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DC Water
Comprehensive Annual Financial Report

FISCAL YEAR ENDED SEPTEMBER 30, 2010

William M. Walker, *Chairman of the Board*

George S. Hawkins, *General Manager*

Olu Adebo, *Chief Financial Officer*

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District of Columbia Water and Sewer Authority

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

2010

District of Columbia Water and Sewer Authority
(A component unit of the Government of the District of Columbia)

Comprehensive Annual
Financial Report

Fiscal Year
October 1, 2009 to September 30, 2010

Prepared by:
Department of Finance and Budget

Olu Adebo, Chief Financial Officer

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TABLE OF CONTENTS

TABLE OF CONTENTS

Introductory Section

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Presented to

District of Columbia Water and Sewer Authority

For its Comprehensive Annual Financial Report for the Fiscal Year Ended September 30, 2009

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

President

Jeffrey R. Emer

Executive Director

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BOARD OF DIRECTORS

AS OF SEPTEMBER 30, 2010

PRINCIPAL MEMBERS	JURISDICTION
William M. Walker	District of Columbia
David J. Bardin	District of Columbia
F. Alexis H. Roberson	District of Columbia
Alan J. Roth	District of Columbia
Alethia N. Nancoo	District of Columbia
Neil Albert	District of Columbia
Ralph Moultrie.	Prince George's County, MD
David J. Byrd	Prince George's County, MD
Timothy L. Firestine	Montgomery County, MD
Robert Hoyt	Montgomery County, MD
Anthony H. Griffin	Fairfax County, VA

ALTERNATE MEMBERS	JURISDICTION
Howard Gibbs	District of Columbia
Joseph Cotruvo	District of Columbia
Brenda L. Richardson	District of Columbia
Howard Croft	District of Columbia
Maurice Bossiere	District of Columbia
Vacant	District of Columbia
Paivi Spoon	Prince George's County, MD
Beverly Warfield.	Prince George's County, MD
Kathleen Boucher	Montgomery County, MD
David W. Lake	Montgomery County, MD
James Patterson	Fairfax County, VA

PRINCIPAL STAFF MEMBERS

GENERAL MANAGER'S STAFF

George S. Hawkins	**General Manager**
Avis Marie Russell (through October 2010)	General Counsel
Randy Hayman (November 2010 to Present)	General Counsel
Mujib Lodhi	Chief Information Officer
Christopher J. Carew	Chief of Staff
Alan Heymann	Director Public Affairs
Linda R. Manley	Secretary to the Board

OFFICE OF THE CHIEF FINANCIAL OFFICER

Olu Adebo	Chief Financial Officer
John Madrid	Controller
Yvette Downs	Finance and Budget Director
Tanya DeLeon	Risk Manager
Robert Hunt	Treasury / Debt Manager

OPERATIONS

Leonard Benson	Deputy General Manager and Chief Engineer
David McLaughlin	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
Curtis Cochrane	Acting Director Water Services
Lauren Preston	Director Customer Services

SUPPORT SERVICES

Katrina J. Wiggins	Assistant General Manager
Teresa Scott	Acting Director Procurement Services
Terry Gilmore	Director Human Resources
O.Z. Fuller	Director Fleet Management
Taylor Benson	Director Security and Safety
Steven Caldwell	Acting Director Facilities Management

ACKNOWLEDGEMENTS

John Madrid
Javed Awan
Temi Abosede
Val Blinkoff
Yvonne Reid
Syed Khalil
Robert Hunt
Tanya Deleon
Dionne Butcher-Wallace
Tameca Miles
Quang Pham
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Sylvia Riley
Suzette Stona
Reginald Lipscomb
Anil Bansal
Pade Zuokemefa
Walter Goodwill
Edwin Coyle
Easmon Kaneh
Deborah Cole
Rodea Hines
Robin Hayes
Linda Jones
Michael Goddard
Lola Oyeyemi

The Office of the Chief Financial Officer wishes to extend its appreciation to all the departmental staff members whose hard work and dedication helped make this document possible.

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DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY | 5000 OVERLOOK AVENUE, SW | WASHINGTON, DC 20032

January 28, 2011

Mr. William M. Walker, Chairman
and Members of the Board of Directors
Mr. George S. Hawkins, General Manager
5000 Overlook Avenue, S.W.
Washington, D.C. 20032

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

I am pleased to submit the District of Columbia Water and Sewer Authority's ("DC Water" or the "Authority") Comprehensive Annual Financial Report (CAFR) for the fiscal year ended September 30, 2010. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with DC Water's management. To the best of my knowledge and belief, the 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 DC Water.

Despite a tough economic year both nationally and locally, DC Water, in its fourteenth year, continued its annual tradition of building a strong financial foundation. As in each prior year, we again met or exceeded all of our financial targets and are in compliance with all Board of Directors' policies and bond covenants. The year ended with operating income of $55.1 million and solid cash and investment balance of $151.3 million, which exceeded the board's requirement of 120 days (or $125.5 million) of operating cash on hand.

DC Water's management is responsible for establishing and maintaining an internal control structure designed to ensure that DC Water 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 DC Water's internal accounting controls adequately safeguard its assets and provide reasonable assurance of the proper recording of financial transactions.

REPORT SECTIONS

The CAFR describes DC Water's financial activities, condition and services as a whole. As such, the report covers information about DC Water'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 DC Water's organizational structure, a list of board members and senior management, the history of governance and operations, a description of facilities, a summary of the budget process, internal controls and accounting standards, DC Water's recent accomplishments and major initiatives, a discussion of economic conditions of the metropolitan Washington, D.C. area, and a description of DC Water's risk management program.

- The **Financial Section** includes the independent auditor's report, Management's Discussion and Analysis (MD&A), DC Water's fiscal years 2010 and 2009 financial statements and notes to the financial statements.

- The **Statistical Section**, which is not audited, presents selected financial and operating indicators of DC Water 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. DC Water's MD&A is located immediately following the auditor's report.

DC WATER PROFILE

Reporting Entity

DC Water is an independent, multi-jurisdictional regional utility that provides retail drinking water distribution and wastewater conveyance and treatment services to approximately 600,000 residential, commercial and governmental customers in the District of Columbia, and wholesale wastewater conveyance and treatment to approximately 1.6 million users in Montgomery and Prince George's Counties in Maryland and Fairfax and Loudoun Counties in Northern Virginia. DC Water's service area has a population of over two million people. These activities are fully accounted for in this report.

The operations of DC Water are accounted for as a component unit of the Government of the District of Columbia and are included in its Comprehensive Annual Financial Report. DC Water is considered a component unit, because the Government of the District of Columbia is ultimately legally responsible for a portion of DC Water's long-term debt. This Comprehensive Annual Financial Report is issued separately to provide the Board of Directors, DC Water customers, local and federal government officials, employees, investors, suppliers and other interested parties a comprehensive financial reporting of DC Water's operations and financial position for fiscal years 2010 and 2009.

History of DC Water

Legislative History and Relationship with the District of Columbia

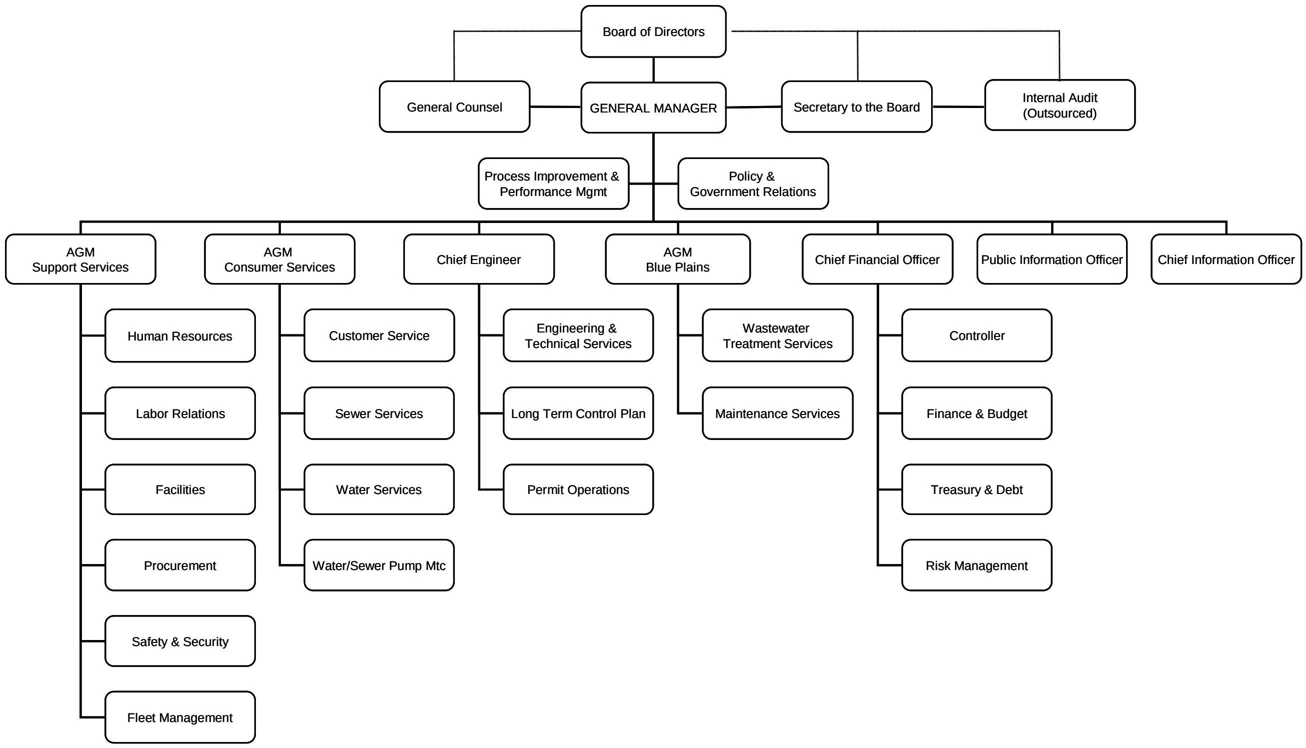
In 1996, the regional participants in DC Water's service area, including the District of Columbia, Montgomery and Prince George's Counties in Maryland, Fairfax and Loudoun Counties in Virginia, and the United States Congress, agreed to create an independent, multi-jurisdictional water and wastewater 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 DC Water to become operationally independent on October 1, 1996.

In accordance with the Act, the District has authorized DC Water to use all of the property and assets related to its water distribution and wastewater treatment and conveyance services and transferred to DC Water 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 DC Water for as long as any revenue bonds remain outstanding.

DC Water 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 DC Water's predecessor agency.

The Act also requires DC Water to establish rates, fees and other charges for all services provided by DC Water. These rates and charges, in addition to certain wholesale wastewater treatment contracts, should generate revenues adequate to pay all of the costs of operating DC Water. DC Water'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



DC Water is governed by a Board of Directors consisting of eleven principal and eleven alternate members who represent the District of Columbia, Montgomery and Prince George's Counties in Maryland, and Fairfax County in Virginia. The Mayor of the District of Columbia appoints, and the DC 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. DC Water 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.

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 approximately 60 percent of the Blue Plains capacity.

Other Wholesale Wastewater Treatment Agreements

Beginning in October 1963, DC Water 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 DC Water's costs of constructing, operating, and maintaining the Potomac Interceptor and certain other sewers and the Blue Plains facility. Under these agreements, DC Water recovers its capital and operating and maintenance costs quarterly from each user based on a per million gallons rate as applied to each user's metered sewage quantity. In November 1998, DC Water 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

DC Water 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 DC Water and the Aqueduct's two other customers, Arlington County and the City of Falls Church, Virginia. In July 1997, DC Water 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 U.S. Army Corps of Engineers, but gives DC Water and other Aqueduct customer's 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; DC Water's pro rata share of Aqueduct expenses currently is approximately 75 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. DC Water 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. DC Water 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, and DC Water 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 were completed in 1983. Work was completed in fiscal year 1997 to expand the Blue Plains tertiary treatment capacity to 370 mgd. Finally, full plant nitrogen removal was added in 2000.

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.

DC Water has commenced a Long-Term Control Plan (LTCP) for Combined Sewer Overflow (CSO) to provide for wet weather excess flow treatment. This program which was commenced by a federal consent decree and entered into court in 2005, is a twenty-year program estimated to cost $2.6 billion.

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 (BMP), developed by DC Water 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. In 2006, the project was temporarily deferred after unacceptably high bids for construction of egg-shaped digesters were received. After further study, a new method was selected that will be more efficient, use less energy and lower the cost of processing the effluent. Engineering and design work have commenced again on this new design, which includes construction of four Cambi thermal hydrolysis trains, four digesters, new dewatering equipment and a combined heat and power plant. The project is expected to be completed in 2014.

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 DC Water 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). DC Water purchases its water from the Aqueduct and transmits and distributes the water through four pumping stations, six distribution reservoirs and two 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.

DC Water's Department of Water Services oversees the entire water distribution system serving the District. DC Water'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. DC Water also operates and maintains four pumping stations: Bryant Street, Fort Reno, 16th and Alaska, and Anacostia. All four pumping stations have adequate pumping capacity to meet peak demands.

DC Water's service area below covers the District of Columbia, most of Montgomery and Prince George's Counties, and parts of Fairfax and Loudoun Counties.

RECENT ACCOMPLISHMENTS

Fiscal year 2010 marked DC Water's fourteenth year in operation as an independent agency of the Government of the District of Columbia. 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 its recently adopted 2008 – 2013 Strategic Plan, "A Guide for Measurable Progress and Achievement", DC Water and its management continued to build on the successes of its previous thirteen years of operations. Major accomplishments in fiscal year 2010 were:

Financial Accomplishments

- Planning for the issuance of $300 million of Public Utility Subordinate Lien Revenue Bonds. These bonds were successfully issued in late October 2010 as taxable Build America Bonds, taking advantage of the federal stimulus package that provided a 35% subsidy. The bonds were well received by investors in a volatile market and were issued at the unprecedented low rate of 3.6 percent (net of subsidy) with an average life of 27 years.

- For better alignment with the size of our capital improvement program (CIP), we were successful in expanding (increasing) the size of our commercial paper program - our short-term financing instrument from $100 million to $225 million. Letters of credit were obtained from highly rated banks to support the program at very competitive rates in an extremely difficult credit (liquidity) market.

- A review of our electricity purchasing strategy and stable cost alternatives culminated in electricity costs of $22.8 million, which represents $6.5 million in savings based on the 2010 budget.

- Following the successful implementation of an impervious area charge (IAC) in 2009, and in furtherance of our plan to continue to enhance the program to ensure equitable allocation of costs amongst our customers, DC Water modified the residential IAC from a flat rate to all customers to a six-tier rate based on the amount of impervious area owned. It is expected that over 90 percent of DC Water's customers will have no increase or a lower IAC under the new structure.

- The DC Water Board of Directors demonstrated their continued commitment to fund DC Water's expanding CIP program by adopting retail customer rate increases that were effective starting October 1, 2009. These increases resulted in approximately $4.70 increase (or 10%) on an average residential customer monthly bill.

Other Accomplishments

- In fiscal year 2010, the National Pollutant Discharge Elimination System (NPDES) permit was revised and reissued to DC Water by the U.S. Environmental Protection Agency (U.S. EPA). This permit governs the discharge of treated municipal wastewater from the Blue Plains Wastewater treatment Plant and treated and untreated combined wastewater and storm water through the District of Columbia's combined sewer system.

- DC Water launched a comprehensive rebranding campaign for the first time in its 14-year history. Known since its inception as DC WASA, DC Water announced that it would now do business as DC Water. A new logo featuring a water drop and tagline, "Water is Life", complemented the campaign.

- In fiscal year 2010, DC Water fully complied with all water quality standards meeting all of the strict requirements of the Safe Drinking Water Act, inclusive of our compliance with federal standards under the U.S. EPA's Lead and Copper Rule.

- DC Water's Blue Plains treatment plant has been recognized by the National Association of Clean Water Agency's (NACWA) Peak Performance Awards for outstanding facility performance, including the 2010 Platinum Award for five consecutive years of zero noncompliance with the Clean Water Act discharge permit.

- The American Academy of Environmental Engineers recognized DC Water in 2010 with two "Excellence in Environmental Engineering" Awards. One award was for research and one for the performance of the Blue Plains nitrogen removal program. DC Water's biosolids management program was one of the first in the U.S. to achieve National Biosolids Partnership certification of its Environmental Management System.

HIGHLIGHTS AND MAJOR INITIATIVES

Combined Sewer Overflow Long Term Control Plan (Clean River Project)

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.

The Combined Sewer Overflow Long Term Control Plan (CSO LTCP) is being implemented on a schedule included in a Consent Decree between the United States, the Government of the District of Columbia and DC Water. The decree was entered by the Court on March 23, 2005, and calls for DC Water to complete the CSO LTCP over a twenty-year period that ends in 2025. CSO LTCP projects at the top of the list are those that will serve to reduce overflows to the Anacostia River.

The benefits of our twenty-year plan will be significant when fully implemented. Combined sewer overflows will be reduced by a projected 96 percent (98 percent on the Anacostia River), resulting in improved water quality and a significant reduction in locally generated debris from the combined sewer system in our local waterways. In addition, our clean-up efforts on the Anacostia River are a cornerstone of the District's redevelopment initiatives including commercial, residential and other development projects.

This $2.6 billion plan includes a variety of improvements throughout the District:

- Three large storage tunnels which will allow the storage of flows from storm events until they can be conveyed to Blue Plains for treatment
- Pumping station improvements
- Rehabilitation of the inflatable dams
- Targeted separation of combined sewers in several sections of the District that include areas in Anacostia
- Consolidation and elimination of 14 of 59 outfalls, including 4 outfalls on the Anacostia River
- Funds for Low Impact Development (LID) at DC Water's facilities and to encourage LID across the District

In fiscal year 2010, the NPDES Permit was revised and reissued to DC Water by the U.S. EPA. The Permit became effective on September 30, 2010 and expires on September 30, 2015. DC Water is currently meeting the very stringent removal goals of the expired NPDES Permit and was the first agency to meet the voluntary nutrient reduction goals of the 1987 Chesapeake Bay Agreement.

Upon its creation, DC Water assumed responsibility for compliance with various legal actions taken against the District related to operation of, and discharges from, Blue Plains, specifically including a judicial Consent Decree issued in 1995 and a subsequent Stipulated Agreement and Order. DC Water has completed all the requirements under both the 1995 Consent Decree and the Stipulated Agreement and Order. The EPA Region III has acknowledged satisfaction of these requirements, although the 1995 Consent Decree remains in effect.

