raise rates gradually and predictably as needed to meet its long-term operating, capital, and financial policy requirements; and

- To meet all of the financial policies laid out by the Board of Directors, including maintaining approximately 180 days of operating and maintenance expenses in cash reserves and maintaining senior debt service coverage of 140 percent.

Since its inception, the Authority has maintained or enhanced, the financial goals set out by Board policy and the ten-year financial plan; The Authority has achieved or exceeded the Board's and other legal financing goals and requirements in every year of its existence.

FINANCIAL POLICIES

During fiscal year 1998, the Authority adopted critical policies for financing, rate setting and cash management. These policies have served as the key parameters used to successfully develop the Authority's ten-year financial plan, capital improvement program, and operating budgets. The policies will continue to guide the development and implementation of the Authority's long term plans in the future. A summary of these policies follows.

Financing Policies

The primary objective of the financing policies is to ensure that the Authority's financial practices result in a high quality investment-grade bond rating so as to achieve the lowest reasonable cost of debt necessary to finance the Authority's long-term capital program. The Authority is committed to 140 percent debt service coverage on senior lien debt service and maintaining an operating cash reserve equivalent to 180 days of operating and maintenance expenses. In addition, the Authority will use any excess operating reserve amounts for capital financing to reduce the need for additional long-term debt.

Rate Setting Policies

The Authority's rate setting policy is simple and straightforward: the Authority will strive to set rates so that each customer will be charged for those costs necessary to provide each service, and rate increases will be predictable and gradual. The Authority will apply this rate-setting philosophy in a practical and prudent manner based on the following tenets:

- The Authority must achieve a positive net income and cash flow each year.

- Current rates must cover current costs and provide cash flow adequate to meet all bond covenant requirements.

- Rates and fees must be based on the actual cost to deliver each service.

- Rates must be based on annually updated ten-year forecasts of operating and capital budgets, with any required rate increases phased in gradually over time to avoid “rate shock.”

- After the Authority achieved its required level of cash reserves, a rate stabilization fund was established to ensure gradual and predictable rate increases. The Authority contributed $27 million in fiscal year 2006, bringing the balance of the reserve to $58.5 million.

Cash Management and Investment Policies

The Authority manages its cash based on the following objectives, in order of priority: safety, liquidity, return on investment, and diversity.

With the adoption of the revised fiscal year 1998 budget, the Authority’s Board of Directors adopted comprehensive cash management and investment policies and implemented investment and cash management practices. These policies and practices are consistent with and based on the Government Finance Officers Association’s (GFOA) guidelines and specify the amount of the total portfolio allowed in each type of investment.

In fiscal year 2001, the Board adopted revisions to the investment policy that clarified portfolio diversity requirements, and in fiscal year 2002, the Board further refined the investment policy to address the length of maturity for investments of bond proceeds, and to adopt more stringent collateralization requirements for WASA’s investments.

The Authority’s Department of Finance and Budget produces daily and monthly reports on all cash management and investment activities with internal peer and management oversight. Monthly reports to the General Manager and the Board of Directors’ Finance and Budget Committee enable them to monitor the Authority’s compliance with its policies.

RISK MANAGEMENT

The Authority has a comprehensive risk management program designed to protect WASA’s assets and to reduce or transfer risks and financial losses to third parties by utilizing insurance contracts.

The Authority’s liability insurance coverage provides financial protection from claims and related defense costs for damages and injuries caused by automobile accidents, broken water and sewer lines, construction, and other operational activities. See note 12 in the financial section and exhibit 11 in the statistical section for more discussion on risk management.

AUTHORITY PROFILE

Reporting Entity

The Authority is an independent, multi-jurisdictional regional utility that provides drinking water distribution and wastewater conveyance and treatment services to residential, commercial and governmental customers in the District of Columbia, and wastewater conveyance and treatment to wholesale users in Montgomery and Prince George's Counties in Maryland and Fairfax and Loudoun Counties in Northern Virginia. The Authority's service area has a population of over two million people. These activities are fully accounted for in this report.

The operations of the Authority are accounted for as a component unit of the Government of the District of Columbia and are included in the Government of the District of Columbia's Comprehensive Annual Financial Report. The Authority is considered a component unit, because the District of Columbia Government is ultimately legally responsible for a portion of the Authority's long-term debt. This Comprehensive Annual Financial Report of the Authority is issued separately to provide the Board of Directors, Authority customers, local and federal government officials, employees, investors, suppliers and other interested parties a comprehensive financial accounting of the Authority's operations and financial position for fiscal years 2006 and 2005.

History of the Authority

(Legislative History and Relationship to the District of Columbia)

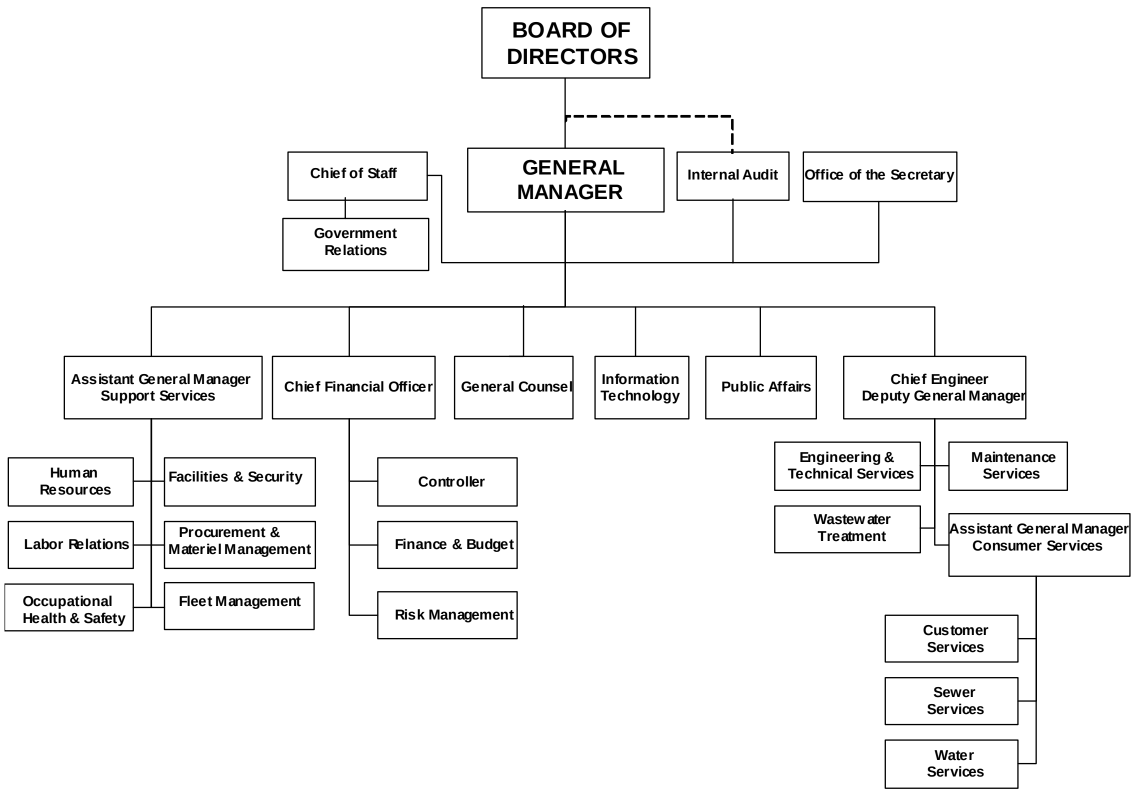
In 1996, the regional participants in the Authority's service area, including the District of Columbia, Montgomery and Prince George's Counties in Maryland, Fairfax and Loudoun Counties in Virginia, and the United States Congress, agreed to create an independent, multi-jurisdictional water and wastewater authority from its predecessor agency. In April 1996, the Council of the District of Columbia passed the "Water and Sewer Authority Establishment and Department of Public Works Reorganization Act of 1996 (as amended)," (the Act), a statute that provided the groundwork for the Authority to become operationally independent on October 1, 1996.

In accordance with the Act, the District has authorized the Authority to use all of the property and assets related to its water distribution and wastewater treatment and conveyance services and transferred to the Authority any liabilities that are directly attributable to those assets. The District has retained full legal title to these assets. The assets will remain under the control of the Authority for as long as any Authority revenue bonds remain outstanding.

The Authority is required by the Act to reimburse the District for debt service on general obligation debt issued by the District, the proceeds of which were used to finance certain water and wastewater projects undertaken by WASA's predecessor agency.

The Act also requires the Authority to establish rates, fees and other charges for all services provided by the Authority. These rates and charges, in addition to certain wholesale wastewater treatment contracts, generate revenues adequate to pay all of the costs of operating the Authority. The Authority's rate setting powers are not subject to the oversight of, or regulation by, the District or any other agency or authority.

Governance and Organization Structure



The Authority is governed by a Board of Directors consisting of eleven principal and eleven alternate members who represent the District of Columbia, Montgomery and Prince George's Counties in Maryland, and Fairfax County in Virginia. The Mayor of the District of Columbia appoints, and the Council confirms, all District Board members, including the Chairperson. In addition, the Mayor appoints the five principals and five alternate members who represent the surrounding jurisdictions based on submissions from those jurisdictions. The Authority may only take action on policy matters after it receives a favorable vote of no less than six members of the Board of Directors. All Board members participate in decisions directly affecting the general management of the joint-use facilities, and only the District of Columbia members participate in those matters that affect only District ratepayers.

The Authority's day-to-day operations are managed by a General Manager, who is appointed by the Board of Directors. The General Manager is supported by the Chief Engineer, the Chief Financial

Officer, and an Assistant General Manager. The Chief Engineer supported by Assistant General Manager for Consumer Services oversees all technical operations, including Wastewater Treatment Services, Water Services, Sewer Services, Engineering and Technical Services, and Maintenance Services. The Chief Financial Officer oversees Controller, Finance and Budget and Risk Management. The Assistant General Manager Support Services oversees Human Resources, Labor Relations, Fleet Management, Procurement/Materiel Management, Facilities and Security, and Occupational Health and Safety. Also reporting to the General Manager are offices of the General Counsel, Internal Auditor, Information Technology and Public Affairs.

Agreements with Other Jurisdictions and Entities

Wholesale Wastewater Treatment – Intermunicipal Agreements

In 1985, the District signed the Blue Plains Intermunicipal Agreement (the IMA) with Fairfax County in Virginia, and Montgomery and Prince George's Counties in Maryland. The IMA outlines terms relating to facility location, sizing, capacity allocations and funding and long-term management of the wastewater treatment and disposal process. It also established a uniform payment basis for facilities and future improvements. IMA signatories share the cost of operations, maintenance, and the capital program of the Blue Plains facility; the three surrounding counties comprise 60 percent of the Blue Plains capacity. Some of the terms in the 1985 IMA expire in 2010. In order to allow ample time to renegotiate any user issues, the users began negotiations during fiscal year 2006 and will continue discussions until all parties reach a new agreement.

Other Wholesale Wastewater Treatment Agreements

Beginning in October 1963, the Authority entered into separate agreements with other entities that did not participate in the IMA and that were tributary to the Potomac Interceptor sewer: Loudoun County Sanitation Authority (LCSA); Washington-Dulles International Airport; the Department of the Navy; the National Park Service; and the Town of Vienna, Virginia. The agreements provide for the pro-rata recovery of the Authority's costs of constructing, operating, and maintaining the Potomac Interceptor and certain other sewers, and the Blue Plains facility. Under these agreements, the Authority recovers its capital and operating and maintenance costs from each user each quarter based on a rate per million gallons as applied to each user's metered sewage quantity. In November 1998, the Authority executed a new agreement with LCSA that increased its share of treatment capacity at Blue Plains to 13.8 million gallons per day (mgd). LCSA now pays its share of capital and operating costs on the same basis as the other IMA entities.

Water Supply Agreements

The Authority purchases water from the Washington Aqueduct, which is owned by the federal government and operated by the United States Army Corps of Engineers under the direction of the Secretary of the Army. All water treated by the Washington Aqueduct is purchased by the Authority and the Aqueduct's two other customers, Arlington County and the City of Falls Church, Virginia. In July 1997, the Authority executed a new operating agreement with the U.S. Army Corps of Engineers that provides for the continued ownership and operation of the Aqueduct by the Corps of Engineers, but gives the Authority and other Aqueduct customers greater participation in budget preparation and oversight of operations. The agreement also outlines each customer's pro rata share of operating and capital costs based on water purchased; the Authority's pro rata share of Aqueduct expenses is approximately 76 percent.

In 1982, the District entered into the Water Supply Coordination Agreement with the Washington Suburban Sanitary Commission and the Fairfax County Water Authority. This agreement formalizes commitments to cooperatively manage the region's water supply system. The Authority has provided for backup and peak day water supply through participation in the Little Seneca Lake and Bloomington Reservoir (now called Jennings Randolph Lake) projects. The Little Seneca project was constructed and is operated by the Washington Suburban Sanitary Commission. The Authority funds 40 percent of its capital and operating costs. The Bloomington Reservoir project was constructed by the Federal government and is operated by the U.S. Army Corps of Engineers. The Authority funds 30 percent of its applicable capital and operating costs.

AUTHORITY FACILITIES

The Wastewater System

History and Service Area

The first wastewater treatment facilities for the Washington metropolitan area became operational in 1938 at the site of the present Blue Plains Wastewater Treatment Plant. These facilities treated up to 130 mgd for a population of over 650,000, and provided primary treatment only. Since that time, there have been several expansions and upgrades. In 1949, Blue Plains was expanded to 175 mgd; and again to 240 mgd in 1959. Chlorination facilities and secondary (biological) treatment were also added. When the Federal Clean Water Act was enacted in 1972 requiring all municipal sewage treatment systems to incorporate secondary or advanced levels of treatment, Blue Plains was once again expanded and upgraded to comply with the federal regulations. Work on these tertiary treatment projects and expansion was completed in 1983. Work was completed in fiscal year 1997 to expand the Blue Plains tertiary treatment capacity to 370 mgd. Finally, in 2000, full plant nitrogen removal was added. See exhibit 19 in statistical section for more detail on wastewater treatment plant.

Sewage Collection

The sewage collection system consists of approximately 1,800 miles of sanitary and combined sewers, 22 flow-metering stations, nine off-site wastewater-pumping stations, and 16-storm water pumping stations. The sewers range from eight inches in diameter to 27-foot arch sewers. The sewers are generally constructed of vitrified clay, brick, and concrete. Approximately two-thirds of the District is served by separate sanitary and storm sewers; however, combined sanitary and storm sewer systems are prevalent in the downtown area and older portions of the service area.

Biosolids Disposal

In 1984, officials from all the jurisdictions served by Blue Plains established procedures for soliciting and entering into contracts for hauling and disposing of biosolids from Blue Plains. This high quality material consistently meets all applicable requirements of federal regulations. Most of the 1,300 tons per day of biosolids produced by the facility is directly land applied at various sites in Maryland and Virginia. Montgomery and Prince George's Counties retain contractual responsibility for the disposal of their share of biosolids generated at Blue Plains, and they currently use land application or landfill methods to meet their obligations.

The Biosolids Management Program, developed by WASA through a stakeholders group that included neighboring jurisdictions, and adopted by the Board of Directors in 1999, calls for full biosolids digestion as our primary long-term solution and continuing land application as long as it is financially advantageous. The Authority has completed the preliminary design for the installation of new egg-shaped digesters. This facility will reduce odors in the product that leaves Blue Plains, significantly reduce the volume of biosolids produced, and greatly reduce truck traffic transporting the biosolids. Final design of the foundation and vessels was completed at the end of fiscal year 2005 with final design of all mechanical equipment and appurtenances were completed in mid fiscal year 2006.

In late fiscal year 2006, after an extensive and rigorous evaluation, the WASA Board announced their decision to reject the single bid received on the construction phase of the Digester Project. The bid received for that phase of the project was approximately 64 percent over WASA's fiscal year 2006 construction budget for that contract. The total project cost has, in fact, continued to escalate from the originally budgeted $148 million in fiscal year 2000 to $350 million in fiscal year 2006, to an estimated $600 million in fiscal year 2007. The Authority is presently reevaluating this project.

