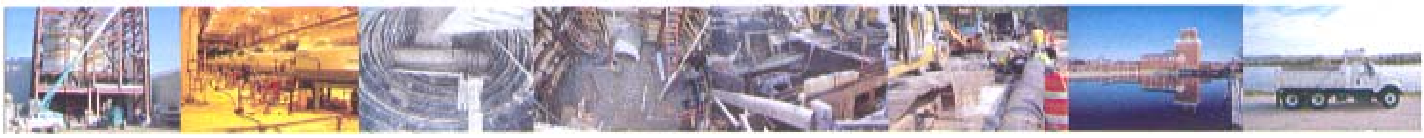


District of Columbia Water and Sewer Authority

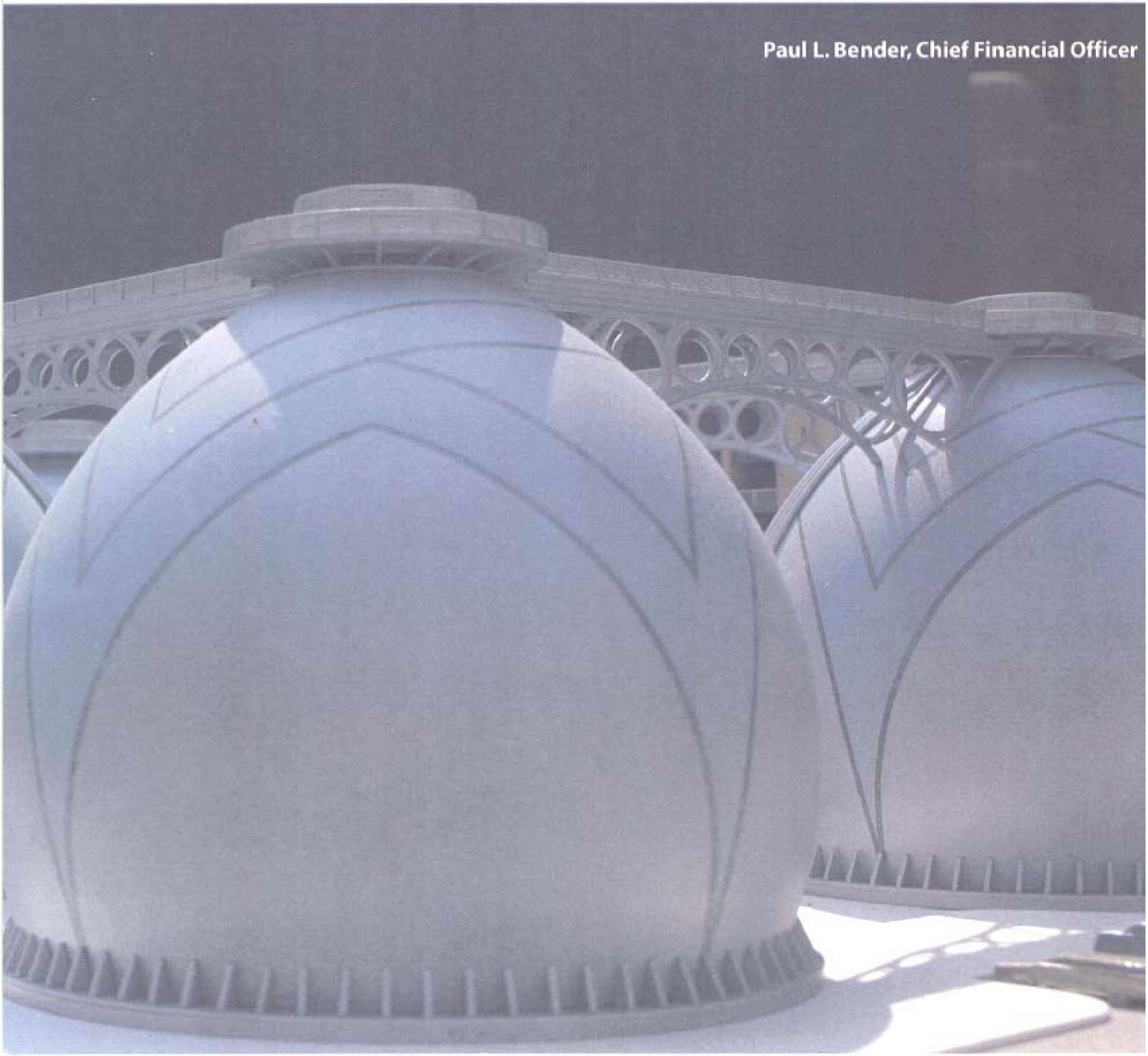
(A component unit of the Government of the District of Columbia)

DC WASA

Fiscal Year Ended September 30, 2004

Comprehensive Annual Financial Report 2004

Paul L. Bender, Chief Financial Officer



2004

District of Columbia Water and Sewer Authority

Comprehensive Annual Financial Report

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

Fiscal Year
October 1, 2003 to September 30, 2004

Prepared by:
Department of Finance and Budget

Paul L. Bender, Chief Financial Officer

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Introductory Section

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Certificate of Achievement for Excellence in Financial Reporting

Presented to

District of Columbia Water and Sewer Authority

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
September 30, 2003

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

Nancy L. Zielke

President

Jeffrey R. Esser

Executive Director

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BOARD OF DIRECTORS

AS OF SEPTEMBER 30, 2004

PRINCIPAL MEMBERS	JURISDICTION
Glenn S. Gerstell	District of Columbia
David J. Bardin	District of Columbia
Michael V. Hodge	District of Columbia
F. Alexis H. Roberson	District of Columbia
Lucy B. Murray	District of Columbia
Alexander A. McPhail	District of Columbia
Alfonso N. Cornish.	Prince George's County, MD
Fariba Kassiri.	Prince George's County, MD
James A. Caldwell	Montgomery County, MD
Bruce F. Romer	Montgomery County, MD
Anthony H. Griffin	Fairfax County, VA

ALTERNATE MEMBERS	JURISDICTION
Michael E. Dutton	District of Columbia
Vacant	District of Columbia
Stephanie M. Nash	District of Columbia
Vacant	District of Columbia
Brenda L. Richardson	District of Columbia
Vacant	District of Columbia
Larry Coffman	Prince George's County, MD
Donna MP. Wilson.	Prince George's County, MD
Paul E. Folkers	Montgomery County, MD
David W. Lake	Montgomery County, MD
Robert Stalzer	Fairfax County, VA

PRINCIPAL STAFF MEMBERS

AS OF SEPTEMBER 30, 2004

GENERAL MANAGER'S STAFF

Jerry N. Johnson .... **General Manager**

Avis Marie Russell .... General Counsel

Johnnie Hemphill .... Government Relations

Michael Hunter .... Internal Auditor

Karen Dewitt .... Public Affairs

Linda R. Manley .... Secretary to the Board

OFFICE OF THE CHIEF FINANCIAL OFFICER

Paul L. Bender .... Deputy General Manager/Chief Financial Officer

Olu Adebo .... Controller

Michelle G. Cowan .... Budget and Finance

Charles W. Kiely .... Customer Service

Mujib Lodhi .... Chief Information Officer

Tanya DeLeon .... Risk Management

OPERATIONS

John Dunn .... Deputy General Manager/Chief Engineer

Walter M. Bailey .... Wastewater Treatment

Kofi Boateng .... Water Services

Cuthbert Braveboy .... Sewer Services

Leonard Benson .... Engineering and Technical Services

R. Wayne Raither .... Maintenance Services

SUPPORT SERVICES

Michael A. Carter .... Interim Assistant General Manager

Roger L. Ball .... Procurement

O.Z. Fuller .... Fleet Management

Barbara Grier .... Human Resources

Everett Lallis .... Health and Safety

J. Jeffrey Robertson .... Facilities

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

January 31, 2005

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

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

I am pleased to present the District of Columbia Water and Sewer Authority's (the "Authority" or "WASA") Comprehensive Annual Financial Report (CAFR) for the fiscal year ended September 30, 2004.

In FY 2004, the Authority continued its trend of consistent, solid financial performance. The year ended with revenues exceeding expenses (change in net assets) by $28.7 million, despite significant one-time costs related to the Authority's lead service line replacement program totaling $9.7 million. As required by Board policy, the Authority maintained cash reserves in excess of 180 days operating and maintenance costs ($94.6 million in fiscal year 2004), and the Authority was in compliance with all bond covenants (see Statistical Section, Exhibit 5). The Authority ended fiscal year 2004 with operating expenditures under budget (see supplementary information, page 75) and revenues in excess of budget and an unqualified audit opinion. Finally, the Authority maintained its "AA" category bond ratings, keeping the Authority in the second highest rating category available to state and local governments.

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

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

REPORT SECTIONS

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

- The Introductory Section includes the Authority's organization structure, a list of board members and senior management, a history of governance and operations, a description of facilities, a description of the budget process, internal controls and accounting standards, the Authority's recent accomplishments and major initiatives, a discussion of economic conditions of the metropolitan Washington, D.C. area, and a description of the Authority's risk management program.

- The Financial Section includes the independent auditor's opinion, Management's Discussion and Analysis (MD&A), the Authority's fiscal year 2004 and fiscal year 2003 financial statements, notes to the financial statements, and supplementary information.

- The Statistical Section presents selected financial and operating indicators of the Authority and statistics about the economic condition of the metropolitan Washington, D.C. area.

RECENT ACCOMPLISHMENTS

Using the framework of policies and goals the Board of Directors established in fiscal year 1998, and the four Strategic Focus Areas developed by the Board in fiscal year 2003, the Authority and its management continued to build on the successes of its previous seven years of operations. Major accomplishments in fiscal year 2004 were:

Financial Accomplishments

- The Authority contributed $6 million to the rate stabilization fund at the end of fiscal year 2004, raising the balance to $27.5 million. The rate stabilization fund will be used to smooth out future rate increases, in accordance with the Board's policy of gradual and predictable rate increases.

- In August 2004, the Authority issued $295 million in auction rate subordinate lien revenue bonds. Interest rates will vary over the life of this bond issue, although the initial interest rates ranged from 1.0 to 1.40 percent. Proceeds were used to refund $50 million in outstanding commercial paper and the balance was used to fund various capital projects, a debt service reserve fund and closing costs.

- The Authority received a $29.8 million appropriation from the U.S. Government to be used, with matching funds, for capital projects aimed at reducing Combined Sewer Overflows (CSO), raising the total federal appropriation to $79.5 million through the end of fiscal year 2004. The Authority received an additional $4.8 million appropriation in early fiscal year 2005.

- The Board of Directors implemented a 2.5 percent retail rate increase effective October 1, 2003 (fiscal year 2004), continuing its policy of raising rates on a gradual and predictable basis.

- Residential, commercial and multi-family customer receivables over 90 days including bad debt declined to $16.3 million at the end of fiscal year 2004 from $21.8 million at the end of fiscal year 2003. This reduction is largely due to stepped up collection efforts, including more systematic field service collections, the Customer Service Department’s new “Dialing for Dollars” program, settlement of several high balance accounts, and conversion to monthly billing.

Customer Service Accomplishments

- At the end of fiscal year 2004, more than 115,000 automated meters were installed, comprising approximately 93 percent of all meters to be replaced and capturing approximately 50 percent of total water usage. Completion of this project is expected in calendar year 2005, with current efforts focused on installation of large commercial meters that are three inches or larger.

- The Authority implemented several improvements in the billing and information areas, including conversion of all retail customers from quarterly to monthly billing. The customer water bill was redesigned to provide more usage information and a budget billing option was introduced. The Authority also expanded its customer assistance program, which assists low-income customers.

Operational Accomplishments

- The Board of Directors adopted a $300 million lead service line replacement program to replace the publicly-owned portion of lead service lines in the District. In fiscal year 2004, the Authority replaced 1,793 lead service lines (publicly owned portion only), in excess of the Authority’s commitment in the EPA administrative order and the Lead and Copper Rule.

- Capital construction activities reached unprecedented levels in fiscal year 2004, as the Authority spent $244.5 million on capital construction. Major projects at the Blue Plains Wastewater Treatment Plant included improvements to primary and secondary treatment processes and the chemical distribution systems and new additional dewatering facilities. In the water service area, the major rehabilitation of the Bryant Street pumping station continued in fiscal year 2004 and implementation of the Board-adopted lead service line replacement program began.

- In fiscal year 2004, WASA received the prestigious gold award from the Association of Metropolitan Sewerage Agencies for the calendar year ending December 2003, adding to four gold and two silver awards earned over the previous six years. This award recognizes the Authority's high level of compliance with federal standards for discharges from the Blue Plains Wastewater Treatment Plant into the Potomac River.

- In December 2004, the Board of Directors approved a final CSO Long-Term Control Plan. This twenty-year, $1.9 billion program is projected to result in CSO reductions of 96 percent. In 2004, the Authority made great progress toward this goal by completing a $10.3 million capital project to install new fabridams, which alone are projected to result in a 24 percent CSO reduction.

- The Authority received certification from the National Biosolids Partnership, recognizing a program that goes beyond regulatory compliance. The Authority was the third organization certified nationally, and the first on the east coast.

HIGHLIGHTS AND MAJOR INITIATIVES

In November 2003, the Board of Directors revised its mission statement, vision statement, and strategic goals to more concisely define the Authority's responsibility and commitment to customers, the community, and the environment. In keeping with the refocused strategic goals, several programs were highlighted as initiatives for fiscal year 2004 and beyond. These include the Combined Sewer Overflow Long-Term Control Plan, customer service initiatives, an expanded community service role, an owner-controlled insurance program, implementation of a WASA-wide asset management system and other technology initiatives, and an emphasis on employee relations. In addition, the Board adopted a six-year $300 million lead service line replacement program in July 2004. A detailed discussion of each of these initiatives follows:

Lead Service Line Replacement Program

In July 2004, the Board adopted a $300 million lead service line replacement program that will replace the publicly-owned portion of all lead service lines in the District over a six year period. In fiscal year 2004, the Authority replaced 1,793 public lines, in excess of the requirements of the administrative order entered into with EPA in summer 2004. Other major components of the lead program include:

- *Washington Aqueduct treatment changes* – The Washington Aqueduct, owned and operated by the U.S. Army Corps of Engineers, provides water treatment services to the Authority on a wholesale basis. In summer 2004, the Aqueduct began adding orthophosphate to its treatment processes to improve corrosion control, with the objective of reducing lead leaching into treated water.