Blue Plains Total Nitrogen Removal Program

In June 2007, the EPA issued a modification to the permit, reducing the total nitrogen effluent limit to 4.7 million pounds per year (equivalent to 4.2 milligrams per liter at 370 million gallons per day average annual flow). Blue Plains Total Nitrogen Removal Program (BTN) provides for new facilities and upgrades to existing facilities that are needed at Blue Plains to meet the new total nitrogen discharge limit that has been included in DC Water's NPDES permit. Projects included in this program were identified through a strategic planning process that resulted in development of DC Water's proposed Total Nitrogen-Wet Weather (TN/WW) Plan, which addresses the requirements of the CSO LTCP as well as the Chesapeake Bay Tributary Strategies for reducing nitrogen discharged into the Chesapeake Bay. The recommended alternative in the plan removes additional nitrogen from the wastewater prior to discharge and improves the quality of discharge to the Potomac and Anacostia Rivers during wet weather events. All projects in this program are in the planning or design phase, and the lifetime budget for this program is $1.03 billion.

Digester Project

We are continuing implementation of our Biosolids Management Plan (BMP), originally adopted by the Board in 1999. This plan, which included input from our neighbors, environmental groups, and other stakeholders, evaluated a number of options for long-term biosolids processing and disposal, and identified full biosolids digestion as a common element of all long-term approaches and recommended continuing land application as long as it is financially advantageous. DC Water has performed an extensive analysis of alternatives to identify a cost-effective, long-term and sustainable biosolids management project for the Blue Plains Advanced Wastewater Treatment Plant than can produce a diverse Class A biosolids product, significantly reduce lime use and enhance land application.

The updated BMP includes construction of four Cambi thermal hydrolysis trains, four digesters, new dewatering equipment, and a combined heat and power plant. This plan has the potential to significantly manage biosolids operating costs when it is placed in operation as it produces power from digester gas to meet over one third of DC Water's electric demand at Blue Plains. The digestion process will eliminate nearly one half of the biosolids, which will result in lower reuse costs.

In fiscal year 2006, the Board decided to reject the single bid received on the first phase digester construction contract and deferred the project until 2010. An update to the Biosolids Management Plan was started in fiscal year 2007 to review biosolids technologies that are now available to DC Water and to evaluate less expensive digester vessels. In fiscal year 2010, the Board approved the new digester project with construction starting in fiscal year 2011 and ending in fiscal year 2014.

Customer Service Initiatives

In fiscal year 2010, DC Water continued to make investments in its employees, process improvements and technology, all to ensure better service delivery to our customers. These improvements include the following:

- The Automated Meter Reading Program continued its efforts to upgrade our technology to the latest available versions of data collection and transmission equipment and software.

- We continued our commitment to help improve the quality of life for those of our customers who are least able to pay, by providing relief through our Customer Assistance Program (CAP). Since 2001, we have provided eligible customers a discount of 4 Ccfs per month on their water bills. The value of the CAP discount continued to increase, and in fiscal year 2010, a total of 6,107 customers received a discount on their bills for a total of $919,156. In 2010, the DC Water Board approved an expansion of the CAP to provide a discount on the right-of-way and PILOT charges in addition to the discount currently being provided on water and sewer charges. We further assist our customers through our Serving People by Lending a Helping Hand Program (SPLASH). Contributions to this program have grown due to the convenience of the bill round-up feature which enables customers to make donations with their payments to assist other customers in paying their water and sewer bills. In fiscal year 2010, we received contributions totaling $94,767 and assisted 300 customers. The Greater Washington Urban League administers this program for DC Water.

- We revised our High Usage Notification Application (HUNA) to allow it to send even more warnings to customers about potential water leaks at their home. This was the first application of its kind in the water industry and places DC Water in the forefront of innovative technology that improves its service delivery to customers. This feature capitalizes on the automated meter reading and telephone system technologies that let customers access their data through DC Water's website and alerts customers of water usage anomalies as they occur. It provides graphical illustrations to allow customers to pinpoint high usage on the exact day it occurred. We now send alerts to up to 12 different phone numbers, email addresses or text message formats.

- The Collections Process Notification Program provides delinquent customers with a friendly reminder to prevent the cost and inconvenience of service deactivation. This program identifies customers that fall into one of three collections profiles and stages automated outbound calling to the customers using personalized account information and customized scripting based upon the type of calling. This program directly contributed to the continued achievement of historically low delinquent accounts receivable of $5.1 million at the end of fiscal year 2010.

- We implemented ways for customers to contact us through social media, such as Facebook, Twitter and Flickr and have found them to be especially useful for communicating to customers about outages and news of public interest. Further, we had

- customers help us locate leaks and other street repairs needed through pictures sent by social media.

Technology Initiatives

Our focus over the past few years has been on implementing the Board approved Information Technology Strategic Plan. This plan lays out a vision for the delivery of information technology services at DC Water, and a methodology for prioritization of all technology projects (which includes an assessment of cost savings and productivity growth). Technology projects include those that focus on improvements in information security, infrastructure and the use of information technology throughout DC Water to improve the delivery of services to our customers and operational efficiency.

A few key examples of this effort are already underway or will begin in the near future and include:

- The Authority continued to implement additional aspects of its Total Enterprise Asset Management System (TEAMS-Maximo). TEAMS-Maximo is the system used to manage the maintenance and repair of the Authority's plant equipment, buildings and grounds and water/sewer infrastructure. The main goal and achievement for 2010 was upgrading to the new version of Maximo which provides additional functionality and provides a much better platform for integration with other systems – integration being key to the Authority's plans to expand the system and realize additional benefits. Other accomplishments for the year include implementing Maximo to track private backflow preventers in support of the Authority's Cross-Connection Control Program; enhancing Maximo to better manage valve shuts performed in support of water distribution system repairs; and implementing functionality to allow customers to view the status of their applications on-line in support of developer permitting.

- The Authority has merged two key technologies to improve support of its Meter Operations in management and maintenance of its Automated Meter Reading system. By intelligently extracting data from the AMR system and applying it across our city-wide Premise location and Graphical Information System, DC Water is able to track and identify potential issues with the meter transmission hardware and logically group service teams for efficient and timely response. By targeting incidents in the same locale, the Meter Operations group is able to save fuel, time and costs, while proactively responding to potential issues before they can have an impact on customer service and on the bottom line. In addition to improving performance, our application provides an online GIS-based dashboard with direct interfaces to customer information, allowing field workers and management to track progress daily and over time and identify any issues that may reach beyond single customer impacts. While use of this system has only just started, the

- return on investment has already been felt across the organization, and continued modifications are being planned.

- In September 2010, the Authority implemented the electronic Board book (e-Boardbook). The DC Water Board prior to this implementation was paper-based wherein Board members would receive the board package via the mail prior to every meeting. This method was labor and supply intensive. In order to promote efficiency with the distribution of board materials (and to promote eco-friendliness), the Authority implemented the e-Boardbook where Board members can access the package online via a secure portal. As of November 2010, the Authority included the committee meetings in the e-Boardbook platform.

- Mobile Website: The Authority undertook an effort to make the website (www.dcwater.com) accessible from mobile devices in a manner consistent and more user friendly based on the actual device being used. A majority of the website content has been made more easily viewable on a range of mobile devices to include iPhone, Android, Windows Mobile, Palm, and Blackberry. This application allows for greater interaction between DC Water and its customers, as well as other entities wishing to interact with us over the Internet. From this system, DC Water plans to expand services and eventually include mobile report-a-problem that interacts with GPS and other features inherent to these devices. This will continue to improve our ability to serve and respond to our community.

Community Service

DC Water has an ongoing commitment to community service and volunteerism. Throughout the year, employees participate in diverse service and charitable projects to support an array of worthy causes. Joint Utility Discount Day, Bread for the Soul, DC Public Schools, One Fund, Aids Walk Washington, Susan G. Komen Breast Cancer Walk, For a Better Community (Latino event), Boys Town of Washington, and the District's Fifth Annual Nation's Triathlon were among some of the projects supported during the past year.

Employee Relations

Our employees are our most valuable asset and are key to accomplishing our mission and the Board's strategic goals. DC Water 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 customers' needs. Other major highlights of DC Water's employee relations are:

- In fiscal year 2010, the Team Blue Program was implemented. This program was formed to promote vertical and horizontal communications within DC Water to foster transparency, communication and resolution of issues in team fashion.
- In fiscal year 2010, DC Water contracted with Dale Carnegie Training to conduct an enterprise-wide survey and conduct seminars in their Management Development Program and Intermediate Supervisory Skills Training.
- In fiscal year 2010, a Leave Transfer Program was implemented for Authority employees to transfer leave to other employees in the case of illness or emergency circumstances where the affected employee has exhausted their accumulated leave.
- In fiscal year 2010, Management and the Unions have agreed to conduct a classification review of all union positions at DC Water. This is being performed to document current job responsibilities, determine the appropriateness of current job structures, identify possible career paths within the classification structure and gain consensus between labor and management on changes that support the operational needs of DC Water and accurately represent work performed.

Energy Management Program

Electricity continues to represents a significant portion of DC Water's operating costs, at $22.8 million, or 7 percent of DC Water's fiscal year 2010 actual operations and maintenance expenditures. In fiscal year 2005, DC Water entered into its first electricity contract for generation services in the deregulated environment. That summer, DC Water entered into a successor five-year contract for generation that allows us the flexibility to lock in blocks of power at a fixed price when futures pricing meets budget targets. The contract also grants DC Water access to the wholesale market for electricity, and provides more transparency in reviewing bids from wholesalers.

We continue to utilize the electricity contract entered into during fiscal year 2005 and were successful in purchasing electricity for an estimated average cost of $83.21 per megawatt hour compared to an estimated average cost of $140.27 per megawatt hour had we purchased electricity through PEPCO Standard Offer Service (SOS). This represents an estimated savings of $14.4 million. In fiscal year 2010, the Board approved extension of the contract to accommodate locking approximately 100 percent of energy load for fiscal year 2011.

Capital Improvement Program

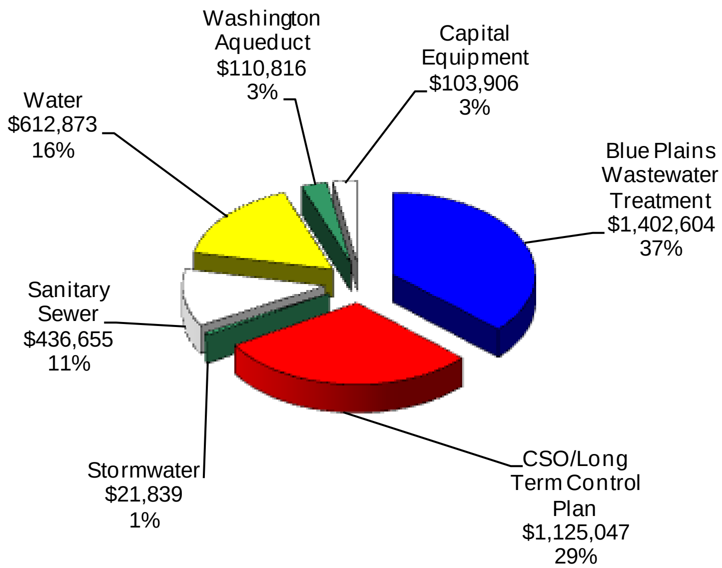
DC Water's ultimate success in achieving its operational goals, customer service goals, and continuing success in regulatory compliance depends in large part on the implementation of its 10-year capital improvement program proposed at $3.8 billion. Approximately 44% of the capital improvement program is either federally mandated or a court-ordered decree, including the Blue Plains Total Nitrogen Program (BTN) and the CSO LTCP (Clean River Project).

The BTN includes capital projects that are required for nitrogen removal and wet weather flow treatment, thus enabling the Blue Plains Advance Wastewater Treatment Plant to comply with the U.S. EPA's modification to the NPDES permit, reducing the total nitrogen effluent limit to 4.7 million pounds per year.

DC Water also made significant progress on CSO LTCP projects over the past few years. Projects include rehabilitation of four major pumping stations to increase their capacity: three of these stations (Potomac, Main & O Street and East Side) are near completion, and additional work at Poplar Point is underway. DC Water is also in the process of completing the facility plan for the Anacostia tunnels.

The proposed fiscal year 2010 – 2019 capital improvement program is broken into seven service areas, as shown in the following graph.

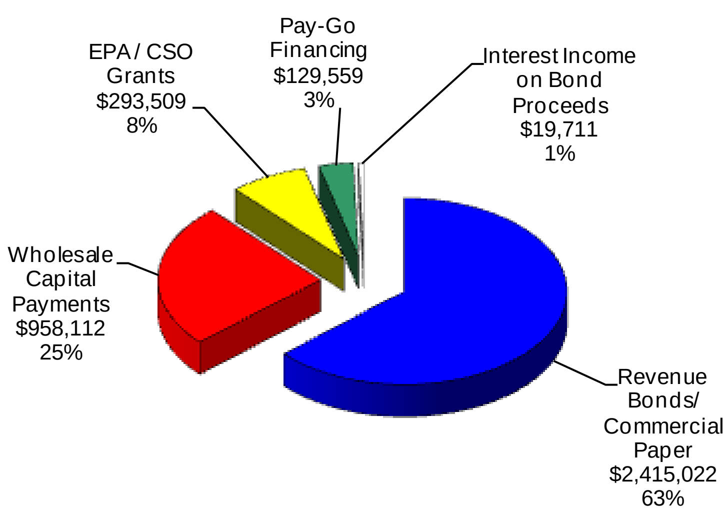
FY 2010 – FY 2019 Capital Improvement Program
($ in 000's)



Capital Financing and Debt Administration

DC Water plans to finance its $3.8 billion capital improvement program from a variety of sources, including the issuance of revenue bonds/commercial paper, grants from the U.S. 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. As shown on the following chart, 63 percent of capital financing will come from debt issuance.

FY 2010 – 2019 Capital Improvement Program
Sources of Funds
($ in 000's)



Cash Position

Unrestricted cash and investments were $151.3 million as of September 30, 2010. Board policy requires Authority reserves in excess of 120 days operating and maintenance costs. Rate stabilization fund deposits may be used to fund portions of the capital program on a pay-as-you-go basis. Cash held for overnight deposit is collateralized at 102% of the investments with government securities.

ACCOUNTING AND BUDGET PROCESSES

Basis of Accounting

DC Water prepares financial statements in accordance with accounting principles generally accepted in the United States as a single enterprise fund and maintains accounting records on 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. DC Water follows all GASB pronouncements; and FASB pronouncements issued on or before November 30, 1989, unless those pronouncements conflict or contradict GASB pronouncements.

Internal Control

During fiscal year 2009, the Board of Directors approved the reorganization of the Internal Audit function to use an outsourced model selecting an outside independent accounting firm, Stout, Causey & Horning (SC&H), to provide DC Water with a broader range and depth of resources commencing in fiscal year 2010. In fiscal year 2010, SC&H completed a comprehensive enterprise-wide risk assessment and presented a two-year audit plan prioritizing audits of areas with higher risk assessment which was approved by the Board of Directors. It is anticipated that SC&H will increase the operational efficiency and effectiveness of the audit function. In addition to activities performed by the Internal Auditors, the Controller's Department has strengthened its Internal Control and Assessment Monitoring Program that provides reviews of compliance with controls throughout the organization.

Independent Audit

DC Water's fiscal year is from October 1st to September 30th, and DC Water's financial statements are subject to an annual audit by independent certified public accountants. Thompson, Cobb, Bazilio & Associates, P.C. (TCBA) audited DC Water's financial statements for fiscal year 2010. TCBA's opinion, dated December 15, 2010, 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 four months of extensive review by the Board's

Finance and Budget, Environmental Quality and Sewerage Services, DC Retail Services, and DC Retail Water and Sewer Rates Committees the budgets are approved by the Board of Directors. The budgets are loaded into DC Water's financial management system, which prevents overspending without appropriate approvals. The Department of Finance and Budget prepares 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 DC Water complies with its authorized budget levels.

Annual Budget Process

After approval by the Board of Directors, DC Water is required to submit its annual operating and capital budgets for inclusion in the Mayor's annual budget; the budget is in turn forwarded by the Mayor to the Council of the District of Columbia for their review and comment; however, neither has the authority to change the annual budgets of DC Water. The District then includes DC Water's budgets as an enterprise fund in the budget that is sent to the United States Congress for approval.

TEN-YEAR FINANCIAL PLAN

DC Water's ten-year financial plan was first developed in fiscal year 1997, and serves as its road map to ensure strong and predictable long-term financial performance. This plan is updated and adopted annually by the Board of Directors. DC Water'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 DC Water'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 project rates that are needed to meet its long-term operating, capital and financial policy requirements.

Since its inception, DC Water has maintained or enhanced the financial goals set out by Board policy and the ten-year financial plan. DC Water 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, DC Water adopted stringent policies for financing, rate setting and cash management which were updated in 2009. The rate setting policy was replaced in 2011. These policies have served as the key parameters used to successfully develop DC Water's ten-year financial plan, capital improvement program and operating budgets. The policies will continue to guide the development and implementation of DC Water'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 DC Water's financial practices result in high quality investment-grade bond ratings to achieve the lowest reasonable cost of debt necessary to finance DC Water's long-term capital program. DC Water is committed to 140 percent debt service coverage on senior lien debt service and maintaining an operating cash reserve equivalent to 120 days of operating and maintenance expenses. In addition, DC Water uses any excess operating reserve amounts for capital financing or repayment of higher-cost debt and that, whenever possible, the least costly capital financing be used for capital projects.

Rate Setting Policies

In January 2011, DC Water's rate setting policy was replaced with a new policy that strives to achieve the following tenets:

- Rates that, together with other revenues, cover current costs and meet or exceed all bond and other financial requirements as well as goals set by the Board.
- Rates that yield reliable and predictable stream of revenues, taking into account trends in costs and in units of service.
- Rates based on annually updated forecasts of operating and capital budgets.
- Rate structures that are legally defensible, based on objective criteria, and transparently designed.
- Rate structures that customers can understand and DC Water can implement efficiently and efficaciously.
- Rate increases, if required, that are implemented transparently and predictably.

To the extend annual revenues exceed costs, the Board's policy will continue to utilize all available options to mitigate future customer impacts and annual rate increases, including transferring some or all of such excess funds to the Rate Stabilization Fund.

Cash Management and Investment Policies

DC Water 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, DC Water'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 by each type of investment.