The Water System

History and Service Area

Prior to the establishment of the Washington Aqueduct Division of the United States Army Corps of Engineers (the Aqueduct) in 1858, residents of the District obtained their drinking water from springs and wells. The distribution system consisted primarily of bored logs and some cast iron pipes. Water from the Potomac River was tapped into the system in 1863. By 1905, the

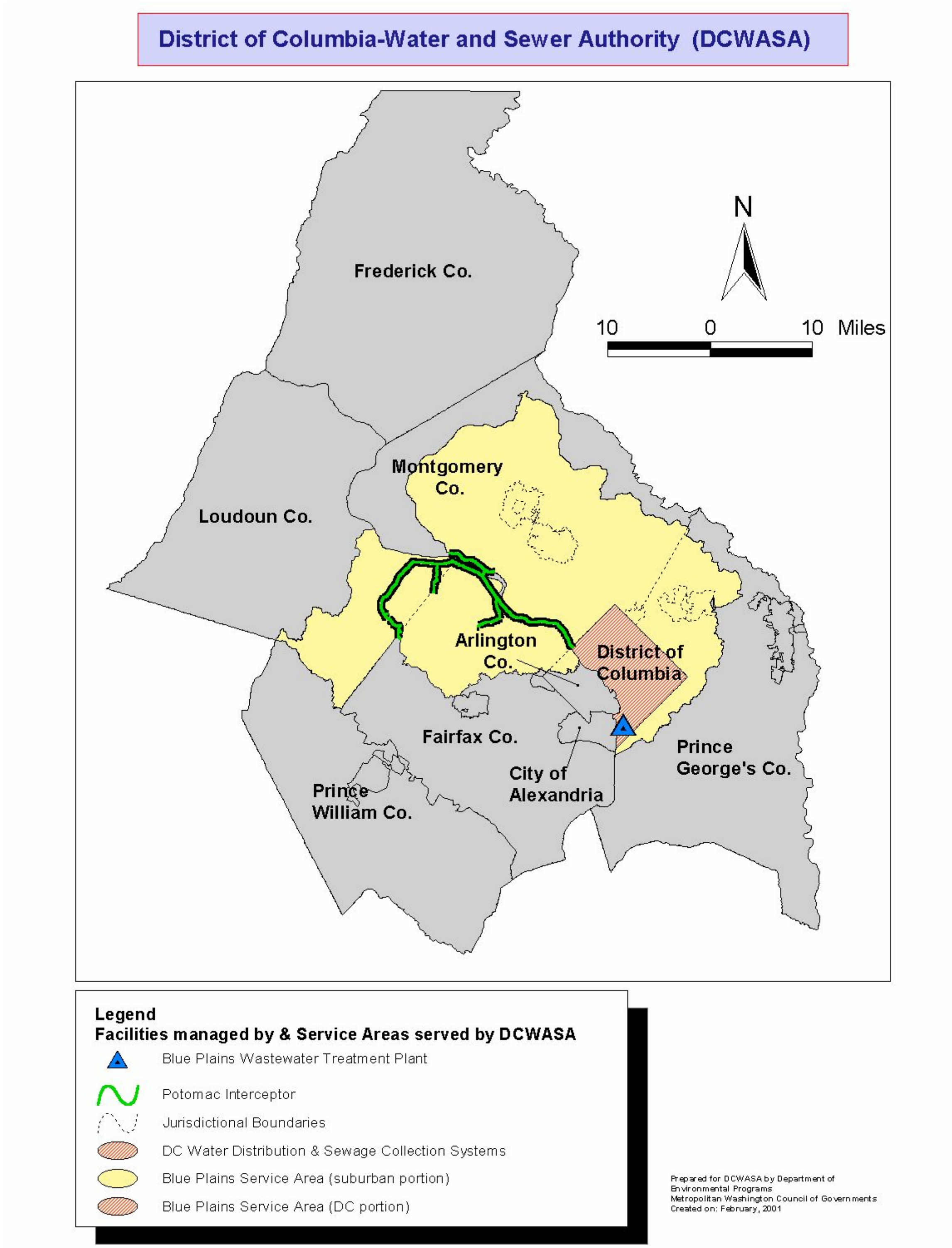
Washington City Tunnel, McMillan Reservoir and Filtration Plant, and the Bryant Street Pumping Station were completed. The Dalecarlia Filtration Plant and Pumping Station and all other major components of the present water supply and distribution system were in operation by 1928.

Water Treatment and Distribution System

Although the Authority is responsible for management of the treated water distribution system serving the District and certain Department of Defense and other small customers outside the District, the water itself is treated by the Washington Aqueduct Division of the U.S. Army Corps of Engineers (the Aqueduct). The Authority purchases its water from the Aqueduct and transmits and distributes the water through five pumping stations, five distribution reservoirs and four elevated tanks. The Aqueduct's water treatment and transmission system consists of the Great Falls Intake on the Potomac River; two parallel nine-mile long raw water conduits from Great Falls to the Dalecarlia Reservoir; the Little Falls Intake and Pumping Station on the Potomac River; the Dalecarlia and McMillan Reservoirs and Water Treatment Plants; the Dalecarlia Pumping Station; the Georgetown conduit and reservoir; the Washington City Tunnel; the East Shaft Pumping Station; several treated water transmission lines and three ground storage reservoirs.

The Authority's Department of Water Services oversees the entire water distribution system serving the District. The Authority's water distribution system includes 1,300 miles of pipes and mains ranging from 4 to 78 inches in diameter. The system includes cast iron, ductile iron, reinforced and pre-stressed concrete, and steel pipe, and contains more than 36,000 valves and hydrants. The Authority also operates and maintains five pumping stations: Bryant Street, Old Fort Reno, New Fort Reno, 16th and Alaska, and Anacostia. All five pumping stations have adequate pumping capacity to meet peak demands.

The Authority’s service area below covers the District of Columbia, most of Montgomery and Prince George’s counties, and parts of Fairfax and Loudoun counties.



ECONOMIC CONDITION

Although the District of Columbia is known primarily as the nation's capital, it is an international city with a vibrant tourism industry and business climate. It is also the nucleus of the fifth largest metropolitan area in the United States. In 2006, the District's estimated resident population was 581,530.

The District's economic base is driven by the federal and local governments and the related diplomatic embassies and international organizations. The federal civilian workforce in the District averaged 192,000 employees in fiscal year 2006, while an additional 146,400 federal employees worked elsewhere in the metropolitan area. The District is host to more than 170 foreign embassies and other recognized diplomatic missions. A number of international organizations, such as the International Monetary Fund, the World Bank, the Inter-American Development Bank, and the Organization of American States are headquartered in the District. In 2005, an estimated 15.4 million people visited the Washington Metropolitan Area not only to do business with federal government and regional enterprises but also to visit the national monuments, historic sites, museums, and other major cultural attractions.

Per capita personal income in the District was $51,155 in 2004 compared to $33,050 in the United States. The relatively high per capita and household incomes in the District is a direct result of a combination of factors, including a high labor force participation rate, multiple earner households, small household size (average of 2.21 persons), a large percentage of college graduates and a substantial concentration of employed residents in highly-skilled occupations.

AWARDS

The Government Finance Officers Association awarded a Certificate of Achievement for Excellence in Financial Reporting to the Authority for its comprehensive annual financial report for the fiscal year ended September 30, 2005 (see page 3). The Certificate of Achievement is a prestigious national award, recognizing conformance with the highest standards for preparation of financial reports. A Certificate of Achievement is valid for a period of one year only. The Authority believes its current report continues to conform to the Certificate of Achievement program requirements, and plans to submit it to GFOA. The Authority has thus far received the GFOA Award for every year of its existence.

The Authority received the GFOA's *Distinguished Budget Presentation Award* for its fiscal year 2006 Operating and Capital budgets for the third consecutive time. In order to qualify for the distinguished Budget Presentation Award, the Authority's budget document was judged to be proficient in several categories, including presentation as a policy document, financial plan, operations guide and a communication device.

ACKNOWLEDGEMENTS

I acknowledge and thank all members of the Board of Directors, led by our Chairman, Glenn S. Gerstell, and our General Manager, Jerry N. Johnson, for their consistent and strong financial performance expectations. Our continuing strong financial results and position directly flow from the Board's strong policy direction and oversight and our General Manager's day-to-day implementation of the Board's policy objectives.

I also acknowledge the hard work and dedication of the Authority's financial operation staff, other departments and staff, and the General Manager's staff in preparing this report. Special thanks go to: Javed Awan, Yvonne Reid, Temi Abosede, and Gail Alexander-Reeves for their work in completing this report.

CONCLUSION

The Authority, in its tenth year, continued its annual tradition of building on a strong financial foundation. As in each prior year, we again met or exceeded all of our financial targets, including all Board of Directors' policies. I look forward to another similarly productive year in fiscal year 2007.

Respectfully submitted,

Olu Adebo
Acting Chief Financial Officer

Financial Section

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THOMPSON, COBB, BAZILIO & ASSOCIATES, P.C.
Certified Public Accountants and Management, Systems and Financial Consultants

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

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

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

Independent Auditor's Report

Board of Directors
District of Columbia Water and Sewer Authority:

We have audited the accompanying statements of net assets of the District of Columbia Water and Sewer Authority (a component unit of the District of Columbia) as of September 30, 2006 and 2005, and the related statements of revenues, expenses and change in net assets and cash flows for the years then ended. These financial statements are the responsibility of WASA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

The Management's Discussion and Analysis on pages thirty-five through forty-four is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

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, 2006 and 2005, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Washington, DC Thompson, Cobb, Bazilio & Associates, P.C.
December 20, 2006

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This section of the District of Columbia Water and Sewer Authority's (WASA or the Authority) annual financial report presents the analysis of the Authority's financial performance during the fiscal year that ended on September 30, 2006. The Management's Discussion and Analysis (MD&A) should be read in conjunction with the Authority's basic financial statements, beginning on page 45.

HIGHLIGHTS

Financial Highlights

- The Authority's net assets increased by $54.1 million to $934.8 million, or 6.1 percent, as a result of capital contributions and this year's operations (see "Analysis of Net Assets" on page 37).
- Operating expenses increased by $12.5 million to $242.7 million, or 5.4 percent primarily due to increases in: water purchases, utilities and rent, chemicals, and personnel services. These increases were offset by lower contractual services costs (see "Expenses" on pages 41 and 42).
- Operating revenues increased by $20.8 million to $293.5 million, or 7.6 percent primarily due to increased revenue from: residential, commercial, and multifamily customers; federal government; and wholesale wastewater customers primarily attributable to a 5.5 percent rate increase in fiscal year 2006.
- Current assets increased by $28.6 million to $271.3 million, or 11.8 percent primarily due to increase in investment balance at end of the year.
- Restricted assets decreased by $105.2 million to $132.3 million, or 44.3 percent primarily due to $101.0 million drawdown (use) of the $295.0 million Public Utility Revenue bond issuance for capital construction projects.
- Net Utility plant (capital assets) increased by $157.9 million to $2.0 billion, or 8.4 percent due to a planned increase in capital expenditures in line with the Authority's $2.2 billion 10-year capital improvement program.
- The Authority's long-term debt, including current maturities, decreased by $13.5 million to $771.5 million, or 1.7 percent primarily due to principal payments made on current maturities of long-term debt in FY 2006.

Authority Highlights

Rate Increase – Effective October 1, 2005, the Board increased the Authority's water and sewer rates by 5.5 percent for all retail customers. This rate increase is in line with the Board's rate setting policy which strives to set rates so that each customer will be charged for those costs necessary to provide each service, and rate increases will be predictable and gradual.

Combined Sewer Overflow Long-Term Control Plan (CSO LTCP) – In December 2004, WASA reached agreement with the federal government and environmental plaintiffs on the Long-Term Control Plan (LTCP), a major milestone in WASA's history. The agreement has been formalized in a judicial consent decree, and calls for WASA to complete the $1.9 billion LTCP over a twenty-year period. The benefits of this Plan are significant, including the projected reduction of combined sewer overflows by 96 percent. Including this fiscal year's appropriation of $7.0 million, the Authority has received a total of $91.2 million of matching funds from the United States Congress since fiscal year 2003. The Authority has drawn down approximately $26.0 million of this funding for combined sewer overflow capital projects incurred in fiscal years 2003 through 2006, and the balance of the appropriation is included in deferred revenue.

Rate Stabilization Fund – The Authority increased its rate stabilization fund to $58.5 million at the end of fiscal year 2006, with an allocation of $27.0 million. This large contribution was due in part to a settlement with one of WASA's large wholesale customers, the Washington Suburban Sanitary Commission (WSSC), for repayment for a longstanding construction claim and agreement on several smaller cost allocation issues. The Board's rate setting policy and the Authority's indenture allow for contributions to this account annually as cash reserves and debt service coverage permit. The balance in this account will be used in future years to smooth out peak rate increases at the Authority's discretion. The Rate Stabilization Fund is in addition to the Board-required six-month operating and maintenance reserve.

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 Financial Statements of the Authority report information about the Authority using accounting methods similar to those used by private sector companies. These statements offer short-term and long-term financial information about the Authority's activities. The *Statement of Net Assets* is the first required statement; it includes all of the Authority's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and nature and extent of obligations (liabilities). 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. All of the current year's revenues and expenses are accounted for in the *Statement of Revenues, Expenses, and Change in Net Assets,* which is the second required financial statement. 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 final required financial statement is the *Statement of Cash Flows*. The primary purpose of this statement is to provide information about the Authority's cash receipts, cash payments, and net changes in cash resulting from operations, investing, and capital and non-capital financing activities. It also provides information regarding sources of cash, uses of cash, and the changes in the cash balance during the reporting period.

FINANCIAL ANALYSIS OF THE AUTHORITY AS A WHOLE

The *Statement of Net Assets* and the *Statement of Revenues, Expenses and Changes in Net Assets* report information about the Authority's financial condition. The Authority's net assets, i.e., the difference between assets and liabilities, are a measure of financial health or financial position. Over time, increases or decreases in the Authority's net assets are one indicator of whether its financial health is improving or deteriorating. However, other non-financial factors such as changes in economic conditions, population growth, and new or changed legislation also need to be considered in assessing the Authority's financial condition.

Table 1
Condensed Statements of Net Assets
($ in 000's)

	FY 2006	FY 2005	FY 2004
Utility Plant, Net	$ 2,043,522	$ 1,885,647	$ 1,710,824
Current and Other Assets	560,702	654,018	745,576
Total Assets	2,604,224	2,539,665	2,456,400
Current Liabilities	138,395	149,730	150,241
Long-Term Debt Outstanding	763,987	771,637	785,111
Long-Term Liabilities	767,024	737,570	688,340
Total Liabilities	1,669,406	1,658,937	1,623,692
Net Assets			
Invested in Utility Plant, Net of Debt	749,965	713,470	651,250
Restricted	44,888	41,911	39,117
Unrestricted	139,965	125,347	142,341
Total Net Assets	$ 934,818	$ 880,728	$ 832,708

Analysis of Net Assets

The Authority's total assets exceeded liabilities by $934.8 million at the close of fiscal year 2006. The Authority's net assets include investment of $750.0 million in utility plant (e.g., infrastructure, buildings, equipment and fleet), less any related outstanding debt used to acquire those assets. The Authority uses these capital assets to provide services to its customers. Although the Authority's investment in its utility plant is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be liquidated for these liabilities. An additional portion of the Authority's net assets, $44.9 million, represents resources that are subject to external restrictions (primarily related to the Authority's bond indenture) on how they may be used. The remaining balance of $140.0 million is unrestricted.

Table 2
Condensed Statements of Revenues,
Expenses, and Change in Net Assets
($ in 000's)

	FY 2006	FY 2005	FY 2004
Revenues			
Operating revenues:			
Residential, commercial and multi-family customers	$ 174,159	$ 166,045	$ 159,165
Federal government	31,100	24,770	26,444
District government and DC Housing Authority	16,463	15,436	15,464
Charges for wholesale wastewater treatment	67,966	62,126	60,834
Other	3,845	4,366	2,427
	293,533	272,743	264,334
Non-operating revenues:			
Interest income	16,091	12,612	3,472
Total Revenues	309,624	285,355	267,806
Expenses			
Operating expenses:			
Personnel services	66,942	64,038	62,449
Contractual services	49,970	54,156	61,491
Chemicals, supplies and small equipment	23,482	22,062	17,384
Utilities and rent	31,151	25,562	22,217
Depreciation and amortization	44,149	41,069	40,500
Water purchases	22,745	19,625	20,692
Other	4,218	3,679	3,955
Total operating expenses	242,657	230,191	228,688
Non-operating expenses			
Interest expense and fiscal charges	20,881	25,415	26,060
Payment in lieu of taxes and right of way fee	16,923	16,307	15,778
Total non-operating expenses	37,804	41,722	41,838
Total expenses	280,461	271,913	270,526
Income before Federal grants and contributions	29,163	13,442	(2,720)
Federal grants and contributions	24,927	34,578	31,455
Change in net assets	**54,090**	**48,020**	**28,735**
Net assets, beginning of year	880,728	832,708	803,973
Net assets, end of year	$ 934,818	$ 880,728	$ 832,708

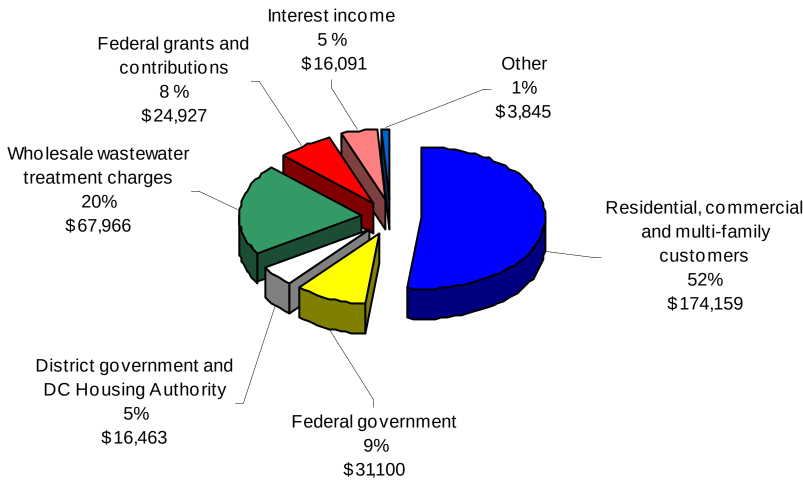
Analysis of Changes in Net Assets

The Authority's financial performance remained strong in fiscal year 2006, with net assets of $934.8 million, an increase of $54.1 million over fiscal year 2005, including Federal grants and contributions. Excluding non-operating revenues (expenses) and Federal grants and contributions, which can vary significantly from year to year based on capital spending and other factors, operating income was $50.9 million, an increase of $8.3 million compared to fiscal year 2005 (see Statements of Revenues, Expenses and Change in Net Assets on page 46).

Total Revenues

Total revenues (including federal grants and contributions) were $334.6 million in fiscal year 2006, an increase of $14.6 million, or 4.6 percent over fiscal year 2005. This is primarily due to increases of $8.1 million from retail customers, $5.8 million in water and wastewater user charges, $6.3 million in federal government billings, $3.4 million in interest income, offset by a $9.6 million decrease in Federal grants contribution.

FY 2006
Total Revenues
($ in 000's)



A detailed analysis of operating and non-operating revenue variances follows:

- Water and wastewater user charges from residential, commercial and multi-family customers increased by $8.1 million to $174.1 million, or 4.9 percent over fiscal year 2005, primarily due to a rate increase of 5.5 percent in fiscal year 2006.

- Water and wastewater user charges from Federal government customers were $31.1 million in fiscal year 2006, an increase of $6.3 million, or 25.6 percent over fiscal year 2005, primarily due to additional billings on some federal accounts which had various metering issues in FY 2005.