- *Filter distribution* – As required by the administrative order, WASA distributes filters and replacement cartridges to all customers with a lead service line and whose test results exceed the EPA action level of 15 parts per billion (ppb) on the second draw. As of the end of January 2005, the Authority had distributed approximately 33,900 filters.

- *Private property owner service line replacement* – The Authority has developed a program to encourage homeowners to replace their portion of the service line at their own cost. At the end of January 2005, almost 1,000 customers had agreed to participate in the program. The Authority has also developed special programs with Wachovia Bank and the District's Department of Housing & Community Development to help low income customers to finance the cost of replacement.

- *Outreach & education* – The Authority has built on existing strong relationships with the District's Department of Health and the George Washington University School of Public Health, and has undertaken a significant public relations program to better inform Authority customers of the lead program. The Authority also has a special call center dedicated solely to lead calls and correspondence.

- *Other water quality initiatives* – In addition to the lead program, the Authority continues with several long-standing water quality initiatives, including enhanced system flushing, dead end and cross connection elimination, and water storage facility rehabilitation. As a result of the Authority's experience with the lead issue this past year, management is focusing in particular on the issue of "simultaneous compliance", where certain water chemistry or operational changes made for regulatory reasons have impacts on regulatory compliance in other areas.

In fiscal year 2004, the Authority incurred $9.7 million of largely one-time operating costs associated with the lead program, primarily for filters, water testing, legal costs, environmental assessment, and blood testing. In fiscal year 2005, the Authority has budgeted $2.8 million in operating costs, primarily for filters as required by the administrative order. The Authority's capital improvement program includes $300 million for replacement of the publicly-owned portion of lead service lines.

Combined Sewer Overflow Long Term Control Plan

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

In December 2004, the Authority reached agreement with the federal government on a twenty year CSO Long-Term Control Plan (CSO LTCP). This program, totaling $1.9 billion including inflation, is projected to result in CSO reductions of 96 percent (98 percent on the Anacostia River alone) and includes the following components:

- Three large storage tunnels, which will store wastewater flows from storm events until they can be sent to the Blue Plains Plant for treatment;
- Pumping station improvements;
- Targeted separation of combined sewers in several sections of the District;
- Consolidation and elimination of 13 of 59 outfalls; and
- Low impact development projects at WASA facilities.

The CSO LTCP is projected to increase retail rates by an average of approximately three percent annually above the Authority's already planned rate increases of five to eight percent. Additionally, projected spending under the CSO LTCP ranges from $5 million to $19 million through 2010, minimizing the near-term impact on rates. The current rate projections assume no additional funding beyond the $84 million already received through U.S. Congressional appropriations. The Authority is pursuing additional federal funding to significantly reduce the impact on ratepayers.

Customer Service Initiatives

The Automated Meter Reading (AMR) project, which began in spring 2002, is projected to be completed in 2005. Residential installations were completed in fiscal year 2003 (with the exception of meters that needed extensive ancillary work or were inaccessible). Installation of small commercial meters (under three inches) were 82 percent complete as of January 2005, and installation of large commercial meters (three inches and larger) is over 60 percent complete. Approximately 50 percent of water consumption flows through the large meters.

The customer information and billing system (CIS), in combination with AMR, meets the Board's objective of using state-of-the-art technology to meet customer needs. In fiscal year 2004, the Authority completed the conversion of all accounts from quarterly to monthly billing. The Authority completed a major upgrade of the CIS system in fiscal year 2004, its first since installation of the system in 2001. The Authority redesigned its customer bill, making it easier to read and conveying additional information such as monthly usage, and introduced a budget billing option, allowing customers with widely fluctuating monthly bills to normalize their monthly payment.

In May 2004, the Board of Directors approved expanding the customer assistance program from homeowners to also include tenants. This program excludes first four Ccf (400 cubic feet) of water consumption from the bills of customers who meet certain income eligibility guidelines. The savings to qualifying customers is approximately $84 annually, or just under twenty percent of the typical annual bill. As of January 2005, approximately 1,700 customers participated in the program.

Community Service

As part of our service to customers and the Board's strategic goal on community service, WASA emphasizes extending a helping hand to the community. During the past year, employees have worked together on such projects as Christmas in April, Project Harvest, a toy and book drive, and the Anacostia River Cleanup Day.

Owner-Controlled Insurance Program

In fiscal year 2004, the Authority began implementation of an owner-controlled insurance program (OCIP). Under this program WASA procures insurance for construction projects instead of contractors purchasing insurance on their own. The benefits of this program are substantially higher insurance coverage levels; an enhanced and consistently implemented safety program; minority participation in capital projects; and cost savings. As of January 2005, three construction contracts were enrolled, with estimated savings of approximately $400,000, or about 2.7 percent of the construction contract value.

Technology Initiatives

In December 2001, the Authority presented its 2002 - 2005 Information Technology Strategic Plan to the Board of Directors, which provided a vision for the delivery of information technology services at WASA. The plan included a recommended methodology for prioritization of projects, suggested network security and infrastructure improvements, project management initiatives, and other organizational enhancements. The Strategic Plan called for completion of several major projects over the planning period, and significant work continued on several major projects in the plan.

- Conceptual phase work on an asset management system was completed in fiscal year 2003 and implementation began in fiscal year 2004. This system is planned to integrate our existing customer information, maintenance management, process computer control system, and mapping systems, and will assist WASA in better managing our water and sewer infrastructure.

- The Authority's web site, www.dcwasa.com, was redesigned in FY 2004, with significant changes including a section to keep customers informed of infrastructure work in their neighborhood and an educational section targeted to school-age children.

- The Process Computer Control System (PCCS) will result in better management of chemical usage, better management of electricity consumption (minimizing peak demand usage), and other operating efficiencies. This project is critical to achieving the goals laid out in the Blue Plains internal improvement plan, and continues the Authority's efforts to integrate information technology with operational functions. During fiscal year 2004, a new office and meeting room complex was completed and occupied by the Department of Wastewater Treatment. Process control implementation including fiber optical cable infrastructure has started in the primary, secondary, and the solids processing areas.

Employee Relations

Highlights in the Authority's employee relations program in fiscal year 2004 included introduction of a new long-term care insurance program and a comprehensive wellness program. The Authority's extensive training program continued, with significant accomplishments including completion of the wastewater treatment operator certification program. Labor-management partnerships across the Authority were expanded, and now include three operating departments.

Regionalization Study

In fiscal year 2005, WASA plans to reexamine the issues of governance structure and regionalization pursuant to action taken by its Board of Directors in January 2001. At that time, the Board concluded that the existing governance structure should be retained and that the existing management and fiscal independence be preserved and enhanced. The January 2001 Board action provided that a follow-up study be conducted "no later than 2005."

Capital Improvement Program

WASA's ultimate success in achieving its operational goals, customer service goals, and its continuing success in regulatory compliance depends in large part on the implementation of our $2.1 billion, 10-year capital improvement program. Significant changes in the current capital improvement program include the inclusion of the $300 million lead service line replacement program, and the first nine years of the $1.9 billion CSO Long-Term Control Plan.

Capital spending has increased significantly over the last three years as many large projects entered the construction phase. Refer to Exhibit 4 in the Statistical Section for a comparison of capital disbursements over the past 10 years.

Major capital activities that continued in fiscal year 2004 at the Blue Plains Wastewater Treatment Plant were:

- Primary and secondary treatment facility upgrades, with budgets totaling $107 million.
- Grit and screen facility upgrades; total project budgets are $102 million.
- Additional dewatering facilities, with a total project budget of $79.5 million, and additional chemical systems, with a total project budget of $73.8 million.
- Final design is underway on the egg-shaped digester project, and construction is scheduled to begin in late 2005 or early 2006, pending final approvals of the design by the District's Zoning Commission. This project, budgeted at $311 million, will dramatically

improve our operations and reduce the production of biosolids by 50 percent; biosolids hauling costs are approximately $16-17 million annually.

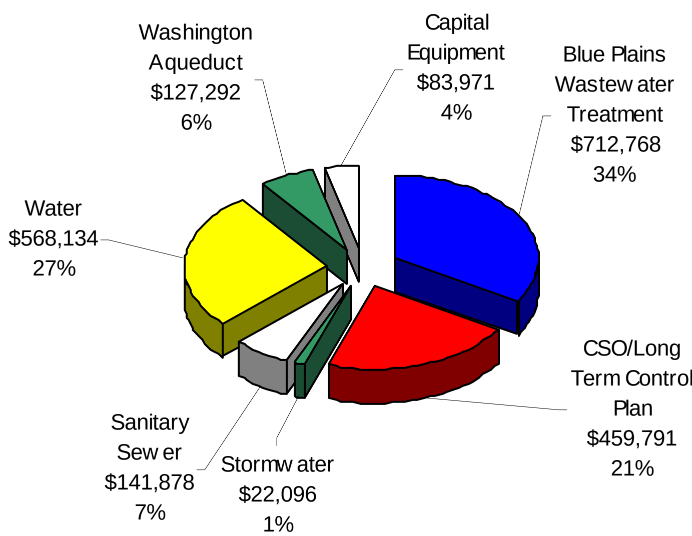
The Authority also made significant progress on CSO projects, including completion of the fabridams and rehabilitation of the tide gates. The Authority has completed design on the overhaul of two major pumping stations, Main and O St. and Potomac pumping stations, and began construction on the Eastside pumping station.

Other major capital initiatives in fiscal year 2004 were the major rehabilitation of the Bryant Street Water Pumping Station, with a total project budget of $61 million, and the Automated Meter Reading project, with a lifetime budget of $43.4 million.

The proposed FY 2004 – 2013 capital improvement program is $2.1 billion on a disbursements basis. The plan is broken into seven service areas, as shown in the graph below.

FY 2004 – FY 2013 Capital Improvement Program

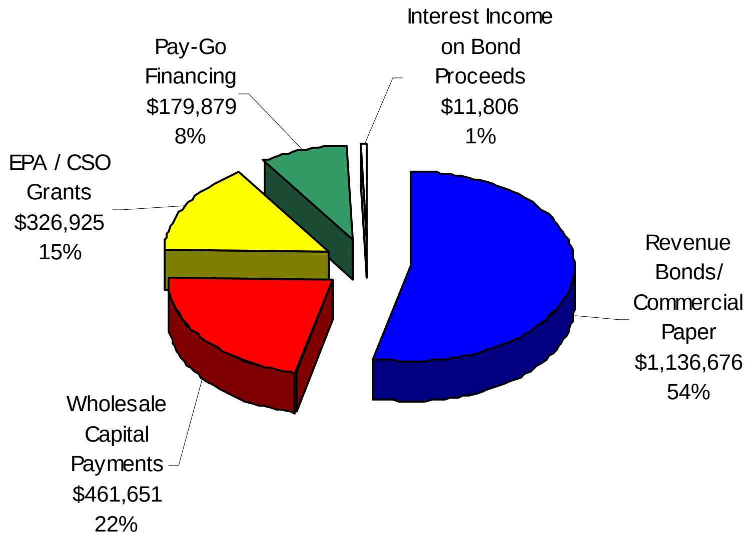
($ in 000's)



Capital Financing and Debt Administration

The Authority plans to finance its $2.1 billion capital improvement program from a variety of sources, including the issuance of revenue bonds / commercial paper, grants from the U.S. Environmental Protection Agency (EPA) and other agencies, contributions from wholesale customers, and pay-as-you-go financing. Interim financing through issuance of commercial paper notes will be periodically converted to long-term financing through the issuance of bonds. The Authority currently projects that it would begin utilizing its $100 million commercial paper program in early FY 2006, with its next issuance of long-term debt anticipated in summer 2006. As shown on the following chart, 54 percent of capital financing will come from debt issuance, a relatively low share given the size of the Authority's capital program.

FY 2004 – 2013 Capital Improvement Program
Sources of Funds
($ in 000's)



Cash Position

Consistent with Board policy, a substantial amount of the capital program was financed with pay-as-you go financing in fiscal year 2004. Unrestricted cash and investments totaled $148 million as of September 30, 2004. Board policy requires Authority reserves in excess of 180 days operating and maintenance costs and rate stabilization fund deposits to be used to fund portions of the capital program on a pay-as-you-go basis.

ACCOUNTING AND BUDGET PROCESSES

Basis of Accounting

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

Internal Control

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

Independent Audit

The Authority's fiscal year is from October 1 to September 30, and the Authority's financial statements are subject to an annual audit by independent certified public accountants. Thompson, Cobb, Bazilio & Associates, P.C. (TCBA) audited the Authority's financial statements for fiscal year 2004. TCBA's opinion is included in the Financial Section.

Budgetary Control

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

Annual Budget Process

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

TEN-YEAR FINANCIAL PLAN

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

- To proactively address all known regulatory requirements and other major infrastructure and operating issues, including the Internal Improvement Plan, over the ten-year planning period;
- To raise rates gradually and predictably as needed to meet its long-term operating, capital, and financial policy requirements; and
- To meet all of the financial policies laid out by the Board of Directors, including maintaining approximately 180 days of operating and maintenance expenses in cash reserves and maintaining senior debt service coverage of 140 percent.

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

FINANCIAL POLICIES

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

Financing Policies

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

Rate Setting Policies

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

- The Authority must achieve a positive net income and cash flow each year.
- Current rates must cover current costs and provide cash flow adequate to meet all bond covenant requirements.

- Rates and fees must be based on the actual cost to deliver each service.
- Rates must be based on annually updated ten-year forecasts of operating and capital budgets, with any required rate increases phased in gradually over time to avoid “rate shock.”
- After the Authority achieved its required level of cash reserves, a rate stabilization fund was established to ensure gradual and predictable rate increases. The Authority contributed $6 million in fiscal year 2004, bringing the balance of the reserve to $27.5 million.