In October 2007, the Board adopted a new comprehensive Statement of Investment Policy. The Statement outlines high level broad investment policies to include delegation of certain authority to the General Manager, investment objectives, collateralization of deposits, selection of financial institutions, protection of funds, permitted investments, limits on maturities, investment of bond proceeds and investment reporting.

DC Water'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 DC Water's compliance with its policies.

RISK MANAGEMENT

DC Water has a comprehensive risk management program designed to protect DC Water's assets and to reduce or transfer risks and financial losses to third parties by utilizing insurance contracts.

DC Water'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.

ECONOMIC CONDITION AND OUTLOOK

The District of Columbia is not only known for being the nation's capital, but it is also an international city with a vibrant tourist industry and business climate. It is also the nucleus of the fifth largest metropolitan area in the United States. In 2009, the District's estimated resident population was 599,657.

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 192,074 employees in calendar year 2008, while an additional 152,400 federal employees worked elsewhere in the metropolitan area. The District is host to more than 185 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. An estimated 16 million people visit the Washington Metropolitan Area annually 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 $66,316 in 2008 compared to $40,166 in the United States. Personal income in the District was

$40.8 billion in 2009 compared to $12.2 trillion in the United States. The relatively high per capita and household incomes in the District are a direct result of a combination of factors, including a high labor force participation rate, multiple earner households, small household size (average of 2.39 persons), a large percentage of college graduates, and a substantial concentration of employed residents in highly-skilled occupations.

AWARDS

The GFOA awarded a Certificate of Achievement for Excellence in Financial Reporting to DC Water for its comprehensive annual financial report for the fiscal year ended September 30, 2009 (see page 3). The Certificate of Achievement is a prestigious national award, recognizing conformance with the highest standards for preparation of financial reports. DC Water believes its current report continues to conform to the Certificate of Achievement program requirements, and plans to submit it to GFOA. DC Water has thus far received the GFOA Award for every year of its existence.

DC Water received the GFOA's *Distinguished Budget Presentation Award* for its fiscal year 2010 Operating and Capital budgets for the sixth consecutive time. In order to qualify for the distinguished Budget Presentation Award, DC Water'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

This CAFR reflects the Board of Directors' commitment to the District of Columbia, Fairfax, Loudoun, Montgomery, and Prince George's Counties, and the financial community to maintain financial statements in conformance with the highest standard of financial accountability.

As we look to the coming year, with its many challenges and opportunities, I would like to express my profound thanks and admiration for all members of the Board of Directors, led by our chairman, William M. Walker, and our General Manager, George S. Hawkins, for their leadership and adherence to strong financial performance expectations. Our strong financial results and position are a direct result of their direction and guidance.

I also acknowledge the hard work and dedication of DC Water's financial operation staff, other departments and staff, and the General Manager's staff in preparing this report.

Respectfully submitted,

Olu Adebo
Chief Financial Officer

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dc water is life

Financial Section

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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 (the Authority), a component unit of the District of Columbia, as of September 30, 2010 and 2009, and the related statements of revenues, expenses and change in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of September 30, 2010 and 2009, and the changes in its financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages thirty-seven through forty-seven is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Washington, DC
December 15, 2010 Thompson, Cobb, Bazilio & Associates, PC

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This section of the District of Columbia Water and Sewer Authority's (DC Water or the Authority) annual financial report presents the analysis of the Authority's financial performance during the fiscal year that ended on September 30, 2010. The Management's Discussion and Analysis (MD&A) should be read in conjunction with the Authority's basic financial statements, beginning on page 49.

HIGHLIGHTS

Financial Highlights

- The Authority's net assets increased by $8.2 million to $1.0 billion, or 0.8 percent, as a result of fiscal year 2010 operations and capital contributions (see "Analysis of Net Assets" on page 39).
- Operating expenses increased by $15.3 million to $308.7 million, or 5.2 percent due to increases in: personnel services, contractual services, water purchases and depreciation and amortization expense (see "Expenses" on pages 43 and 44).
- Operating revenues increased by $31.4 million to $363.7 million or 9.4 percent primarily due to increased revenues from residential and commercial customers, federal government and wholesale wastewater charges.
- Current assets decreased by $64.1 million to $247.4 million, or 20.6 percent, primarily due to decrease in investment balances and decrease in receivables from the federal government and other jurisdictions.
- Restricted assets decreased by $120.5 million to $156.8 million, or 43.5 percent, primarily due to planned draw downs on the 2009 construction fund account during the year.
- Net utility plant (capital assets) increased by $196.5 million to $2.8 billion, or 7.6 percent due to a planned increase in capital expenditures in line with the Authority's approved $3.8 billion 10-year capital improvement program.
- The Authority's long-term debt, including current maturities, decreased by $14.1 million to $1.253 billion, or 1.1 percent, primarily due to principal payments of $13.1 million on the series 1998 bonds and the general obligation bonds.

Authority Highlights

Commercial Paper Program **–** In June 2010, the Authority closed on its $225 million Commercial Paper (CP) Program. The program consists of three series - Series A $100 million tax-exempt, Series B $50 million tax-exempt and Series C $75 million taxable for purposes of interim financing designed to provide flexibility between longer term bond issuance cycles. Under this program, the Authority issues fixed rate, short-term (no greater than 270 days) notes to provide liquidity and credit support for the notes. The Authority has entered into an irrevocable letter of credit (LOC) with J. P. Morgan Chase Bank for Series A and B, and with U.S. Bank for Series C.

Bond Rating Upgrade – In October 2010, Fitch Ratings and Standard & Poor's Corporation reaffirmed the Authority's AA senior bond rating and Moody's Investors Service reaffirmed the Authority's Aa2 senior bond rating. This rating reaffirms the Authority's record of sound financial performance and serves to reduce the cost of future borrowings, resulting in lower customer bills.

Rate Increase – Effective October 1, 2009, DC Water implemented a retail water and sewer rate increase of 9.0 percent. Effective October 1, 2010, the Board approved an increase of the Authority's retail water and sewer rates by 12.5 percent. These increases were 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.

In April 2009, the Authority launched an impervious area charge (IAC) billing program to more equitably recover the $2.6 billion cost associated with the federally mandated Combined Sewer Overflow (CSO) Long

Term Control Plan. The Authority unbundled its retail sewer rate structure and implemented a separate charge to distribute the cost of maintaining storm sewers and protecting area waterways. In fiscal year 2010, the Authority modified the program through the introduction of a six tier impervious area charge residential rate structure designed to more equitably distribute the cost recovery needed for the CSO Long Term Control Plan. It is expected that over 90 percent of the Authority's customers will have no increase or a lower IAC under the new structure.

Accounts Receivable – In fiscal year 2010, "Retail Accounts Receivable over 90 Days" continued on its excellent low trend to $5.1 million, $0.2 million above the all time low level of $4.9 million achieved at September 30, 2009. Continued focus on improvements in the customer billing system and several customer service and collections initiatives have directly contributed to this result.

Rate Stabilization Fund – The Authority decreased its rate stabilization fund to $16.7 million at the end of fiscal year 2010, with a drawdown of approximately $11.9 million during fiscal year 2010. 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 Statement of Net Assets is the first required statement; it includes 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) with the difference between them being reported as net assets. It also provides the basis for computing the rates of return, evaluating the capital structure of the Authority, and assessing the liquidity and financial flexibility of the Authority.

- The Statement of Revenues, Expenses, and Change in Net Assets is the second required financial statement which demonstrates the changes in net assets from one fiscal period to another by accounting for revenues and expenditures and measuring the financial results of operations. This statement measures the profitability (i.e. change in net assets) 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 and cash equivalents resulting from operations, investing, and capital and non-capital financing activities. It also provides information regarding sources of cash, uses of cash, and changes in cash balances during the reporting period.

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

FINANCIAL ANALYSIS OF THE AUTHORITY AS A WHOLE

The Statement of Net Assets and the Statement of Revenues, Expenses and Change 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 2010	FY 2009	FY 2008
Utility plant, net	$ 2,777,125	$ 2,580,669	$ 2,378,784
Current and other assets	635,874	787,900	630,033
Total assets	3,412,999	3,368,569	3,008,817
Current liabilities	215,377	209,959	201,036
Long-term debt outstanding	1,234,726	1,252,778	968,522
Long-term liabilities	935,421	886,574	818,512
Total liabilities	2,385,524	2,349,311	1,988,070
Net assets			
Invested in utility plant, net of debt	880,934	806,276	764,291
Restricted	44,333	44,710	42,321
Unrestricted	102,208	168,272	214,135
Total net assets	$ 1,027,475	$ 1,019,258	$ 1,020,747

Analysis of Net Assets

The Authority's total assets exceeded liabilities by $1.0 billion at the close of fiscal year 2010. The Authority's net assets include its investment of $880.9 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, $44.3 million, represents resources that are subject to external restrictions (primarily related to the Authority's bond indentures) on how they may be used. The remaining balance of $102.2 million is unrestricted.

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

	FY 2010	FY 2009	FY 2008
Revenues			
Operating revenues:			
Residential, commercial and multi-family customers	$ 209,796	$ 191,543	$ 183,553
Federal government	37,845	35,195	35,888
District government and D.C. Housing Authority	21,947	16,804	16,193
Charges for wholesale wastewater treatment	87,505	85,519	82,854
Other	6,655	3,337	3,846
	363,748	332,398	322,334
Non-operating revenues:			
Interest income	1,561	2,285	13,573
Total revenues	365,309	334,683	335,907
Expenses			
Operating expenses:			
Personnel services	88,210	82,248	75,838
Contractual services	66,747	61,277	55,127
Chemicals, supplies and small equipment	29,003	29,074	28,816
Utilities and rent	29,929	32,813	37,843
Depreciation and amortization	64,425	59,291	54,418
Water purchases	27,587	25,371	25,746
Other	2,750	3,236	3,603
Total operating expenses	308,651	293,310	281,391
Non-operating expenses			
Interest expense and fiscal charges	58,370	51,431	39,342
Payment in lieu of taxes and right of way fee	20,474	19,183	17,525
Total non-operating expenses	78,844	70,614	56,867
Total expenses	387,495	363,924	338,258
Income before Federal grants and contributions	(22,186)	(29,241)	(2,351)
Federal grants and contributions	30,403	27,752	42,208
Change in net assets	8,217	(1,489)	39,857
Net assets, beginning of year	1,019,258	1,020,747	980,890
Net assets, end of year	$ 1,027,475	$ 1,019,258	$ 1,020,747

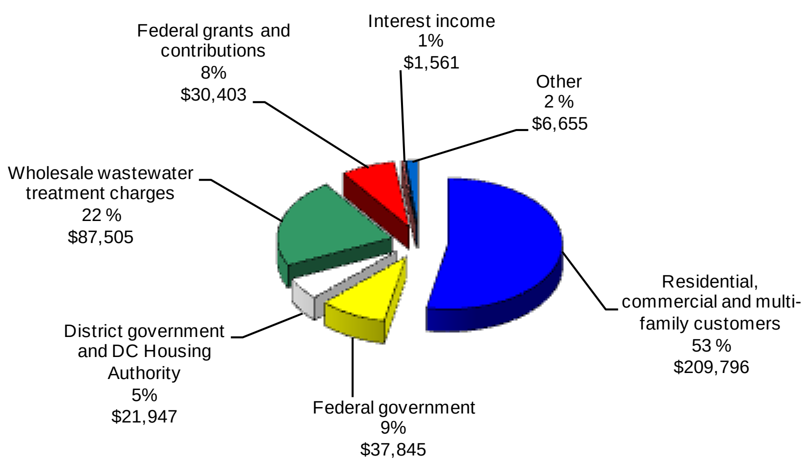
Analysis of Change in Net Assets

The Authority's financial performance remained stable in fiscal year 2010 with net assets exceeding $1.0 billion, an increase of $8.2 million over fiscal year 2009, 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 $55.1 million, an increase of $16.0 million compared to fiscal year 2009 (see Statements of Revenues, Expenses and Change in Net Assets on page 50).

Total Revenues

Total revenues (including federal grants and interest income) were $395.7 million in fiscal year 2010, an increase of $33.3 million, or 9.2 percent over fiscal year 2009. This is primarily due to increases of $18.3 million from retail customers, $5.1 million from the district government, $3.3 million from other revenue sources, $5.3 million from the federal government and $2.0 from wholesale wastewater charges. These increases were offset by a decrease of $0.7 million in interest income.

Fiscal Year 2010
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 $18.3 million to $209.8 million, or 9.5 percent over fiscal year 2009, primarily due to a rate increase in fiscal year 2010.

- Water and wastewater user charges from Federal government customers were $37.8 million in fiscal year 2010, an increase of $2.7 million or 7.5 percent, primarily due to a 9.0 percent rate increase in fiscal year 2010 offset by a 393 thousand Ccf consumption reduction during the year.

- Water and wastewater user charges from the District government and District of Columbia Housing Authority were $21.9, an increase of $5.1 million, or 30.6 percent primarily due to a $4.3 million increase of fire protection service fees in fiscal year 2010.

- Wholesale wastewater treatment charges were $87.5 million, an increase of $2.0 million, or 2.3 percent over last year, primarily due to increased revenues from IMA participants. According to the Blue Plains Intermunicipal Agreement (IMA) (see Note 1), wholesale customers 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).

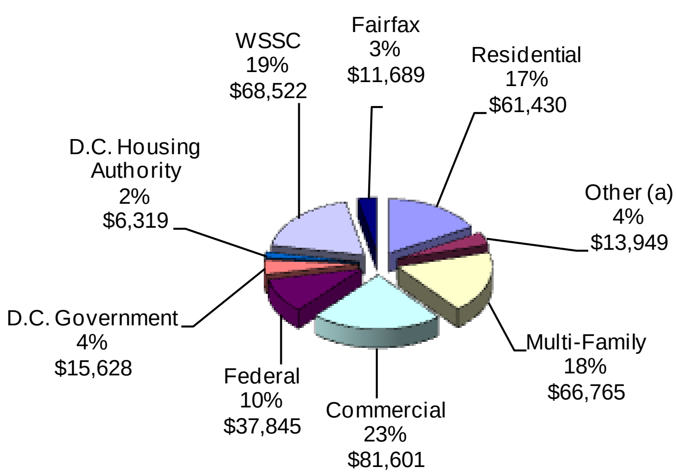
- Interest income, a non-operating revenue item was $1.6 million, a decrease of $0.7 million, or 31.7 percent compared to last year, primarily due to decreases in average interest rates.

- Federal grant contributions were $30.4 million, an increase of $2.7 million, or 9.6 percent compared to last year, primarily due to increased capital construction spending in fiscal year 2010 on grant-eligible combined sewer overflow 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 revenues.

Fiscal Year 2010
Operating Revenues by Source
($ in 000's)



(a) Other revenues include $5.4 million from Loudoun County, $1.6 million for special billing projects and $1.9 from Potomac interceptor billings.

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 41.0 percent of the Authority's total operating revenues. Commercial revenues are reliable 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

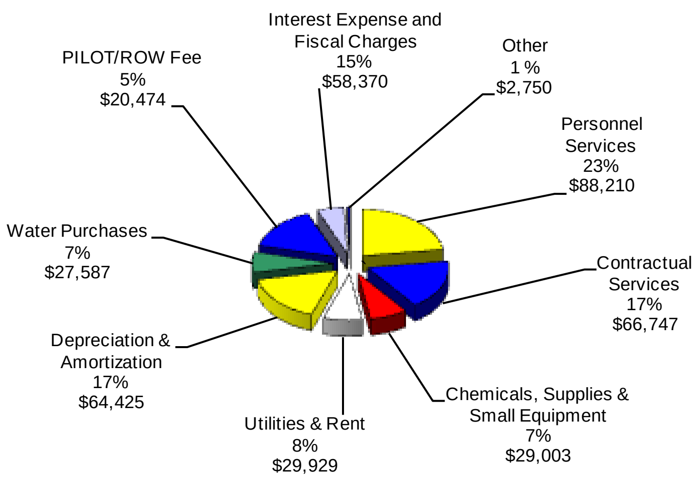
County account for 22.0 percent of the Authority's revenues and are based primarily on their share of operating costs at Blue Plains. Loudoun County and Potomac Interceptor customers account for an additional 2.0 percent of the Authority's revenues and are included in other revenues. Operating costs are allocated to each user based on its 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 10.0 percent of the Authority's total operating revenues and include customers such as the U.S. Congress, the Smithsonian Institution, and a range of federal departments and agencies.
- Revenues from the Government of the District of Columbia and the District of Columbia Housing Authority make up 6.0 percent of total operating revenues.

Expenses

Operating expenses increased by $15.3 million, or 5.2 percent, primarily due to a $6.0 million increase in personnel services; a $5.5 million increase in contractual services; a $5.1 million increase in depreciation expense and a $2.2 million increase in water purchases. These increases were offset by a decrease of $2.9 million in utilities and rent.

Fiscal Year 2010
Total Expenses
($ in 000's)



A detailed analysis of the operating expenses follows:

- Personnel services were $88.2 million, an increase of $6.0 million, or 7.3 percent over last year, primarily due to increases in wages in addition to health and retirement benefit costs.
- Contractual services were $66.7 million, an increase of $5.5 million, or 8.9 percent over last year, primarily due to increased biosolids hauling and disposal services during the year and Authority wide energy audit to identify potential areas for cost savings.

- Utilities and rent expenses were $29.9 million, a decrease of $2.9 million, or 8.8 percent over last year, primarily due to a 5% reduction in energy consumption from 279 million kilowatts in fiscal year 2009 compared to 266 million kilowatts during fiscal year 2010 coupled with lower unit prices.

- Depreciation and amortization expenses were $64.4 million, an increase of $5.1 million, or 8.7 percent over last year, in line with the increase in capital assets due to the capital improvement program.

- Water purchases were $27.6 million, an increase of $2.2 million, or 8.7 percent over last year, primarily due to increase in billing rate of $142 per mega galleon in fiscal year 2010, offset by a 454,571 ccf decrease in consumption.

- Interest expense and fiscal charges were $58.4 million, an increase of $6.9 million, or 13.5 percent over last year, primarily due to a full year of interest expense on the 2009 revenue bonds.