- Water and wastewater user charges from the District government and District of Columbia Housing Authority were $16.5 million, an increase of $1.0 million, or 6.7 percent over fiscal year 2005 primarily due to a rate increase of 5.5 percent in fiscal year 2006.

- Wholesale wastewater treatment charges were $68.0 million in fiscal year 2006, an increase of $5.8 million, or 9.4 percent over fiscal year 2005, primarily due to higher costs at the Blue Plains wastewater treatment plant. Per the Blue Plains Intermunicipal Agreement (IMA) (see Note 1), wholesale partners pay a share of both the operating and capital costs of the plant. The payments for capital costs are amortized and recognized as income over the depreciable life of assets purchased (i.e., 60 years).

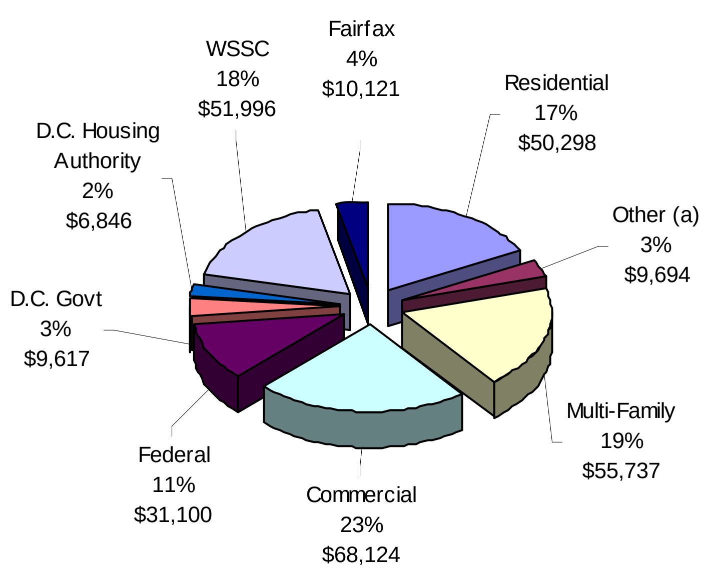
- Interest income, a non-operating revenue item was, $16.1 million in fiscal year 2006, an increase of $3.5 million, or 27.6 percent over fiscal year 2005, primarily due to higher interest rates.

- Federal grant contributions were $24.9 million in fiscal year 2006, a decrease of $9.6 million, or 27.9 percent over fiscal year 2005, primarily due to lower capital construction spending in fiscal year 2006 on grant related projects.

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 23 percent of total revenue.

FY 2006
Operating Revenues By Source
($ in 000's)



(a) Other revenues include $4.6 million from Loudoun County, $1.3 million from Potomac Interceptors and $3.8 million for special billing projects.

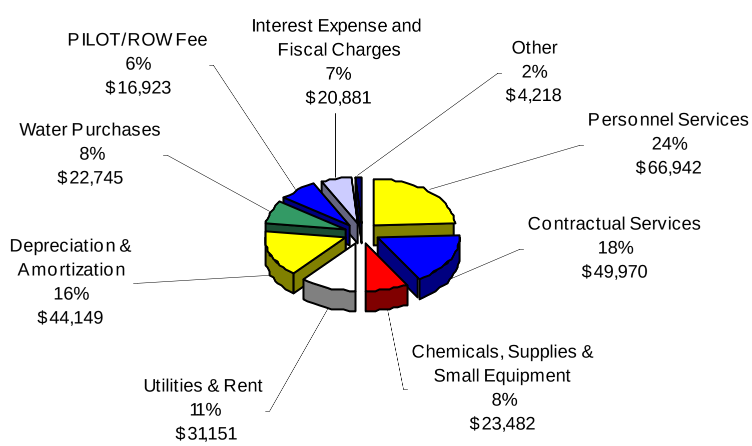
A description of each revenue source as well as a discussion of recent trends in each category follows:

- Revenues from commercial and multi-family customers in the District comprise approximately 42.0 percent of the Authority's total operating revenues. Commercial revenues are especially strong due to the presence of many national associations, government-consulting firms, and colleges and universities in the District. The commercial customer category also includes multi-family dwellings.
- 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 22.0 percent of the Authority's revenues and are based on their share of operating costs at Blue Plains. Loudoun County and Potomac Interceptor account for additional 2.0 percent of the Authority's revenues and are included in other revenues. Operating costs are allocated to each user based on their sewer flows and purchased capacity at Blue Plains.
- Residential customers in the District account for 17.0 percent of total revenues.
- Payments from the Federal government comprise 11.0 percent of the Authority's total operating revenues and include customers such as the U.S. Congress, the Smithsonian Institution, and other federal agencies.
- Revenues from the District of Columbia government and the District of Columbia Housing Authority make up 5.0 percent of total operating revenues.

Expenses

Operating expenses increased by $12.5 million, or 5.4 percent in fiscal year 2006, primarily due to a $5.6 million increase in utilities and rent expense, $2.9 million increase in personnel services, $3.1 million in water purchases expense, $3.1 million increase in depreciation expense and $1.4 million increase in chemical, supplies and small equipment purchases. These increases were offset by a $4.2 million decrease in contractual services.

FY 2006
Total Expenses
($ in 000's)



A detailed analysis of the operating expenses follows:

- Personnel services were $66.9 million in fiscal year 2006, an increase of $2.9 million, or 4.5 percent over fiscal year 2005, primarily due to wage increases.
- Contractual services were $50.0 million in fiscal year 2006, a decrease of $4.2 million, or 7.7 percent over fiscal year 2005, primarily due to savings in the biosolids management program.
- Chemicals, supplies, and small equipment expenses were $23.5 million in fiscal year 2006, an increase of $1.4 million, or 6.4 percent over fiscal year 2005, primarily due to increased chemicals costs. Chemical expense increased due to higher unit prices, primarily driven by significantly higher fuel costs.
- Utilities and rent expenses were $31.2 million in fiscal year 2006, an increase of $5.6 million, or 22.0 percent over fiscal year 2005, primarily due to $5.3 million increase in electricity expense. Electricity cost increased due to several factors: higher natural gas prices as a result of natural disasters (which affected supply) and hot weather (which increased demand).
- Depreciation and amortization expenses were $44.1 million in fiscal year 2006, an increase of $3.1 million, or 7.5 percent over fiscal year 2005, in line with the increase in capital assets due to the capital improvement program.
- Water purchases were $22.7 million in fiscal year 2006, an increase of $3.1 million, or 15.9 percent over fiscal year 2005, primarily due to higher water purchase rates; $513.0 per million gallons in FY 2006 compared to $443.0 million in FY 2005.
- Interest expense and fiscal charges were $20.9 million in fiscal year 2006, a decrease of $4.5 million, or 17.8 percent over fiscal year 2005, primarily due to higher capitalized interest in fiscal year 2006.

UTILITY PLANT AND DEBT ADMINISTRATION

Utility Plant

At the end of fiscal year 2006, the Authority had $2.0 billion invested in a broad range of capital assets (utility plant), including its wastewater collection, wastewater treatment and water distribution systems. This amount represents a net increase of nearly $157.9 million, or 8.4 percent over last year due to continued capital spending in accordance with the capital improvement program.

Table 3 summarizes the Authority's utility plant, net of accumulated depreciation at September 30, 2006 and 2005. The changes are presented in detail in Note 4 to the financial statements.

Table 3 – Utility Plant
Net of Accumulated Depreciation
($ in 000's)

	FY 2006	FY 2005	FY 2004
Blue Plains Regional Wastewater Treatment Plant	$ 1,270,860	$ 1,052,147	$ 1,041,828
Wastewater Collection Facilities	384,463	335,851	332,776
Water Distribution System	468,834	338,125	329,231
Capital Equipment	104,763	97,483	92,202
Construction in Progress	526,713	734,600	552,898
Less Accumulated Depreciation	(712,111)	(672,559)	(638,111)
Net Utility Plant	$ 2,043,522	$ 1,885,647	$ 1,710,824

Debt Administration

At the end of fiscal year 2006, the Authority had a total of $776.0 million in debt outstanding, a decrease of $13.5 million, or 1.7 percent, over fiscal year 2005 (see Note 10) for more information on long-term debt.

Table 4 – Long-Term Debt Outstanding
As of September 30, 2006
($ in 000's)

SENIOR DEBT	INTEREST RATES	YEAR OF FINAL MATURITY	AMOUNT OUTSTANDING
1998 public utility revenue bonds	5.50 - 6.00%	2028	$ 266,120
SUBTOTAL SENIOR DEBT			266,120
SUBORDINATE DEBT			
2003 public utility revenue bonds	5.00 - 5.25%	2033	176,220
2004 public utility revenue bonds	variable	2034	295,000
Notes payable to the federal government for Jennings Randolph Reservoir	3.25%	2041	16,104
Notes payable to WSSC for Little Seneca Reservoir	5.98 - 6.60%	2014	285
1991 District of Columbia general obligation bonds	6.75%	2008	175
1993 District of Columbia general obligation bonds	5.40 - 6.00%	2012	17,252
1994 District of Columbia general obligation bonds	5.05 - 6.50%	2011	3,700
2001 District of Columbia general obligation bonds	6.02%	2008	1,172
TOTAL SUBORDINATE DEBT			509,908
TOTAL DEBT OUTSTANDING			776,028
CURRENT PORTION OF DEBT OUTSTANDING			(7,555)
DEBT OUTSTANDING, LESS CURRENT PORTION			$ 768,473

Long-term debt outstanding as presented on the accompanying statements of net assets includes net unamortized bond premiums, discounts and issuance costs of $4,486 as of September 30, 2006.

In July 2004, the Authority issued subordinated lien public utility revenue bonds (Series 2004 Bonds). Gross proceeds from the Series 2004 Bonds totaled $295.0 million, including $3.5 million for costs of issuance, bond insurance, and underwriter's discount. Approximately $226.0 million will be used to fund various capital projects; $50.0 million was used to repay outstanding commercial paper. The scheduled payment of principal and interest on the Series 2004 bonds are guaranteed by a municipal bond insurance policy issued by Ambac Assurance Corporation. WASA also funded a debt service reserve fund totaling $15.0 million.

In August 2003, the Authority issued subordinated lien public utility revenue bonds (Series 2003 Bonds). Gross proceeds from the Series 2003 Bonds totaled $176.2 million, including $3.4 million of original issue discount and $2.8 million for cost of issuance. Approximately $70.0 million was used to fund various capital projects; $100.0 million was used to repay outstanding commercial paper. The scheduled payment of principal and interest on the Series 2003 bonds are guaranteed by a municipal bond insurance policy issued by Financial Guaranty Insurance Company (FGIC).

In April 1998, the Authority issued its first series of senior lien revenue bonds in the amount of $266.0 million. Gross proceeds from the Series 1998 bonds totaled $285.2 million, including $18.8 million of an original issue premium. Approximately $77.2 million was used to fund new capital projects; $181.0 million was used to repay the outstanding balances of a revolving line of credit, certain notes payable to the Federal government, and to advance refund the Authority's share of certain District of Columbia general obligation bonds.

Current WASA debt outstanding includes notes payable to the Federal government for the Washington Aqueduct and Jennings Randolph Reservoir; notes payable to the Washington Suburban Sanitary Commission for the Little Seneca Lake; and District of Columbia General Obligation bonds, in addition to outstanding revenue bonds and commercial paper.

Table 5
WASA Bond Ratings

Moody's Investors' Service	Aa3	Stable Outlook
Standard & Poor's Corporation	AA-	Stable Outlook
Fitch Ratings	AA-	Stable Outlook

In November 2001, the Authority closed on its $100 million commercial paper program. This program provides interim financing for a portion of the Authority's $2.2 billion Capital Improvement Program. Other financing sources include long-term revenue bonds, EPA grants, wholesale customer contributions, and pay-as-you-go financing. Under the commercial paper program, the Authority issues fixed-rate, short-term (no greater than 270 days) notes. WASA's commercial paper program is backed by a direct pay letter of credit issued by Westdeutsche Landesbank Giroznetrale (West LB). The notes are rated based on West LB's rating; in effect the letter of credit of the bank substitutes the Authority's security with the paying ability of the bank, enhancing the appeal and marketability of the notes. There was no outstanding commercial paper at the end of fiscal year 2006.

Table 6
WASA Commercial Paper Ratings

Moody's Investors' Service	P1	superior ability to repay
Standard & Poor's Corporation	A1+	extremely strong capacity to repay
Fitch Ratings	F1+	extremely strong capacity to repay

RATES

Effective October 1, 2005, the Authority raised its retail water and wastewater rates by 5.5 percent, and the Board has approved an additional 5.0 percent rate increase that was effective October 1, 2006 (FY 2007). The Authority's ten-year financial plan includes projected rate increases of 6.5 to 8.0 percent and also includes projected revisions to its metering and right of way / payment in lieu of taxes pass-through fees.

CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our customers and creditors with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Office of the Chief Financial Officer at 5000 Overlook Avenue, S.W. Washington D.C. 20032. A copy of this report is also available on WASA's web site at www.dcwasa.com or call 202-787-2000.

DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

Statements of Net Assets

September 30, 2006 and 2005

(In thousands)

Assets	**2006**	**2005**
Current assets:		
Cash and cash equivalents (note 3)	$ 44,980	$ 89,331
Investments (note 3)	146,978	64,762
Customer receivables, net of allowance for doubtful accounts of $8,045 in 2006 and $7,756 in 2005 (note 7)	33,693	34,721
Due from Federal government (note 6)	20,113	19,301
Due from District government (note 13)	7,584	14,162
Due from other jurisdictions (note 8)	9,987	12,653
Due from stormwater fund (note 13)	343	211
Inventory	7,369	7,097
Prepaid assets	232	460
Total current assets	271,279	242,698
Noncurrent assets:		
Restricted assets (note 3):		
Cash and cash equivalents	83,479	217,538
Investments	48,834	20,000
Total restricted cash equivalents and investments	132,313	237,538
Utility plant (note 4):		
In-service	2,228,920	1,823,606
Less accumulated depreciation	(712,111)	(672,559)
Net utility plant in service	1,516,809	1,151,047
Construction in progress	526,713	734,600
Net utility plant	2,043,522	1,885,647
Other noncurrent assets:		
Due from other jurisdictions, net of allowance for doubtful accounts of $2,582 in 2006 and $4,396 in 2005 (note 8)	7,998	26,377
Purchased capacity, net of accumulated amortization of $40,917 in 2006 and $37,729 in 2005 (note 5)	149,112	147,405
Total other noncurrent assets	157,110	173,782
Total noncurrent assets	2,332,945	2,296,967
Total Assets	2,604,224	2,539,665
Liabilities		
Current liabilities:		
Accounts payable and accrued expenses	79,120	72,219
Compensation payable (note 9)	7,726	13,123
Accrued interest	12,312	12,563
Due to jurisdictions	6,916	8,560
Deferred revenue	24,766	29,875
Current maturities of long-term debt (note 10)	7,555	13,390
Total current liabilities	138,395	149,730
Noncurrent liabilities:		
Deferred revenue	680,066	646,490
Deferred revenue - Combined Sewer Overflow	65,130	70,406
Other liabilities (note 12)	21,828	20,674
Long-term debt excluding current maturities (note 10)	763,987	771,637
Total noncurrent liabilities	1,531,011	1,509,207
Total liabilities	1,669,406	1,658,937
Net Assets		
Invested in utility plant, net of related debt	749,965	713,470
Restricted for:		
Debt service	39,730	39,765
Capital projects	5,158	2,146
Unrestricted	139,965	125,347
Total net assets	$ 934,818	$ 880,728

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

DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

Statements of Revenues, Expenses and Change in Net Assets

Years Ended September 30, 2006 and 2005

(In thousands)

	2006	2005
Operating revenues:		
Water and wastewater user charges:		
Residential, commercial and multi-family customers	$ 174,159	$ 166,045
Federal government	31,100	24,770
District government and DC Housing Authority (note 13)	16,463	15,436
Charges for wholesale wastewater treatment	67,966	62,126
Other	3,845	4,366
Total operating revenues	293,533	272,743
Operating expenses:		
Personnel services	66,942	64,038
Contractual services	49,970	54,156
Chemicals, supplies and small equipment	23,482	22,062
Utilities and rent	31,151	25,562
Depreciation and amortization	44,149	41,069
Water purchases	22,745	19,625
Other	4,218	3,679
Total operating expenses	242,657	230,191
Operating income	50,876	42,552
Non-operating revenues (expenses):		
Interest income	16,091	12,612
Payment in lieu of taxes and right of way fee (note 13)	(16,923)	(16,307)
Interest expense and fiscal charges	(20,881)	(25,415)
Total non-operating revenues (expenses)	(21,713)	(29,110)
Income before Federal grants and contributions	29,163	13,442
Federal grants and contributions	24,927	34,578
Change in net assets	54,090	48,020
Total net assets, beginning of year	880,728	832,708
Total net assets, ending of year	$ 934,818	$ 880,728

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

DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY
Statements of Cash Flows
Years Ended September 30, 2006 and 2005
(In thousands)

	2006	2005
Cash flows from operating activities:		
Cash received from customers	$ 289,388	$ 273,605
Cash paid to suppliers for goods and services	(128,615)	(122,459)
Cash paid to employees for services	(69,388)	(59,957)
Net cash provided by operating activities	91,385	91,189
Cash flows from capital and related financing activities		
Proceeds from other jurisdictions	61,226	67,284
Repayments of bond principal and notes payable to federal and district governmen	(8,757)	(15,297)
Acquisition of utility plant and purchased capacity	(199,909)	(206,721)
Payments of interest and fiscal charges	(34,466)	(32,422)
Contributions of capital from Federal governmen	24,765	30,592
Net cash used in capital and related financing activities	(157,141)	(156,564)
Cash flows from non-capital financing activities:		
Repayment of loan to DC government	—	(10,900)
Transfers-Out (payment in lieu of taxes and Right of way fee)	(16,923)	(16,307)
Net cash used by non-capital financing activities	(16,923)	(27,207)
Cash flows from investing activities:		
Cash received for interest	15,318	10,031
Investment purchases	(436,544)	(182,810)
Investment maturities	325,495	242,612
Net cash (used in) provided by investing activities	(95,731)	69,833
Net decrease in cash and cash equivalents	(178,410)	(22,749)
Cash and cash equivalents (including restricted) at beginning of year	306,869	329,618
Cash and cash equivalents (including restricted) at end of year	$ 128,459	$ 306,869
Operating income	$ 50,876	$ 42,552
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	44,149	41,069
Change in operating assets and liabilities:		
Decrease in customer and other receivables	13,839	6,756
Increase in inventory	(45)	(276)
Increase (decrease) in payables and accrued liabilities	(962)	9,038
Decrease in deferred revenue	(16,472)	(7,950)
Net cash provided by operating activities	$ 91,385	$ 91,189

The notes to the basic financial statements are an integral part of this statement

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(1) Reporting Entity

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 District of Columbia (the District) Department of Public Works. The District of Columbia Water and Sewer Authority (WASA or the Authority), an independent authority of the District, was created in April 1996 and began operating 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."