Cash Management and Investment Policies

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

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

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

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

RISK MANAGEMENT

The Authority has an extensive risk management program designed to protect the WASA’s assets and to reduce or transfer risks and financial losses to third parties by utilizing insurance contracts. The Authority purchases $500,000,000 in property insurance coverage to protect owned or leased facilities, buildings and equipment. Various sublimits apply for specific types of losses and perils. Notably, the flood coverage for high risk zones is limited to $10,000,000. Flood deductibles are $500,000 and $1,000,000 per location. The deductible for other covered physical damage losses to WASA structures, buildings and contents is $250,000 per occurrence. The Authority also has insurance coverage for its boats and certain off-road equipment, with deductibles of $25,000 for flood and $10,000 for other losses. The Authority self-insures all other fleet equipment and vehicles.

The Authority's liability insurance coverage provides financial protection from claims and related defense costs for damages and injuries caused by automobile accidents, broken water and sewer lines, construction, and other operational activities. The Authority self-funds the first $1,000,000 of any one loss. Limits of up to $100,000,000 are purchased to protect the Authority in the event of a catastrophic liability loss that exceeds the self-funded limit.

The Authority is self-insured to meet its workers compensation statutory responsibilities for all work-related injuries up to $1,000,000. An excess workers compensation policy is purchased to insure claims in excess of the self-funded level. The limit is $50,000,000 per accident. The Authority presently uses an outside service to help manage its workers compensation claims and most of its auto and general liability claims.

The Authority also maintains Directors and Officers Liability insurance with $20,000,000 limits in excess of self-funded deductibles of $500,000 and $1,000,000.

Other insurance coverages purchased by the Authority include:

- Fidelity and Crime – with $5,000,000 limits;
- Pension Fiduciary Responsibility Liability – with $3,000,000 limits; and
- Employment Practices Liability with $10,000,000 limits.

Additional details on the current insurance policies are listed in Exhibit 11 in the Statistical Section.

It should be noted that standard insurance exclusions apply on the WASA insurance policies, similar to most large public entities. In additions, liability insurance for suits alleging loss or injuries due to lead in the water is no longer offered, and is not expected to become available in the near future

AUTHORITY PROFILE

Reporting Entity

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

The operations of the Authority are accounted for as a component unit of the Government of the District of Columbia and are included in the Government of the District of Columbia's

Comprehensive Annual Financial Report. The Authority is considered a component unit, because the District of Columbia Government is ultimately legally responsible for a portion of the Authority's long-term debt. This Comprehensive Annual Financial Report of the Authority is issued separately to provide the Board of Directors, Authority customers, local and federal government officials, employees, investors, suppliers and other interested parties a comprehensive financial accounting of the Authority's operations and financial position for fiscal years 2004 and 2003.

History of the Authority

(Legislative History and Relationship to the District of Columbia)

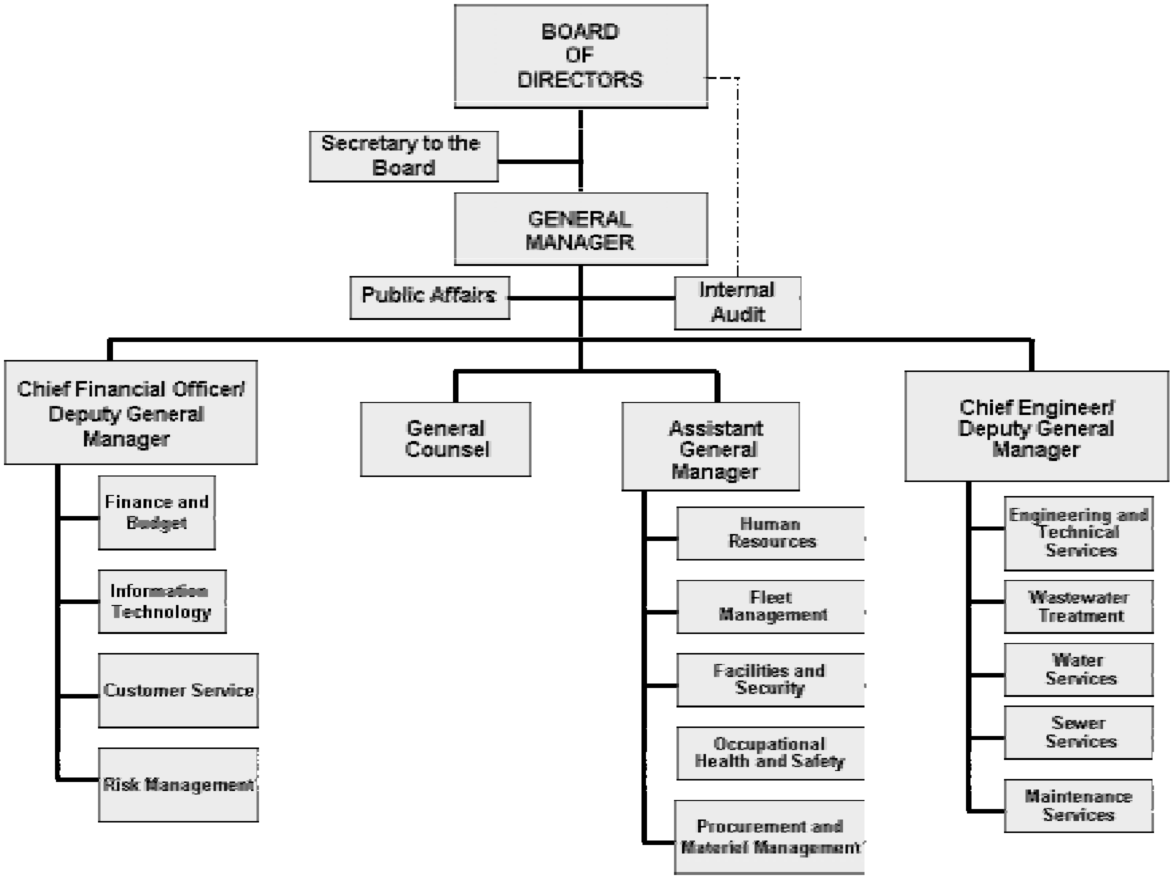
In 1996, the regional participants in the Authority's service area, including the District of Columbia, Montgomery and Prince George's Counties in Maryland, Fairfax and Loudoun Counties in Virginia, and the United States Congress, agreed to create an independent, multi-jurisdictional water and wastewater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

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

The Authority is required by the Act to reimburse the District for debt service on general obligation debt issued by the District, the proceeds of which were used to finance certain water and wastewater projects undertaken by WASA's predecessor agency. The District's financial plan also provided for repayments by the District to the Authority of approximately $83 million over a period of five years to reimburse the Authority for borrowings by the District from its predecessor agency; the final payment was made in fiscal year 2001.

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

Governance and Organization Structure



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

The Authority's day-to-day operations are managed by a General Manager, who is appointed by the Board of Directors. The General Manager is supported by the Chief Engineer, the Chief Financial Officer, and an Assistant General Manager. The Chief Engineer oversees all technical operations, including Wastewater Treatment Services, Water Services, Sewer Services, Engineering and Technical Services, and Maintenance Services. The Chief Financial Officer oversees Finance and Budget, Customer Service, Risk Management, and Information Technology. The Assistant General

Manager oversees Human Resources, Fleet Management, Procurement/Materiel Management, Facilities and Security, and Occupational Health and Safety. Also reporting to the General Manager are offices of the General Counsel, Internal Auditor and Public Affairs.

Agreements with Other Jurisdictions and Entities

Wholesale Wastewater Treatment – Intermunicipal Agreements

In 1985, the District signed the Blue Plains Intermunicipal Agreement (the IMA) with Fairfax County in Virginia, and Montgomery and Prince George's Counties in Maryland. The IMA outlines terms relating to facility location, sizing, capacity allocations and funding and long-term management of the wastewater treatment and disposal process. It also established a uniform payment basis for facilities and future improvements. IMA signatories share the cost of operations, maintenance, and the capital program of the Blue Plains facility; the three surrounding counties comprise 60 percent of the Blue Plains capacity.

Other Wholesale Wastewater Treatment Agreements

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

Water Supply Agreements

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

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

AUTHORITY FACILITIES

The Wastewater System

History and Service Area

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

Sewage Collection

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

Biosolids Disposal

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

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

The Water System

History and Service Area

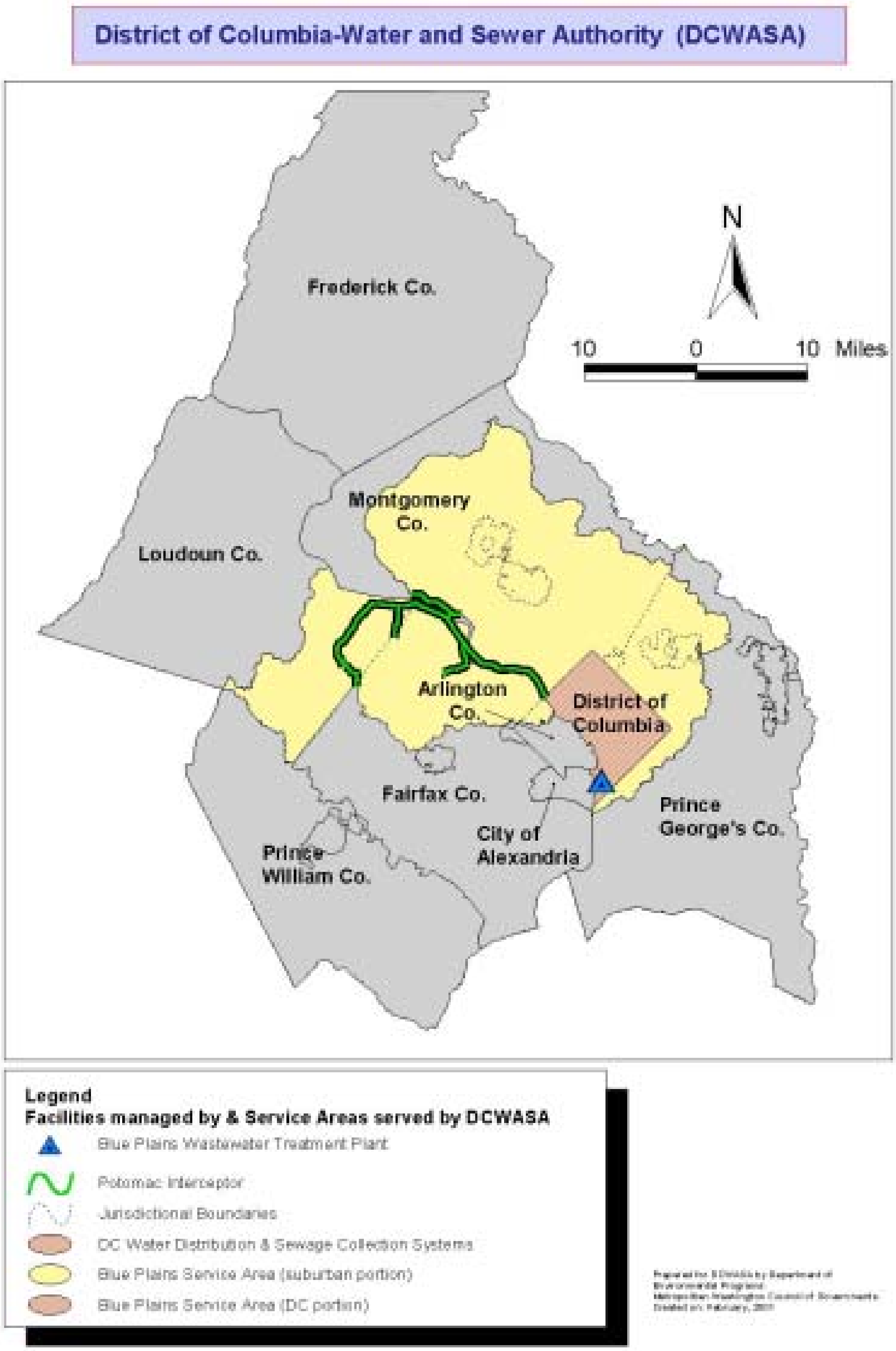
Prior to the establishment of the Washington Aqueduct Division of the United States Army Corps of Engineers (the Aqueduct) in 1858, residents of the District obtained their drinking water from springs and wells. The distribution system consisted primarily of bored logs and some cast iron pipes. Water from the Potomac River was tapped into the system in 1863. By 1905, the Washington City Tunnel, McMillan Reservoir and Filtration Plant, and the Bryant Street Pumping Station were completed. The Dalecarlia Filtration Plant and Pumping Station and all other major components of the present water supply and distribution system were in operation by 1928.

Water Treatment and Distribution System

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

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

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



ECONOMIC CONDITION

Although the District of Columbia is known primarily as the nation's capital, it is an international city with a vibrant tourism industry and business climate. It is also the nucleus of the fifth largest metropolitan area in the United States. In 2003, the District's estimated resident population was 563,384, while the 2002 estimate of the metropolitan area population was 5.0 million and encompassed 24 additional jurisdictions in Maryland and Virginia. In 2002, the District had the highest per capita personal income of all states.

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 189,000 employees in fiscal year 2003, while an additional 150,000 federal employees worked elsewhere in the metropolitan area. The District is host to 170 foreign embassies and other recognized diplomatic missions. A number of international organizations, such as the International Monetary Fund, the World Bank, the Inter-American Development Bank, and the Organization of American States are headquartered in the District. In 2002, an estimated 17.6 million people visited the Washington Metropolitan Area not only to do business with federal government and regional enterprises but also to visit the national monuments, historic sites, museums, and other major cultural attractions.

Per capita personal income in the District was $46,800 in 2002 compared to $30,906 in the United States. The relatively high per capita and household incomes in the District is a direct result of a combination of factors, including a high labor force participation rate, multiple earner households, small household size (average of 2.21 persons), a large percentage of college graduates and a substantial concentration of employed residents in highly-skilled occupations.