UTILITY PLANT AND DEBT ADMINISTRATION

Utility Plant

At the end of fiscal year 2010, the Authority had $2.8 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 $196.5 million, or 7.6 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, 2010, 2009 and 2008. 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 2010	FY 2009	FY 2008
Wastewater treatment plant	$ 1,822,320	$ 1,604,064	$ 1,572,421
Wastewater collection facilities	598,404	551,694	439,572
Water distribution system	800,861	744,842	650,269
Capital equipment	144,307	138,207	126,919
Construction in progress	327,738	400,826	394,332
Less accumulated depreciation	(916,505)	(858,964)	(804,729)
Net utility plant	$ 2,777,125	$ 2,580,669	$ 2,378,784

Debt Administration

At the end of fiscal year 2010, the Authority had a total of $1.241 billion in debt outstanding, a decrease of $13.8 million, or 1.1 percent, over fiscal year 2009 (see Note 10 for more information on long-term debt).

Table 4 – Long-Term Debt Outstanding
As of September 30, 2010
($ in 000's)

SENIOR DEBT	INTEREST RATES	YEAR OF FINAL MATURITY	AMOUNT OUTSTANDING
1998 public utility revenue bonds	5.50 - 6.00%	2028	$ 239,270
2009 public utility revenue bonds series A	3.00 - 6.00%	2039	300,000
SUBTOTAL SENIOR DEBT			539,270
SUBORDINATE DEBT			
2008 public utility revenue bonds series A	4.00 - 5.00%	2034	290,000
2007 public utility revenue bonds series A	4.75 - 5.50%	2042	218,715
2003 public utility revenue bonds	5.00 - 5.25%	2033	176,220
Notes payable to the federal government for Jennings Randolph Reservoir	3.25%	2041	14,922
Notes payable to WSSC for Little Seneca Reservoir	5.98 - 6.60%	2014	142
1993 District of Columbia general obligation bonds	5.40 - 6.00%	2012	495
1994 District of Columbia general obligation bonds	5.05 - 6.50%	2011	995
TOTAL SUBORDINATE DEBT			701,489
TOTAL DEBT OUTSTANDING			1,240,759
CURRENT PORTION OF DEBT OUTSTANDING			(17,793)
DEBT OUTSTANDING, LESS CURRENT PORTION			$ 1,222,966

Long-term debt outstanding as presented on the accompanying statements of net assets includes net unamortized bond premiums, discounts and issuance costs of $11.8 million as of September 30, 2010.

In February 2009, the Authority issued senior lien public utility revenue bonds (Series 2010A) with a face value of $300.0 million which are due in 2039. The interest rate on these securities is fixed and will have an effective average rate of 5.5% over the life of the bonds. There was $1.4 million of original issue premium and approximately $2.4 million for cost of issuance, bond insurance and underwriter's discount costs associated with this issuance.

In April 2008, the Authority refunded the 2004 and 2007 Series B subordinated public utility revenue bonds for $295.0 million and $59.0 million, respectively. Simultaneously, the Authority issued subordinated lien public utility revenue bonds (Series 2009A) with a face value of $290.4 million which are due in 2034. The interest rate on these securities is fixed and has an effective average rate of 4.7% over the life of the bonds. There was $11.7 million of original issue premium and approximately $5.9 million for cost of issuance, bond insurance and underwriter's discount costs associated with this issuance. The scheduled payments of principal and interest on the Series 2009A bonds are guaranteed by a municipal bond insurance policy issued by the Assured Guaranty Program.

In June 2007, the Authority issued $218.7 million of tax-exempt subordinated lien public utility revenue bonds (Series 2007A bonds) and $59.0 million of taxable subordinated lien public utility revenue bonds (Series 2007B). Gross proceeds from the Series 2007A bonds totaled $234.9 million, including $15.7 million of original issue premium. Approximately $30.0 million was used to repay outstanding commercial paper, and $2.8 million was used to pay underwriter's discount, insurance and costs of issuance. The scheduled payments of principal and interest on Series 2007A bonds are guaranteed by a municipal bond insurance policy issued by the Financial Guaranty Insurance Company (FGIC) (see below). Gross proceeds from the Series 2007B bonds totaled $59.0 million which were refunded in fiscal year 2009.

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, and $100.0 million was used to repay outstanding commercial paper. The scheduled payments of principal and interest on the Series 2003 bonds are guaranteed by a municipal bond insurance policy issued by FGIC. During fiscal year 2009, FGIC was downgraded below investment grade. As a result, the Authority obtained a direct pay letter of credit from TD Bank N.A. to supplement the Series 2003 Subordinated Debt Service Reserve fund surety provided by FGIC.

In April 1998, the Authority issued its first series of senior lien revenue bonds in the amount of $266.0 million (Series 1998 bonds). 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 and $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 Authority 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
DC Water Bond Ratings

Moody's Investors' Service	Aa2	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 (CP) program. This program provides interim financing for a portion of the Authority's approved $3.8 billion capital improvement program. Other financing sources include long-term revenue bonds, United States Environmental Protection Agency (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. The Authority'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 $29.2 million in outstanding taxable commercial paper at the end of fiscal year 2010. During fiscal year 2009, the letter of credit issued by West LB was amended to allow for the issuance of taxable commercial paper for the purpose of refunding the 2007B subordinated bonds.

Table 6
DC Water Commercial Paper Ratings

Moody's Investors' Service	P1
Standard & Poor's Corporation	SP-1+
Fitch Ratings	F1+

RATES

Effective October 1, 2009, the Authority raised its retail water and wastewater rates by 9 percent, and the Board has approved an additional 12.5 percent rate increase that was effective October 1, 2010 (fiscal year 2011). The Authority's approved ten-year financial plan includes projected rate increases of 3.5 to 12.5 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 or call 202-787-2000. A copy of this report is also available on DC Water's web site at www.dcwater.com.

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DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

Statements of Net Assets

September 30, 2010 and 2009

(In thousands)

Assets	**2010**	**2009**
Current assets:		
Cash and cash equivalents (note 3)	$ 81,069	$ 75,123
Investments (note 3)	70,255	90,982
Customer receivables, net of allowance for doubtful accounts of $11,975 in 2010 and $9,936 in 2009 (note 7)	39,742	33,787
Due from Federal government (note 6)	40,077	69,857
Due from District government (note 13)	—	3,213
Due from other jurisdictions (note 8)	8,531	28,617
Inventory	7,339	9,369
Prepaid assets	371	588
Total current assets	247,384	311,536
Noncurrent assets:		
Restricted assets (note 3):		
Cash and cash equivalents	116,786	247,327
Investments	40,027	29,975
Total restricted cash equivalents and investments	156,813	277,302
Utility plant (note 4):		
In-service	3,365,892	3,038,807
Less accumulated depreciation	(916,505)	(858,964)
Net utility plant in service	2,449,387	2,179,843
Construction-in-progress	327,738	400,826
Net utility plant	2,777,125	2,580,669
Other noncurrent assets:		
Due from other jurisdictions, net of allowance for doubtful accounts of $187 in 2010 and $614 in 2009 (note 8)	7,990	9,800
Purchased capacity, net of accumulated amortization of $55,591 in 2010 and $51,198 in 2009 (note 5)	223,687	189,262
Total other noncurrent assets	231,677	199,062
Total noncurrent assets	3,165,615	3,057,033
Total assets	3,412,999	3,368,569
Liabilities		
Current liabilities:		
Accounts payable and accrued expenses	88,684	92,570
Compensation payable (note 9)	15,043	13,316
Accrued interest	32,289	32,700
Due to jurisdictions	6,500	6,160
Due to District government (note 13)	382	—
Due to Storm Water Fund (note 13)	132	64
Deferred revenue	25,354	22,103
Commercial paper notes payable (note 11)	29,200	29,200
Current maturities of long-term debt (note 10)	17,793	13,846
Total current liabilities	215,377	209,959
Noncurrent liabilities:		
Deferred revenue	852,010	806,990
Deferred revenue - combined sewer overflow	62,843	58,789
Other liabilities (note 12)	20,568	20,795
Long-term debt, excluding current maturities (note 10)	1,234,726	1,252,778
Total noncurrent liabilities	2,170,147	2,139,352
Total liabilities	2,385,524	2,349,311
Net Assets		
Invested in utility plant, net of related debt	880,934	806,276
Restricted for:		
Debt service	34,747	33,743
Capital projects	9,586	10,967
Unrestricted	102,208	168,272
Total net assets	$ 1,027,475	$ 1,019,258

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

DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

Statements of Revenues, Expenses and Change in Net Assets

Years Ended September 30, 2010 and 2009

(In thousands)

	2010	2009
Operating revenues:		
Water and wastewater user charges:		
Residential, commercial and multi-family customers	$ 209,796	$ 191,543
Federal government	37,845	35,195
District government and D.C. Housing Authority (note 13)	21,947	16,804
Charges for wholesale wastewater treatment	87,505	85,519
Other	6,655	3,337
Total operating revenues	363,748	332,398
Operating expenses:		
Personnel services	88,210	82,248
Contractual services	66,747	61,277
Chemicals, supplies and small equipment	29,003	29,074
Utilities and rent	29,929	32,813
Depreciation and amortization	64,425	59,291
Water purchases	27,587	25,371
Other	2,750	3,236
Total operating expenses	308,651	293,310
Operating income	55,097	39,088
Non-operating revenues (expenses):		
Interest income	1,561	2,285
Payment in lieu of taxes and right of way fee (note 13)	(20,474)	(19,183)
Interest expense and fiscal charges	(58,370)	(51,431)
Total non-operating revenues (expenses)	(77,283)	(68,329)
Change in net assets before Federal grants and contributions	(22,186)	(29,241)
Federal grants and contributions	30,403	27,752
Change in net assets	8,217	(1,489)
Net assets, beginning of year	1,019,258	1,020,747
Net assets, ending of year	$ 1,027,475	$ 1,019,258

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

DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

Statements of Cash Flows

Years Ended September 30, 2010 and 2009

(In thousands)

	2010	2009
Cash flows from operating activities:		
Cash received from customers	$ 346,029	$ 317,778
Cash paid to suppliers for goods and services	(145,876)	(150,125)
Cash paid to employees for services	(86,483)	(80,956)
Net cash provided by operating activities	113,670	86,697
Cash flows from capital and related financing activities:		
Proceeds from other jurisdictions	87,097	62,138
Repayments of bond principal and notes payable to Federal and District governments	(14,273)	(13,714)
Acquisition of utility plant and purchased capacity	(270,526)	(256,652)
Payments of interest and fiscal charges	(68,224)	(54,102)
Contributions of capital from Federal government	36,126	33,656
Proceeds from issuance of revenue bonds	—	299,034
Proceeds from issuance of commercial paper	—	50,000
Repayments of commercial paper	—	(64,800)
Net cash provided by (used in) capital and related financing activities	(229,800)	55,560
Cash flows from non-capital financing activities:		
Transfers out (payment in lieu of taxes and right of way fee)	(20,474)	(17,514)
Net cash used by non-capital financing activities	(20,474)	(17,514)
Cash flows from investing activities:		
Cash received for interest	1,330	2,518
Investment purchases	(260,421)	(320,452)
Investment maturities	271,100	338,691
Net cash provided by (used in) investing activities	12,009	20,757
Net increase (decrease) in cash and cash equivalents	(124,595)	145,500
Cash and cash equivalents (including restricted) at beginning of year	322,450	176,950
Cash and cash equivalents (including restricted) at end of year	$ 197,855	$ 322,450
Operating income	$ 55,097	$ 39,088
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	64,425	59,291
Change in operating assets and liabilities:		
Decrease (increase) in customer and other receivables	275	(923)
Decrease (increase) in inventory	2,248	(1,194)
Increase in payables and accrued liabilities	8,770	5,819
Decrease in deferred revenue	(17,145)	(15,384)
Net cash provided by operating activities	$ 113,670	$ 86,697

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

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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 Government of the District of Columbia (the District) Department of Public Works. The District of Columbia Water and Sewer Authority (DC Water or the Authority), an independent authority of the District, was created in April 1996 and began operating on October 1, 1996 under and pursuant to an act of the Council of the District entitled the "Water and Sewer Authority and Department of Public Works Reorganization Act of 1996 (as amended)", and an Act of the United States Congress entitled the "District of Columbia Water and Sewer Authority Act of 1996".

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

The Authority's wastewater service territory includes over 2.1 million people in Montgomery and Prince George's Counties in Maryland, Fairfax and Loudoun Counties in Virginia, and the District. The Blue Plains Intermunicipal Agreement (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 the Authority. 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 Airports Authority (Dulles Airport).

The Authority 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 the Authority, Arlington County, Virginia and the City of Falls Church, Virginia. The Authority purchases approximately 75 percent of the water produced by the Aqueduct, which is reported as water purchases.

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

(2) Summary of Significant Accounting Policies

The financial statements of the Authority have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as 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. The Authority'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 financial statements. The Authority is accounted for on the "flow of economic resources" measurement focus. The flow of economic resources refers to the reporting of all the net assets available to the Authority for the purposes of providing related water and sewer services. 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) and associated 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 in 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.

The Authority elected 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, the Authority 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, the Authority accounts for its regulatory assets and liabilities in accordance with FASB Accounting Standards Codification (ASC) 980-10, *Regulated* Operations: Overall, (formerly Statement of Financial Accounting Standards Board Statement No. 71, *Accounting for the Effects of Certain Types of Regulation*). In general, FASB ASC 980-10 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, 2010 and 2009, no regulatory assets or liabilities were required to be reported in accordance with FASB ASC 980-10.

In November 2006, GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations.* This statement addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups.

(2) Summary of Significant Accounting Policies (Continued)

Management of the Authority adopted GASB Statement No. 49 as of October 1, 2008 and determined that there was no impact on its financial statements for the years ended September 30, 2010 and 2009.

The Authority 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 revenues, expenses and change in net assets, and a statement of cash flows.

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 is 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."

The Authority 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 GASB Statement No. 3 and establishes more comprehensive disclosure requirements. It also addresses other common risks of deposits and investments of state and local governments.

(b) Revenues and Expenses

Revenues and expenses are distinguished between operating and non-operating items. Operating revenues generally result from providing services in connection with the 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.

(2) Summary of Significant Accounting Policies (Continued)

Water and Wastewater User Charges

Retail water and wastewater rates are approved by the Authority's Board of Directors. Charges to the District and the Federal government are the same as those charged to retail customers. Charges for services provided but unbilled at the end of the year are recorded as revenue on an estimated basis, which considers historical usage patterns and current rates. Allowances for customer receivables that ultimately may be uncollectible are estimated and charged to expense.

Charges for Wholesale Wastewater Treatment and Deferred Revenue

The cost of operating and maintaining the wastewater treatment plant and related collection facilities applicable to non-District users is billed to participating jurisdictions based upon their share of flows. 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

DC Water maintains its own cash accounts for the collection of all revenues and payment of all expenses. DC Water 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 money market 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 DC Water's restricted cash balances. See note 3(d).

(d) Investments

The Authority's investments consist of unrestricted and restricted government agency notes, U.S. Treasury bills and commercial paper 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, unexpended commercial paper and revenue bond proceeds, debt service reserves, workers' compensation reserves, and funds for the current payment of revenue bond debt service.

(2) Summary of Significant Accounting Policies (Continued)

These assets, which cannot be used for routine operations, are classified as restricted assets since some of their use is limited by applicable bond covenants and external restrictions.

(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 utility plant in-service upon substantial completion or when placed in service, with related depreciation commencing at that time. Capitalization thresholds are: $500 thousand for buildings, improvements and infrastructure; and $5 thousand 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 Authority recorded this debt and related capital costs in its financial statements. On April 1, 1997, Authority 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.

The Authority 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.

The Authority’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 the Authority prior to April 1, 1997, are reported as due from other jurisdictions.

(In thousands)

(2) Summary of Significant Accounting Policies (Continued)

Additionally, the Authority'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 the Authority 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. The Authority 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). The Authority 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 as 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.

(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 the maximum shown in the table below. The amounts 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. See Note 14d for additional disclosure on sick leave for non-union employees.

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

(In thousands)

(3) Cash Deposits and Investments

(a) Cash Deposits

At September 30, 2010 and 2009, the carrying amounts of the Authority's unrestricted bank deposits were $83,224 and $21,150, respectively. These bank deposits are entirely insured or collateralized with securities held by the Authority's agent in its name.

(b) Cash Equivalents and Investments

As of September 30, 2010 and 2009, the Authority had the following investments:

Type of Investments	2010	Weighted Average Maturity (Years)	2009	Weighted Average Maturity (Years)
Money market funds	$114,631	0.083	$245,446	0.083
Government agencies	95,299	1.998	-	0.544
Commercial paper	14,983	0.319	24,943	0.359
Agency discount notes	-	0.000	96,014	0.544
Repurchase agreements	-	0.000	55,854	0.003
Total Investments	$224,913	0.910	$422,257	0.194

The Authority'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.

The Authority's investments are not subject to foreign currency risk. The Authority's investments are subject to interest rate, credit and custodial risks 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.

(In thousands)

(3) Cash Deposits and Investments (Continued)

Credit Risk – The Authority's Board of Directors has approved a cash management and investment policy, and the Authority has adopted investment practices based on guidelines established by the Government Finance Officers Association. Allowable investments include obligations of the U.S. Treasury and U.S. agencies. The Authority may also invest in highly rated bankers' acceptances, repurchase agreements, commercial paper, corporate notes and bonds, certificates of deposit and money market funds. The Authority's money market 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. Investment grade 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, 2010 and 2009 follows:

	2010			2009		
Description	Unrestricted	Restricted	Total	Unrestricted	Restricted	Total
Cash and cash equivalents						
Demand deposits	$ 78,216	5,008	$ 83,224	$ 16,150	5,000	$ 21,150
Money market funds	2,853	111,778	114,631	3,119	242,327	245,446
Repurchase agreements	-	-	-	55,854	-	55,854
Total cash and cash equivalents	81,069	116,786	197,855	75,123	247,327	322,450
Investments						
Government Agencies	55,272	40,027	95,299	-	-	-
Commercial paper	14,983	-	14,983	24,943	-	24,943
Government agency notes	-	-	-	66,039	29,975	96,014
Total Investments	70,255	40,027	110,282	90,982	29,975	120,957
Total cash, cash equivalents & investments	$ 151,324	$ 156,813	$308,137	$ 166,105	$277,302	$ 443,407

Included in unrestricted demand deposits and agency discount notes are $16,706 for the Rate Stabilization Fund. The Authority established the Rate Stabilization Fund in fiscal year 2001. The balance in this account will be used in the future at the Authority's discretion.