WASA provides water and wastewater services to District residents, businesses, federal and municipal customers, and certain facilities of the Federal government in Virginia and Maryland. WASA 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.

WASA'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 (IMA) was executed in September 1985 among 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). The IMA provided for the expansion of the Plant's processing capacity to 370 million gallons per day. The IMA also provided 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 IMA. Operating costs are allocated based on wastewater flows from each participant.

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

WASA purchases water from the Washington Aqueduct (the Aqueduct), which is owned by the U.S. Government and operated by the U.S. Army Corps of Engineers under the direction of the Secretary of the Army. The Aqueduct operates two water purification plants for the exclusive benefit of WASA, Arlington County, Virginia and the City of Falls Church, Virginia. WASA purchases approximately 75 percent of the water produced by the Aqueduct, which is reported as water purchases.

WASA is considered a component unit of the District for financial reporting purposes primarily because WASA is responsible for the payment of certain District long-term debt issued before WASA's creation. This debt was used to finance capital improvements for WASA's predecessor agency.

(2) Summary of Significant Accounting Policies

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

(a) Measurement Focus And Basis of Accounting

The term "measurement focus" is used to denote what is being measured and reported in the Authority's operating statements. The Authority is accounted for on the flow of "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost recovery), financial position and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported and equity is reported as net assets.

The term "basis of accounting" is used to determine when a transaction or event is recognized on the Authority's financial statements. The Authority uses the full accrual basis of accounting, with revenues recorded when earned and expenses recorded when incurred, even though actual payment or receipt may not occur until after the period ends.

WASA has elected, as allowed in paragraph 7 of GASB *Statement No. 20*, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting,* not to follow Financial Accounting Standards Board (FASB) pronouncements issued subsequent to November 30, 1989. Therefore, WASA follows all GASB pronouncements; and FASB pronouncements issued on or before November 30, 1989, unless those pronouncements conflict or contradict GASB pronouncements.

As allowed by GASB 20, WASA accounts for its regulatory assets and liabilities in accordance with the Statement of Financial Accounting Standards Board Statement No. 71, *Accounting for the Effects of Certain Types of Regulations (SFAS 71)*. In general, SFAS 71 covers the type of regulation that permits rates to be set at levels intended to recover the estimated costs of providing regulated services, including the cost of capital. There are times in which the revenues intended to cover certain costs are provided either before or after the costs have been incurred. If the costs will be recovered in the future, a regulatory asset is capitalized and reduced as the related revenues are provided. If the current recovery is for costs that will be incurred in future periods, regulatory liabilities are accrued and reduced as those costs are incurred. As of September 30, 2006 and 2005, no regulatory assets or liabilities were required to be reported in accordance with SFAS 71.

WASA has adopted the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments.* GASB Statement No. 34 established standards for external financial reporting for all states and local governmental entities, which includes a statement of net assets, a statement of activities and changes in net assets and a statement of cash flows.

(2) Summary of Significant Accounting Policies (Continued)

GASB Statement No. 34 requires the classification of net assets into three components as described below:

- *Invested in capital assets, net of related debt* – This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

- *Restricted* – This component of net assets consists of restrictions placed on net assets as a result of external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

- *Unrestricted net assets* – This component of net assets consist of net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

WASA has adopted the provisions of GASB Statement No. 40, “*Deposit and Investment Risk Disclosures”* to amend GASB Statement No. 3. GASB Statement No. 40 updates the custodial credit risk disclosure requirements of Statement No. 3 and establishes more comprehensive disclosure requirements. It also addresses other common risks of deposits and investments of state and local governments.

The Authority adopted the following GASBS in fiscal year 2006:

In November 2003, the GASB issued Statement No. 42, “Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries.” This Statement establishes accounting and financial reporting standards for impairment of capital assets and clarifies and establishes accounting requirements for insurance recoveries.

In May 2004, the GASB issued Statement No. 44, “Economic Condition Reporting: the Statistical Section-an amendment of NCGA Statement No. 1.” This Statement provides guidance in the preparation of the statistical section.

In December 2004, the GASB issued Statement No. 46, “Net Assets Restricted by Enabling Legislation an amendment to GASB Statement No. 34.” This Statement amends the requirement established by GASB Statement No. 34 by clarifying that a legally enforceable enabling legislation restriction is one that an external party can compel a government to honor.

The adoption of these standards had no material impact on the Authority’s financial statements for fiscal year 2006.

(b) Revenues and Expenses

Revenues and expenses are distinguished between operating and non-operating items.

(2) Summary of Significant Accounting Policies (Continued)

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. Refunds to customers are charged to income in the period in which those refunds are paid.

Operating expenses include the costs associated with the conveyance of water and wastewater, treatment of wastewater, administrative expenses, and depreciation of capital assets.

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

Water and Wastewater User Charges

Retail water and wastewater rates are approved by the WASA 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.

Charges for Wholesale Wastewater Treatment and Deferred Revenue

The cost of operating and maintaining the Plant and related collection facilities applicable to non-District users is billed to participating jurisdictions based upon their share of flows. 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. The reimbursements for capital related costs are recorded as deferred revenue and are amortized into charges for wholesale wastewater treatment over the estimated useful lives of the related assets.

(c) Cash and Cash Equivalents

WASA maintains its own cash accounts for the collection of all revenue and payment of all expenses. WASA invests all unrestricted cash balances, in excess of the required compensating balances, in interest-bearing accounts. The Authority's cash equivalents consist of unrestricted and restricted investments such as mutual funds, overnight repurchase agreements, and agency discount notes, 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 WASA's restricted cash. See note 3(c).

(2) Summary of Significant Accounting Policies (Continued)

(d) Investments

The Authority's investments consist of unrestricted and restricted agency discount notes, which have an original maturity in excess of 90 days. Investments are recorded at amortized cost, and certain non-participating contracts are recorded at cost. Recorded amounts approximate fair value.

(e) Restricted Assets

Restricted assets consist of appropriations from the U.S. Congress for combined sewer overflow projects, invested unexpended commercial paper and revenue bond proceeds, debt service reserves, workers compensation reserves and funds for the current payment of revenue bond debt service. These assets, which cannot be used for routine operations, are classified as restricted assets since their use is limited by applicable bond covenants.

(f) Utility Plant

Utility plant is stated at original construction cost, which includes personnel services and interest costs incurred during construction. Normal recurring maintenance and repair costs are charged to operations, whereas major repairs, improvements and replacements, which materially extend the useful lives of the assets, are capitalized. Construction in progress is reclassified to in-service upon substantial completion or when placed in service, with related depreciation commencing at that time. Capitalization thresholds are: $500 for buildings, improvements and infrastructure; and $5 for equipment. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Utility plant is depreciated using the straight-line method over the following estimated useful lives:

Asset Class	Estimated Useful Lives
Infrastructure and storm drains	60 years
Heavy and hydraulic equipment	20 years
Building improvements	20 years
Equipment	3-5 years
Fleet	5-10 years

(g) Purchased Capacity

Historically, the District issued long-term debt to finance most of the Aqueduct's capital facilities and WASA recorded this debt and related capital costs in its financial statements. On April 1, 1997, WASA and the other Northern Virginia customers entered into an agreement with the Federal government, which provides for the funding of a significant portion of the Aqueduct's capital improvement program directly by the Federal government through borrowing, with the remaining amounts to be funded directly by each customer.

(2) Summary of Significant Accounting Policies (Continued)

WASA is responsible for funding only its portion of this debt, of which none is currently outstanding, other related capital projects, and operating costs calculated, as its pro rata share of water purchased.

WASA's payments for capital costs are recorded as purchased capacity in the Statements of Net Assets. The Aqueduct's capital costs allocable to other jurisdictions (City of Falls Church and Arlington County, Virginia), but funded by WASA prior to April 1, 1997, are reported as due from other jurisdictions.

Additionally, WASA's participation in the Little Seneca Lake and Jennings Randolph Reservoir (Bloomington Dam) projects is included in purchased capacity. The two projects provide backup and peak-day water supply for WASA and the other two Aqueduct customers as well as other area jurisdictions. The Jennings Randolph Reservoir was constructed by the Federal government and is operated by the U.S. Army Corps of Engineers, Baltimore District. WASA funds 30 percent of all operating and capital costs. The Little Seneca Lake was constructed and is operated by the Washington Suburban Sanitary Commission (WSSC). WASA funds 40 percent of all capital and operating costs. Purchased capacity is generally amortized over the estimated useful lives of the facilities of 60 years.

(h) Inventory

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

(i) Debt Financing Costs

Bond discount, premium and costs incurred to issue debt are capitalized and amortized into interest expense over the related bond issue period using the effective interest method.

(j) Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation.

(k) Use of Estimate and Assumptions

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make certain estimates and assumptions that effect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(In thousands)

(2) Summary of Significant Accounting Policies (Continued)

(l) Vacation and Sick Leave

Employees earn vacation and sick leave based on a prescribed formula, which allows employees to accumulate an unlimited amount of sick pay and vacation pay up to a maximum as shown in the table below. The amount of vacation leave earned but unused by employees vests and is accrued as a liability. Sick pay does not vest and accordingly, it is recorded when used.

Employee's Length of Service	Union Employees	Non-union Employees
1 - 3 years	240 hours	240 hours
4 - 14 years	240 hours	320 hours
Over 15 years	240 hours	360 hours

(3) Cash Deposits and Investments

(a) Cash Deposits

At September 30, 2006 and 2005, the carrying amounts of WASA's unrestricted bank deposits and cash on hand (petty cash) were $3,841 and $8,637 respectively. These bank deposits are entirely insured or collateralized with securities held by WASA's agent in its name.

(b) Investments

As of September 30, 2006 and 2005, WASA had the following investments:

Type of Investments	2006	Weighted Average Maturity (Years)	2005	Weighted Average Maturity (Years)
Repurchase agreements	$ 36,643	0.003	$ 52,381	0.003
Agency discount notes	195,812	0.040	99,669	1.690
Money market mutual funds	87,975	0.083	230,944	0.083
Total Investments	$ 320,430		$ 382,994	
Portfolio weighted average maturity		0.048		0.490

WASA's investments are categorized in accordance with GASB Statement No. 40, "*Deposit and Investment Risk Disclosures.*" Disclosures are limited to:

- Deposits that are not covered by depository insurance and are (a) uncollateralized, (b) collateralized with securities held by the pledging financial institution, or (c) collateralized with securities held by the pledging financial institution's trust department or agent but not in the depositor-government's name.

- Investment securities that are uninsured, are not registered in the name of the government, and are held by either (a) the counterparty or (b) the counterparty's trust department or agent but not in the government's name.

(In thousands)

(3) Cash Deposits and Investments (Continued)

The Authority's investments are not subject to foreign currency risk. The Authority's investments are subject to interest rate, credit and custodial risk as described below:

Interest Rate Risk - As a means of limiting exposure to fair value losses arising from rising interest rates, the Authority's investment policy limits maximum maturity of non-debt-related permissible deposits and investments to no longer than 36 months.

Credit Risk - WASA's Board of Directors has approved a cash management and investment policy and WASA has adopted investment practices based on guidelines established by the Government Finance Officer's Association. Allowable investments include obligations of the U.S. Treasury and U.S. agencies. WASA may also invest in highly rated bankers acceptances, repurchase agreements, commercial paper, corporate notes and bonds, certificates of deposit and money market mutual funds. WASA's money market mutual funds are AAA rated.

Custodial Risk - For an investment, custodial risk 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's investment policy requires that, at the time funds are invested, collateral for repurchase agreements be held in the Authority's name by a custodial agent for the term of the agreement and investments in obligations of the United States or its agencies be held by the Federal Reserve in a custodial account. Any funds not invested at the end of the day are placed in overnight repurchase agreements in the Authority's name. Repurchase agreements are collateralized at 102 percent of the investment with obligations of the U.S. Treasury or U.S. agencies, or investment grade obligations of the District or state or local governments. Highly rated means investments with a rating of AA or A-1/P-1 or better. Investments are restricted as to the amount in each type of investment to ensure appropriate diversification.

(c) Cash and Investment Schedule

A schedule of cash equivalents and investments as of September 30, 2006 and 2005 follows:

	2006			2005		
Description	Unrestricted	Restricted	Total	Unrestricted	Restricted	Total
Cash and Cash Equivalents						
Demand deposits	$ 3,841	-	$ 3,841	$ 8,637	-	$ 8,637
Repurchase agreements	36,644	-	36,644	52,381	-	52,381
Money market mutual funds	4,495	83,479	87,974	13,406	217,538	230,944
Agency discount notes	-	-	-	14,907	-	14,907
Total Cash and Cash Equivalents	44,980	83,479	128,459	89,331	217,538	306,869
Investments						
Agency discount notes	146,978	48,834	195,812	64,762	20,000	84,762
Total cash, cash equivalents & investments	$ 191,958	$ 132,313	$ 324,271	$ 154,093	$ 237,538	$ 391,631

(In thousands)

(3) Cash Deposits and Investments (Continued)

Included in unrestricted demand deposits and agency discount notes is $58.5 for the Rate Stabilization Fund. The Authority established the Rate Stabilization Fund in FY 2001. The balance in this account will be used in the future at the Authority's discretion.

(d) Restricted Cash and Investment Schedule

A schedule of restricted cash equivalents and investments as of September 30, 2006 and 2005 follows:

Description	2006	2005
Restricted cash and cash equivalents		
Revenue bond construction account	$ 8,939	$ 111,937
Combined sewer overflow (CSO) federal appropriation	21,452	52,549
Debt service reserve account, 1998 revenue bonds	23,407	24,135
Debt service reserve account, 2004 revenue bonds	15,000	15,322
Debt service interest payment account, 1998 revenue bonds	7,522	7,458
Debt service interest payment account, 2003 revenue bonds	4,489	4,479
Debt service interest payment account, 2004 revenue bonds	1,599	629
Workers' comp reserve account	1,049	1,008
Commercial paper proceeds	22	21
Total restricted cash and cash equivalents	83,479	217,538
Restricted investments		
Combined sewer overflow (CSO) federal appropriation	48,834	20,000
Total restricted cash, cash equivalents & investments	$ 132,313	$ 237,538

(In thousands)

(4) Utility Plant

The net utility plant, including capitalized interest of $15,184 for the year ended September 30, 2006 is as follows:

	Balance 9/30/2005	Additions	Disposals	Transfers	Balance 9/30/2006
Utility Plant					
Waste water treatment plant	$ 1,052,148	$ 218,730	$ -	$ (18)	$ 1,270,860
Waste water collection facilities	335,851	48,612	-	-	384,463
Water distribution system	338,124	130,710	-	-	468,834
Capital Equipment	97,483	8,783	(1,521)	18	104,763
Total utility plant in service	1,823,606	406,835	(1,521)	-	2,228,920
Less accumulated depreciation:					
Waste water treatment plant	(311,229)	(17,973)	-	2	(329,200)
Waste water collection facilities	(158,612)	(5,893)	-	-	(164,505)
Water distribution system	(131,343)	(6,397)	-	-	(137,740)
Capital Equipment	(71,375)	(10,699)	1,410	(2)	(80,666)
Total accumulated depreciation	(672,559)	(40,962)	1,410	-	(712,111)
Net utility plant in service	1,151,047	365,873	(111)	-	1,516,809
Construction in progress	734,600	198,948	-	(406,835)	526,713
Net utility plant	$ 1,885,647	$ 564,821	$ (111)	$ (406,835)	$ 2,043,522

The net utility plant, including capitalized interest of $11,488 for the year ended September 30, 2005 is as follows:

	Balance 9/30/2004	Additions	Disposals	Transfers	Balance 9/30/2005
Utility Plant					
Waste water treatment plant	$ 1,041,828	$ 10,320	$ -	$ -	$ 1,052,148
Waste water collection facilities	332,776	3,075	-	-	335,851
Water distribution system	329,231	8,893	-	-	338,124
Capital Equipment	92,202	8,995	(3,714)	-	97,483
Total utility plant in service	1,796,037	31,283	(3,714)	-	1,823,606
Less accumulated depreciation:					
Waste water treatment plant	(295,219)	(16,010)	-	-	(311,229)
Waste water collection facilities	(153,133)	(5,479)	-	-	(158,612)
Water distribution system	(126,093)	(5,250)	-	-	(131,343)
Capital Equipment	(63,666)	(11,272)	3,563	-	(71,375)
Total accumulated depreciation	(638,111)	(38,011)	3,563	-	(672,559)
Net utility plant in service	1,157,926	(6,728)	(151)	-	1,151,047
Construction in progress	552,898	212,985	-	(31,283)	734,600
Net utility plant	$ 1,710,824	$ 206,257	$ (151)	$ (31,283)	$ 1,885,647

(In thousands)

(5) Purchased Capacity

The Washington Aqueduct, managed by the U.S. Army Corps of Engineers, provides wholesale water treatment services to WASA, Northern Virginia, Arlington County and Falls Church. In addition to paying for operating and maintenance costs for the Aqueduct, WASA and the other jurisdictions are also responsible for capital costs at the Aqueduct. WASA's shares of capital costs are recorded in its books as Purchased Capacity.