AWARDS

The Government Finance Officers Association awarded a Certificate of Achievement for Excellence in Financial Reporting to the Authority for its comprehensive annual financial report for the fiscal year ended September 30, 2003 (see page 3). The Certificate of Achievement is a prestigious national award, recognizing conformance with the highest standards for preparation of financial reports. A Certificate of Achievement is valid for a period of one year only. The Authority believes its current report continues to conform to the Certificate of Achievement program requirements, and plans to submit it to GFOA. The Authority has thus far received the GFOA Award for every year of its existence.

The Authority received the GFOA's *Distinguished Budget Presentation Award* for its fiscal year 2005 Operating and Capital budgets for the third consecutive time. In order to qualify for the distinguished Budget Presentation Award, the Authority's budget document was judged to be proficient in several categories, including presentation as a policy document, financial plan, operations guide and a communication device.

ACKNOWLEDGEMENTS

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

CONCLUSION

The Authority, in its eighth year, continued its annual tradition of building on a strong financial foundation. As in each prior year, we again met or exceeded all of our financial targets, including all Board of Directors' policies. I look forward to another similarly productive year in fiscal year 2005.

Respectfully submitted,

Paul L. Bender
Chief Financial Officer

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Financial Section

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

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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 (WASA) (a component unit of the District of Columbia) as of September 30, 2004 and 2003, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of WASA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

The Management's Discussion and Analysis on pages 35 through 45 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District of Columbia Water and Sewer Authority as of September 30, 2004 and 2003, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The information on pages 75 and 76 is presented for the purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion thereon.

Washington, DC Thompson, Cobb, Bazilio & Associates, P.C.
December 30, 2004

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This section of the District of Columbia Water and Sewer Authority's (WASA or the Authority) annual financial report presents the analysis of the Authority's financial performance during the fiscal year that ended on September 30, 2004. The Management's Discussion and Analysis (MD&A) should be read in conjunction with the Authority's basic financial statements, beginning on page 47.

HIGHLIGHTS

Financial Highlights

- The Authority's net assets increased by $28.7 million to $832.7 million, or 3.6 percent, as a result of this year's operations (see "Analysis of Net Assets" on page 37).
- Operating expenses increased by $12.7 million to $228.7 million, or 5.9 percent primarily due to lead mitigation expenses and higher utility costs (see "Expenses" on pages 41 and 42).
- Operating revenues increased by $8.5 million to $264.3 million, or 3.3 percent primarily due to increased revenue from residential, commercial, and multifamily customers attributable to a 2.5 percent rate increase in fiscal year 2004.
- Current assets decreased by $37.8 million to $249.6 million, or 13.2 percent primarily due to anticipated reductions in receivable balances from Federal, District and wholesale customers.
- Restricted assets increased by $242.1 million to $326.0 million, or 288.6 percent primarily due to bond proceeds for capital projects from the issuance of $295.0 million of Subordinated Lien Public Utility Revenue bonds and receipt of a $29.8 million Congressional appropriation for the Authority's combined sewer overflow projects.
- Net Utility plant (capital assets) increased by $195.6 million to $1.7 billion, or 12.9 percent due to a planned increase in capital expenditures in line with our $2.1 billion capital improvement program.
- The Authority's long-term debt, including current maturities, increased by $275.3 million to $801.2 million, or 52.4 percent primarily due to the issuance of $295.0 million in Series 2004 bonds.

Authority Highlights

Lead Mitigation/Water Quality – In fiscal year 2004, the Authority faced significant operating costs of approximately $10 million for activities related to mitigating the effects of elevated lead levels in the drinking water. These activities included extensive water sampling, distribution of water filters, command center staffing, public communication, and legal consultation.

Rate Increase – Effective October 1, 2003, the Board increased the Authority's water and sewer rates by 2.5 percent for all retail customers. This rate increase is in line with the Board's rate setting policy which strives to set rates so that each customer will be charged for those costs necessary to provide each service, and rate increases will be predictable and gradual.

Long-Term Debt – The Authority's total debt outstanding increased by $275.3 million to $801.2 million primarily due to the issuance in July 2004 of $295.0 million of Subordinated Lien Public Utility Revenue Bonds (Series 2004 Bonds). Proceeds from this issue were used to repay $50.0 million of outstanding commercial paper notes, with the balance to be used for new capital projects and the cost of issuance. The Series 2004 Bonds are auction rate securities with variable interest rates, having both seven and 35-day maturities. Through September 2004, the average interest rate paid on the seven-day and 35-day notes were 1.28 percent and 1.54 percent, respectively.

Combined Sewer Overflow Long-Term Control Plan (LTCP) – In fiscal year 2004, the Authority received an appropriation of $29.8 million of matching funds from the United States Congress. In fiscal year 2003, the Authority also received $49.7 million of matching funds from the United States Congress. The Authority has drawn down approximately $5.6 million and $3.0 million of this funding for combined sewer overflow capital projects incurred in fiscal years 2004 and 2003, respectively, and the balance of the appropriation is included in deferred revenue.

Rate Stabilization Fund – The Authority increased its rate stabilization fund to $27.5 million at the end of fiscal year 2004, with an allocation of $6 million. 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 by providing a source of cash for future operations.

USING THIS ANNUAL REPORT

This annual report consists of three parts: Management's Discussion and Analysis; the Financial Statements; and Supplementary Information. The Financial Statements also include notes that explain in more detail some of the information in the Financial Statements.

Required Financial Statements

The Financial Statements of the Authority report information about the Authority using accounting methods similar to those used by private sector companies. These statements offer short-term and long-term financial information about its activities. The *Statement of Net Assets* is the first required statement; it includes all of the Authority's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and nature and extent of obligations (liabilities). It also provides the basis for computing the rates of return, evaluating the capital structure of the Authority and assessing the liquidity and financial flexibility of the Authority. All of the current year's revenues and expenses are accounted for in the *Statement of Revenues, Expenses, and Changes in Net Assets,* which is the second required financial statement. This statement measures the profitability of the Authority's operations over the past year and can be used to determine whether the Authority has successfully recovered all its costs through its user fees and other charges. The final required financial statement is the *Statement of Cash Flows*. The primary purpose of this statement is to provide information about the Authority's cash receipts, cash payments, and net changes in cash resulting from operations, investing, and capital and non-capital financing activities. It also provides information regarding sources of cash, uses of cash, and the changes in the cash balance during the reporting period.

FINANCIAL ANALYSIS OF THE AUTHORITY AS A WHOLE

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

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

	FY 2004	FY 2003	FY 2002
Capital Assets, net	$ 1,710,824	$ 1,515,229	$ 1,326,290
Current and Other Assets	745,576	539,932	482,729
Total Assets	2,456,400	2,055,161	1,809,019
Current Liabilities	150,241	142,132	233,256
Long-Term Debt Outstanding	785,111	510,010	355,018
Long-Term Liabilities	688,340	599,046	465,979
Total Liabilities	1,623,692	1,251,188	1,054,253
Net Assets			
Invested in Capital Assets, Net of Debt	651,250	588,294	534,819
Restricted	39,117	27,394	41,596
Unrestricted	142,341	188,285	178,351
Total Net Assets	$ 832,708	$ 803,973	$ 754,766

Analysis of Net Assets

The Authority's total assets exceeded liabilities by $832.7 million at the close of fiscal year 2004. The Authority's net assets include investment of $651.3 million in capital assets (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 capital assets 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, $39.1 million, represents resources that are subject to external restrictions (primarily related to the Authority's bond indenture) on how they may be used. The remaining balance of $142.3 million is unrestricted.

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

	FY 2004	FY 2003	FY 2002
Operating revenues:			
Residential, commercial and multi-family customers	$ 159,165	$ 147,870	$ 148,134
Federal government	26,444	26,884	28,501
District government and DC Housing Authority	15,464	16,072	16,496
Charges for wholesale wastewater treatment	60,834	61,682	53,211
Other	2,427	3,287	2,387
Total operating revenues	264,334	255,795	248,729
Operating expenses:			
Personnel services	62,449	64,091	62,162
Contractual services	65,446	63,065	59,166
Chemicals, supplies and small equipment	17,384	14,768	13,683
Utilities and rent	22,217	20,804	20,071
Depreciation and amortization	40,500	39,524	37,099
Water purchases	20,692	13,723	16,904
Total operating expenses	228,688	215,975	209,085
Operating income	35,646	39,820	39,644
Nonoperating revenues (expenses):			
Interest income	3,472	3,090	6,806
Interest expense and fiscal charges	(26,060)	(17,816)	(16,339)
Federal grants and contributions	31,455	39,626	18,848
Payment in lieu of taxes and right of way fee	(15,778)	(15,513)	(15,247)
Other	-	-	19
Total nonoperating revenues (expenses)	(6,911)	9,387	(5,913)
Changes in net assets	28,735	49,207	33,731
Total net assets, beginning of year	803,973	754,766	721,035
Total net assets, end of year	$ 832,708	$ 803,973	$ 754,766

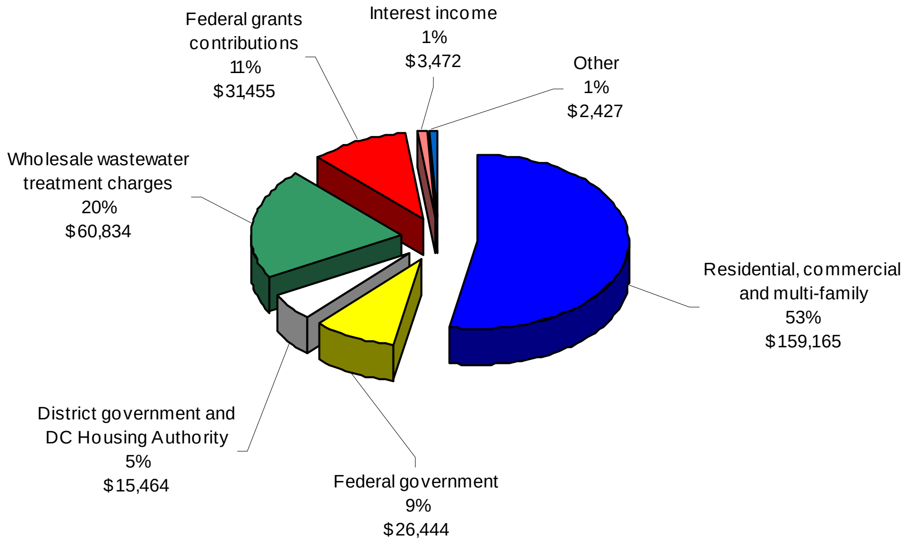
Analysis of Changes in Net Assets

The Authority's financial performance remained strong in fiscal year 2004, with net assets of $832.7 million, an increase of $28.7 million over fiscal year 2003, including Federal grant contributions. Excluding nonoperating revenues (expenses) and Federal grant contributions, which can vary significantly from year to year based on capital spending and other factors, operating income was $35.6 million, a decrease of $4.2 million compared to fiscal year 2003.

Total Revenues

Total revenues were $299.3 million in fiscal year 2004, an increase of $0.8 million, or 0.3 percent over fiscal year 2003. This is primarily due to increases of $8.5 million in water and wastewater user charges and $0.3 million in interest income. These increases were offset by a decrease of $8.2 million in Federal grants contribution.

FY 2004
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 $11.3 million to $159.2 million, or 7.6 percent. This is due in part to a rate increase of 2.5 percent in fiscal year 2004 and one-time impact of the conversion to monthly billing on commercial accounts and increased consumption associated with meter replacement.

- Water and wastewater user charges from Federal government customers were $26.4 million in fiscal year 2004, a decrease of $0.4 million, or 1.6 percent over fiscal year 2003, primarily due to lower consumption.

- Water and wastewater user charges from the District government and District of Columbia Housing Authority were $15.5 million in fiscal year 2004, a decrease of $0.6 million, or 3.8 percent over fiscal year 2003, primarily due to lower consumption.

- Wholesale wastewater treatment charges were $60.8 million in fiscal year 2004, a decrease of $0.8 million, or 1.4 percent over fiscal year 2003, primarily due to lower sharable costs at the wastewater treatment plant. Per the IMA (see Note 1), wholesale partners pay a share of both the operating and capital costs of the plant. The payments for capital costs are amortized and recognized as income over the depreciable life of assets purchased (i.e., 60 years).

- Other revenues were $2.4 million in fiscal year 2004, a decrease of $0.9 million, or 26.1 percent over fiscal year 2003, primarily due to lower revenues from fees and charges not directly related to metered water and wastewater sales, metering, or stormwater services. These fees include such services as water and sewer tap connections.

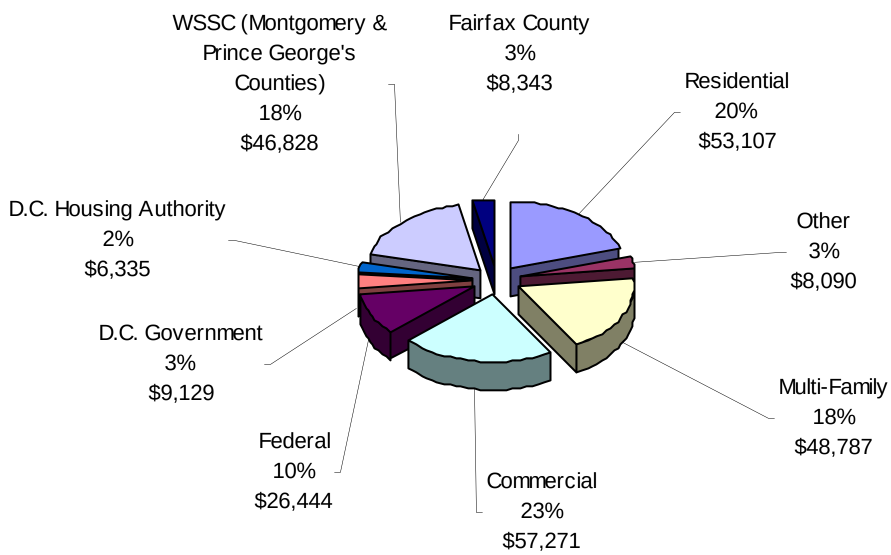
- Interest income, a non-operating revenue item was $3.5 million in fiscal year 2004, an increase of $0.4 million, or 12.4 percent over fiscal year 2003, primarily due to higher cash and investment balances.