(In thousands)

(3) Cash Deposits and Investments (Continued)

(d) Restricted Cash and Investment Schedule

A schedule of restricted cash equivalents and investments as of September 30, 2010 and 2009 follows:

Description	2010	2009
Restricted cash and cash equivalents		
Revenue bond construction fund 2009	$ 7,618	$ 138,786
Combined sewer overflow (CSO) federal appropriations	44,858	40,694
Debt service reserve account, 1998 revenue bonds	13,782	23,499
Debt service interest payment account, 2009 revenue bonds	8,089	8,088
Debt service interest payment account, 2008 revenue bonds	7,226	7,232
Debt service interest payment account, 2007 revenue bonds	5,676	5,676
Debt service interest payment account, 2003 revenue bonds	4,445	4,445
Debt service interest payment account, 1998 revenue bonds	6,708	6,967
Principal payment account 2009 revenue bonds	1,775	-
Principal payment account 2008 revenue bonds	4,460	375
Principal payment account 1998 revenue bonds	9,955	9,435
Workers' compensation reserve account	1,034	1,030
Commercial paper proceeds, debt service	1,160	1,100
Total restricted cash and cash equivalents	116,786	247,327
Restricted investments		
Combined sewer overflow (CSO) federal appropriations	30,085	29,975
Debt service reserve account, 1998 revenue bonds	9,942	-
Total restricted investments	40,027	29,975
Total restricted cash, cash equivalents & investments	$ 156,813	$ 277,302

(In thousands)

(4) Utility Plant

Activity in utility plant, including capitalized interest of $11,586, for the year ended September 30, 2010 was as follows:

	Balance 9/30/2009	Additions	Disposals	Transfers	Balance 9/30/2010
Utility Plant					
Wastewater treatment plant	$ 1,604,064	$ 218,256	-	-	$ 1,822,320
Wastewater collection facilities	551,695	46,709	-	-	598,404
Water distribution system	744,842	56,019	-	-	800,861
Capital equipment	138,206	8,602	(2,501)	-	144,307
Total utility plant in service	3,038,807	329,586	(2,501)	-	3,365,892
Less accumulated depreciation:					
Wastewater treatment plant	(396,941)	(27,581)	-	-	(424,522)
Wastewater collection facilities	(185,754)	(9,384)	-	-	(195,138)
Water distribution system	(165,913)	(12,588)	-	-	(178,501)
Capital equipment	(110,356)	(10,480)	2,492	-	(118,344)
Total accumulated depreciation	(858,964)	(60,033)	2,492	-	(916,505)
Net utility plant in service	2,179,843	269,553	(9)	-	2,449,387
Construction-in-progress	400,826	256,498	-	(329,586)	327,738
Net utility plant	$ 2,580,669	$ 526,051	$ (9)	$ (329,586)	$ 2,777,125

Activity in utility plant, including capitalized interest of $11,832, for the year ended September 30, 2009 was as follows:

	Balance 9/30/2008	Additions	Disposals	Transfers	Balance 9/30/2009
Utility Plant					
Wastewater treatment plant	$ 1,572,421	$ 31,643	-	-	$ 1,604,064
Wastewater collection facilities	439,573	112,122	-	-	551,695
Water distribution system	650,269	94,573	-	-	744,842
Capital equipment	126,918	12,668	(1,380)	-	138,206
Total utility plant in service	2,789,181	251,006	(1,380)	-	3,038,807
Less accumulated depreciation:					
Wastewater treatment plant	(371,464)	(25,477)	-	-	(396,941)
Wastewater collection facilities	(177,679)	(8,075)	-	-	(185,754)
Water distribution system	(154,747)	(11,166)	-	-	(165,913)
Capital equipment	(100,839)	(10,846)	1,329	-	(110,356)
Total accumulated depreciation	(804,729)	(55,564)	1,329	-	(858,964)
Net utility plant in service	1,984,452	195,442	(51)	-	2,179,843
Construction-in-progress	394,332	257,500	-	(251,006)	400,826
Net utility plant	$ 2,378,784	$ 452,942	$ (51)	$ (251,006)	$ 2,580,669

(In thousands)

(5) Purchased Capacity

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

Purchased capacity activity for the year ended September 30, 2010 was as follows:

	Balance 9/30/2009	Additions	Balance 9/30/2010
Purchased Capacity			
Washington Aqueduct	$ 208,270	$ 38,818	$ 247,088
Jennings Randolph Reservoir	19,863	-	19,863
Little Seneca Lake	12,327	-	12,327
Total in service	240,460	38,818	279,278
Less accumulated depreciation:			
Washington Aqueduct	(39,486)	(3,794)	(43,280)
Jennings Randolph Reservoir	(6,680)	(392)	(7,072)
Little Seneca Lake	(5,032)	(207)	(5,239)
Total accumulated depreciation	(51,198)	(4,393)	(55,591)
Purchased capacity, net	$ 189,262	$ 34,425	$ 223,687

Purchased capacity activity for the year ended September 30, 2009 was as follows:

	Balance 9/30/2008	Additions	Balance 9/30/2009
Purchased Capacity			
Washington Aqueduct	$ 166,746	$ 41,524	$ 208,270
Jennings Randolph Reservoir	19,863	-	19,863
Little Seneca Lake	12,327	-	12,327
Total in service	198,936	41,524	240,460
Less accumulated depreciation:			
Washington Aqueduct	(36,361)	(3,125)	(39,486)
Jennings Randolph Reservoir	(6,287)	(393)	(6,680)
Little Seneca Lake	(4,827)	(205)	(5,032)
Total accumulated depreciation	(47,475)	(3,723)	(51,198)
Purchased capacity, net	$ 151,461	$ 37,801	$ 189,262

(In thousands)

(6) Due from Federal Government

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

	2010	2009
Washington Aqueduct advances	$ 37,221	$ 63,932
Federal grants receivable	2,856	5,925
Total	$ 40,077	$ 69,857

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 $12,122 and $10,966 at September 30, 2010 and 2009, respectively.

(8) Due from Other Jurisdictions

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

	2010	2009
Current:		
Washington Suburban Sanitary Commission	$ 7,669	$ 22,201
Fairfax	(158)	3,798
Loudoun County Sanitation Authority	(74)	1,513
Northern Virginia (a)	187	281
Potomac Interceptor	907	824
Total current	8,531	28,617
Noncurrent:		
Washington Suburban Sanitary Commission	3,403	4,597
Northern Virginia (a)	3,544	3,917
Fairfax	704	887
Loudoun County Sanitation Authority	339	399
Total noncurrent	7,990	9,800
Total due from jurisdictions	$ 16,521	$ 38,417

(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 the Authority for the purpose of funding capital expenditures of the Washington Aqueduct prior to April 1, 1997.

(In thousands)

(9) Compensation Payable (Compensated Absences)

Compensation payable as of September 30, 2010 and 2009 was $15,043 and $13,316, respectively. As this liability is expected to be paid off within a year, it is classified as a current liability. The accrual for annual leave (vacation payable) which is part of compensation payable as of September 30, 2010 and 2009 was as follows:

	2010	2009
Balance, beginning of year	$ 5,687	$ 5,222
Increases (incurred)	1,669	1,036
Decreases	(1,161)	(571)
Balance, end of year	$ 6,195	$ 5,687

(10) Long-Term Debt

The Authority 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 the year ended September 30, 2010 is shown below:

Description	Balance 9/30/2009	New Debt Issued	Debt Retired	Balance 9/30/2010	Due Within One Year
2009 series a public utility revenue bonds; interest at 3.0% to 6.0%, maturing in 2039	$ 300,000	-	-	$ 300,000	$ 1,775
2008 series a public utility revenue bonds; interest at 4.0% to 5.0%, maturing in 2034	290,375	-	(375)	290,000	4,460
2007 series a public utility revenue bonds; interest at 4.75% to 5.50%, maturing in 2042	218,715	-	-	218,715	-
2003 public utility revenue bonds; interest ranges from 5.0% to 5.25%, maturing in 2033	176,220	-	-	176,220	-
1998 public utility revenue bonds; interest ranges from 5.50% to 6.00%, maturing in 2028	248,705	-	(9,435)	239,270	9,955
Notes payable to the federal government for Jennings Randolph Reservoir (Bloomington Dam); interest at 3.25%, maturing in 2041	15,232	-	(309)	14,922	320
Notes payable to WSSC for Little Seneca Lake; interest ranges from 5.98% to 6.60% maturing in 2014	179	-	(37)	142	38
District of Columbia general obligation bonds:					
1993; interest ranges from 5.40% to 6.0% maturing in 2012	3,255	-	(2,760)	495	250
1994; interest ranges from 5.05% to 6.50% maturing in 2011	1,925	-	(930)	995	995
Total bonds and notes	$ 1,254,606	-	$ (13,846)	$ 1,240,759	$ 17,793

Long-term debt outstanding, as presented on the accompanying statement of net assets, includes net unamortized bond premiums, discounts, and issuance costs of $11,759.

(In thousands)

(10) Long-Term Debt (Continued)

A schedule of long-term debt activity for the year ended September 30, 2009 is shown below:

Description	Balance 9/30/2008	New Debt Issued	Debt Retired	Balance 9/30/2009	Due Within One Year
2009 series a public utility revenue bonds; interest at 3.0% to 6.0%, maturing in 2039	-	$ 300,000	-	$ 300,000	-
2008 series a public utility revenue bonds; interest at 4.0% to 5.0%, maturing in 2034	290,375	-	-	290,375	375
2007 series a public utility revenue bonds; interest at 4.75% to 5.50%, maturing in 2042	218,715	-	-	218,715	-
2003 public utility revenue bonds; interest ranges from 5.0% to 5.25%, maturing in 2033	176,220	-	-	176,220	-
1998 public utility revenue bonds; interest ranges from 5.50% to 6.00%, maturing in 2028	257,645	-	(8,940)	248,705	9,435
Notes payable to the federal government for Jennings Randolph Reservoir (Bloomington Dam); interest at 3.25%, maturing in 2041	15,532	-	(300)	15,232	309
Notes payable to WSSC for Little Seneca Lake; interest ranges from 5.98% to 6.60% maturing in 2014	216	-	(37)	179	37
District of Columbia general obligation bonds:					
1993; interest ranges from 5.40% to 6.0% maturing in 2012	7,110	-	(3,855)	3,255	2,760
1994; interest ranges from 5.05% to 6.50% maturing in 2011	2,795	-	(870)	1,925	930
Total bonds and notes	$ 968,608	$ 300,000	$ (14,002)	$1,254,606	$ 13,846

Long-term debt outstanding, as presented on the accompanying statement of net assets, includes net unamortized bond premiums, discounts, and issuance costs of $12,018.

(a) Senior Debt

Payment of the principal and interest on Authority's senior debt is secured by a pledge of Authority's gross revenues (excluding any capital contributions or grants) after provisions for payment of operating expenses. The 2009 and 1998 public utility revenue bonds 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 2010 and 2009.

(10) Long-Term Debt (Continued)

In February 2009, the Authority issued senior lien public utility revenue bonds (Series 2009A Bonds) with a face value of $300.0 million consisting of $38.4 million Serial Bonds and $261.6 million Term Bonds. The Serial Bonds have maturity dates and interest rates ranging from 2010-2030 and 3.0 percent to 5.4 percent, respectively. The Term Bonds have maturity dates and interest rates ranging from 2024-2039 and 4.8 percent to 6.0 percent, respectively. There was $1.4 million of original issue premium and approximately $2.4 million for cost of issuance, bond insurance and underwriter's discount costs associated with this issuance. Debt proceeds were used to refinance $14.8 million of the taxable Series A Commercial Paper Notes and $50.0 million of the tax exempt Series B Commercial Paper Notes with the remainder used to finance the ongoing capital improvement program.

In April 1998, Authority issued $266,120 of senior lien public utility revenue bonds (Series 1998 Bonds). As required by the Master Indenture, Authority 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 the original issue premium. Approximately $77,200 was used to fund various capital projects; $181,000 was used to repay the outstanding balances of a revolving line of credit and certain notes payable to the Federal government and to advance-refund approximately $152,200 of District general obligation bonds. The remainder of the gross proceeds, approximately $27,000, was used to fund the debt service reserve fund and to pay the costs of issuance. The payment of principal and interest on the Series 1998 bonds is insured by Financial Security Assurance, Inc.

The Authority 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 is amortized as a component of interest expense over the remaining life of the refunded debt.

The total amount of refunded debt outstanding was $868 and $1,689 at September 30, 2010 and 2009, respectively.

(b) Subordinate Debt

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

In April 2008, the Authority refunded the 2004 and 2007 Series B subordinated public utility revenue bonds for $295.0 million and $59.0 million, respectively. Simultaneously, the Authority issued subordinated lien public utility revenue bonds (Series 2008A) with a face value of $290,375 which are due in 2034.

(10) Long-Term Debt (Continued)

The interest rate on these securities is fixed and will have an effective average rate of 4.7% over the life of the bonds. There was $11,678 of original issue premium and approximately $5.9 million for cost of issuance, bond insurance and underwriter's discount costs associated with this issuance. As required by the Master Indenture, the Authority 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). The scheduled payments of principal and interest on the Series 2008A bonds are guaranteed by a municipal bond insurance policy issued by the Assured Guaranty Program.

The refunded debt of Series 2004 and 2007B Series is considered defeased, and the respective liabilities have been removed from the statement of net assets. The current refunding in 2008 resulted in an economic cost (difference between the present value of the old and new debt service payments) of $12.7 million and an increase in aggregate debt service payments of $22.2 million.

In June 2007, Authority issued $218,715 of tax-exempt subordinated lien public utility revenue bonds (Series 2007A bonds) and $59,000 of taxable subordinated lien public utility revenue bonds (Series 2007B bonds). As required by the Master Indenture, the Authority 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" on the next page). Gross proceeds from the Series 2007A bonds totaled $234,923, including $15,661 of original issue premium. Approximately $30,000 was used to repay outstanding commercial paper, and $2,824 was used to pay the underwriter's discount, insurance and cost of issuance. The scheduled payments of principal and interest on Series 2007A bonds are guaranteed by a municipal bond insurance policy issued by the Financial Guaranty Insurance Company (FGIC). Gross proceeds from the Series 2007B bonds totaled $59,000. Proceeds from the Series 2007B bonds were used entirely to fund the Authority's share of capital improvements to the Washington Aqueduct. The scheduled payments of principal and interest on Series 2007B bonds are guaranteed by a municipal bond insurance policy issued by CIFG Assurance North America. The Series 2007B bonds were refunded in April 2008.

In August 2003, the Authority issued $176,220 of subordinated lien public utility revenue bonds (Series 2003 Bonds). As required by the Master Indenture, the Authority 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" on the next page). 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 and $100,000 was used to repay outstanding commercial paper. The scheduled payments of principal and interest on the Series 2003 Bonds are guaranteed by a municipal bond insurance policy issued by FGIC. The Authority also purchased a surety bond policy from FGIC to meet the debt reserve fund requirement for the Series 2003 bonds.

During fiscal year 2008, FGIC was downgraded below investment grade. As a result, the Authority obtained a direct pay letter of credit from TD Bank N.A. to supplement the Series 2003 Subordinated Debt Service Reserve fund surety provided by FGIC.

(10) Long-Term Debt (Continued)

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

Prior to the creation of the Authority as an independent entity, the District issued general obligation bonds to fund improvements to the water and wastewater system. The Authority 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 Authority 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, the Authority and the District executed a memorandum of understanding that outlined certain terms for payment of the Authority's share of District general obligation bonds. In particular, it contained the following three provisions: (1) the Authority will establish a debt service reserve equal to 10 percent of the subsequent fiscal year's general obligation debt service; (2) on each September 1st, commencing September 1, 1999, the Authority will prepay the general obligation debt service due for the subsequent fiscal year; and (3) the Authority will annually establish rates sufficient to provide at least 100 percent debt service coverage of the Authority's share of District general obligation bonds, in accordance with the Master Indenture. As of September 30, 2010 and 2009, the Authority had reserved $138 and $404, respectively, of its unrestricted cash and cash equivalents in connection with the debt service reserve requirement described above, and was in compliance with the other provisions of the memorandum of understanding.

(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, 2010 and 2009. 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.

(In thousands)

(10) Long-Term Debt (Continued)

Net revenues are defined generally as all Authority revenues (excluding capital contributions from wholesale customers, Federal grants, or any proceeds derived from the sale of capital assets), less operating and maintenance expenses (excluding any payment in lieu of taxes, depreciation and amortization charges and certain extraordinary, nonrecurring expenses).

Debt Service Reserve Fund — The Authority has established debt service reserve accounts for certain series of bonds, which are only to be used to pay debt service in the event of insufficient funds. The Series 1998 Bonds debt service reserve account balance as of September 30, 2010 and 2009 was $23,724 and $23,499, respectively, and is required to be maintained at 125 percent of current and future average annual Series 1998 debt service.

(d) Debt Service to Maturity

The future debt-service obligations at September 30, 2010 are as follows:

Fiscal year	Principal	Interest	Total
2011	$ 17,793	$ 64,063	$ 81,856
2012	18,721	63,087	81,808
2013	19,692	62,064	81,756
2014	20,749	60,966	81,715
2015	21,888	59,781	81,669
2016 - 2020	128,822	279,086	407,908
2021 - 2025	167,430	239,514	406,944
2026 - 2030	205,838	189,948	395,786
2031 - 2035	247,256	131,981	379,237
2036 - 2040	321,343	55,730	377,073
2041 - 2043	71,227	2,014	73,241
Total	$ 1,240,759	$1,208,234	$ 2,448,993

(11) Commercial Paper

Commercial Paper Notes — The Authority has established a commercial paper (CP) program to provide interim financing for Costs of the System. Three series of notes have been issued under the commercial paper program: the tax-exempt Series A CP Notes in an aggregate principal amount not to exceed $100 million, the tax-exempt Series B CP Notes in an aggregate principal amount not to exceed $50 million, and the taxable Series C CP Notes in an aggregate principal amount not to exceed $75 million (collectively, the “Commercial Paper Notes”), each as Subordinate Debt. To provide liquidity and credit support for the Commercial Paper Notes, the Authority obtained irrevocable, direct-pay letters of credit (the “Letters of Credit”) issued by J.P. Morgan Chase Bank and U.S. Bank, National Association (collectively, the “Banks”) which expire on May 31, 2013. In connection with the Banks’ issuance of the Letters of Credit, the Authority and each Bank entered into a Reimbursement Agreement.