Purchased capacity as of September 30, 2006 is as follows:

	Balance 9/30/2005	Additions	Balance 9/30/2006
Purchased Capacity			
Washington Aqueduct	$ 152,944	$ 4,895	$ 157,839
Jennings Randolph Reservoir	19,863	-	19,863
Little Seneca Lake	12,327	-	12,327
Total in service	185,134	4,895	190,029
Less accumulated depreciation:			
Washington Aqueduct	(28,408)	(2,591)	(30,999)
Jennings Randolph Reservoir	(5,109)	(392)	(5,501)
Little Seneca Lake	(4,212)	(205)	(4,417)
Total accumulated depreciation	(37,729)	(3,188)	(40,917)
Purchased capacity, net	$ 147,405	$ 1,707	$ 149,112

Purchased capacity as of September 30, 2005 is as follows:

	Balance 9/30/2004	Additions	Balance 9/30/2005
Purchased Capacity			
Jennings Randolph Reservoir	$ 19,863	$ -	$ 19,863
Little Seneca Lake	12,327	-	12,327
Washington Aqueduct	142,270	10,674	152,944
Total in service	174,460	10,674	185,134
Less accumulated depreciation:			
Jennings Randolph Reservoir	(4,716)	(393)	(5,109)
Little Seneca Lake	(4,006)	(206)	(4,212)
Washington Aqueduct	(25,949)	(2,459)	(28,408)
Total accumulated depreciation	(34,671)	(3,058)	(37,729)
Purchased capacity, net	$ 139,789	$ 7,616	$ 147,405

(In thousands)

(6) Due from Federal Government

The amount due from the Federal government consists of the following at September 30:

	2006	2005
Federal grants receivable	$ 3,061	$ 8,449
Washington Aqueduct advances	17,052	10,852
Total	$ 20,113	$ 19,301

The Washington Aqueduct advances consist of unexpended pay-go advances for capital projects and $4,675 for operating escrow as required by the Water Sales Agreement.

(7) Customer Receivables

Customer receivables include unbilled revenues of $11,553 and $11,705 at September 30, 2006 and 2005, respectively.

(8) Due From Other Jurisdictions

The amount due from other jurisdictions consists of the following at September 30:

	2006	2005
Current:		
WSSC	$ 6,021	$ 9,397
Fairfax	1,166	179
Northern Virginia (a)	575	1,279
Loudoun County Sanitation Authority	473	32
Potomac Interceptor	1,752	1,766
Total Current	9,987	12,653
Noncurrent:		
WSSC (b)	2,433	19,434
Fairfax	445	1,015
Northern Virginia (a)	4,887	5,462
Loudoun County Sanitation Authority	233	466
Total Noncurrent	7,998	26,377
Total Due From Jurisdictions	$ 17,985	$ 39,030

(a) Northern Virginia

The amount due from Northern Virginia represents the Arlington County and the City of Falls Church, Virginia portions of the debt incurred by WASA for the purpose of funding capital expenditures of the Aqueduct prior to April 1, 1997.

(In thousands)

(8) Due From Other Jurisdictions (Continued)

(b) WSSC

The noncurrent amount due from WSSC in FY 2005 includes $14.2 million, net of a $4.4 million reserve for accrued interest related to a 1998 settlement with A.S. McGaughan (Contractor). In September 1998, WASA and the Contractor reached agreement on a settlement of $31.0 million for a large capital project (consisting primarily of eight sedimentation basins) that was under dispute due to site conditions and related construction delays. In accordance with the IMA terms, this settlement was allocated among the IMA partners. Although WASA expects WSSC to pay this receivable, the timing of payment is uncertain, and therefore, the receivable is classified as noncurrent.

In FY 2006, WSSC paid its full share of $14.2 million plus accrued interest relating to A.S. McGaughan settlement. The receivable from WSSC for A.S. McGaughan has been taken off WASA's books in FY 2006 and the amount due from WSSC represents its share of current billed and unbilled capital costs for construction at Blue Plains Facilities.

(9) Compensation Payable (Compensated Absences)

Compensation payable as of September 30, 2006 and 2005 were $7,726 and $13,123, respectively. These amounts include accruals for compensated absences (vacation) for the stated years as shown below. This liability is expected to be paid off within a year; therefore it is classified as a current liability.

	2006	2005
Balance, beginning of year	$ 4,146	$ 4,134
Increases (Incurred)	6,368	4,096
Decreases	(6,228)	(4,084)
Balance, end of year	$ 4,286	$ 4,146

(In thousands)

(10) Long-Term Debt

WASA derives part of its funding for future capital projects from the issuance of revenue bonds, District general obligation bonds, notes payable to the Federal government and various other non-debt sources of financing.

A schedule of long-term debt activity for period ended September 30, 2006 is shown below:

Description	Balance 9/30/2005	New Debt Issued	Debt Retired	Balance 9/30/2006	Due Within One Year
Notes payable to the federal government for Jennings Randolph Reservoir (Bloomington Dam); interest at 3.25%, maturing in 2041	$ 16,376	$ -	$ (272)	$ 16,104	$ 281
Notes payable to WSSC for Little Seneca Lake; interest ranges from 5.98% to 6.60% maturing in 2014	317	-	(32)	285	34
District of Columbia general obligation bonds:					
1991; interest at 6.75% maturing in 2008	255	-	(80)	175	85
1993; interest ranges from 5.40% to 6.0% maturing in 2012	27,725	-	(10,473)	17,252	5,695
1994; interest ranges from 5.05% to 6.50% maturing in 2011	5,020	-	(1,320)	3,700	890
2001; interest at 6.02%, maturing in 2008	2,385	-	(1,213)	1,172	570
1998 public utility revenue bonds; interest ranges from 5.50% to 6.00%, maturing in 2028	266,120	-	-	266,120	-
2003 public utility revenue bonds; interest ranges from 5.0% to 5.25%, maturing in 2033	176,220	-	-	176,220	-
2004 public utility subordinated lien revenue bonds; (auction rate securities) interest varies each auction date, maturing in 2034	295,000	-	-	295,000	-
Total Bonds and Notes	$ 789,418	$ -	$ (13,390)	$ 776,028	$ 7,555

Long-term debt outstanding, as presented on the accompanying statement of net assets, includes net unamortized bond premiums, discounts, and issuance costs of $4,486.

(In thousands)

(10) Long-Term Debt (Continued)

A schedule of long-term debt activity for period ended September 30, 2005 is shown below:

Description	Balance 9/30/2004	New Debt Issued	Debt Retired	Balance 9/30/2005	Due Within One Year
Notes payable to the federal government for Jennings Randolph Reservoir (Bloomington Dam); interest at 3.25%, maturing in 2041	$ 16,640	$ -	$ (264)	$ 16,376	$ 272
Notes payable to WSSC for Little Seneca Lake; interest ranges from 5.98% to 6.60% maturing in 2014	357	-	(40)	317	32
District of Columbia general obligation bonds:					
1991; interest at 6.75% maturing in 2008	330	-	(75)	255	80
1993; interest ranges from 5.40% to 6.0% maturing in 2012	38,235	-	(10,510)	27,725	10,473
1994; interest ranges from 5.05% to 6.50% maturing in 2011	8,095	-	(3,075)	5,020	1,320
2001; interest at 6.02%, maturing in 2008	4,555	-	(2,170)	2,385	1,213
1998 public utility revenue bonds; interest ranges from 5.50% to 6.00%, maturing in 2028	266,120	-	-	266,120	-
2003 public utility revenue bonds; interest ranges from 5.0% to 5.25%, maturing in 2033	176,220	-	-	176,220	-
2004 public utility subordinated lien revenue bonds; (auction rate securities) interest varies each auction date, maturing in 2034	295,000	-	-	295,000	-
Total Bonds and Notes	$ 805,552	$ -	$ (16,134)	$ 789,418	$ 13,390

Long-term debt outstanding, as presented on the accompanying statement of net assets, includes net unamortized bond premiums, discounts, and issuance costs of $4,391.

(a) Senior Debt

Payment of the principal and interest on WASA's senior debt is secured by a pledge of WASA's gross revenues (excluding any capital contributions or grants) after provisions for payment of operating expenses. The 1998 public utility revenue bonds and notes payable to the Federal government for the Washington Aqueduct are considered senior debt under the related Master Indenture of Trust (Master Indenture).

Notes payable to the Federal government for the Washington Aqueduct are specifically secured by user charges assessed on retail customers. The proceeds of these notes are used to make capital improvements to the Washington Aqueduct. There are no outstanding notes to the Federal government for the Washington Aqueduct at the end of fiscal years 2006 and 2005.

(10) Long-Term Debt (Continued)

In April 1998, WASA issued approximately $266,120 of senior lien public utility revenue bonds (Series 1998 Bonds). As required by the Master Indenture, WASA has agreed to fix, charge, and collect rates and fees at levels sufficient to cover annual senior principal and interest requirements by 120 percent (see "Bond Covenants" below). Gross proceeds from the Series 1998 Bonds totaled $285,200 including $18,800 of 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 remainder of the gross proceeds, approximately $27,000, was used to fund the debt service reserve fund and to pay costs of issuance. The payment of principal and interest on the Series 1998 bonds is insured by Financial Security Assurance, Inc.

WASA completed the advance-refunding portion of the April 1998 bond issuance to restructure its front-loaded debt service schedule. Approximately $160,000 of bond proceeds was used to purchase securities that were placed in an irrevocable trust, which provides resources for all future debt service payments on the refunded debt. The refunded debt is considered defeased and the respective liabilities have been removed from the balance sheet. The advance-refunding in 1998 resulted in an economic cost (difference between the present values of the old and new debt service payments) of $241 and an increase in aggregate debt service payments of $119,000. The difference between the refunded debt and the new debt will be amortized as a component of interest expense over the remaining life of the refunded debt.

The total amount of refunded debt outstanding was $4,090 and $9,730 at September 30, 2006 and 2005, respectively.

(b) Subordinate Debt

Payment of WASA's subordinate debt is made after payment of senior debt and after certain reserves have been funded (see "Bond Covenants" below).

Notes payable to the Federal government for 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 backup and peak-day water supply.

Notes payable to WSSC for the Little Seneca Lake 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 by WSSC to construct the Little Seneca Dam and Lake for backup and peak day water supply for the Authority.

(10) Long-Term Debt (Continued)

Prior to the creation of WASA as an independent entity, the District issued general obligation bonds to fund improvements to the water and wastewater system. WASA is responsible for this debt, which is considered subordinate under the Master Indenture. General obligation bonds are also supported by the full faith and credit of the District and by special real property and tax deposits accounted for in the District's general fund. While WASA is not directly liable for the general obligation bonds, it is required by the enabling legislation to transfer to the District the funds necessary to pay its portion of the debt service on the bonds.

In March 1998, WASA and the District executed a memorandum of understanding that outlined certain terms for payment of WASA's share of District general obligation bonds. In particular, it contained the following three provisions: (1) WASA will establish a debt service reserve equal to 10 percent of the subsequent fiscal year's general obligation debt service; (2) on each September 1, commencing September 1, 1999, WASA will prepay the general obligation debt service due for the subsequent fiscal year; and (3) WASA will annually establish rates sufficient to provide at least 100 percent debt service coverage of WASA's share of District general obligation bonds, in accordance with the Master Indenture. As of September 30, 2006 and 2005, WASA had reserved $605 and $850, respectively, of its unrestricted cash in connection with the debt service reserve requirement described above, and was in compliance with the other provisions of the memorandum of understanding.

In August 2003, WASA issued $176,220 of subordinated lien public utility revenue bonds (Series 2003 Bonds). As required by the Master Indenture, WASA has agreed to fix, charge, and collect rates and fees at levels sufficient to cover 100 percent of annual principal and interest payments (see "Bond Covenants" below). Gross proceeds from the Series 2003 Bonds totaled $176,220, including $3,449 of original issue discount and $2,771 for cost of issuance. Approximately $70,000 was used to fund various capital projects; $100,000 was used to repay outstanding commercial paper. The scheduled payment of principal and interest on the Series 2003 bonds are guaranteed by a municipal bond insurance policy issued by Financial Guaranty Insurance Company (FGIC). The Authority also purchased a surety bond policy from FGIC to meet the debt reserve fund requirement for the Series 2003 bonds.

In July 2004, WASA issued $295,000 of subordinated lien public utility revenue bonds (Series 2004 Bonds). As required by the Master Indenture, WASA has agreed to fix, charge, and collect rates and fees at levels sufficient to cover 100 percent of annual principal and interest payments (see "Bond Covenants" below). Gross proceeds from the Series 2004 Bonds totaled $295,000, including $3,549 for costs of issuance, bond insurance, and underwriter's discount. Approximately $226,000 was used to fund various capital projects; $50,000 was used to repay outstanding commercial paper. The scheduled payment of principal and interest on Series 2004 bonds are guaranteed by a municipal bond insurance policy issued by Ambac Assurance Corporation. WASA also funded a debt service reserve fund totaling $15,000.

(10) 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, 2006 and 2005. 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 percent of annual debt service on senior debt and (2) 100 percent 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 is only to be used to pay debt service in the event of insufficient funds. The Series 1998 Bonds debt service reserve account balance as of September 30, 2006 and 2005 was $23,060 and $24,135, respectively, and is required to be maintained at 125 percent of current and future average annual Series 1998 debt service. The Series 2004 Bonds debt service reserve account balance as of September 30, 2006 and 2005 was $15,000 and $15,322 respectively, as required by the indenture.

(In thousands)

(10) Long-Term Debt (Continued)

(d) Debt Service to Maturity

The future debt-service obligations at September 30, 2006 are as follows:

Fiscal year	Principal	Interest	Total
2007	$ 7,555	$ 37,576	$ 45,131
2008	13,956	36,981	50,937
2009	14,002	36,145	50,147
2010	17,446	39,397	56,843
2011	16,783	39,670	56,453
2012 - 2016	91,475	189,205	280,680
2017 - 2021	115,873	167,901	283,774
2022 - 2026	150,586	137,175	287,761
2027 - 2031	191,407	147,884	339,291
2032 - 2036	153,903	101,767	255,670
2037 - 2041	3,042	303	3,345
Total	$ 776,028	$ 934,004	$ 1,710,032

The above table assumes (for estimation purposes only) an interest rate of 4.0% on the Series 2004 Bonds.

(11) Commercial Paper

Commercial Paper — The Board of Directors of the Authority approved WASA's commercial paper program on November 1, 2001, with the Series A and B notes not to exceed $50,000 each at any one time. Proceeds from the sale of the notes are used to finance costs incurred in connection with the construction of capital improvements to WASA's wastewater treatment collection and disposal system, its water distribution system and capital equipment.

Series A and B notes are secured by separate letters of credit, issued by Westdeutsche Landesbank Gironzentrale (WestLB) and are rated P1, A1+ and F1+ by Moody's, S&P and Fitch, respectively. The letter of credit expires on November 30, 2015.

There was no outstanding commercial paper at the end of FY 2006.

(In thousands)

(12) Commitments and Contingencies – Other Liabilities

A schedule of other liabilities as of September 30, 2006 and 2005 is shown below:

Description	2006	2005
Federal Grants	$ 2,739	$ 3,014
Litigation	5,940	5,047
Owner Controlled Insurance Program (OCIP)	415	553
Risk Management	12,734	12,060
Total Other Liabilities	$ 21,828	$ 20,674

(a) Federal Grants

WASA's capital and operating grants are subject to financial and compliance audits by the EPA, the grantor, or its representatives. WASA's management does not expect that the results of these audits will have a material adverse effect on the accompanying financial statements.

(b) Litigation

WASA is a party in various legal actions and claims brought by or against it. In the opinion of WASA's management and legal counsel, the ultimate resolution of these actions and claims will not materially affect the financial position or results of operations of WASA.

Changes in the balances of litigation contingencies during the years ended September 30, 2006 and 2005, were as follows:

	2006	2005
Balance, beginning of year	$ 5,047	$ 3,365
Current year claims and changes in estimates	3,023	2,102
Claim payments	(2,130)	(420)
Balance, end of year	$ 5,940	$ 5,047

(c) Risk Management

WASA 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, WASA purchased certain commercial insurance coverage. Prior to that date WASA was either self-insured or covered under District programs. For each of the five most recent years, settlement of claims has not exceeded insurance coverage.

WASA has purchased $500,000 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, WASA self-insures its fleet of vehicles. The deductible for each claim for buildings and contents is $1,000, except $500 and $1,000 deductibles for flood. Off-site watercraft and specified equipment are insured under an Inland Marine Policy. Deductibles range from $10 to $25 on this policy.

(In thousands)

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

WASA 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.

WASA 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, WASA 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. 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.

Changes in the balances of workers' compensation claims and general liability claims during the years ended September 30, 2006 and 2005, were as follows:

	2006	2005
Balance, beginning of year	$ 12,061	$ 9,992
Current year claims and changes in estimates	1,280	3,643
Claim payments	(607)	(1,574)
Balance, end of year	$ 12,734	$ 12,061

(d) Construction Commitments

Contractual commitments for utility plant construction and capital equipment for the years ended September 30, 2006 and 2005 were $227,375 and $269,820, respectively. Construction commitments are not recorded in the financial statements.

	2006	2005
Total contract commitments	$ 411,139	$ 470,777
Less work performed and retainage	(183,764)	(201,497)
Outstanding contract commitments	$ 227,375	$ 269,280

(In thousands)

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

(e) Lease Commitments

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

WASA's rental expenses for the years ended September 30, 2006 and 2005 are shown in the accompanying rental expense table.

	2006	2005
Facilities Leases	$ 745	$ 808
Automobile Equipment Leases	148	12
Machinery Leases	4	218
Other	1	10
Total	$ 898	$ 1,048

Future minimum noncancelable lease payments on existing operating leases at September 30, 2006, which have an initial term of one year or more, are as follows.