- Federal grant contributions were $31.5 million in fiscal year 2004, a decrease of $8.2 million, or 20.6 percent over fiscal year 2003, in line with the completion of grant-funded capital 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. No one category accounts for more than 23 percent of total revenue.

FY 2004
Operating Revenue By Source
($ in 000's)



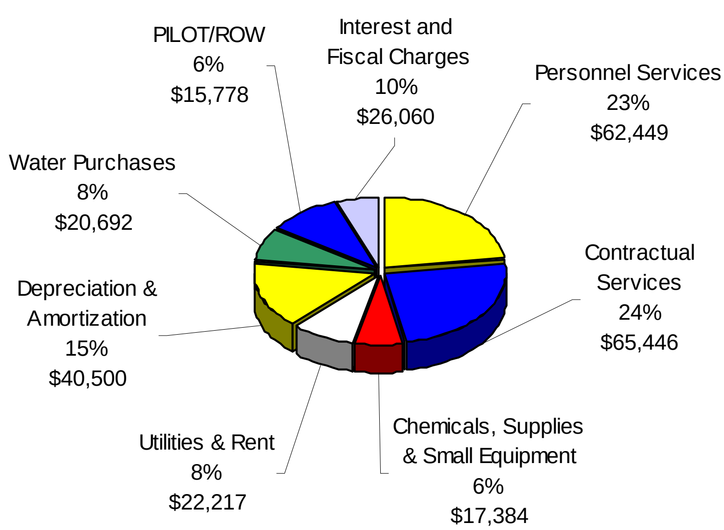
A description of each revenue source as well as a discussion of recent trends in each category follows:

- Revenues from commercial and multi-family customers in the District comprise approximately 41 percent of the Authority's total operating revenues. Commercial revenues are especially strong due to the presence of many national associations, government-consulting firms, and colleges and universities in the District. The commercial customer category also includes multi-family dwellings.
- The Authority provides wastewater conveyance and treatment services to Montgomery and Prince George's Counties in Maryland through the Washington Suburban Sanitary Commission (WSSC) and Fairfax and Loudoun Counties in Northern Virginia. Operating revenues from WSSC and Fairfax County account for 21 percent of the Authority's revenues and are based on their share of operating costs at Blue Plains. Loudon County and Potomac Interceptor account for additional 2.1 percent of the Authority's revenues and are included in other revenue. Operating costs are allocated to each user based on their sewer flows and purchased capacity at Blue Plains.
- Residential customers in the District account for 20 percent of total revenues.
- Payments from the Federal government comprise 10 percent of the Authority's total operating revenues and include customers such as the U.S. Congress, the Smithsonian Institution, and other federal agencies.
- Revenue from the District of Columbia government and the District of Columbia Housing Authority makes up 5 percent of total operating revenue.

Expenses

Operating expenses increased by $12.7 million, or 5.9 percent in fiscal year 2004, primarily due to $7.0 million increase in water purchases, $2.6 million increase in supplies expense, $2.4 million increase in contractual services, and $1.4 million increase in utilities expense. These increases were offset by a $1.6 million decrease in personnel services. Non-operating expenses increased by $8.5 million.

FY 2004
Total Expenses
($ in 000's)



A detailed analysis of the operating expenses follows:

- Personnel services were $62.4 million in fiscal year 2004, a decrease of $1.6 million, or 2.6 percent over fiscal year 2003, primarily due to higher capitalized labor costs. Total capitalized labor costs increased in fiscal year 2004 by $0.9 million to $7.8 million compared to $6.9 million in fiscal year 2003. The Authority charges to capital all personnel costs of staff involved in the capital improvement program and depreciates these costs over useful life (60 years) of capital assets.

- Contractual services were $65.4 million in fiscal year 2004, an increase of $2.4 million, or 3.8 percent over fiscal year 2003, primarily due to sampling and contractual expenses incurred for lead mitigation activities (see highlights on page 35).

- Chemicals, supplies, and small equipment expenses were $17.4 million in fiscal year 2004, an increase of $2.6 million, or 17.7 percent over fiscal year 2003, primarily due to $1.5 million increase in chemical expense and $1.4 million increase in supplies expense. Chemical expense increased due to the completion of certain capital projects, while supplies expenses increased due to the purchase and distribution of water filters to households with lead service lines as part of the lead mitigation program (see financial highlights on page 35).

- Utilities and rent expenses were $22.2 million in fiscal year 2004, an increase of $1.4 million, or 6.8 percent over fiscal year 2003, primarily due to higher electricity expense driven by higher than expected maximum peak demands in the summer.

- Depreciation and amortization expenses were $40.5 million in fiscal year 2004, an increase of $1.0 million, or 2.5 percent over fiscal year 2003, in line with the increase in capital assets due to the capital improvement program.

- Water purchases were $20.7 million in fiscal year 2004, an increase of $7.0 million, or 50.8 percent over fiscal year 2003, due to two one-time charges. These include $2.4 million for system-wide flushing of the water system as part of the lead mitigation program, and a $2.6 million retroactive charge for prior year's costs.

- Interest and fiscal charges were $26.1 million in fiscal year 2004, an increase of $8.3 million, or 46.3 percent over fiscal year 2003, primarily due to two large accounts receivable write off. $3.8 million to write off fiscal years 2003 and 2002 accounts receivable accruals for the Washington Aqueduct's usage of Authority water services and $2.4 million to record an 'allowance for bad debt expense' for an old accounts receivable from the Washington Suburban Sanitary Commission (see Note 15 for additional disclosure).

UTILITY PLANT AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2004, the Authority had $1.7 billion invested in a broad range of capital assets, including its wastewater collection, wastewater treatment and water distribution systems. This amount represents a net increase of nearly $195.6 million, or 12.9 percent over last year due to continued capital spending in accordance with CIP.

Table 3 summarizes the Authority's capital assets, net of accumulated depreciation at September 30, 2004 and 2003. The changes are presented in detail in Note 4 to the financial statements.

Table 3 - Capital Assets
Net of Accumulated Depreciation
($ in 000's)

	FY 2004	FY 2003	FY 2002
Blue Plains Regional Wastewater Treatment Plant	$ 1,041,828	$ 1,020,772	$ 1,020,109
Wastewater Collection Facilities	332,776	325,591	321,685
Water Distribution System	329,231	317,736	304,026
Capital Equipment	92,202	85,545	76,743
Construction in Progress	552,898	368,440	171,365
Less Accumulated Depreciation	(638,111)	(602,855)	(567,638)
Net Capital Assets	$ 1,710,824	$ 1,515,229	$ 1,326,290

Debt Administration

At the end of fiscal year 2004, the Authority had a total of $805.6 million in debt outstanding, an increase of $279.2 million, or 53.0 percent, over fiscal year 2003 (see Note 10 on page 63) for more information on long-term debt).

Table 4 – Long Term Debt Outstanding
As of September 30, 2004
($ in 000's)

SENIOR DEBT	INTEREST RATES	FINAL MATURITY	AMOUNT OUTSTANDING
1998 public utility revenue bonds	5.50 - 6.00	2028	266,120
SUBTOTAL SENIOR DEBT			266,120
SUBORDINATE DEBT			
2003 public utility revenue bonds	5.00 - 5.25	2033	176,220
2004 public utility revenue bonds	variable	2034	295,000
Notes payable to the federal government for Jennings Randolph Reservoir	3.25	2041	16,640
Notes payable to WSSC for Little Seneca Reservoir	5.98 - 6.60	2014	357
1991 District of Columbia general obligation bonds	6.75	2008	330
1993 District of Columbia general obligation bonds	5.25 - 6.00	2012	38,235
1994 District of Columbia general obligation bonds	4.95 - 6.50	2011	8,095
2001 District of Columbia general obligation bonds	6.02	2008	4,555
TOTAL SUBORDINATE DEBT			539,432
TOTAL DEBT OUTSTANDING			805,552
CURRENT PORTION OF DEBT OUTSTANDING			(16,134)
DEBT OUTSTANDING, LESS CURRENT PORTION			$ 789,418

Long-term debt outstanding as presented on the accompanying statements of net assets includes net unamortized bond premiums, discounts and issuance costs of ($4,307) on September 30, 2004.

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

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

In November 2001, the Authority closed on its $100 million commercial paper program. This program provides interim financing for a portion of the Authority's $2.1 billion Capital Improvement Program. Other financing sources include long-term revenue bonds, EPA grants, wholesale customer contributions, and pay-as-you-go financing. Under the commercial paper program, the Authority issues fixed-rate, short-term (no greater than 270 days) notes. WASA's commercial paper program is backed by a direct pay letter of credit issued by Westdeutsche Landesbank Giroznetrale (West LB). The notes are rated based on West LB's rating; in effect the letter of credit of the bank substitutes the Authority's security with the paying ability of the bank, enhancing the appeal and marketability of the notes.

Table 5
WASA Commercial Paper Ratings

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

In April 1998, the Authority issued its first series of senior lien revenue bonds in the amount of $266 million. Gross proceeds from the Series 1998 bonds totaled $285.2 million, including $18.8 million of original issue premium. Approximately $77.2 million was used to fund new capital projects; $181.0 million was used to repay the outstanding balances of a revolving line of credit, certain notes payable to the Federal government, and to advance refund the Authority's share of certain District of Columbia general obligation bonds.

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

Table 6
WASA Bond Ratings

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

RATES

Effective October 1, 2003, the Authority raised its retail water and wastewater rates by 2.5 percent, and the Board has approved an additional 5.0 percent rate increase that was effective October 1, 2004 (FY 2005). The Authority's ten-year financial plan includes projected rate increases of 6.5 to 8.0 percent and also includes projected revisions to its metering and right of way / payment in lieu of taxes pass through fees.

CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

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

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DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

Statements of Net Assets

September 30, 2004 and 2003

(In thousands)

Assets	**2004**	**2003**
Current assets:		
Cash and cash equivalents (note 3)	$ 48,405	$ 131,078
Investments (note 3)	99,747	14,978
Customer receivables, net of allowance for doubtful accounts of $6,876 in 2004 and $6,961 in 2003 (note 7)	41,497	41,406
Due from Federal government (note 6)	24,888	41,454
Due from District government (note 13)	6,863	17,740
Due from other jurisdictions (note 8)	20,907	33,706
Inventory	6,984	6,913
Prepaid	296	150
Total current assets	249,587	287,425
Noncurrent assets:		
Restricted cash equivalents and investments (notes 3 and 10):		
Combined Sewer Overflow (CSO) federal appropriation	71,640	46,825
Revenue bond debt service reserve fund	38,550	23,565
Revenue bond fund - interest account	12,226	8,656
Revenue bond construction fund	203,594	4,842
Commercial paper proceeds	21	20
Total restricted cash equivalents and investments	326,031	83,908
Utility plant (note 4):		
In-service	1,796,037	1,749,644
Less accumulated depreciation	(638,111)	(602,855)
Net utility plant in service	1,157,926	1,146,789
Construction in progress	552,898	368,440
Net utility plant	1,710,824	1,515,229
Other noncurrent assets:		
Due from other jurisdictions, net of allowance for doubtful accounts of $2,410 in 2004 (note 8)	30,169	32,887
Purchased capacity (less accumulated amortization of $34,671 in 2004 and $31,760 in 2003) (note 5)	139,789	135,712
Total other noncurrent assets	169,958	168,599
Total noncurrent assets	2,206,813	1,767,736
Total Assets	2,456,400	2,055,161
Liabilities		
Current liabilities:		
Accounts payable and accrued expenses	77,225	78,069
Compensation payable (note 9)	9,042	7,941
Accrued interest	12,764	9,885
Due to stormwater fund (note 13)	293	154
Due to jurisdictions	6,731	10,176
Deferred revenue	28,052	20,015
Current maturities of long-term debt (note 10)	16,134	15,892
Total current liabilities	150,241	142,132
Noncurrent liabilities:		
Deferred revenue	601,710	536,746
Deferred revenue-CSO	70,828	46,629
Other liabilities (note 12)	15,802	15,671
Long-term debt excluding current maturities (note 10)	785,111	510,010
Total noncurrent liabilities	1,473,451	1,109,056
Total liabilities	1,623,692	1,251,188
Net Assets		
Invested in capital assets, net of related debt	651,250	588,294
Restricted for:		
Debt service	38,302	22,356
Capital projects	815	5,038
Unrestricted	142,341	188,285
Total net assets	$ 832,708	$ 803,973

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

DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

Statements of Revenues, Expenses and Changes in Net Assets
Years Ended September 30, 2004 and 2003
(In thousands)

	2004	2003
Operating revenues:		
Water and wastewater user charges:		
Residential, commercial and multi-family customers	$ 159,165	$ 147,870
Federal government	26,444	26,884
District government and DC Housing Authority (note 13)	15,464	16,072
Charges for wholesale wastewater treatment	60,834	61,682
Other	2,427	3,287
Total operating revenues	264,334	255,795
Operating expenses:		
Personnel services	62,449	64,091
Contractual services	65,446	63,065
Chemicals, supplies and small equipment	17,384	14,768
Utilities and rent	22,217	20,804
Depreciation and amortization	40,500	39,524
Water purchases	20,692	13,723
Total operating expenses	228,688	215,975
Operating income	35,646	39,820
Nonoperating revenues (expenses):		
Interest income	3,472	3,090
Payment in lieu of taxes and right of way fee (note 13)	(15,778)	(15,513)
Interest and fiscal charges	(26,060)	(17,816)
Total nonoperating revenues (expenses)	(38,366)	(30,239)
Income before contributions and transfers (note 15)	(2,720)	9,581
Federal grants and contributions	31,455	39,626
Change in net assets	28,735	49,207
Total net assets, beginning of year	803,973	754,766
Total net assets, ending of year	$ 832,708	$ 803,973

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

DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

Statements of Cash Flows

Years ended September 30, 2004 and 2003

(In thousands)