(In thousands)

(11) Commercial Paper (Continued)

This Agreement, dated as of June 1, 2010, (collectively, the "Reimbursement Agreements") obligates the Authority to pay Bank Obligations and Reimbursement Obligations (both as defined in the Eleventh Supplemental Indenture relating to the Commercial Paper Notes) and Fee Obligations (as defined in each Reimbursement Agreement) to the applicable Bank. The Bank Obligations, the Reimbursement Obligations and Fee Obligations are Subordinate Debt under the Indenture.

A schedule of commercial paper activity for year ended September 30, 2010 is shown below:

Description	Balance 9/30/2009	Addition	Reduction	Balance 9/30/2010
Series C, (taxable) interest ranges from .2% to .28%	$ 29,200	$ -	$ -	$ 29,200

(12) Commitments and Contingencies – Other Liabilities

A schedule of other liabilities as of September 30, 2010 and 2009 is shown below:

Description	2010	2009
Federal grants disallowance	$ 1,472	$ 2,258
Litigation contingency	6,081	4,009
Rolling Owner Controlled Insurance Program	631	2,285
Risk management contingency	12,384	12,243
Total other liabilities	$ 20,568	$ 20,795

(a) Federal Grants

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

(b) Litigation

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

Changes in the balances of litigation contingencies during the years ended September 30, 2010 and 2009 were as follows:

	2010	2009
Balance, beginning of year	$ 4,009	$ 3,618
Current year claims and changes in estimates	2,338	1,234
Claim payments	(266)	(843)
Balance, end of year	$ 6,081	$ 4,009

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

(c) Rolling Owner Controlled Insurance Program (ROCIP)

The Authority completed its fifth year of a rolling owner-controlled insurance program (ROCIP I) and 1st year of ROCIP II. The Authority procures insurance for the majority of its construction contractors. Coverage includes general liability, umbrella and workers' compensation insurance for certain major construction projects. The result is substantially higher and broader coverage, enhanced safety and loss control, increased minority participation and potential cost savings.

At the end of fiscal year 2010, 65 projects and 380 contractors were enrolled in ROCIP I and 25 projects and 97 contractors were enrolled in ROCIP II. ROCIP II is a three-year program that will support an estimated $688 million of planned construction completion.

(d) Risk Management

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Effective April 7, 1998, the Authority purchased certain commercial insurance coverage. Prior to that date, the Authority was either self-insured or covered under District programs. For each of the five most recent years, settlement of claims has not exceeded insurance coverage.

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

The Authority has purchased liability insurance coverage to protect it from claims alleging damages and injuries caused by automobile accidents, damaged utilities, construction, and other activities. Limits of $100,000 have been secured in excess of a deductible of $1,000 for each occurrence.

Public Officials' liability insurance has been secured with limits of $20,000 in excess of a deductible of $250 to $500 per claim.

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

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

(In thousands)

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

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, 2010 and 2009 were as follows:

	2010	2009
Balance, beginning of year	$ 12,243	$ 12,944
Current year claims and changes in estimates	3,181	947
Claim payments	(3,040)	(1,648)
Balance, end of year	$ 12,384	$ 12,243

(d) Construction Commitments

Contractual commitments for utility plant construction and capital equipment for the years ended September 30, 2010 and 2009 were $365,084 and $351,416, respectively. Construction commitments are not recorded in the financial statements.

	2010	2009
Total contract commitments	$ 351,416	$ 268,885
Additional commitments (less) work performed and retainage	13,668	82,531
Outstanding contract commitments	$ 365,084	$ 351,416

(e) Lease Commitments

The Authority 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.

The Authority's rental expenses for the years ended September 30, 2010 and 2009 were as follows:

	2010	2009
Facilities leases	$ 1,279	$ 849
Automobile equipment leases	5	34
Machinery leases	700	36
Other	—	3
Total	$ 1,984	$ 922

(In thousands)

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

Future minimum noncancelable lease payments on existing operating leases at September 30, 2010, which have an initial term of one year or more, are as follows.

	Future Minimum Lease Payments	
2011	$	996
2012		1,043
Thereafter		767
Total	$	2,806

(13) Related Party and Similar Transactions

The enabling legislation, described in Note 1, established that the District would pay for water and wastewater services. The Authority recorded revenues of $15,628 and $10,116 from the District government and $6,319 and $6,688 from the District of Columbia Housing Authority (DCHA) for fiscal years 2010 and 2009, respectively. Both the District government and DCHA revenues are included in water and wastewater user charges in the accompanying statements of revenues, expenses and change in net assets.

The Authority recorded expenses of $15,374 and $14,083, 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, 2010 and 2009, respectively. The Authority 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 each of the years ended September 30, 2010 and 2009.

The amounts due (to)/from the District government as of September 30, 2010 and 2009 were ($382) and $3,213, respectively. These amounts are for the Authority's share of fiscal years 2011 and 2010 debt service on general obligation bonds originally issued to finance the Authority's capital improvements that were 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 as of September 30, 2010 and 2009 for costs incurred by the District for certain lead mitigation activities and $1,190 as of September 30, 2010 related to the construction of DC Water infrastructure projects undertaken by the District's Department of Transportation.

The District of Columbia Council created the Storm Water Compliance Amendment Act of 2000 which established the Authority as the Storm Water Administrator and a fund was established. The administration of the fund was transferred to the District Department of the Environment (DDOE) in 2007. The Authority continues to bill and collect storm water fees as a separate item and transfers the funds to the DDOE quarterly. The Authority incurred $1,208 and $494 of reimbursable expenses for years ended September 30, 2010 and 2009, respectively.

Additionally, the Authority had a net payable of $132 and $64 to the Storm Water Fund for years ended September 30, 2010 and 2009, respectively. The amounts shown on the Statement of Net Assets as due from or due to Storm Water Fund are net of collection and administrative costs.

(14) Employee Benefits

(a) Defined Benefit Plans

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.

Employees and the Authority each contribute a percentage of the employees' salaries to the Federal government, which administers the plans. During fiscal years 2010, 2009 and 2008, the Authority's contributions to the plans were $1,169, $1,173 and $1,174, 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 each of the three fiscal years ended 2010. The required percentage of salaries to be contributed by the Authority was also 7.0 percent for each of the three fiscal years ended 2010.

(b) Defined Contribution Plans

Defined Contribution Plan - Employees who were hired after September 30, 1987, participate in the U.S. Social Security system and a defined contribution plan sponsored by the Authority. The District of Columbia Water and Sewer Authority Defined Contribution Plan is a qualified trust under Internal Revenue Code Section 401. During fiscal years 2010, 2009 and 2008, the Authority's contribution was seven percent of base pay up to the social security wage base, plus 5% of base pay in excess of the social security wage base for each eligible employee. Employees do not contribute to the plan. Employees become 100 percent vested in their account balance after three years of service.

457(b) Plan - Starting in January 2000, employees who were hired after September 30, 1987, participate in the U.S. Social Security system and a 457(b) Deferred Compensation plan 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 matching contribution of 100 percent of the amount that the employee defers to the 457(b) Deferred Compensation Plan; up to a maximum contribution of five percent of base pay for eligible employees.

There is no waiting period before an employee can elect to become a participant of this plan and employees are always 100 percent vested in their contributions. The Authority's matching contribution is vested after three years of service.

During fiscal years 2010, 2009 and 2008, the Authority's contributions to both defined contribution plans were $4,182, $4,425 and $4,020, respectively.

(14) Employee Benefits (Continued)

(c) Post-Employment Insurance Plans

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

(d) Retirement Health Savings Plan

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

Statistical Section

This section contains statistical tables that reflect financial trends information, revenue capacity information, debt capacity information, demographic and economic information, and operating information. These tables differ from the financial statements because they usually cover more than two fiscal years and may present non accounting data.

The statistical section is divided into five sections as follows:

- Financial Trends
- Revenue Capacity
- Debt Capacity
- Demographic and Economic Information
- Operating Information

1. Financial Trends

These schedules contain trend information to better understand how the Authority's financial performance and well-being have changed over time.

EXHIBIT 1: SUMMARY OF NET ASSETS FY 2002 - 2010 ($000)

	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Net Assets:									
Invested in utility plant, net of related debt	$534,819	$588,294	$651,250	$713,470	$749,965	$777,968	$ 764,291	$ 806,276	$ 880,934
Restricted for debt service	23,481	22,356	38,302	39,765	39,730	44,802	32,122	33,743	34,747
Restricted for capital projects	18,115	5,038	815	2,146	5,158	9,170	10,199	10,967	9,586
Unrestricted	178,351	188,285	142,341	125,347	139,965	148,950	214,135	168,272	102,208
Total Net Assets:	$754,766	$803,973	$832,708	$880,728	$934,818	$980,890	$1,020,747	$1,019,258	$1,027,475

Note: As a result of GASB 34 implementation in FY 2002, only nine years are presented.

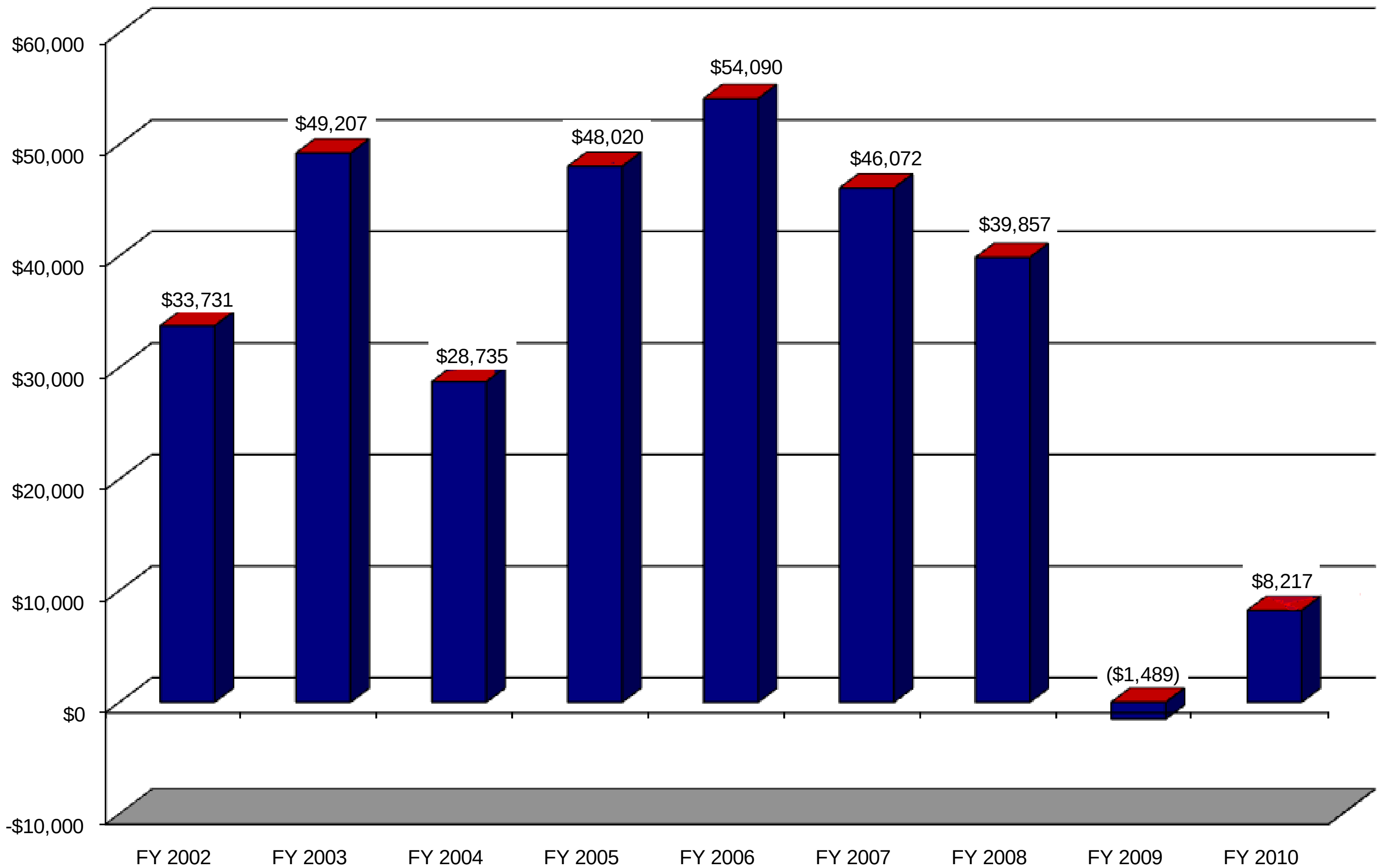
Source: FY 2002 - 2010 Audited Statements of Net Assets.

EXHIBIT 2: CHANGE IN NET ASSETS
FY 2002 - 2010
($000)

	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Revenues									
Operating revenues:									
Residential, commercial and multi-family customers	$ 148,134	$ 147,870	$ 159,165	$ 166,045	$ 174,159	$ 182,327	$ 183,553	$ 191,543	$ 209,796
Federal government	28,501	26,884	26,444	24,770	31,100	30,751	35,888	35,195	37,845
District government and DC Housing Authority	16,496	16,072	15,464	15,436	16,463	17,266	16,193	16,804	21,947
Charges for wholesale wastewater treatment	53,211	61,682	60,834	62,126	67,966	73,378	82,854	85,519	87,505
Other	2,387	3,287	2,427	4,366	3,845	2,735	3,846	3,337	6,655
Total Operating Revenues	248,729	255,795	264,334	272,743	293,533	306,457	322,334	332,398	363,748
Non-operating revenues:									
Interest income	6,825	3,090	3,472	12,612	16,091	20,239	13,573	2,285	1,561
Total Revenues	255,554	258,885	267,806	285,355	309,624	326,696	335,907	334,683	365,309
Expenses									
Operating expenses:									
Personnel services	62,162	64,091	62,449	64,038	66,942	70,956	75,838	82,248	88,210
Contractual services	59,166	63,065	61,491	54,156	49,970	52,116	55,127	61,277	66,747
Chemicals, supplies and small equipment	13,683	14,768	17,384	22,062	23,482	24,510	28,816	29,074	29,003
Utilities and rent	20,071	20,804	22,217	25,562	31,151	32,238	37,843	32,813	29,929
Depreciation and amortization	37,099	39,524	40,500	41,069	44,149	49,355	54,418	59,291	64,425
Water purchases	16,904	13,723	20,692	19,625	22,745	24,042	25,746	25,371	27,587
Other	-	-	3,955	3,679	4,218	4,452	3,603	3,236	2,750
Total operating expenses	209,085	215,975	228,688	230,191	242,657	257,669	281,391	293,310	308,651
Non-operating expenses									
Interest expense and fiscal charges	16,339	17,816	26,060	25,415	20,881	30,524	39,342	51,431	58,370
Payment in lieu of taxes and right of way fee	15,247	15,513	15,778	16,307	16,923	17,514	17,525	19,183	20,474
Total non-operating expenses	31,586	33,329	41,838	41,722	37,804	48,038	56,867	70,614	78,844
Total expenses	240,671	249,304	270,526	271,913	280,461	305,707	338,258	363,924	387,495
Income before Federal grants and contributions	14,883	9,581	(2,720)	13,442	29,163	20,989	(2,351)	(29,241)	(22,186)
Federal grants and contributions	18,848	39,626	31,455	34,578	24,927	25,083	42,208	27,752	30,403
Change in net assets	33,731	49,207	28,735	48,020	54,090	46,072	39,857	(1,489)	8,217
Net assets, beginning of year	721,035	754,766	803,973	832,708	880,728	934,818	980,890	1,020,747	1,019,258
Net assets, end of year	$ 754,766	$ 803,973	$ 832,708	$ 880,728	$ 934,818	$ 980,890	$ 1,020,747	$ 1,019,258	$ 1,027,475

Note: As a result of GASB 34 implementation in FY 2002, only nine years are presented.
Source: FY 2002 - 2010 Audited Statements of Revenues, Expenses and Change in Net Assets.

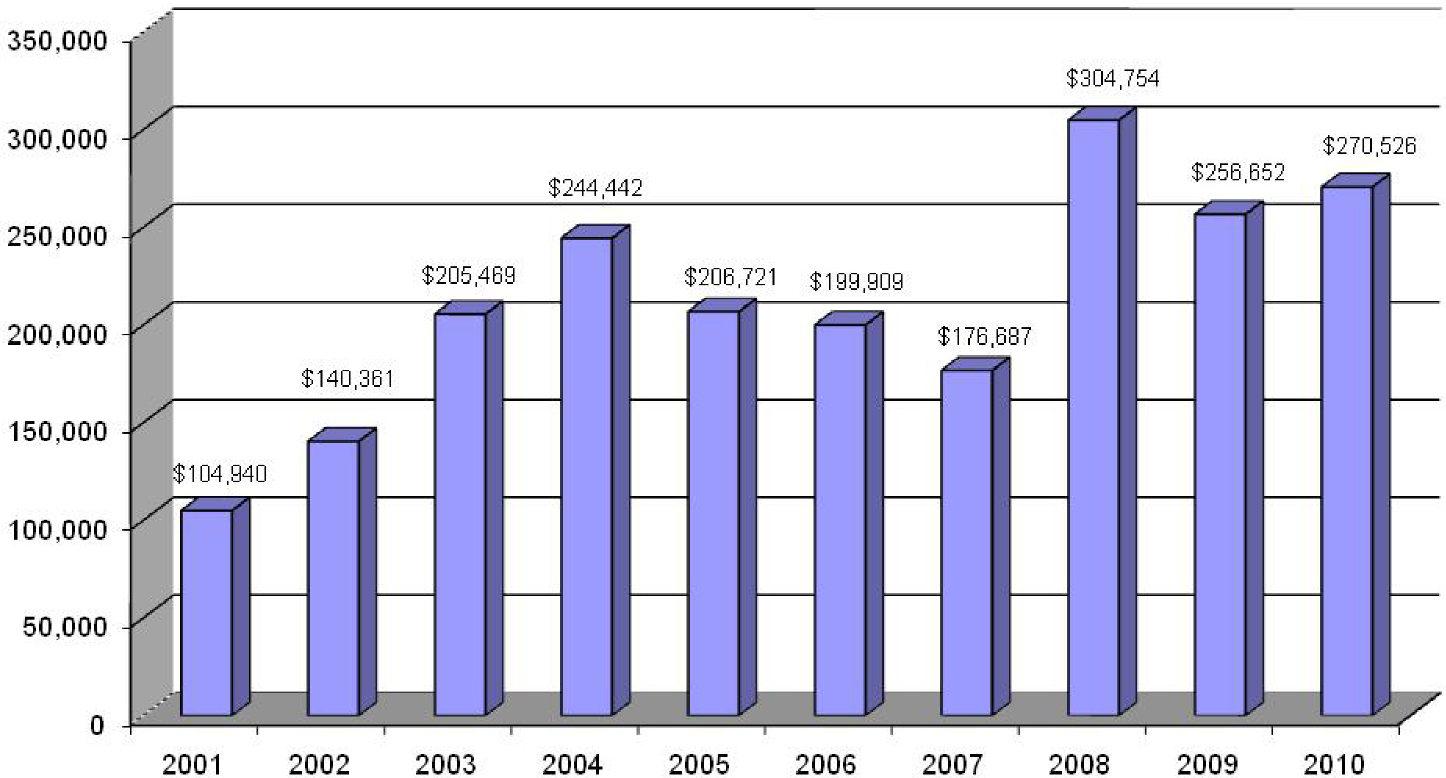
EXHIBIT 3: CHANGE IN NET ASSETS
FY 2002 - 2010
($000)



Note: As a result of GASB 34 implementation in FY 2002, only nine years are presented.