	Future Minimum Lease Payments
2007	$ 822
2008	864
2009	907
Thereafter	—
Total	$ 2,593

(13) Related Party and Similar Transactions

The enabling legislation, described in Note 1, established that the District would pay for water and wastewater services. WASA recorded revenues of $9,617 and $9,118 from the District government and $6,846 and $6,318 from the District of Columbia Housing Authority (DCHA) for fiscal years 2006 and 2005, 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 assets.

WASA recorded expenses of $11,823 and $11,207, for payments-in-lieu-of-taxes to the District for services such as road repairs, fire protection, police protection, and other services for the years ended September 30, 2006 and 2005, respectively. WASA also recorded an expense of $5,100 for the District's right-of-way fee, charged to all area utilities for infrastructure occupancy in public streets, for the years ended September 30, 2006 and 2005.

The amount due from the District government for the years ended September 30, 2006 and 2005 were $7,584 and $14,162, respectively. These amounts are for WASA's share of fiscal year 2006 and 2005 debt service on general obligation bonds originally issued to finance WASA's capital improvements that WASA prepaid in accordance with a memorandum of understanding with the District, as described in Note 10. The balance also includes $1,017 due to the District in fiscal years 2006 and 2005 for costs incurred by the District for certain lead mitigation activities.

On October 18, 2000, the District of Columbia City Council approved the Storm Water Compliance Amendment Act of 2000 (the Act), which created the "Storm Water Permit Compliance Enterprise Fund" (Storm Water Fund or the Fund). The Act established the Authority as the Storm Water Administrator. The Administrator is responsible for monitoring and coordinating the activities of all District agencies, including the activities of the Authority, which are required to maintain compliance with the Storm Water Permit. The Authority is reimbursed by the Fund for all costs incurred to administer the Fund. Also, the Authority does not assume any of the Fund's liabilities or obligations. The permit was issued to the District of Columbia government by the Environmental Protection Agency. The legislation also established a rate for recovery of storm water compliance costs, which is collected by the Authority from its customers on the District's behalf. The Authority incurred $1,160 and $1,253 of administrative expenses for years ended September 30, 2006 and 2005, respectively.

Additionally, the Authority had a receivable from the Storm Water Fund of $343 and $211 for years ended September 30, 2006 and 2005, respectively. The amount shown on the Statement of Net Assets as due from Storm Water Fund is net of collection and administrative costs.

(14) Employee Benefits

(a) Defined Benefit Plans

WASA employees hired prior to October 1, 1987, participate in certain federal benefit plans. 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.

(14) Employee Benefits (Continued)

In addition, the plans issue a publicly available financial report that includes financial statements and required supplementary information. Employees and WASA each contribute a percentage of the employees' salaries to the Federal government, which administers the plans. During fiscal years 2006, 2005 and 2004, WASA's contributions to the plans were $1,174, $1,229 and $1,358, respectively. These amounts were 100 percent of the required contributions under the plans for each of the fiscal years presented. The required percentage of salaries to be contributed by the employees was 7.00 percent for the three fiscal years ended 2006. The required percentage of salaries to be contributed by WASA was also 7.0 percent for the three fiscal years ended 2006.

(b) Defined Contribution Plan

Employees who were hired after September 30, 1987, participate in the U.S. Social Security system and a defined contribution plan sponsored by the District government. The District of Columbia Defined Contribution Plan (D.C. Code 1-627) is a qualified trust under Internal Revenue Code Section 401. During fiscal years 2006, 2005 and 2004, the Authority's contribution was seven percent of base pay toward the plan on behalf of each eligible employee. Employees do not contribute to the plan. Employees become 100 percent vested in their account balance after three years of service.

Starting in January 2000, non-represented employees who were hired after September 30, 1987, participate in the U.S. Social Security system and a defined contribution plan sponsored 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 contribution of seven percent of base pay toward the plan on behalf of each eligible employee.

The Authority also makes an additional contribution of five percent of all base earnings above the Social Security Wage Base. In addition, the Authority makes a matching contribution of 100 percent of the amount that the employee defers to the Section 457(b) Deferred Compensation Plan, up to a maximum contribution of three percent of base pay.

There is no waiting period before an employee becomes a participant of this plan. Employees become 100 percent vested in their account balance after three years of service.

During fiscal years 2006, 2005 and 2004, the Authority's contributions to both defined contribution plans were $2,930, $2,720 and $2,742, respectively.

(c) Post Employment Insurance Plans

At no cost to WASA, the federal government provides healthcare and life insurance benefits to certain retired WASA employees under the Federal Employees' Health Benefits Program and the Federal Employee's Group Life Insurance Program. WASA does not provide health and life insurance benefits to any post-1987 employees.

Statistical Section

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EXHIBIT 1: OPERATING REVENUE BY SOURCE
FY 1997 - 2006
($000)

REVENUE SOURCE	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Residential/Commercial	$ 115,294	$ 138,697	$ 138,328	$ 131,399	$ 139,429	$ 148,134	$ 147,870	$ 159,165	$ 166,045	$ 174,159
Governmental										
Federal	24,024	25,068	26,859	24,092	26,199	28,501	26,884	26,444	24,770	31,100
DC Government (1)	12,268	21,883	11,168	10,883	9,543	10,293	9,943	9,129	8,968	9,617
DC Housing Authority	7,035	7,770	5,720	5,194	6,284	6,203	6,129	6,335	6,468	6,846
Subtotal Governmental	43,327	54,721	43,747	40,169	42,026	44,997	42,956	41,908	40,206	47,563
TOTAL RETAIL REVENUES	**$ 158,621**	**$ 193,418**	**$ 182,075**	**$ 171,568**	**$ 181,455**	**$ 193,131**	**$ 190,826**	**$ 201,073**	**$ 206,251**	**$ 221,722**
Charges for Wholesale Sewer Treatment	52,333	50,566	56,107	50,284	52,542	53,211	61,682	60,834	62,126	67,966
Other Revenues	6,230	14,459	4,450	6,078	3,483	2,387	3,287	2,427	4,366	3,845
Wholesale Water Revenues (2)	4,310	-	-	-	-	-	-	-	-	-
TOTAL REVENUES	**$ 221,494**	**$ 258,443**	**$ 242,632**	**$ 227,930**	**$ 237,480**	**$ 248,729**	**$ 255,795**	**$ 264,334**	**$ 272,743**	**$ 293,533**

(1) As part of the Authority's enabling legislation, the District of Columbia Government pays the Authority for water and sewer services.
(2) In FY 1997, the Authority entered into an operating agreement with the U.S. Army Corps of Engineers, which operates the Washington Aqueduct. Prior to the execution of the agreement, amounts paid to the Aqueduct by its other customers (the City of Falls Church and Arlington County, Virginia) were recorded as revenue of the Authority.

Source: FY 1997 - 2006 Audited Statements of Revenue, Expenses and Changes in Net Assets

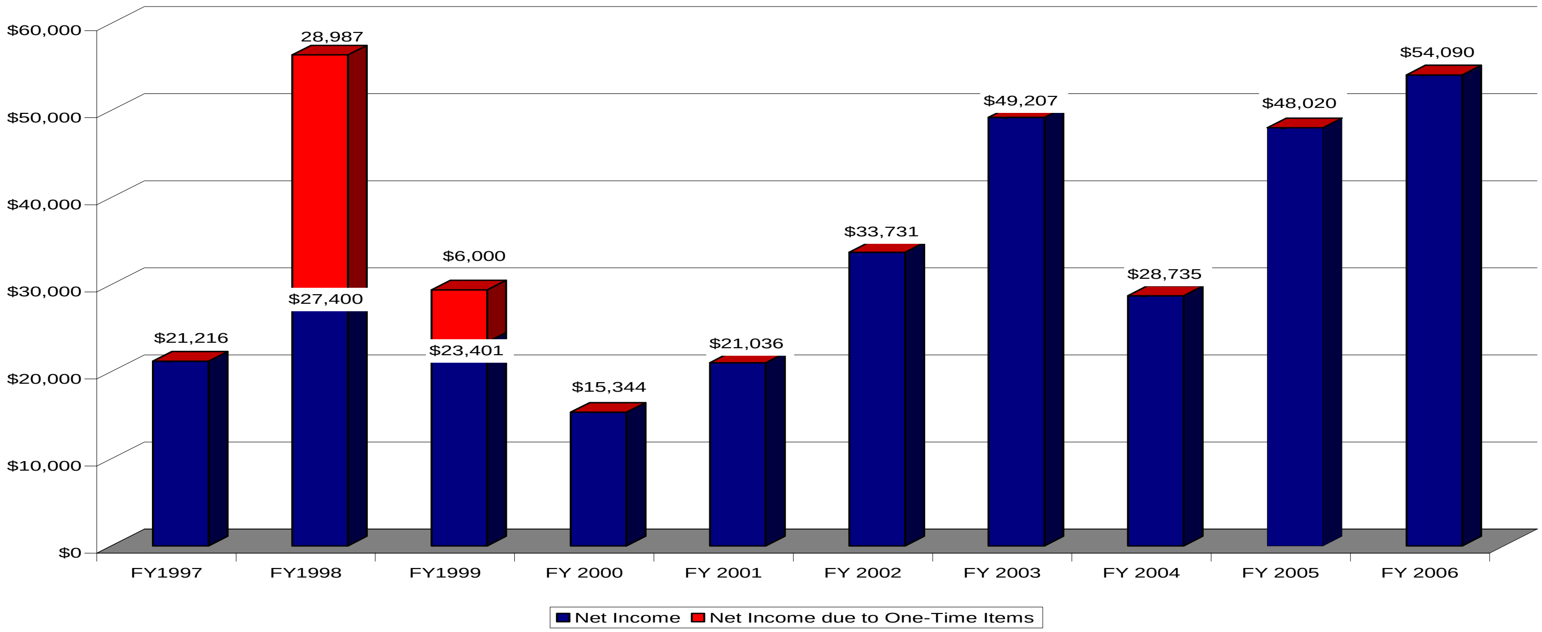
EXHIBIT 2: OPERATING EXPENSES BY CATEGORY
FY 1997 - 2006
($000)

EXPENSE CATEGORY	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Personnel	$ 51,197	$ 53,956	$ 60,674	$ 63,078	$ 62,055	$ 62,162	$ 64,091	$ 62,449	$ 64,038	$ 66,942
Contractual	55,904	66,340	56,017	54,552	58,976	59,166	63,065	61,491	54,156	49,970
Supplies	14,057	17,722	11,431	13,129	15,488	13,683	14,768	17,384	22,062	23,482
Occupancy	16,668	21,173	21,225	20,091	21,219	20,071	20,804	22,217	25,562	31,151
Depreciation & Amortization	25,695	26,278	28,227	30,329	32,971	37,099	39,524	40,500	41,069	44,149
Water Purchases	21,620	23,313	18,922	16,358	17,085	16,904	13,723	20,692	19,625	22,745
PILOT/Right of Way Fee (1)	-	-	-	9,177	15,026	15,247	15,513	15,778	16,307	16,923
Other	1,407	-	-	-	-	-	-	3,955	3,679	4,218
TOTAL OPERATING EXPENSES	**$ 186,548**	**$ 208,782**	**$ 196,496**	**$ 206,714**	**$ 222,820**	**$ 224,332**	**$ 231,488**	**$ 244,466**	**$ 246,498**	**$ 259,580**

(1) PILOT / Right of way fee not considered operating expense for financial reporting purposes and in the Authority's Master Indenture of Trust.

Source: FY 1997 - 2006 Audited Statements of Revenue, Expenses and Changes in Net Assets

EXHIBIT 3: NET ASSETS / NET INCOME
FY 1997 - 2006
($000)



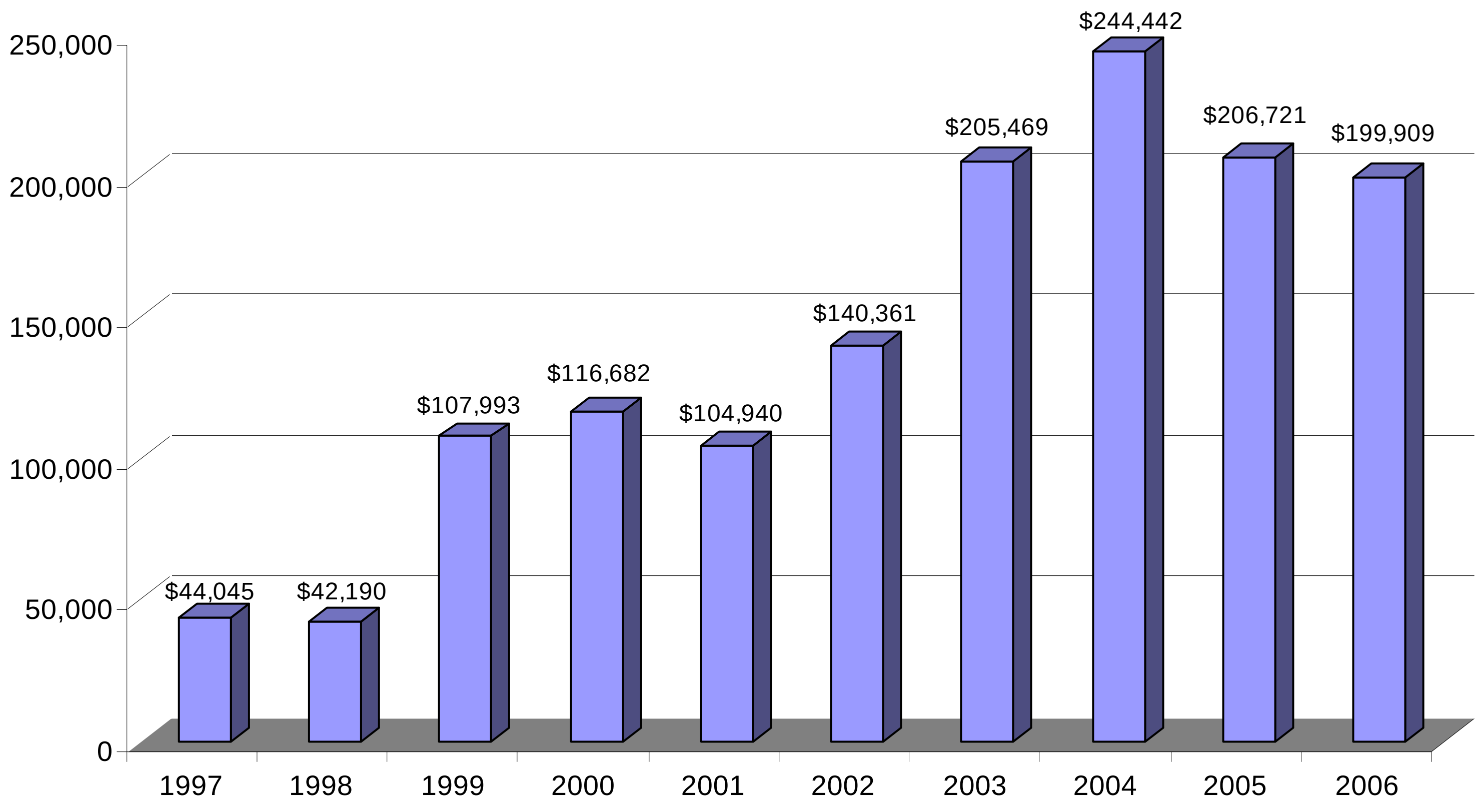
Note 1: In FY 1998 and FY 1999, net income included several one-time items. In FY 1998, these included: 1) $19 million in interest income due to a settlement with Loudoun County Sanitation Authority for historical capacity at Blue Plains; and 2) $10 million in increased revenue due to the reduction of the allowance for uncollectible account receivables because of aggressive collection efforts. In FY 1999, net income included a one-time increase of $6 million due to a reduction in wholesale wastewater treatment deferred revenue.

Note 2: Starting in FY 2001 as required by GASB 34 and 33, net income category was eliminated and replaced by change in net asset. For the purposes of comparison with previous years, net income approximates a change in net asset, except for federal grants contributions, which are now being recognized as revenues. Federal grants contributions added $11.2 million to net changes in net assets in FY 2001, $18.8 million in FY 2002, $39.6 million in FY 2003, $31.5 million in FY 2004, $34.6 million in FY 2005, and $24.9 million in FY 2006. Prior to FY 2001, federal grants contributions were capitalized and amortized into revenues over 60 years.

Note 3: In FY 2004, income before contributions and transfers (which excludes federal grant contributions) reflected a loss of $2.7 million, due primarily to approximately $9.7 million in one-time operating costs related to WASA's lead program. Without these costs, WASA's income before contributions and transfers would have been in line with FY 2003 levels.

Source: FY 1997 – 2006 Audited Statements of Revenue, Expenses and Changes in Net Assets

EXHIBIT 4: CAPITAL DISBURSEMENTS
FY 1997 - 2006
($000)



Note: These disbursements include the Authority's share of Washington Aqueduct's capital disbursements, which in FY 1997 – 2002 have been financed by U.S. Treasury notes.