	2004	2003
Cash flows from operating activities:		
Cash received from customers	$ 263,388	$ 253,855
Cash paid to suppliers for goods and services	(124,234)	(105,964)
Cash paid to employees for services	(61,348)	(63,994)
Net cash provided by operating activities	77,806	83,897
Cash flows from capital and related financing activities		
Proceeds from notes payable to Federal governmen	—	1,165
Proceeds from issuance of commercial paper	50,000	10,000
Repayments of commercial paper	(50,000)	(100,000)
Proceeds from revenue bonds	291,451	170,000
Proceeds from other jurisdictions	85,961	73,736
Repayments of bond principal and notes payable to federal and district governmen	(17,248)	(22,856)
Acquisition of utility plant and purchased capacity	(244,442)	(205,469)
Payments of interest and fiscal charges	(25,951)	(21,211)
Contributions of capital from Federal government	80,992	76,930
Net cash provided by (used in) capital and related financing activities	170,763	(17,705)
Cash flows from non-capital financing activities -		
Loan from DC Government	10,900	—
Transfers-Out (payment in lieu of taxes and Right of way fee)	(18,221)	(25,971)
Net cash used by non-capital financing activities	(7,321)	(25,971)
Cash flows from investing activities:		
Cash received for interest	2,971	3,157
Investment purchases	(164,572)	(29,947)
Investment maturities	34,985	19,869
Net cash used in investing activities	(126,616)	(6,921)
Net increase in cash and cash equivalents	114,632	33,300
Cash and cash equivalents (including restricted) at beginning of year	214,986	181,686
Cash and cash equivalents (including restricted) at end of year	$ 329,618	$ 214,986
Operating income	$ 35,646	$ 39,820
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	40,500	39,524
Change in operating assets and liabilities:		
Decrease in customer and other receivables	4,374	12,712
Decrease in inventory	(216)	700
Decrease in payables and accrued liabilities	(1,639)	10,000
Decrease in deferred revenue	(859)	(18,859)
Net cash provided by operating activities	$ 77,806	$ 83,897

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

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(1) Reporting Entity

The District of Columbia Water and Sewer Enterprise Fund (the Fund) was established in 1979 and was operated by the Water and Sewer Utility Administration, a division of the District of Columbia (the District) Department of Public Works. The District of Columbia Water and Sewer Authority (WASA or Authority), an independent authority of the District, was created in April 1996 and began operating October 1, 1996 under and pursuant to an act of the Council of the District entitled the "Water and Sewer Authority and Department of Public Works Reorganization Act of 1996 (as amended)", and an act of the United States Congress entitled the "District of Columbia Water and Sewer Authority Act of 1996."

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

WASA's wastewater service territory includes over 2 million people in Montgomery and Prince George's Counties in Maryland, Fairfax and Loudoun Counties in Virginia, and the District. The Blue Plains Intermunicipal Agreement (IMA) was executed in September 1985 among the District; Fairfax County, Virginia; and the Washington Suburban Sanitary Commission (WSSC), which comprises Montgomery and Prince George's Counties in Maryland (collectively referred to as the Participants). The IMA provided for the expansion of the Plant's processing capacity to 370 million gallons per day. The IMA also provided for the allocation of capital, operating, and maintenance costs among the Participants. Capital costs of the Plant are allocated among the Participants in proportion to their respective wastewater treatment capacity allocation as defined in the IMA. Operating costs are allocated based on wastewater flows from each participant.

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

WASA purchases water from the Washington Aqueduct (Aqueduct), which is owned by the U.S. Government and operated by the U.S. Army Corps of Engineers under the direction of the Secretary of the Army. The Aqueduct operates two water purification plants for the exclusive benefit of WASA, Arlington County, Virginia and the City of Falls Church, Virginia. WASA purchases approximately 76 percent of the water produced by the Aqueduct, which is reported as water purchases.

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

(2) Summary of Significant Accounting Policies

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

(a) Measurement Focus And Basis of Accounting

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

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

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

As allowed by GASB 20, WASA accounts for its regulatory assets and liabilities in accordance with the *Statement of Financial Accounting Standards Board Statement No. 71, Accounting for the Effects of Certain Types of Regulation (SFAS 71)*. In general, SFAS 71 covers the type of regulation that permits rates to be set at levels intended to recover the estimated costs of providing regulated services, including the cost of capital. There are times in which the revenues intended to cover certain costs are provided either before or after the costs have been incurred. If the costs will be recovered in the future, a regulatory asset is capitalized and reduced as the related revenues are provided. If the current recovery is for costs that will be incurred in future periods, regulatory liabilities are accrued and reduced as those costs are incurred. As of September 30, 2004 and 2003, no regulatory assets or liabilities were required to be reported in accordance with SFAS 71.

(2) Summary of Significant Accounting Policies (Continued)

For the fiscal year ended September 30, 2002, WASA adopted the provisions of GASB Statement No. 34 "*Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments."* Statement 34 established standards for external financial reporting for all states and local governmental entities, which includes a statement of net assets, a statement of activities and changes in net assets and a statement of cash flows.

It requires the classification of net assets into three components as described below:

- *Invested in capital assets, net of related debt* – This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- *Restricted* – This component of net assets consists of restrictions placed on net assets as a result of external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- *Unrestricted net assets* – This component of net assets consist of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

For the fiscal year ended September 30, 2003, WASA adopted the provisions of GASB Statement No. 40, "*Deposit and Investment Risk Disclosures"* to amend GASB Statement No. 3. This new GASB updates the custodial credit risk disclosure requirements of Statement 3 and establishes a more comprehensive disclosure requirement. It also addresses other common risks of the deposits and investments of state and local governments. Statement 40 eliminates Category 1 and 2 custodial credit risk and disclosures are now 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.

(2) Summary of Significant Accounting Policies (Continued)

(b) Revenues and Expenses

Revenues and expenses are distinguished between operating and nonoperating 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. Revenue from user charges and sales of services is recognized as the related service is 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 nonoperating revenues and expenses.

Water and Wastewater User Charges

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

Charges for Wholesale Wastewater Treatment and Deferred Revenue

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

(c) Cash and Cash Equivalents

WASA maintains its own cash accounts for the collection of all revenue and payment of all expenses. WASA invests all unrestricted cash balances, in excess of the required compensating balances, in interest-bearing accounts. The Authority's cash equivalents consist of unrestricted and restricted investments such as certificates of deposits, 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.

(2) Summary of Significant Accounting Policies (Continued)

For purposes of the accompanying statements of cash flows, cash and cash equivalents also include WASA's restricted cash. See note 3(c).

(d) Investments

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

(e) Restricted Assets

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

(f) Utility Plant

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

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

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

(2) Summary of Significant Accounting Policies (Continued)

(g) Purchased Capacity

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

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

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

(h) Inventory

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

(i) Debt Financing Costs

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

(j) Reclassifications

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

(In thousands)

(2) Summary of Significant Accounting Policies (Continued)

(k) Vacation and Sick Leave

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

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

(3) Cash Deposits and Investments

(a) Cash Deposits

At September 30, 2004 and 2003, the carrying amounts of WASA's unrestricted bank deposits and cash on hand (petty cash) were $16,389 and $6,583 respectively. These bank deposits are entirely insured or collateralized with securities held by WASA's agent in its name.

(b) Investments

As of September 30, 2004 and 2003 WASA had the following investments:

Type of Investments	2004	Weighted Average Maturity (Years)	2003	Weighted Average Maturity (Years)
Repurchase agreements	$ 8,638	0.003	$ 39,096	0.003
Agency discount notes	144,565	1.140	54,938	0.880
Mutual funds	304,591	0.083	129,347	0.083
Total Investments	$ 457,794		$ 223,381	
Portfolio weighted average maturity		0.415		0.265

WASA's investments are categorized in accordance with GASB Statement No. 40, "*Deposit and Investment Risk Disclosures." G*ASB 40 eliminates Category 1 and 2 custodial credit risks required by GASB 3 and disclosures are now limited to:

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

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

(In thousands)

(3) Cash Deposits and Investments (Continued)

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

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

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

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

(c) Cash and Investment Schedule

A schedule of cash equivalents and investments as of September 30, 2004 and 2003 follows:

	2004			2003		
Description	Unrestricted	Restricted	Total	Unrestricted	Restricted	Total
Cash and Cash Equivalents						
Demand deposits	$ 16,389	-	$ 16,389	$ 6,583	-	$ 6,583
Repurchase agreements	8,638	-	8,638	39,096	-	39,096
Agency discount notes	-	-	-	39,960	-	39,960
Mutual funds	23,378	281,213	304,591	45,439	83,908	129,347
Total Cash and Cash Equivalents	48,405	281,213	329,618	131,078	83,908	214,986
Investments						
Agency discount notes	99,747	44,818	144,565	14,978	-	14,978
Total Investments	99,747	44,818	144,565	14,978	-	14,978
Total cash, cash equivalents & investments	$ 148,152	$ 326,031	$ 474,183	$ 146,056	$ 83,908	$ 229,964

(In thousands)

(4) Utility Plant

The net utility plant, including capitalized interest of $9,076 for the year ended September 30, 2004 is as follows:

	Balance 9/30/2003	Additions	Disposals	Transfers	Balance 9/30/2004
Utility Plant					
Waste water treatment plant	$ 1,020,772	$ 21,056	$ -	$ -	$ 1,041,828
Waste water collection facilities	325,591	7,185	-	-	332,776
Water distribution system	317,736	11,495	-	-	329,231
Capital Equipment	85,545	9,057	(2,400)	-	92,202
Total utility plant in service	1,749,644	48,793	(2,400)	-	1,796,037
Less accumulated depreciation:					
Waste water treatment plant	(279,578)	(15,641)	-	-	(295,219)
Waste water collection facilities	(147,727)	(5,406)	-	-	(153,133)
Water distribution system	(121,004)	(5,089)	-	-	(126,093)
Capital Equipment	(54,546)	(11,453)	2,333	-	(63,666)
Total accumulated depreciation	(602,855)	(37,589)	2,333	-	(638,111)
Net Utility Plant in service	1,146,789	11,204	(67)	-	1,157,926
Construction in progress	368,440	233,251	-	(48,793)	552,898
Net utility plant	$ 1,515,229	$ 244,455	$ (67)	$ (48,793)	$ 1,710,824

The net utility plant, including capitalized interest of $4,819 for the year ended September 30, 2003 is as follows:

	Balance 9/30/2002	Additions	Disposals	Transfers	Balance 9/30/2003
Utility Plant					
Wastewater treatment plant	$ 1,020,109	$ 663	$ -	$ -	$ 1,020,772
Wastewater collection facilities	321,685	3,906	-	-	325,591
Water distribution system	304,026	13,710	-	-	317,736
Capital equipment	76,743	10,542	(1,740)	-	85,545
Total utility plant in service	1,722,563	28,821	(1,740)	-	1,749,644
Less accumulated depreciation:					
Wastewater treatment plant	(264,261)	(15,317)	-	-	(279,578)
Wastewater collection facilities	(142,399)	(5,328)	-	-	(147,727)
Water distribution system	(116,104)	(4,900)	-	-	(121,004)
Capital equipment	(44,874)	(11,183)	1,511	-	(54,546)
Total accumulated depreciation	(567,638)	(36,728)	1,511	-	(602,855)
Net utility plant in service	1,154,925	(7,907)	(229)	-	1,146,789
Construction in progress	171,365	225,896	-	(28,821)	368,440
Net utility plant	$ 1,326,290	$ 217,989	$ (229)	$ (28,821)	$ 1,515,229

(In thousands)

(5) Purchased Capacity

Purchased capacity as of September 30, 2004 is as follows:

	Balance 9/30/2003	Additions	Balance 9/30/2004
Purchased Capacity			
Jennings Randolph Reservoir	$ 19,863	$ -	$ 19,863
Little Seneca Lake	12,327	-	12,327
Washington Aqueduct	135,282	6,988	142,270
Total in service	167,472	6,988	174,460
Less accumulated depreciation:			
Jennings Randolph Reservoir	(4,323)	(393)	(4,716)
Little Seneca Lake	(3,800)	(206)	(4,006)
Washington Aqueduct	(23,637)	(2,312)	(25,949)
Total accumulated depreciation	(31,760)	(2,911)	(34,671)
Purchased capacity, net	$ 135,712	$ 4,077	$ 139,789

Purchased capacity as of September 30, 2003 is as follows:

	Balance 9/30/2002	Additions	Balance 9/30/2003
Purchased capacity			
Jennings Randolph Reservoir	$ 19,863	$ -	$ 19,863
Little Seneca Lake	12,327	-	12,327
Washington Aqueduct	128,457	6,825	135,282
Total in service	160,647	6,825	167,472
Less accumulated depreciation:			
Jennings Randolph Reservoir	(3,930)	(393)	(4,323)
Little Seneca Lake	(3,595)	(205)	(3,800)
Washington Aqueduct	(21,439)	(2,198)	(23,637)
Total accumulated depreciation	(28,964)	(2,796)	(31,760)
Purchased capacity, net	$ 131,683	$ 4,029	$ 135,712

(In thousands)

(6) Due from Federal Government

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

	2004	2003
Federal grants receivable	$ 5,355	$ 30,005
Washington Aqueduct advances	19,533	11,449
Total	$ 24,888	$ 41,454

(7) Customer Receivables

Customer receivables include unbilled revenues of $11,043 and $11,403 at September 30, 2004 and 2003, respectively.

(8) Due From Other Jurisdictions

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

	2004	2003
Current:		
WSSC	$ 15,605	$ 28,009
Fairfax	1,399	2,778
Northern Virginia (a)	1,431	1,388
Loudoun County Sanitation Authority	632	1,243
Potomac Interceptor	1,840	288
Total Current	$ 20,907	$ 33,706
Noncurrent:		
WSSC (b)	21,380	23,024
Northern Virginia (a)	6,740	8,171
Fairfax	1,389	1,171
Loudoun County Sanitation Authority	660	521
Total Noncurrent	30,169	32,887
Total Due From Jurisdictions	$ 51,076	$ 66,593

(a) Northern Virginia

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

(In thousands)

(8) Due From Other Jurisdictions (Continued)

(b) WSSC

The noncurrent amount due from WSSC includes $14.2 million, net of a $2.4 million reserve for accrued interest related to a 1998 settlement with A.S. McGaughan (Contractor). In September 1998, WASA and the Contractor reached agreement on a settlement of $31.0 million for a large capital project (consisting primarily of eight sedimentation basins) that was under dispute due to site conditions and related construction delays. In accordance with the IMA terms this settlement was allocated among the IMA partners.