Source: FY 2002 – 2010 Audited Statements of Revenue, Expenses and Changes in Net Assets.

EXHIBIT 4: CAPITAL DISBURSEMENTS
FY 2001 - 2010
($000)



Note: These disbursements include DC Water's share of Washington Aqueduct's capital disbursements, which in FY 2000 – 2002 were financed by U.S. Treasury notes.

Source: FY 2001 – 2010 Audited Statements of Cash Flows

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2. Revenue Capacity

These schedules contain information regarding the Authority's most significant revenue sources.

EXHIBIT 5: SUMMARY OF REVENUES AND RATE INCREASES
FY 2001 - 2010
($000)

	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Operating Revenues:										
Retail Customers										
Residential, Commercial and Multifamily	$ 139,429	$ 148,134	$ 147,870	$ 159,165	$ 166,045	$ 174,159	$ 182,327	$ 183,553	$ 191,543	$ 209,796
Federal Government	26,199	28,501	26,884	26,444	24,770	31,100	30,751	35,888	35,195	37,845
DC Government	9,543	10,293	9,943	9,129	8,968	9,617	10,580	9,391	10,116	15,628
DC Housing Authority	6,284	6,203	6,129	6,335	6,468	6,846	6,686	6,802	6,688	6,319
Other Revenues	3,483	2,387	3,287	2,427	4,366	3,845	2,735	3,846	3,337	6,655
Total Retail Customers	184,938	195,518	194,113	203,500	210,617	225,567	233,079	239,480	246,879	276,243
Wholesale Customers										
Charges for Wholesale Wastewater Treatment	52,542	53,211	61,682	60,834	62,126	67,966	73,378	82,854	85,519	87,505
Total Operating Revenues	237,480	248,729	255,795	264,334	272,743	293,533	306,457	322,334	332,398	363,748
Nonoperating Revenues:										
Interest Income	10,382	6,825	3,090	3,472	12,612	16,091	20,239	13,573	2,285	1,561
Total Operating and Nonoperating Revenues:	$ 247,862	$ 255,554	$ 258,885	$ 267,806	$ 285,355	$ 309,624	$ 326,696	$ 335,907	$ 334,683	$ 365,309
Retail Rate Increases	4.90%	0.00%	-5.25%	2.50%	5.00%	5.50%	5.00%	5.50%	7.50%	9.00%

Source: FY 2001 - 2010 Audited Statements of Revenue, Expenses and Changes in Net Assets

EXHIBIT 6: NUMBER AND TYPE OF CUSTOMER ACCOUNTS FY 2001 - 2010

TYPE OF ACCOUNTS	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Retail Accounts										
Residential	102,747	101,219	101,783	102,188	102,418	102,655	103,263	103,674	103,665	103,315
Commercial [A]	19,326	17,817	18,111	18,283	18,337	18,489	18,513	18,528	19,060	19,049
Governmental										
Federal	540	537	538	529	526	526	531	533	540	546
District of Columbia	565	574	565	569	565	582	589	590	606	603
DC Housing Authority	1,529	1,503	1,469	1,196	1,179	1,173	1,175	1,218	1,220	1,431
Total Retail Accounts	124,707	121,650	122,466	122,765	123,025	123,425	124,071	124,543	125,091	124,944
WASA	35	29	29	29	29	29	30	30	30	35
Washington Aqueduct				1	1	1	1	2	2	1
Wholesale	7	7	7	7	7	7	7	7	7	7
Total Number of Accounts	124,749	121,686	122,502	122,802	123,062	123,462	124,109	124,582	125,130	124,987

[A] Included in commercial accounts are exempt accounts

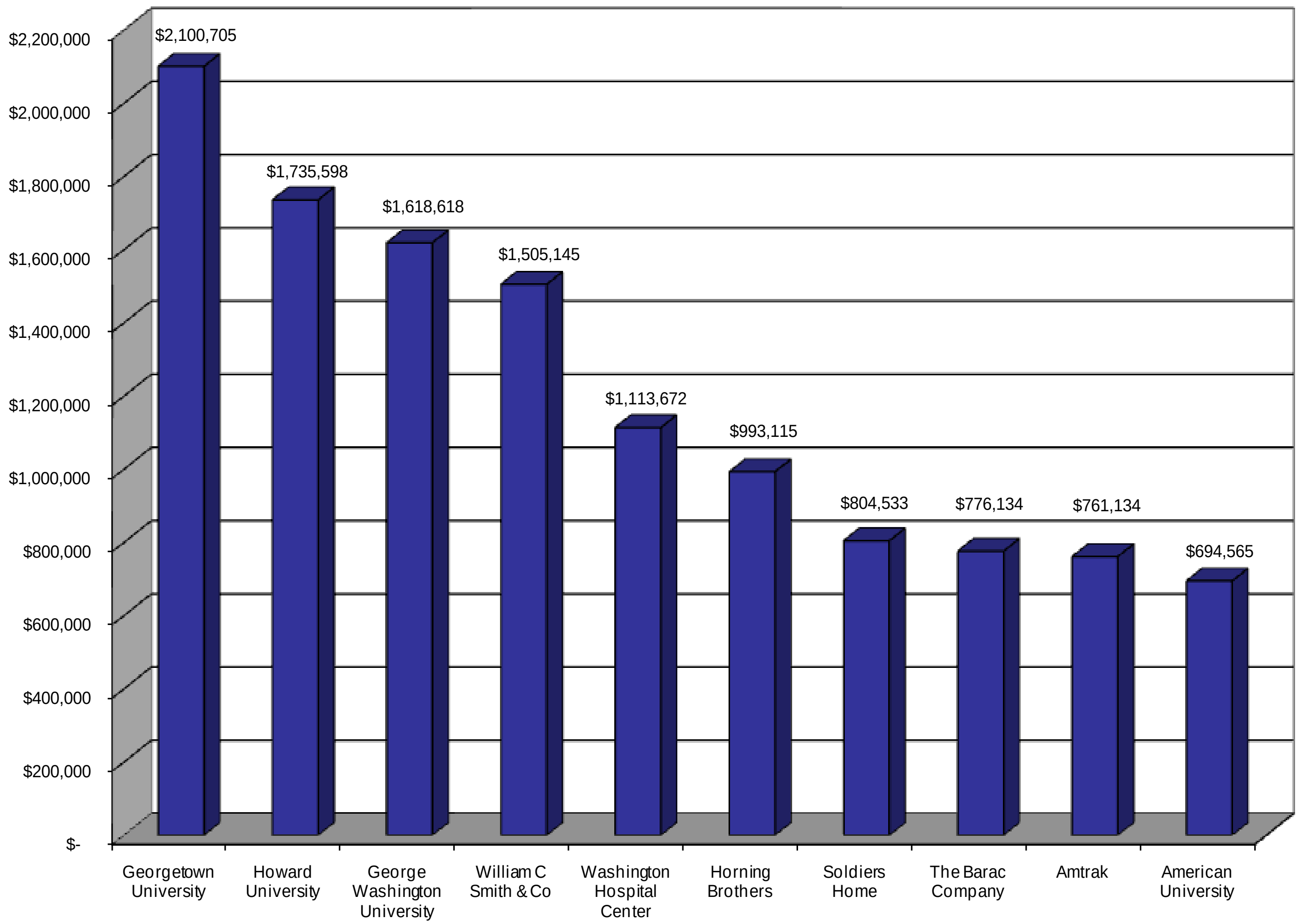
Source: D.C. Water Department of Customer Service

EXHIBIT 7: FIVE LARGEST COMMERCIAL CUSTOMER ACCOUNTS BY REVENUES FY 2001 - 2010

CUSTOMER	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Georgetown University	$1,323,019	$1,382,043	$ -	$1,373,516	$ 971,014	$ 723,604	$1,068,115	$2,055,644	$2,135,768	$2,100,705
Howard University	-	-	1,788,134	1,744,217	1,612,565	1,584,501	1,751,425	1,706,124	1,640,815	1,735,598
George Washington University	584,857	1,028,883	1,036,396	1,382,116	1,601,369	1,519,286	1,570,881	2,020,849	1,777,659	1,618,618
William C Smith & Co	-	-	-	-	-	-	-	-	-	1,505,145
Washington Hospital Center	-	596,310	530,154	741,166	800,082	782,404	-	-	-	1,113,672
American University	589,333	767,434	-	-	738,628	-	-	948,708	1,524,262	-
Marriott Wordman Park Hotel	-	-	-	-	-	-	-	-	1,037,663	-
Children's Hospital	-	-	-	-	-	-	-	841,774	-	-
Georgetown University Hospital	-	-	770,637	583,335	-	-	821,239	-	-	-
Washington Hilton Hotel	643,172	566,333	-	-	-	716,612	753,277	-	-	-
Soldiers' Home	-	-	649,981	-	-	-	-	-	-	-
The Shoreham Hotel	780,922	-	-	-	-	-	-	-	-	-

Source: DC Water Department of Customer Service

EXHIBIT 8: TEN LARGEST COMMERCIAL CUSTOMER ACCOUNTS BY REVENUES FY 2010



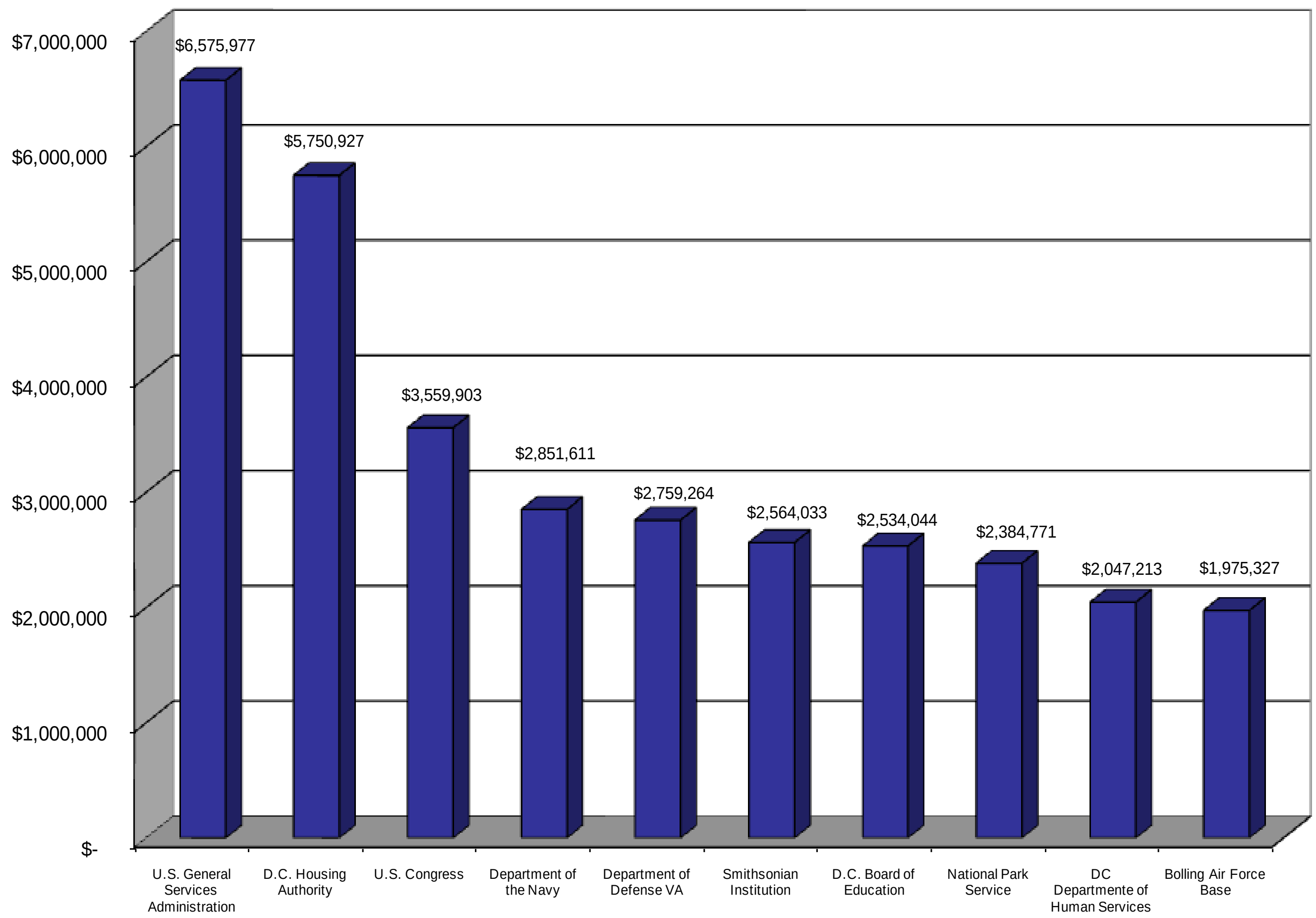
Source: DC Water Department of Customer Service

EXHIBIT 9: FIVE LARGEST GOVERNMENT CUSTOMER ACCOUNTS BY REVENUES FY 2001 – 2010

CUSTOMER	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
U.S. General Services Administration	$7,304,982	$8,170,058	$7,595,917	$8,577,887	$8,092,600	$7,916,072	$7,324,115	$8,199,985	$6,773,195	$6,575,977
D.C. Housing Authority	-	-	6,292,037	5,871,752	6,036,527	6,514,112	6,122,875	6,339,434	5,750,927	6,266,786
U.S. Congress	3,805,865	2,606,519	2,592,498	3,014,968	2,655,930	3,320,538	-	4,096,695	4,028,564	3,559,903
Department of the Navy	1,954,677	-	-	-	-	-	-	-	3,504,547	2,851,611
Department Defense VA	-	-	-	-	-	-	-	-	-	2,759,264
Smithsonian Institution	2,857,171	2,836,136	-	2,518,991	-	3,443,695	3,196,837	4,325,576	3,605,478	-
Department of Defense DC	-	-	-	-	2,184,982	-	3,907,312	3,292,402	-	-
D.C. Board of Education	2,344,683	2,462,458	2,453,574	2,728,892	2,669,214	2,934,220	3,344,959	-	-	-
D.C. Department of Human Services	-	2,413,678	2,456,904	-	-	-	-	-	-	-

Source: DC Water Department of Customer Service

EXHIBIT 10: TEN LARGEST GOVERNMENT CUSTOMER ACCOUNTS BY REVENUES FY 2010



Source: DC Water Department of Customer Service

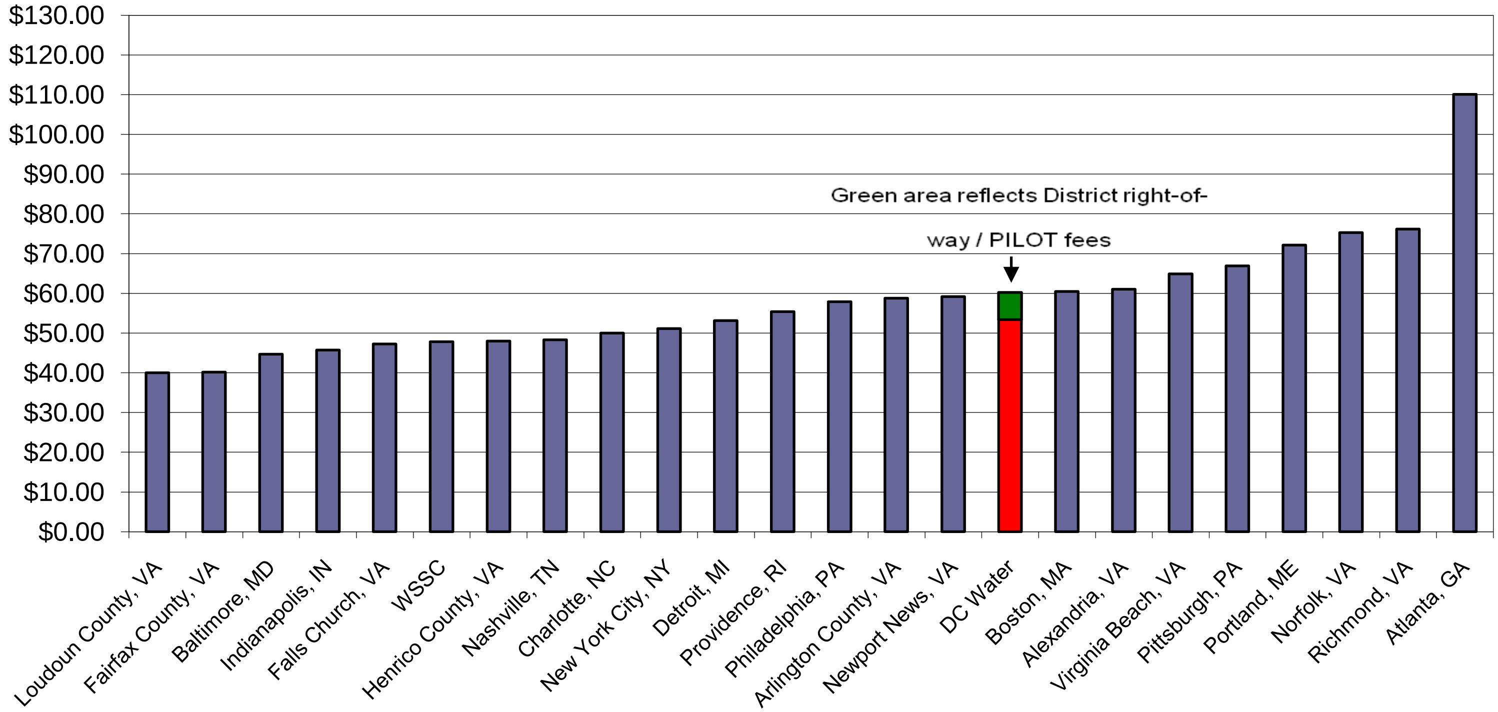
EXHIBIT 11: HISTORY OF RETAIL WATER AND SEWER RATES (PER Ccf)
FY 1980 – 2010

FISCAL YEARS	METERING FEE	DISTRICT PUBLIC SPACE OCCUPANCY FEE AND PILOT	WATER CONSUMPTION RATE	SEWER CONSUMPTION RATE	COMBINED CONSUMPTION RATE	IMPERVIOUS SURFACE AREA CHARGE [3]	AVERAGE MONTHLY BILL [2]
1980-1983	$ -	$ -	$ 0.460	$ 0.677	$ 1.137	$ -	$ 7.607
1984	-	-	0.537	0.998	1.535	-	$ 10.269
1985	-	-	0.698	1.297	1.995	-	$ 13.347
1986	-	-	0.873	1.621	2.494	-	$ 16.685
1987-1996	-	-	1.004	1.864	2.868	-	$ 19.187
1997	-	-	1.380	2.710	4.090	-	$ 27.362
1998	-	-	1.380	2.710	4.090	-	$ 27.362
1999	-	-	1.380	2.710	4.090	-	$ 27.362
2000	-	-	1.576	2.710	4.286	-	$ 28.673
2001-2002	-	-	1.786	2.710	4.496	-	$ 30.078
2003 (1)	2.010	0.360	1.690	2.570	4.260	-	$ 32.918
2004	2.010	0.360	1.740	2.630	4.370	-	$ 33.654
2005	2.010	0.360	1.830	2.760	4.590	-	$ 35.126
2006	2.010	0.420	1.930	2.910	4.840	-	$ 37.199
2007	2.010	0.440	2.030	3.060	5.090	-	$ 39.006
2008	2.010	0.470	2.140	3.230	5.370	-	$ 41.080
2009	2.010	0.520	2.300	3.310	5.610	1.240	$ 44.260
2010	2.010	0.570	2.510	3.610	6.120	2.200	$ 48.966

[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 residential customer consumption is 6.69 Ccf per month.
[3] Per Equivalent Residential Unit (ERU).