Source: FY 1997 – 2006 Audited Statements of Cash Flows

EXHIBIT 5: DEBT SERVICE COVERAGE
FY 2006
($000)

Prepared in accordance with the Authority's Master Trust Indenture, which corresponds closely to cash basis accounting

ANALYSIS OF CASHFLOWS & RESERVE REQUIREMENTS

Retail revenues	206,642
Wholesale revenues	49,695
Other non-operating revenues	39,902
(Contributions to) / Transfers from Rate Stabilization Fund	(27,000)
TOTAL REVENUES	269,238
OPERATING EXPENSES	192,675
REVENUES LESS OPERATING EXPENSES	76,563
SENIOR DEBT SERVICE	14,892
Replenishment of Senior Debt Service Reserve Fund	-
SUBORDINATE DEBT SERVICE	
SUBORDINATE DEBT SERVICE	28,695
TOTAL OUTSTANDING & PROJECTED DEBT SERVICE	43,587
PAYMENT IN LIEU OF TAXES / RIGHT OF WAY FEE	16,923
ANNUAL BALANCE FROM OPERATIONS	16,053
BEGINNING CASH RESERVE BALANCE	116,268
CASH RESERVE BALANCE BREAKDOWN	
Beginning Undesignated Reserve Balance	49,748
Additions to / (Payments from) Undesignated Reserve	
Annual balance from operations	16,053
Prior year federal billing reconciliation	(6,888)
(Refund to) / Payment from wholesale customers	23,203
Prepayment of Washington Aqueduct Treasury loans	-
Pay-as-you-go capital financing	(20,213)
(Additions to) / Transfers from 60-Day Operating Reserve	(1,564)
(Additions to) / Transfers from Renewal & Replacement Reserve	-
Ending Undesignated Reserve Balance	60,339
Beginning 60-Day Operating Reserve Balance	31,520
Additions to / (Transfers from) 60-Day Operating Reserve	1,564
Ending 60-Day Operating Reserve Balance	33,085
Beginning Renewal & Replacement Reserve Balance	35,000
Additions to / (Transfers from) Renewal & Replacement Reserve	-
Ending Renewal & Replacement Reserve Balance	35,000
ENDING CASH RESERVE BALANCE	**$128,424**
Cash Reserve Requirement Based on Board Policy	**$95,437**
Beginning Rate Stabilization Fund Balance	31,500
Additions to / Transfers from Rate Stabilization Fund	27,000
Ending Rate Stabilization Fund Balance	58,500

ANALYSIS OF DEBT SERVICE COVERAGE

CALC. OF NET REVENUES AVAILABLE FOR SENIOR DEBT SERVICE	
Revenues Less Operating Expenses	76,563
Prior year federal billing reconciliation	(6,888)
(Refund to) / Payment from wholesale customers	23,203
NET REVENUES AVAILABLE FOR SENIOR DEBT SERVICE	92,878
SENIOR DEBT SERVICE COVERAGE	6.24x
CALCULATION OF SUBORDINATE DEBT SERVICE COVERAGE	
Net revenues available for senior debt service	92,878
Less senior debt service	(14,892)
NET REVENUES AVAILABLE FOR SUBORDINATE DEBT SERVICE	77,986
SUBORDINATE DEBT SERVICE COVERAGE	2.72x
COMBINED DEBT SERVICE COVERAGE	2.13x

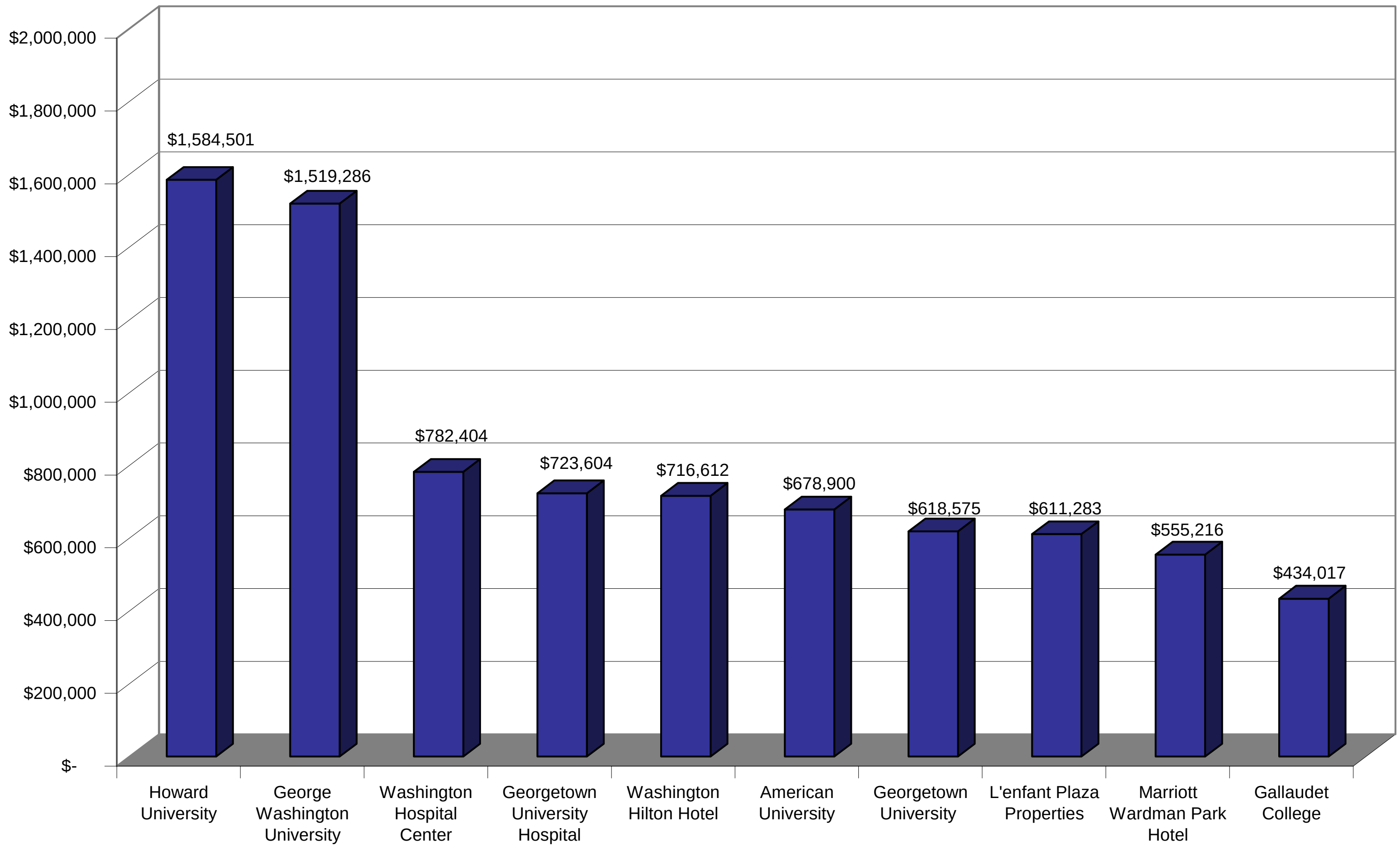
EXHIBIT 6: NUMBER AND TYPE OF CUSTOMER ACCOUNTS AS OF SEPTEMBER 30, 2006

TYPE OF ACCOUNT		NUMBER OF ACCOUNTS
Residential		102,655
Commercial [(A)]		18,489
Governmental		
Federal	526	
District of Columbia	582	
DC Housing Authority	1,173	
Total Governmental		2,281
WASA		29
Washington Aqueduct		1
Wholesale		7
TOTAL NUMBER OF ACCOUNTS		123,462

[(A)] Included in commercial accounts are 46 exempt accounts (38 for Howard University and 7 for Soldiers' Home)

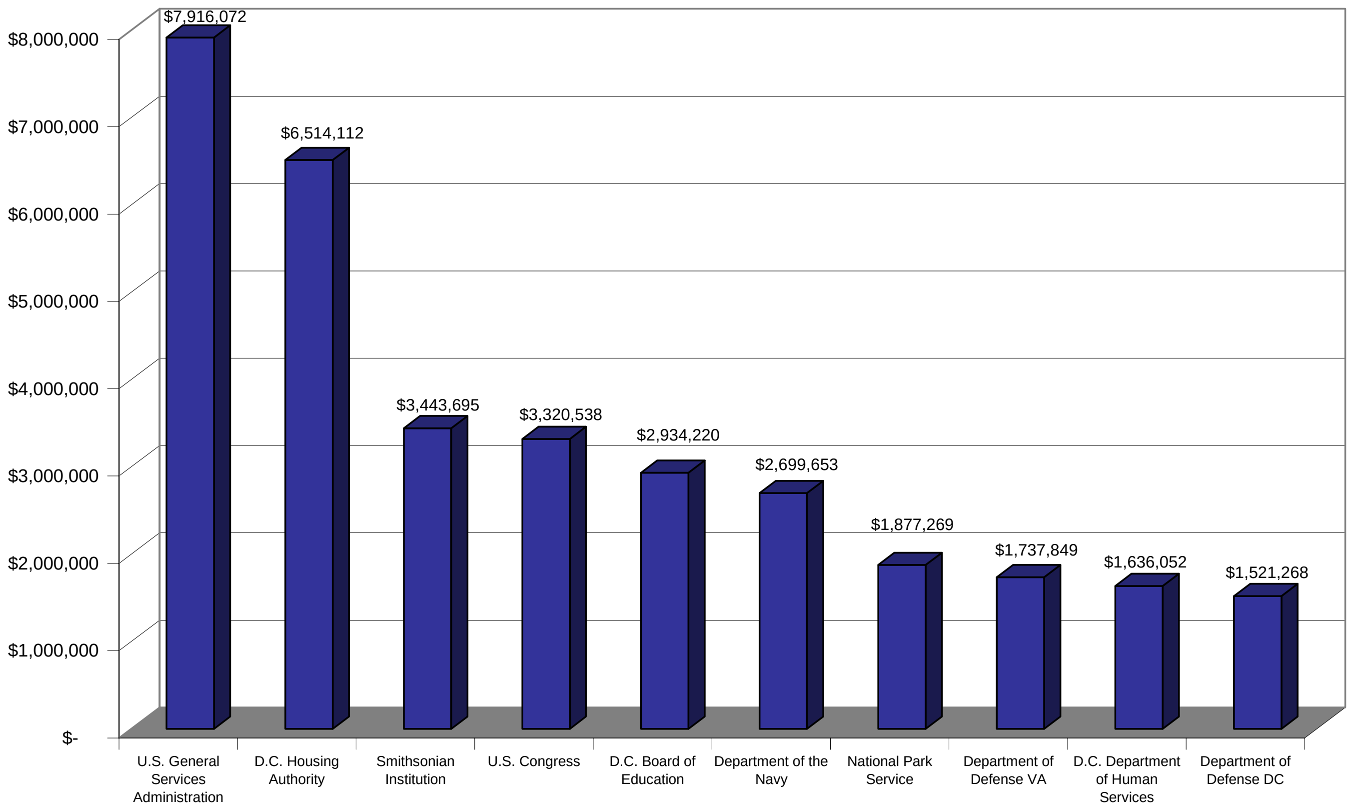
Source: D.C. Water and Sewer Authority Department of Customer Service

EXHIBIT 7: LARGEST COMMERCIAL CUSTOMER ACCOUNTS FY 2006



Source: Authority Department of Customer Service

EXHIBIT 8: LARGEST RETAIL CUSTOMER ACCOUNTS (INCLUDES GOVERNMENT AND RESIDENTIAL) FY 2006



Source: Authority Department of Customer Service

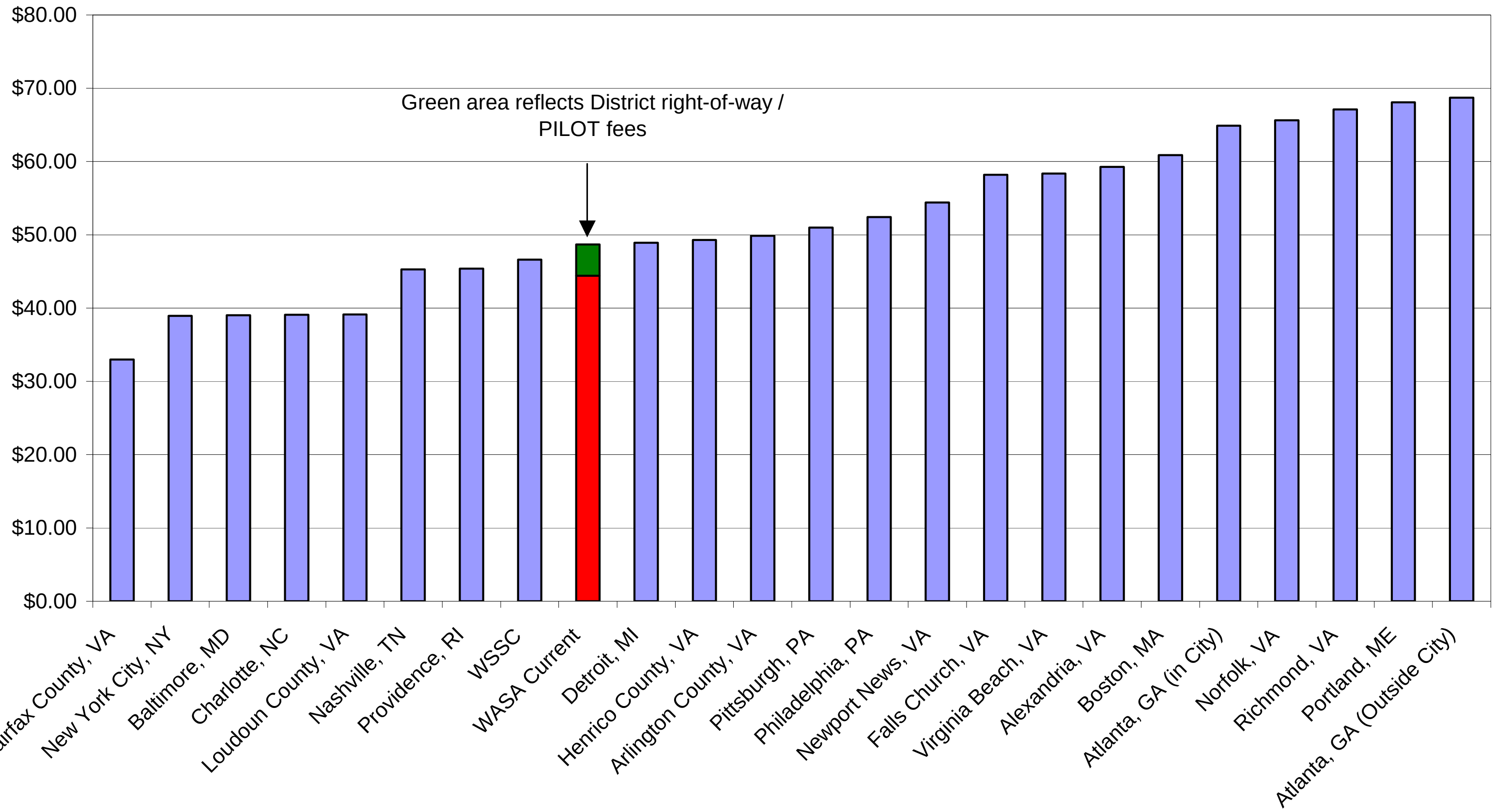
EXHIBIT 9: HISTORY OF RETAIL WATER & SEWER RATES PER Ccf FY 1980 – 2006

FISCAL YEARS	METERING FEE	DISTRICT PUBLIC SPACE OCCUPANCY FEE - PILOT	WATER CONSUMPTION RATE	SEWER CONSUMPTION RATE	COMBINED CONSUMPTION RATE	AVERAGE MONTHLY BILL [2]
1980-1983	$ -	$ -	$ 0.460	$ 0.677	$ 1.137	$ 9.471
1984	-	-	0.537	0.998	1.535	$ 12.787
1985	-	-	0.698	1.297	1.995	$ 16.618
1986	-	-	0.873	1.621	2.494	$ 20.775
1987-1996	-	-	1.004	1.864	2.868	$ 23.890
1997	-	-	1.380	2.710	4.090	$ 34.070
1998	-	-	1.380	2.710	4.090	$ 34.070
1999	-	-	1.380	2.710	4.090	$ 34.070
2000	-	-	1.576	2.710	4.286	$ 35.702
2001-2002	-	-	1.786	2.710	4.496	$ 37.452
2003 (1)	2.010	0.360	1.690	2.570	4.260	$ 40.490
2004 (1)	2.010	0.360	1.740	2.630	4.370	$ 41.410
2005 (1)	2.010	0.360	1.830	2.760	4.590	$ 43.240
2006 (1)	2.010	0.420	1.930	2.910	4.840	$ 45.830

[1] All rates are for one hundred cubic feet (1 Ccf) consumption with the exception of the flat metering fee, which became effective on October 1, 2002.
[2] Average consumption is 8.33 Ccf per month.

Source: D.C. Water and Sewer Authority Department of Finance & Budget

EXHIBIT 10: RESIDENTIAL WATER & WASTEWATER BILL COMPARISONS
MONTHLY BASIS
AS OF SEPTEMBER 2006 (1)



(1) This analysis is based on 5/8” meters and 8.33 Ccf (hundred cubic feet) per month consumption (25 Ccf per quarter) for residential customers.