(9) Compensation Payable (Compensated Absences)

Compensation payable as of September 30, 2004 and 2003 were $9,042 and $7,941, respectively. These amounts include accruals for compensated absences (vacation) for the stated years as shown below. This liability is expected to be paid off within a year; therefore it is classified as a current liability.

	2004	2003
Balance, beginning of year	$ 4,264	$ 4,107
Increases (Incurred)	4,244	4,269
Decreases	(4,374)	(4,112)
Balance, end of year	$ 4,134	$ 4,264

(In thousands)

(10) Long-Term Debt

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

A schedule of long-term debt activity for period ending September 30, 2004 is shown below:

Description	Balance 9/30/2003	New Debt Issued	Debt Retired	Balance 9/30/2004	Due Within One Year
Notes payable to the federal government for Washington Aqueduct; interest is variable based on a three month taxable municipal index which, for 2004 was 1.33%	$ 1,173	$ -	$ (1,173)	$ -	$ -
Notes payable to the federal government for Jennings Randolph Reservoir (Bloomington Dam); interest at 3.25%, maturing in 2041	16,895	-	(255)	16,640	264
Notes payable to WSSC for Little Seneca; interest ranges from 5.98% to 6.60% maturing in 2014	360	-	(3)	357	40
District of Columbia general obligation bonds:					
1991; interest at 6.75% maturing in 2008	400	-	(70)	330	97
1993; interest ranges from 5.25% to 6.0% maturing in 2012	47,731	-	(9,496)	38,235	9,756
1994; interest ranges from 4.95% to 6.50% maturing in 2011	10,910	-	(2,815)	8,095	3,533
2001; interest at 6.02%, maturing in 2008	6,604	-	(2,049)	4,555	2,444
1998 public utility revenue bonds; interest ranges from 5.50% to 6.00%, maturing in 2028	266,120	-	-	266,120	-
2003 public utility revenue bonds; interest ranges from 5.0% to 5.25%, maturing in 2033	176,220	-	-	176,220	-
2004 public utility subordinated lien revenue bonds; (auction rate securities) interest varies each auction date, maturing in 2034	-	295,000	-	295,000	-
Total Bonds and Notes	$ 526,413	$ 295,000	$ (15,861)	$ 805,552	$ 16,134

Long-term debt outstanding, as presented on the accompanying statement of net assets, includes net unamortized bond premiums, discounts, and issuance costs of ($4,307).

(In thousands)

(10) Long Term Debt (Continued)

A schedule of long-term debt activity for period ending September 30, 2003 is shown below:

Description	Balance 9/30/2002	New Debt Issued	Debt Retired	Balance 9/30/2003	Due Within One Year
Notes payable to the federal government for Washington Aqueduct; interest is variable based on a three month taxable municipal index which, for 2003 was between 1.11% and 1.88%	$ 7,984	$ 1,173	$ (7,984)	$ 1,173	$ 1,173
Notes payable to the federal government for Jennings Randolph Reservoir (Bloomington Dam); interest at 3.25%, maturing in 2041	17,143	-	(248)	16,895	256
Notes payable to WSSC for Little Seneca; interest ranges from 5.98% to 6.60% maturing in 2014	531	-	(171)	360	34
District of Columbia general obligation bonds:					
1991; interest ranges from 6.3% to 6.75% maturing in 2008	465	-	(65)	400	70
1993; interest ranges from 4.9% to 6.0% maturing in 2012	55,980	-	(8,249)	47,731	9,497
1994; interest ranges from 4.55% to 6.50% maturing through 2011	14,100	-	(3,190)	10,910	2,815
2001; interest at 6.02%, maturing in 2008	8,525	-	(1,921)	6,604	2,047
1998 public utility revenue bonds; interest ranges from 5.50% to 6.00%, maturing in 2028	266,120	-	-	266,120	-
2003 subordinate lien public utility revenue bonds; interest ranges from 5.0% to 5.125%, maturing in 2033	-	176,220	-	176,220	-
Total Bonds and Notes	$ 370,848	$ 177,393	$ (21,828)	$ 526,413	$ 15,892

Long-term debt outstanding, as presented on the accompanying statement of net assets, includes net unamortized bond premiums, discounts, and issuance costs of ($511).

(a) Senior Debt

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

Notes payable to the Federal government for the Washington Aqueduct are specifically secured by user charges assessed on retail customers. The proceeds of these notes are used to make capital improvements to the Washington Aqueduct.

(10) Long Term Debt (Continued)

The interest rates on these notes are reset each quarter as determined by the U.S. Treasury based on a comparable three-month taxable special fund obligation. During the years ended September 30, 2004 and 2003, the highest rate on these notes was 1.33 and 1.88 percent and the lowest rate was 1.33 and 1.11 percent, respectively.

In April 1998, WASA issued approximately $266,120 of senior lien public utility revenue bonds (Series 1998 Bonds). As required by the Master Indenture, WASA has agreed to fix, charge, and collect rates and fees at levels sufficient to cover annual senior principal and interest requirements by 120 percent (see “Bond Covenants” below). Gross proceeds from the Series 1998 Bonds totaled $285,200 including $18,800 of original issue premium. Approximately $77,200 was used to fund various capital projects; $181,000 was used to repay the outstanding balances of a revolving line of credit and certain notes payable to the Federal government and to advance-refund approximately $152,200 of District general obligation bonds. The remainder of the gross proceeds, approximately $27,000, was used to fund the debt service reserve fund and to pay costs of issuance. The payment of principal and interest on the Series 1998 bonds is insured by Financial Security Assurance, Inc.

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

The total amount of refunded debt outstanding was $16,700 and $51,515 at September 30, 2004 and 2003, respectively.

(b) Subordinate Debt

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

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

Notes payable to WSSC for the Little Seneca Lake are considered subordinate debt under the Master Indenture and contain no pledge of property, sinking fund provisions, or restrictive covenants. The proceeds of the notes were used by WSSC to construct the Little Seneca Dam and Lake for backup and peak day water supply for the Authority.

(10) Long Term Debt (Continued)

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

In March 1998, WASA and the District executed a memorandum of understanding that outlined certain terms for payment of WASA's share of District general obligation bonds. In particular, it contained the following three provisions: (1) WASA will establish a debt service reserve equal to 10 percent of the subsequent fiscal year's general obligation debt service; (2) on each September 1, commencing September 1, 1999, WASA will prepay the general obligation debt service due for the subsequent fiscal year; and (3) WASA will annually establish rates sufficient to provide at least 100 percent debt service coverage of WASA's share of District general obligation bonds, in accordance with the Master Indenture. As of September 30, 2004 and 2003, WASA had reserved $1.508 million and $1.869 million, respectively, of its unrestricted cash in connection with the debt service reserve requirement described above, and was in compliance with the other provisions of the memorandum of understanding.

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

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

(In thousands)

(10) Long Term Debt (Continued)

(c) Bond Covenants

The Master Indenture sets forth the establishment of accounts, the application of revenues, and certain other covenants to ensure proper operation and maintenance of the water and wastewater system and payment of debt service. Management believes the Authority was in compliance with all bond covenants as of and for the years ended September 30, 2004 and 2003. The primary requirements of the Master Indenture are summarized below:

Rate Covenant — The Authority has covenanted to establish and maintain rates and charges to produce revenues sufficient to pay operating expenses and annual debt service on senior and subordinate debt, to fund certain required reserves, to fund any payment in lieu of taxes and to produce net revenues sufficient at least equal to the sum of: (1) 120 percent of annual debt service on senior debt and (2) 100 percent of annual debt service on subordinate debt.

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

Debt Service Reserve Fund — The Authority has established debt service reserve fund for certain series of bonds, which is only to be used to pay debt service in the event of insufficient funds. The Series 1998 Bonds debt service reserve fund balance as of September 30, 2004 and 2003 was $23,539 and $23,565, respectively, and is required to be maintained at 125 percent of current and future average annual Series 1998 debt service. The Series 2004 Bonds debt service fund balance as of September 30, 2004 was $15,011 as required by the indenture.

(d) Debt Service to Maturity

The future debt-servicing obligations at September 30, 2004 are as follows:

Fiscal year	Principal	Interest	Total
2005	$ 16,134	$ 38,926	$ 55,060
2006	13,390	38,319	51,709
2007	7,555	37,576	45,131
2008	13,956	36,981	50,937
2009	14,002	36,145	50,147
2010 - 2014	86,666	194,802	281,468
2015 - 2019	105,399	177,009	282,408
2020 - 2024	124,821	144,407	269,228
2025 - 2029	188,006	146,473	334,479
2030 - 2034	231,493	160,057	391,550
2035 - 2039	2,854	492	3,346
2040 - 2044	1,276	63	1,339
Total	$ 805,552	$ 1,011,250	$ 1,816,802

(In thousands)

(11) Commercial Paper

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

Series A and B notes are secured by separate letters of credit, issued by Westdeutsche Landesbank Gironzentrale (WestLB) and are rated P1, A1+ and F1+ by Moody's, S&P and Fitch respectively. The letter of credit expires on November 27, 2006.

At September 30, 2004, the Authority had no commercial paper outstanding.

A schedule of commercial paper activity for period ending September 30, 2004 is shown below:

Description	Balance 9/30/2003	Addition	Reduction	Balance 9/30/2004
Commercial Paper Notes Payable				
Series A, interest ranges from .999% to 1.10%	$ -	$ 25,000	$ (25,000)	$ -
Series B, interest ranges from 1.01% to 1.09%	-	25,000	(25,000)	-
Total Commercial Paper	$ -	$ 50,000	$ (50,000)	$ -

A schedule of commercial paper activity for period ending September 30, 2003 is shown below:

Description	Balance 9/30/2002	Addition	Reduction	Balance 9/30/2003
Commercial Paper Notes Payable				
Series A, interest ranges from 1.40% to 1.50%	$ 50,000	$ -	$ (50,000)	$ -
Series B, interest ranges from 1.40% to 1.65%	40,000	10,000	(50,000)	-
Total Commercial Paper	$ 90,000	$ 10,000	$ (100,000)	$ -

(In thousands)

(12) Commitments and Contingencies – Other Liabilities

A schedule of other liabilities as of September 30, 2004 and 2003 is shown below.

Description	2004	2003
Federal Grants	$ 2,445	$ 2,545
Litigation	3,365	4,125
Risk Management	9,992	9,001
Total Other Liabilities	$ 15,802	$ 15,671

(a) Federal Grants

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

(b) Litigation

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

Changes in the balances of litigation contingencies during the years ended September 30, 2004 and 2003, were as follows:

	2004	2003
Balance, beginning of year	$ 4,125	$ 2,588
Current year claims and changes in estimates	242	1,920
Claim payments	(1,002)	(383)
Balance, end of year	$ 3,365	$ 4,125

(c) Risk Management

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

WASA has purchased $500,000 property coverage to protect its owned or leased facilities, buildings and contents. Except for catastrophic on-site protection provided on the Property Policy, WASA self-insures its fleet of vehicles. The deductible for each claim for buildings and contents is $250, except $500 and $1,000 deductibles for flood. Off-site watercraft and specified equipment are insured under an Inland Marine Policy. Deductibles range from $10 to $25 on this policy.

(In thousands)

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

WASA has purchased liability insurance coverage to protect it from claims alleging damages and injuries caused by automobile accidents, broken water lines, 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 $500 per claim.

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

Liabilities are recognized when it is probable that losses have occurred and the amounts of the losses can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported to date. Because actual claims liabilities depend on such complex factors as inflation, changes in governing laws and standards, and court awards, the process used in computing claims liabilities is reevaluated periodically to take into consideration the history, frequency and severity of recent claims and other economic and social factors. These liabilities are computed using a combination of actual claims experience and statistically estimated amounts.

Changes in the balances of workers' compensation claims and general liability claims during the years ended September 30, 2004 and 2003, were as follows:

	2004	2003
Balance, beginning of year	$ 9,000	$ 5,475
Current year claims and changes in estimates	3,047	6,133
Claim payments	(2,055)	(2,608)
Balance, end of year	$ 9,992	$ 9,000

In fiscal year 2003, WASA performed a comprehensive review of its worker's compensation and other general liability claims. Based on this review, accruals for prior year claims were increased to reflect managements' best estimate of the total liability.

(d) Construction Commitments

Contractual commitments for utility plant construction and capital equipment for the years ended September 30, 2004 and 2003 were $281,081 and $327,706 respectively.

	2004	2003
Total contract commitments	$ 505,237	$ 548,783
Less work performed and retainage	(224,156)	(221,077)
Outstanding contract commitments	$ 281,081	$ 327,706

(In thousands)

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

(e) Lease Commitments

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

WASA's rental expenses for the years ended September 30, 2004 and 2003 are shown in the accompanying rental expense table.

	2004	2003
Facilities Leases	$ 754	$ 742
Automobile Equipment Leases	9	15
Machinery Leases	295	656
Total	$ 1,058	$ 1,413

Future minimum noncancelable lease payments on existing operation leases at September 30, 2004 which have an initial term of more than one year, are presented in the accompanying table.

	Future Minimum Lease Payments
2005	$ 594
2006	606
2007	618
2008	630
thereafter	—
Total	$ 2,448

(13) Related Party and Similar Transactions

The enabling legislation, described in Note 1, established that the District would pay for water and wastewater services. WASA recorded revenues of $9,129 and $9,943 from the District government and $6,335 and $6,129 from the District of Columbia Housing Authority (DCHA) for fiscal years 2004 and 2003, respectively. Both the District government and DCHA revenues are included in water and wastewater user charges in the accompanying statements of revenues, expenses and changes in net assets.

WASA recorded expenses of $10,678 and $10,413, 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, 2004 and 2003, respectively. WASA also recorded an expense of $5,100 for the District's right-of-way fee, charged to all area utilities for infrastructure occupancy in public streets for the years ended September 30, 2004 and 2003, respectively.