Source: D.C. Water Department of Finance & Budget

EXHIBIT 12: RESIDENTIAL WATER AND WASTEWATER BILL COMPARISONS AS OF SEPTEMBER 2010 (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: DC Water Department of Finance & Budget

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3. Debt Capacity

These schedules present information showing the Authority's current levels of outstanding debt and the Authority's ability to issue additional debt in the future.

EXHIBIT 13: TOTAL OUTSTANDING DEBT
FY 2000 - 2010
($000)

	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Senior Debt										
1998 Public Utility Revenue Bonds	$266,120	$266,120	$266,120	$266,120	$266,120	$266,120	$ 266,120	$257,645	$ 248,705	$ 239,270
2009 Series A Public Utility Revenue Bonds	-	-	-	-	-	-	-	-	300,000	300,000
Notes Payable to the Federal Government for Washington Aqueduct	15,708	7,984	1,173	-	-	-	-	-	-	-
Total Senior Debt	281,828	274,104	267,293	266,120	266,120	266,120	266,120	257,645	548,705	539,270
Subordinate Debt										
DC General Obligation Bonds	91,204	79,070	65,645	51,215	35,385	22,299	15,060	9,905	5,180	1,490
2008 Series A Public Utility Revenue Bonds	-	-	-	-	-	-	-	290,375	290,375	290,000
2007 Series A Public Utility Revenue Bonds	-	-	-	-	-	-	218,715	218,715	218,715	218,715
2007 Series B Public Utility Revenue Bonds	-	-	-	-	-	-	59,000	-	-	-
2004 Public Utility Revenue Bonds	-	-	-	295,000	295,000	295,000	295,000	-	-	-
2003 Public Utility Revenue Bonds	-	-	176,220	176,220	176,220	176,220	176,220	176,220	176,220	176,220
Notes Payable to the Federal Government for Bloomington Dam	17,383	17,143	16,895	16,640	16,376	16,104	15,823	15,532	15,232	14,922
Notes Payable to WSSC for Little Seneca	935	531	360	357	317	285	251	216	179	142
Total Subordinate Debt	109,522	96,744	259,120	539,432	523,298	509,908	780,069	710,963	705,901	701,489
Total Debt	$391,350	$370,848	$526,413	$805,552	$789,418	$776,028	$1,046,189	$968,608	$1,254,606	$1,240,759

Source: D.C. Water Department of Finance & Budget

EXHIBIT 14: DEBT SERVICE COVERAGE AND DEBT RATIOS FY 2001 - 2010

	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Debt Service Coverage:										
Senior Debt Service Coverage	2.38	3.51	5.07	4.60	5.62	6.24	3.43	4.68	2.97	2.75
Subordinate Debt Service Coverag	2.00	2.87	2.76	1.78	2.11	2.72	2.07	1.86	1.61	1.71
Combined Debt Service Coverage	1.63	2.07	2.05	1.52	1.76	2.13	1.58	1.57	1.34	1.36
Debt Service As Percentage of Total Operating Expenditures	24.0%	25.0%	27.0%	29.0%	33.0%	35.0%	36.0%	21.0%	22.9%	24.4%
Debt Service As Percentage of Fixed Assets	29.8%	33.1%	34.1%	46.2%	41.2%	37.6%	47.7%	43.0%	48.8%	44.7%

Source: D.C. Water Department of Finance & Budget

EXHIBIT 15: CALCULATION OF DEBT SERVICE COVERAGE FY 2010 ($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	241,842
Wholesale revenues	67,471
Other non-operating revenues	36,225
(Contributions to) / Transfers from Rate Stabilization Fund	11,900
TOTAL REVENUES	357,438
OPERATING EXPENSES	243,976
REVENUES LESS OPERATING EXPENSES	113,462
SENIOR DEBT SERVICE	41,278
Replenishment of Senior Debt Service Reserve Fund	-
SUBORDINATE DEBT SERVICE	42,236
TOTAL DEBT SERVICE	83,514
PAYMENT IN LIEU OF TAXES / RIGHT OF WAY FEE	14,411
ANNUAL BALANCE FROM OPERATIONS	15,538
BEGINNING CASH RESERVE BALANCE	131,298
CASH RESERVE BALANCE BREAKDOWN	
Beginning Undesignated Reserve Balance	57,295
Additions to / (Payments from) Undesignated Reserve	
Annual balance from operations	15,538
Prior year federal billing reconciliation	(839)
(Refund to) / Payment from wholesale customers	752
Prepayment of Washington Aqueduct Treasury loans	-
Pay-as-you-go capital financing	(14,752)
(Additions to) / Transfers from 60-Day Operating Reserve	(1,701)
(Additions to) / Transfers from Renewal & Replacement Reserve	-
Ending Undesignated Reserve Balance	56,292
Beginning 60-Day Operating Reserve Balance	39,003
Additions to / (Transfers from) 60-Day Operating Reserve	1,701
Ending 60-Day Operating Reserve Balance	40,704
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	131,996
Cash Reserve Requirement Based on Board Policy	125,500
Beginning Rate Stabilization Fund Balance	28,600
Additions to / Transfers from Rate Stabilization Fund	(11,900)
Ending Rate Stabilization Fund Balance	16,700

ANALYSIS OF DEBT SERVICE COVERAGE

CALCULATION OF NET REVENUES AVAILABLE FOR SENIOR DEBT SERVICE	
Revenues Less Operating Expenses	113,462
Prior year federal billing reconciliation	(839)
(Refund to) / Payment from wholesale customers	752
NET REVENUES AVAILABLE FOR SENIOR DEBT SERVICE	113,375
SENIOR DEBT SERVICE COVERAGE	2.75x
CALCULATION OF SUBORDINATE DEBT SERVICE COVERAGE	
Net revenues available for senior debt service	113,375
Less senior debt service	(41,278)
NET REVENUES AVAILABLE FOR SUBORDINATE DEBT SERVICE	72,097
SUBORDINATE DEBT SERVICE COVERAGE	1.71x
COMBINED DEBT SERVICE COVERAGE	1.36x

4. Demographic and Economic Information

These schedules offer demographic and economic data to help explain the environment within which the Authority's financial activities take place.

EXHIBIT 16: POPULATION OF SERVICE AREA JURISDICTIONS FY 2001 - 2010

JURISDICTION	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
District of Columbia	578,042	579,585	577,777	579,796	582,049	583,978	586,409	590,074	599,657	N/A
Montgomery County	893,274	906,145	914,893	920,965	928,916	935,168	941,491	953,685	971,600	N/A
Prince George's County	815,028	824,290	830,923	836,103	840,513	836,644	832,699	830,514	834,560	N/A
Fairfax County	984,581	989,551	992,494	996,798	1,002,375	998,841	1,005,531	1,019,402	1,037,605	N/A
Loudoun County	189,717	203,122	219,577	237,162	253,332	265,240	277,459	290,121	301,171	N/A

N/A: Not Available

Source: United States Census Bureau

EXHIBIT 17: PER CAPITA PERSONAL INCOME
FY 2001 - 2010

JURISDICTION	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
District of Columbia	44,841	45,405	47,495	51,433	55,268	60,229	64,040	66,316	N/A	N/A
Montgomery County	50,917	51,944	53,262	56,889	60,303	64,665	66,811	67,531	N/A	N/A
Prince George's County	30,532	31,371	32,170	33,755	35,120	36,351	38,019	39,447	N/A	N/A
Fairfax County	52,746	53,538	55,488	58,971	63,106	67,033	69,556	69,885	N/A	N/A
Loudoun County	40,654	37,937	37,978	39,402	42,499	46,290	49,342	50,674	N/A	N/A

N/A: Not Available

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

EXHIBIT 18: UNEMPLOYMENT RATES
FY 2001 - 2010

JURISDICTIONS	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
District of Columbia	6.3%	6.7%	7.0%	7.5%	6.5%	5.7%	5.4%	6.6%	10.2%	10.2%
Montgomery County	3.1%	3.5%	3.3%	3.2%	3.1%	2.8%	2.7%	3.3%	5.3%	5.5%
Prince George's County	4.2%	4.9%	4.7%	4.5%	4.5%	4.1%	3.7%	4.5%	6.9%	7.4%
Fairfax County	2.5%	3.4%	3.1%	2.7%	2.5%	2.2%	2.1%	2.8%	4.7%	4.6%
Loudoun County	2.5%	3.7%	3.2%	2.6%	2.4%	2.1%	2.1%	2.8%	4.6%	4.4%

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

EXHIBIT 19: EMPLOYMENT BY SECTOR

	DISTRICT OF COLUMBIA	MONTGOMERY COUNTY	PRINCE GEORGE'S COUNTY	FAIRFAX COUNTY	LOUDOUN COUNTY
Agriculture, Forestry, Mining, etc.	0.04%	0.34%	0.21%	0.18%	1.42%
Construction	1.95%	6.25%	9.66%	5.41%	10.87%
Manufacturing	0.26%	2.39%	2.46%	1.25%	2.92%
Transportation & Public Utilities	1.11%	1.44%	3.76%	(D)	6.77%
Wholesale & Retail Trade	3.37%	10.54%	14.15%	10.59%	10.89%
Finance, Insurance & Real Estate	5.68%	12.30%	7.21%	10.08%	7.41%
Services	56.61%	53.18%	40.59%	59.71%	47.04%
Government (Federal, State & Local)	28.52%	12.59%	20.16%	11.90%	12.09%
Military	2.46%	0.97%	1.80%	0.88%	0.59%
TOTAL	100.00%	100.00%	100.00%	100.00%	100.00%

(D) 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 2008

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5. Operating Information

These schedules contain information about the Authority's operations and resources to help the reader understand how the Authority's financial information relates to the activities it performs.

EXHIBIT 20: WATER DELIVERED (PUMPED) AND BILLED (SOLD) IN Ccf FY 2001 – 2010

FISCAL YEAR	TREATED WATER DELIVERED	WATER BILLED	SOLD/PUMPED RATIO
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%
2007	55,731,939	42,220,531	75.76%
2008	54,485,829	40,913,706	75.09%
2009	53,473,115	39,229,842	73.36%
2010	51,589,572	38,775,271	75.16%

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

EXHIBIT 21: WATER DEMAND
FY 2001 - 2010

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)
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
2007	41,687	114.2	133.7	156.5	31,581	86.5
2008	40,755	111.7	130.1	150.5	30,603	83.8
2009	39,998	109.6	123.2	150.4	29,344	80.4
2010	38,589	105.7	130.5	146.9	29,004	79.5

Source: DC Water Department of Water Services and Washington Aqueduct

EXHIBIT 22: MISCELLANEOUS STATISTICS ABOUT AUTHORITY OPERATIONS FY 2001 - 2010

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Utilities and Supplies (Capacity) Per Day at Blue Plains										
Electric Power (KWH)	690,520	745,000	745,000	745,000	745,000	745,000	745,000	745,000	700,000	700,000
Natural Gas (CF)	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000
Sodium Hypochlorite (gallons)	-	2,500	2,500	6,850	6,850	6,850	6,850	6,850	6,850	6,850
Sodium Bisulfite (pounds)	-	5,600	5,600	5,600	5,600	5,600	5,600	5,600	5,600	5,600
Water (gallons)	700,000	525,000	525,000	525,000	525,000	525,000	525,000	525,000	525,000	525,000
Lime (tons, pounds)	55	83,500	83,500	72,050	72,050	72,050	72,050	72,050	72,050	72,050
Sodium Hydroxide (pounds)	-	49,400	49,400	26,100	26,100	26,100	26,100	26,100	26,100	26,100
Methanol (gallons)	15,000	15,000	15,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000
Ferric Chloride (10% Iron) (gallons)	10,500	10,500	10,500	12,900	12,900	12,900	12,900	12,900	12,900	12,900
Chloine (tons)	9	-	-	-	-	-	-	-	-	-
Sulfur Dioxide (tons)	2.1	-	-	-	-	-	-	-	-	-
Poymer Solution (lbs)	32,800	-	-	-	-	-	-	-	-	-
Wastewater Treatment Capacity										
Average Day (MGD)	370	370	370	370	370	370	370	370	370	370
Peak 4 Hour Flow, through complete process (MGD)	740	740	740	740	740	740	740	740	740	740
Excess Storm Flow, primary treatment only (MGD)	336	336	336	336	336	336	336	336	336	336
Peak Flow (MGD)	1,076	1,076	1,076	1,076	1,076	1,076	1,076	1,076	1,076	1,076

EXHIBIT 22: MISCELLANEOUS STATISTICS ABOUT AUTHORITY OPERATIONS FY 2010 (Continued)

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 22: MISCELLANEOUS STATISTICS ABOUT AUTHORITY OPERATIONS FY 2010 (Continued)

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 23: SCHEDULE OF INSURANCE AS OF SEPTEMBER 30, 2010

TYPE OF COVERAGE	COMPANY	POLICY PERIOD	COVERAGE LIMITS
Blanket Property and Boiler & Machinery	Alliant/PEPIP	July 1, 2010 – July 1, 2011	$1,000,000,000 Blanket Buildings and Contents – (Specified Locations) and Mobile Equipment $100,000,000 Boiler and Machinery $10,000,000 Miscellaneous Locations $100,000,000 Earth Movement $100,000,000 Flood, except $25,000,000 Locations within 100 Year Flood Zone (e.g. Blue Plains) Terrorism: $550,000,000 per occurrence, $850,000 annual aggregate ($100,000,000 of occurrence and aggregate limit dedicated solely to DC Water) $25,000,000 Transit Per Shipment Deductibles: $1,000,000 Any Loss, except $10,000 Equipment
Fidelity & Crime Insurance	Travelers Insurance	June 15, 2010 – June 15, 2011	$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		$1,000,000 each accident Statutory WC Benefits Employer's Liability - $1,000,000 Each Accident; $1,000,000 Disease/ Employee
Excess Worker's Compensation Insurance	National Union Fire (AIG)	June 15, 2010 – June 15, 2011	Unlimited - WC Benefits; $3,000,000 - Employer's Liability (Included - Terrorism) Retentions: $1,000,000/accident; $1,000,000 Disease/ Employee.
Excess General Liability, Automobile Liability, and Employers Liability Insurance	A.N.M.L	June 15, 2010 – June 15, 2011	$25,000,000 in excess of $1,000,000 (Included - Terrorism)
Excess Liability	C.L.I.P	June 15, 2010 – June 15, 2011	$75,000,000 in excess of $25,000,000 ($25,000,000 - Terrorism sublimit)
Public Official Liability	RSUI / AWAC	June 15, 2010 – June 15, 2011	$20,000,000 Each Loss / Aggregate Retentions: $250,000 per wrongful act
Fiduciary Liability	Travelers Insurance	June 15, 2010 – June 15, 2011	$3,000,000 Each Loss / Aggregate Deductible: $10,000 per claim

EXHIBIT 24: SUMMARY OF MAJOR PERMITS AND ADMINISTRATIVE ORDERS FY 2010

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.	September 30, 2015	In Compliance
1995 Consent Decree Civil Action No.: 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 No.: 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 No.: 1:00CV00183TFH Civil Action No.: 02-2511 (TFH)	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	In Compliance
2005 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 25: BUDGETARY COMPARISON SCHEDULE (REVISED) FOR FISCAL YEAR 2010

	Approved Budget	Actual Expenditure	Variance
Expenses:			
Personnel services	$ 96,493	$ 98,192	$ (1,699)
Contractual services	77,053	69,497	7,556
Water purchases	29,395	27,587	1,808
Chemicals and supplies	29,172	26,724	2,448
Utilities and rent	41,842	29,929	11,913
Small equipment	791	858	(67)
Interest and fiscal charges (debt service)	98,290	83,514	14,776
Payment in lieu of tax & right of way fee	20,587	20,474	113
Total budget expenses	$ 393,623	$ 356,775	$ 36,848
Increase (decrease) to reconcile budgetary to GAAP			
Personnel expense transferred to capital fund		(9,982)	
Depreciation expense		64,425	
Long-term debt principal payments		(13,846)	
Long-term debt - capitalized interest		(11,586)	
Long-term debt - transfers to escrow		(3,787)	
Inventory issuance		1,421	
Non-budgeted expenses		4,076	
Total GAAP expenses		$ 387,496	

EXHIBIT 25: BUDGETARY COMPARISON SCHEDULE FOR FISCAL YEAR 2010 (Continued)

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 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.