Source: Authority Department of Finance & Budget

EXHIBIT 11: SCHEDULE OF INSURANCE AS OF SEPTEMBER 30, 2006

TYPE OF COVERAGE	COMPANY	POLICY PERIOD	COVERAGE LIMITS
Blanket Property and Boiler & Machinery	Factory Mutual Insurance Company	June 15, 2006 – June 15, 2007	$500,000,000 Blanket Buildings and Contents – Specified Locations $10,000,000 Miscellaneous Locations $100,000,000 Earth Movement $100,000,000 Flood, except $10,000,000 Locations within 100 Year Flood Zone (e.g. Blue Plains) >TRIA Terrorism: Included in Blanket >Other Terrorism: $250,000,000 Except $150,000,000 at Blue Plains and $25,000,000 other Locs. >Flood Terrorism $1,000,000 $10,000,000 Transit Per Shipment Deductibles: $1,000,000 Any Loss, except $500,000 Flood at each location, except $1,000,000 at Blue Plains
Miscellaneous Equipment Floater Policy	St. Paul Travelers Insurance	June 15, 2006 – June 15, 2007	$5,179,803 Per Occurrence Deductible: $10,000 Per Occurrence
Fidelity & Crime Insurance	St. Paul Travelers Insurance	June 15, 2006 – June 15, 2007	$5,000,000 - Employee Dishonesty, Forgery, Funds Transfer Fraud, Money & Securities Deductible: $50,000 Per Occurrence
Commercial General Liability	Self-Funded		$1,000,000 each occurrence
Commercial Automobile	Self-Funded		$1,000,000 any one accident 100% Physical Damage - self-funded
Worker's Compensation	Self-Funded		Statutory WC Benefits Employer's Liability - $1,000,000 Each Accident; $1,000,000 Disease/ Employee
Excess Worker's Compensation Insurance	AIG - National Union	June 15, 2006 – June 15, 2007	Unlimited - WC Benefits; $1,000,000 - Employer's Liability (Included - Terrorism) Retentions: $1,000,000/accident; $1,000,000 Disease/ Employee.
Excess General Liability, Automobile Liability, and Employers Liability Insurance	AEGIS Insurance	June 15, 2006 – June 15, 2007	$35,000,000 in excess of $1,000,000 (Included - Terrorism)
Excess Liability	Energy Insurance Mutual	June 15, 2006 – June 15, 2007	$65,000,000 in excess of $35,000,000 ($25,000,000 - Terrorism sublimit)
Public Official Liability	RSUI / Darwin	June 15, 2006 – June 15, 2007	$20,000,000 Each Loss / Aggregate Retentions: $250,000/$500,000 wrongful act
Fiduciary Liability	St. Paul Travelers Insurance Company	June 15, 2006 – June 15, 2007	$3,000,000 Each Loss / Aggregate Deductible: $10,000 per claim

EXHIBIT 12: WATER DEMAND FY 1997 - 2006

FISCAL YEAR	ANNUAL DELIVERIES TO SYSTEM (MG)	AVERAGE DAY (MG)	MAXIMUM MONTH AVERAGE (MGD)	MAXIMUM DAY (MGD)	TOTAL ANNUAL WATER SOLD (MGD)	AVERAGE DAY (MG)
1997	49,172	134.7	158.3	207.2	37,405	102.5
1998	47,671	130.6	159.2	178.7	37,323	102.3
1999	50,140	137.4	167.0	201.3	34,428	94.3
2000	48,051	131.6	153.0	209.7	31,987	87.6
2001	48,144	131.9	148.3	180.4	32,008	87.7
2002	48,634	133.2	152.1	170.3	32,147	88.1
2003	45,655	125.1	141.2	164.9	31,335	85.8
2004	46,725	128.0	146.5	164.6	31,634	86.7
2005	45,057	123.4	133.7	149.6	31,179	85.4
2006	41,541	113.8	137.8	161.6	31,717	86.9

Source: Authority Department of Water Services and Washington Aqueduct

EXHIBIT 13: WATER DELIVERED (PUMPED) AND BILLED (SOLD) IN Ccf FY 1997 – 2006

FISCAL YEAR	TREATED WATER DELIVERED	WATER BILLED	SOLD/PUMPED RATIO
1997	65,737,500	50,007,037	76.07%
1998	63,730,922	49,896,545	78.29%
1999	67,032,821	46,026,213	68.66%
2000	64,239,492	42,763,218	66.57%
2001	64,363,369	42,791,940	66.48%
2002	65,019,144	42,977,802	66.10%
2003	61,036,537	41,891,644	68.63%
2004	62,466,939	42,291,441	67.70%
2005	60,237,099	41,682,933	69.20%
2006	55,536,377	42,403,046	76.35%

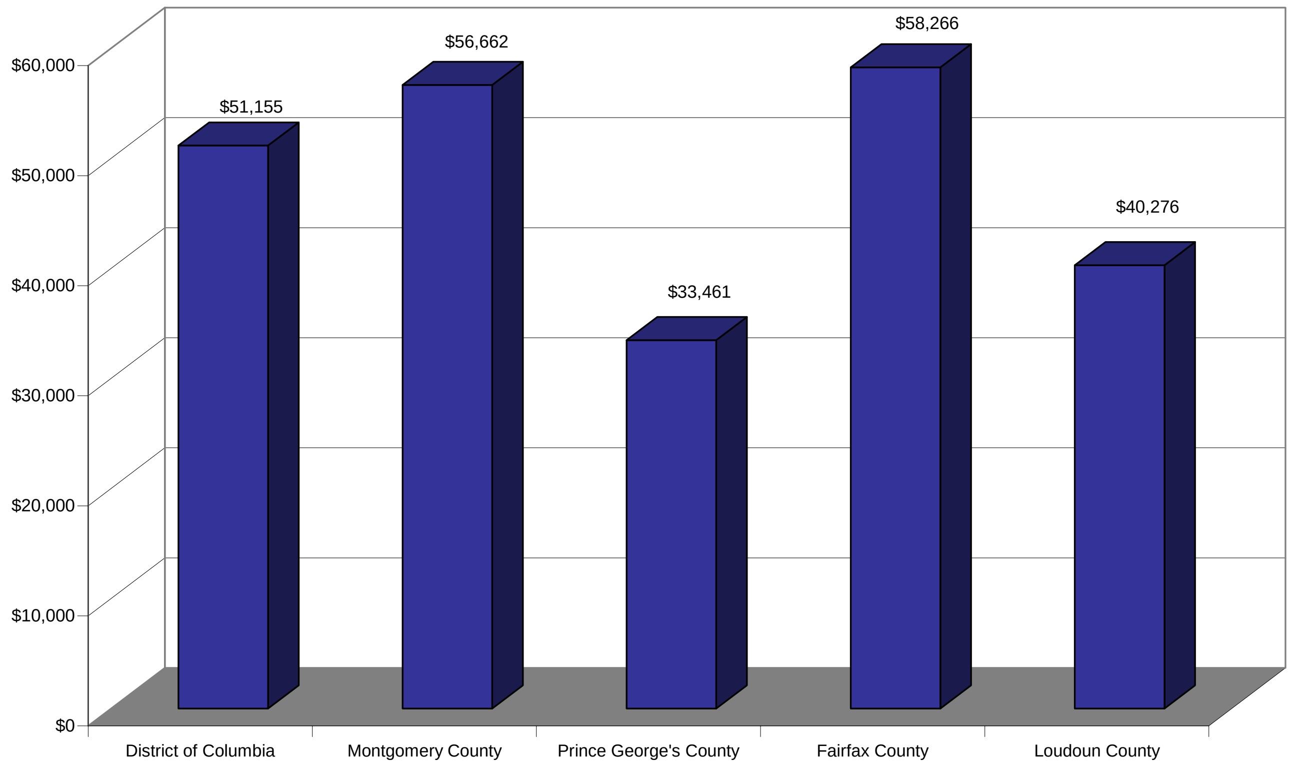
Source: Ccf Delivered, Washington Aqueduct; Ccf Billed, Authority Department of Customer Service

EXHIBIT 14: POPULATION OF SERVICE AREA JURISDICTIONS

JURISDICTION	POPULATION ESTIMATE
District of Columbia	581,530
Montgomery County	927,583
Prince George's County	846,123
Fairfax County	1,006,529
Loudoun County	255,518

Source: United States Census Bureau

EXHIBIT 15: PER CAPITA PERSONAL INCOME



Source: U.S. Department of Commerce, Bureau of Economic Analysis

Latest available data is for 2004

EXHIBIT 16: UNEMPLOYMENT RATES

JURISDICTIONS	UNEMPLOYMENT RATE
District of Columbia	5.7%
Montgomery County	2.9%
Prince George's County	4.3%
Fairfax County	2.0%
Loudoun County	1.6%

Source: U.S. Department of Labor, Bureau of Labor Statistics

EXHIBIT 17: EMPLOYMENT BY SECTOR

	DISTRICT OF COLUMBIA	MONTGOMERY COUNTY	PRINCE GEORGE'S COUNTY	FAIRFAX COUNTY (A)	LOUDOUN COUNTY (B)
Agriculture, Forestry, Mining, etc.	1.33%	0.18%	0.09%	(C)	(C)
Construction	1.88%	6.27%	9.37%	6.20%	10.57%
Manufacturing	0.36%	2.69%	2.92%	(C)	3.44%
Transportation & Public Utilities	1.30%	1.55%	4.16%	(C)	8.98%
Wholesale & Retail Trade	3.30%	11.36%	15.12%	9.91%	13.78%
Finance, Insurance & Real Estate	5.00%	10.37%	6.30%	9.22%	6.27%
Services	54.80%	53.22%	40.74%	61.01%	44.39%
Government (Federal, State & Local)	29.04%	13.31%	19.31%	12.68%	11.97%
Military	2.99%	1.05%	1.99%	0.98%	0.61%
TOTAL	100.00%	100.00%	100.00%	100.00%	100.00%

(A) Agriculture, forestry, mining, manufacturing, transportation and utilities data for Fairfax County are not included
(B) Agriculture, Forestry and mining data for Loudoun County are not included
(C) Indicates data are not shown to avoid disclosure of confidential information

Source: U.S. Department of Commerce, Bureau of Economic Analysis
Latest available data is for 2004

EXHIBIT 18: SUMMARY OF MAJOR PERMITS & ADMINISTRATIVE ORDERS FY 2006

Wastewater	Description	Expiration Date	Current Status
National Pollutant Discharge Elimination System Permit # DC0021199	Authorizes discharge of treated wastewater from Blue Plains into the Potomac River and from the combined sewer system into Rock Creek, the Anacostia River, and the Potomac River. Prescribes operating conditions for the plant and sewer system.	February 25, 2008	Revised permit Issued 12/16/04
1995 Consent Decree Civil Action 90-1643-JGP and 84-2842-JGP	Requires certain actions including: Review procurement practices & maintenance procedures Undertake Operational Capability Review Conduct a pilot project for biological nitrogen reduction	N/A	In Compliance All items completed; awaiting action to terminate decree
1996 Stipulated Agreement & Order Civil Action 96-669-TFH	Requires certain actions including: Rehabilitate and maintain certain facilities and capital equipment in good operating condition Maintain certain records and data for status reports and prepare monthly reports on status of compliance Maintain user fees in separate accounts and make timely payment of invoices	N/A	In Compliance All items completed; awaiting action to terminate agreement and order
2003 Consent Decree Civil Action 90-5-1-107137	Requires certain actions including: Replacement/repair of control structures Cleaning/inspection of catch basins Rehabilitation of pumping stations Rehabilitation of Blue Plains grit chambers and influent screens Inspection of certain sewers and siphons Public education/outreach activities Payment of civil penalty of $250,000 Conduct/support of supplemental environmental projects	N/A	All activities thus far required completed on schedule

EXHIBIT 18: SUMMARY OF MAJOR PERMITS & ADMINISTRATIVE ORDERS FY 2006 (Continues)

Water	Description	Expiration Date	Current Status
05 Consent Decree for CSS LTCP Consolidate Civil Action No: 1:00CV00183TFH	Requires implementing various components of the combined sewer system (CSS) long term control plan (LTCP)	March 18, 2025	In Compliance

EXHIBIT 19: MISCELLANEOUS STATISTICS ABOUT AUTHORITY OPERATIONS FY 2006

Utilities & Supplies Per Day (at Blue Plains)

Electrical Power	745,000 KWH
Natural Gas	20,000 CF
Sodium Hypochlorite	6,850 gallons
Sodium Bisulfite	5,600 pounds
City Water	525,000 gallons
Lime	72,050 pounds
Sodium Hydroxide	26,100 pounds
Methanol	10,000 gallons
Ferric Chloride (10% Iron)	12,900 gallons

Wastewater Treatment Capacity

Average Day	370 MGD
Peak 4 Hour Flow, through complete process	740 MGD
Excess Storm Flow, primary treatment only	336 MGD
Peak Flow	1,076 MGD

EXHIBIT 19: MISCELLANEOUS STATISTICS ABOUT AUTHORITY OPERATIONS FY 2006 (Continues)

Wastewater Plant Permit Limitations

Parameter	Monthly	Weekly
Biochemical Oxygen Demand (carbonaceous)	5.0 mg/L (15,429 lbs./day)	7.5 mg/L (23,143 lbs./day)
Total Suspended Solids (TSS)	7.0 mg/L (21,600 lbs./day)	10.5 mg/L (32,400 lbs./day)
Ammonia Nitrogen		
Summer (5/1 – 10/31)	4.2 mg/L (12,960 lbs/day)	6.1 mg/L (18,823 lbs/day)
Winter 1 (11/1 – 2/14)	11.1 mg/L (34,253 lbs/day)	14.8 mg/L (45,670 lbs/day)
Winter 2 (2/15 – 4/30)	12.8 mg/L (39,500 lbs/day)	17.0 mg/L (52,460 lbs/day)
Total Phosphorus (annual average)	0.18 mg/L (555 lbs/day)	0.35 mg/L (1080 lbs/day)
Dissolved Oxygen		
Minimum daily average	5.0 mg/L	
Not less than	4.0 mg/L	
pH		
Minimum	6.0 units	
Maximum	8.5 units	
Total Chlorine	Non detectable at any time	
Fecal Coliform	200/100 ml	400/100 ml
Chesapeake Bay Voluntary Agreement		
Total Nitrogen (Annual Average)	7.5 mg/L	

Wastewater Plant Processes

Primary Treatment

Influent Pumping Capacity	1,300 MGD
Number of bar screens	13
Number of aerated grit chambers	16
Total volume of aerated grit chambers	2.3 MG
Number of primary clarifers	36
Average detention time (clarifiers)	2.5 hours
Average hydraulic loading (clarifiers)	1008 gallons/square foot/day
Maximum hydraulic loading (clarifiers)	2,929 gallons/square foot/day

EXHIBIT 19: MISCELLANEOUS STATISTICS ABOUT AUTHORITY OPERATIONS FY 2006 (Continues)

Secondary Treatment

Number of reactors	6
Total reactor volume	27.7 MG
Number of clarifiers	24
Average reactor detention time	1.6 hours
Average clarifier hydraulic loading	763 gal/sq ft/day
Number of centrifugal blowers	6
Total blower capacity	280,000 cu ft/minute
Average MLSS	2,200 mg/L
Average SRT	1.6 days
Average SVI	80-100 ml/g
Effluent dissolved oxygen	2-3 mg/L
Effluent alkalinity	140 mg/L as $CaC0_3$

NIitrification/Denitrification

Number of reactors	12
Total reactor volume	55.2 MG
Aerobic Volume	33.1-44.2MG
Anoxic Volume	11.0-22.1MG
Number of clarifiers	28
Average reactor detention time	3.3 hours
Average clarifier hydraulic loading	755-gal/sq ft/day
Number of centrifugal blowers	5
Total blower capacity	291,500 cu ft/minute
Number of turbine aerators	120
Average MLSS	1,800 mg/L
Average reactor pH	7.3
Average SRT	21 days
Average SVI	80 – 110 ml/g
Effluent alkalinity	110 mg/L as $CaC0_3$
Effluent dissolved oxygen (Post - Aeration)	6.8 – 7.2 mg/L
Dual purpose sedimentation tanks (in either secondary treatment or nitrification)	8
Total Dual Purpose Surface Area	197,160 sq ft

Filtration & Disinfection

Number of filters	40
Total filter area	83,200 sq ft
Average filtration rate	3.4 gal/ minute/sq ft
Average filter run time	55 hours
Depth of anthracite media	24 inches
Depth of sand media	12 inches
Depth of Gravel Support Layer	12 inches
Number of chlorine contact tanks	4
Average contact time	42 minutes

EXHIBIT 20: BUDGETARY COMPARISON SCHEDULE
For the Year Ended September 30, 2006

	Approved Budget	Actual Expenditure	Variance
Expenses:			
Personnel services (PS)	$ 81,751	$ 73,573	$ 8,178
Contractual services (CS) and Other	62,306	53,393	8,913
Chemicals, supplies and small equipment	19,562	22,394	(2,832)
Utilities and rent	28,316	31,151	(2,835)
Water purchases	18,916	22,745	(3,829)
Lead mitigation (includes $795 of contractual services and $726 of supplies and small equipment)	5,301	1,521	3,780
Interest and fiscal charges (debt service)	62,579	49,681	12,898
Payment in lieu of tax & right of way fee	16,979	16,923	56
Total budget expenses	$ 295,710	$ 271,381	$ 24,329
Increase (decrease) to reconcile budgetary to GAAP			
Personnel expense transferred to capital fund		(6,631)	
Depreciation expense		44,149	
Long-term debt principal payments		(13,390)	
Long-term debt - capitalized interest		(15,184)	
Inventory issuance		362	
Non-budgeted expenses (e.g. bad debt)		(225)	
Total GAAP expenses		$ 280,462	

EXHIBIT 20: BUDGETARY COMPARISON SCHEDULE (Continues)
For the Year Ended September 30, 2006

BUDGETARY ACCOUNTING AND CONTROL

Budget Law

The Authority prepares its annual operating budget under the provisions of its enabling legislation. In accordance with those provisions, the following process is used to adopt the annual budget.

- Development of the 10-year financial plan
- Development of individual departmental operating budgets, based on the financial framework in the 10-year financial plan
- Review and development of proposed budget by the General Manager
- Presentation of proposed budget to the Board of Directors
- Review and development of proposed budget by the Board of Directors
- Adoption of proposed budget by the Board of Directors
- Submission of proposed budget to the District of Columbia for inclusion in its budget
- District of Columbia budget submission to U.S. Congress
- Approval of proposed budget by U.S. Congress and President

Budget Accounting

The Authority is a single enterprise fund and maintains accounting records using the accrual basis of accounting, in accordance with generally accepted accounting principles (GAAP) in the United States of America. Under this basis of accounting, revenues are recorded when earned, and expenses are recorded when goods and services are received. The Authority's expenditure budget is prepared on a comparable basis to GAAP, with the exception of debt service, which is budgeted in full when due, including principal and interest. Depreciation is not budgeted; depreciation is recorded as an expense for financial statement purposes.

Budget Requirements

After the U.S. Congress approves the budget, the operating and capital budgets are loaded into the Authority's financial management system, which prevents overspending without appropriate approvals. The Department of Finance and Budget prepares daily and monthly management reports for each operating unit, management staff, the Board of Directors, and its various committees. The reports are consistently reviewed each month to ensure the Authority complies with its authorized budget levels.