(13) Related Party and Similar Transactions (Continued)

The amount due from the District government for the years ended September 30, 2004 and 2003 were $6,863 and $17,740 respectively. These amounts are for WASA's share of fiscal year 2005 and 2004 debt service on general obligation bonds originally issued to finance WASA's capital improvements that WASA prepaid in accordance with a memorandum of understanding with the District, as described in Note 10. WASA also recorded a liability of $10,900 for funds received from the District's Contingency Reserve Fund that provided WASA the budget authority necessary to complete certain lead mitigation activities that had not been included in the original authorized WASA budget. Per agreement with the District, WASA has since paid back the $10,900 in fiscal year 2005.

On October 18, 2000, the District of Columbia City Council approved the Storm Water Compliance Amendment Act of 2000, which created the "Storm Water Permit Compliance Enterprise Fund" (Fund). The Act established the Authority as the Storm Water (Administrator). The Administrator is responsible for monitoring and coordinating the activities of all District agencies, including the activities of the Authority, which are required to maintain compliance with the Storm Water Permit. The Authority is reimbursed for all its cost incurred to administer the Fund by the Fund. Also the Authority does not assume any of the Funds liabilities or obligations. The permit was issued to the District of Columbia government by the Environmental Protection Agency. The legislation also established a rate for recovery of storm water compliance costs, which is collected by the Authority from its customers on the District's behalf. The Authority incurred $880 and $844 of administrative expenses for years ended September 30, 2004 and 2003, respectively.

Additionally, the Authority had $293 and $154 of receivables due to Storm Water Fund for years ended September 30, 2004 and 2003. The amount shown on the balance sheet as Due to Storm Water Fund is net of collection and administrative costs

(14) Employee Benefits

(a) Defined Benefit Plans

WASA employees hired prior to October 1, 1987, participate in certain federal benefit plans. The plans are cost sharing multi-employer plans, which provide retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan participants and beneficiaries.

In addition, the plans issue a publicly available financial report that includes financial statements and required supplementary information. Employees and WASA each contribute a percentage of the employees' salaries to the Federal government, which administers the plans. During fiscal years 2004, 2003 and 2002, WASA's contributions to the plans were $1,358, $1,604 and $2,043 respectively. These amounts were 100 percent of the required contributions under the plans for each of the fiscal years presented. The required percent of salaries to be contributed by the employees was 7.00 percent for the three fiscal years ending 2004. The required percent of salaries to be contributed by WASA was 7.0 percent, 7.5 percent, and 8.5 percent respectively for the three fiscal years ending 2004.

(14) Employee Benefits (Continued)

(b) Defined Contribution Plan

Employees who were hired after September 30, 1987, participate in the U.S. Social Security system and a defined contribution plan sponsored by the District government. The District of Columbia Defined Contribution Plan (D.C. Code 1-627) is a qualified trust under Internal Revenue Code Section 401. During fiscal years 2004, 2003 and 2002, the Authority's contribution was seven percent of base pay toward the plan on behalf of each eligible employee. Employees do not contribute to the plan. Employees become 100 percent vested in their account balance after five years of service.

Starting in January 2000, non-represented employees who were hired after September 30, 1987, participate in the U.S. Social Security system and a defined contribution plan sponsored by the Authority. The District of Columbia Water and Sewer Defined Contribution Plan is a qualified trust under Internal Revenue Code Section 401. The Authority makes a contribution of seven percent of base pay toward the plan on behalf of each eligible employee.

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

There is no waiting period before an employee becomes a participant of this plan and employees do not contribute to the plan. Employees become 100 percent vested in their account balance after three years of service.

During fiscal years 2004, 2003 and 2002, the Authority's contributions to both defined contribution plans were $2,742, $2,506 and $2,341 respectively.

(c) Post Employment Insurance Plans

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

15) Income Before Contributions and Transfers

For fiscal year 2004, the Authority recorded three non-recurring transactions that affected 'Income before contributions and transfers':

(1) $9.7 million in fiscal year 2004 costs to address the lead in drinking water issues. These costs were primarily for water sampling for all lead service lines and any other customers who requested a water sample, call center costs to address the significant number of calls received by the Authority in response to the issue, blood lead level tests for any customers and residents who requested such tests through the District Government's Department of Health, and water filters for all customers with lead service lines and any other customers whose water tested above the Federal Environmental Protection Agency's action level for lead in drinking water.

(2) $3.8 million to write off fiscal years 2003 and 2002 accounts receivable accruals for the Washington Aqueduct’s usage of Authority water services. The Washington Aqueduct uses substantial amounts of the Authority's water in its water treatment process. Until fiscal year 2002, this water was not accurately metered, or billed to the Aqueduct. In fiscal year 2002, the meters were repaired and revenue and accounts receivables were accrued for the water used by the Aqueduct. However, there was no agreement with the Aqueduct to pay for these services and the Authority did not record an offsetting expense, as it would currently pay 100 percent of these additional Aqueduct costs. In fiscal year 2004, the $3.8 million of fiscal year 2003 and fiscal year 2003 accounts receivable was written off - the revenue and corresponding expense were properly recorded in fiscal year 2004.

(3) $2.4 million to record an 'allowance for bad debt expense' for an old accounts receivable from the Washington Suburban Sanitary Commission. In September 1998, the Authority settled a longstanding lawsuit for a capital project at the Blue Plains Wastewater Treatment Plant. In accordance with the IMA terms this settlement was allocated among the IMA partners. In fiscal year 2002, the costs of the settlement were billed to each user jurisdiction - each user except WSSC has paid these billings. At September 30, 2004, WSSC owed the Authority $14.2 million in principal and $2.4 million in accrued interest for their share of the settlement costs. While the Authority represents that it is owed both the principal and interest amounts that have been billed to WSSC, it has recorded an allowance for bad debt expense for the $2.4 million of accrued interest as of September 30, 2004.

District of Columbia Water and Sewer Authority
Budgetary Comparison Schedule
For the Year Ended September 30, 2004
($ in 000's)

	Budget Approved	Budget Revised	Actual	Variance
Expenses:				
Personnel services	$ 74,932	$ 74,549	$ 69,962	$ 4,587
Contractual Services	63,087	63,241	57,493	5,748
Chemicals, supplies and small equipment	20,224	20,096	15,534	4,562
Utilities and rent	21,608	21,806	22,188	(382)
Water purchases	18,365	18,365	20,692	(2,327)
Lead Mitigation (includes $270 of personnel services)	-	11,917	9,659	2,258
Interest and fiscal charges (debt service)	45,055	45,055	44,958	97
Payment in lieu of tax & right of way fee	15,825	15,773	15,778	(5)
Total budget expenses	$ 259,096	$ 270,802	$ 256,264	$ 14,538
Increase (decrease) to reconcile budgetary to GAAP				
Personnel Expense transferred to capital fund			(7,783)	
Depreciation Expense			40,500	
Long-term debt principal payments			(24,920)	
Inventory issuance			443	
Non-budgeted expenses (e.g. bad debt)			6,022	
Total GAAP expenses			$ 270,526	

Note To Supplementary Information
On Budgetary Accounting And Control
For the Year Ended September 30, 2004

BUDGETARY ACCOUNTING AND CONTROL

Budget Law

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

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

Budget Accounting

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

Budget Requirements

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

Statistical Section

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EXHIBIT 1: OPERATING REVENUE BY SOURCE
FY 1995 - 2004
($000)

REVENUE SOURCE	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Residential/Commercial	$ 101,696	$ 101,078	$ 115,294	$ 138,697	$ 138,328	$ 131,399	$ 139,429	$ 148,134	$ 147,870	$ 159,165
Governmental										
Federal	22,966	21,946	24,024	25,068	26,859	24,092	26,199	28,501	26,884	26,444
DC Government (1)	-	-	12,268	21,883	11,168	10,883	9,543	10,293	9,943	9,129
DC Housing Authority	6,338	6,623	7,035	7,770	5,720	5,194	6,284	6,203	6,129	6,335
Subtotal Governmental	29,304	28,569	43,327	54,721	43,747	40,169	42,026	44,997	42,956	41,908
TOTAL RETAIL REVENUES	**$ 131,000**	**$ 129,647**	**$ 158,621**	**$ 193,418**	**$ 182,075**	**$ 171,568**	**$ 181,455**	**$ 193,131**	**$ 190,826**	**$ 201,073**
Charges for Wholesale Sewer Treatment	40,080	35,989	52,333	50,566	56,107	50,284	52,542	53,211	61,682	60,834
Other Revenues	3,977	5,854	6,230	14,459	4,450	6,078	3,483	2,387	3,287	2,427
Wholesale Water Revenues (2)	2,522	9,546	4,310	-	-	-	-	-	-	-
Refunds to Customers	(259)	-	-	-	-	-	-	-	-	-
TOTAL REVENUES	**$ 177,320**	**$ 181,036**	**$ 221,494**	**$ 258,443**	**$ 242,632**	**$ 227,930**	**$ 237,480**	**$ 248,729**	**$ 255,795**	**$ 264,334**

(1) As part of the Authority's enabling legislation, the District of Columbia Government pays the Authority for water and sewer services.

(2) In FY 1997, the Authority entered into an operating agreement with the U.S. Army Corps of Engineers, which operates the Washington Aqueduct. Prior to the execution of the agreement, amounts paid to the Aqueduct by its other customers (the City of Falls Church and Arlington County, Virginia) were recorded as revenue of the Authority.

Source: FY 1995 - 2004 Audited Statements of Revenue, Expenses and Changes in Net Assets

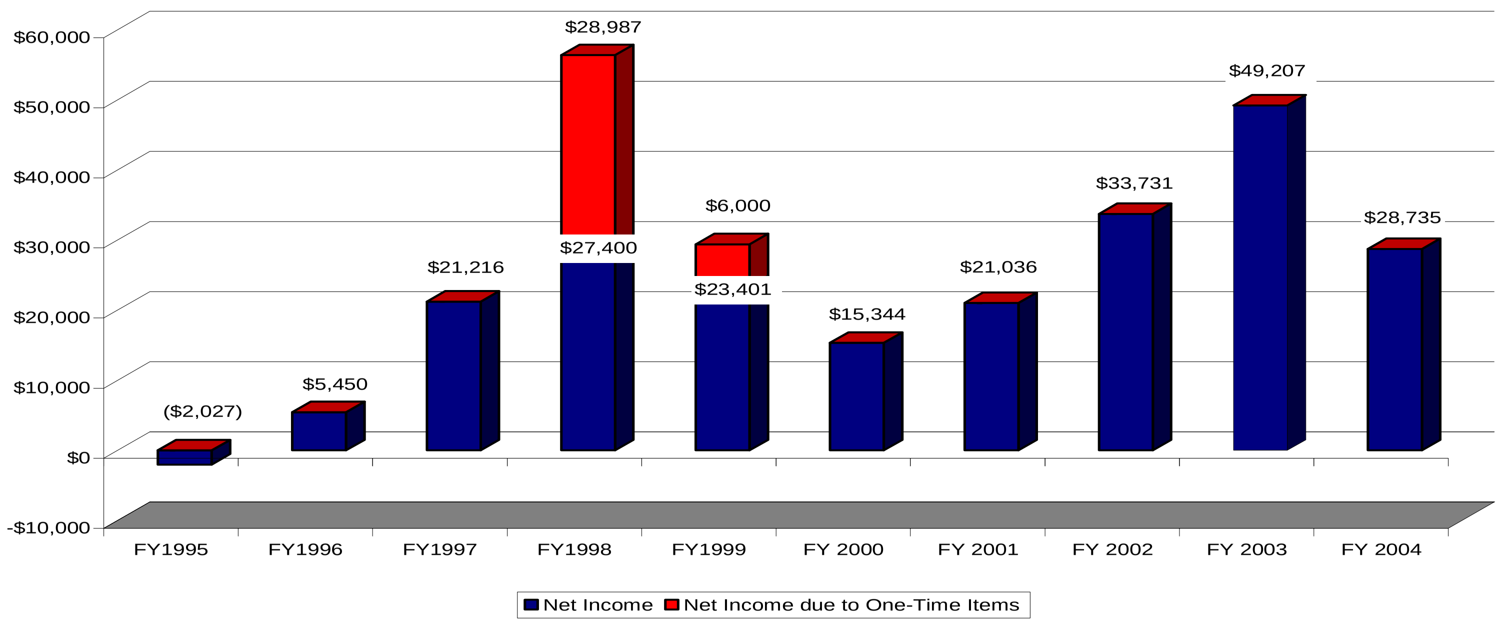
EXHIBIT 2: OPERATING EXPENSES BY CATEGORY
FY 1995 - 2004
($000)

EXPENSE CATEGORY	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Personnel	$ 49,669	$ 50,758	$ 51,197	$ 53,956	$ 60,674	$ 63,078	$ 62,055	$ 62,162	$ 64,091	$ 62,449
Contractual	43,808	40,539	55,904	66,340	56,017	54,552	58,976	59,166	63,065	65,446
Supplies	15,855	14,686	14,057	17,722	11,431	13,129	15,488	13,683	14,768	17,384
Occupancy	15,337	15,392	16,668	21,173	21,225	20,091	21,219	20,071	20,804	22,217
Depreciation & Amortization	18,830	18,660	25,695	26,278	28,227	30,329	32,971	37,099	39,524	40,500
Water Purchases	18,077	16,760	21,620	23,313	18,922	16,358	17,085	16,904	13,723	20,692
PILOT/Right of Way Fee [1]	-	-	-	-	-	9,177	15,026	15,247	15,513	15,778
Miscellaneous	244	387	1,407	-	-	-	-	-	-	-
TOTAL OPERATING EXPENSES	**$ 161,820**	**$ 157,182**	**$ 186,548**	**$ 208,782**	**$ 196,496**	**$ 206,714**	**$ 222,820**	**$ 224,332**	**$ 231,488**	**$ 244,466**

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

Source: FY 1995 - 2004 Audited Statements of Revenue, Expenses and Changes in Net Assets

EXHIBIT 3: NET ASSETS / NET INCOME
FY 1995 - 2004
($000)



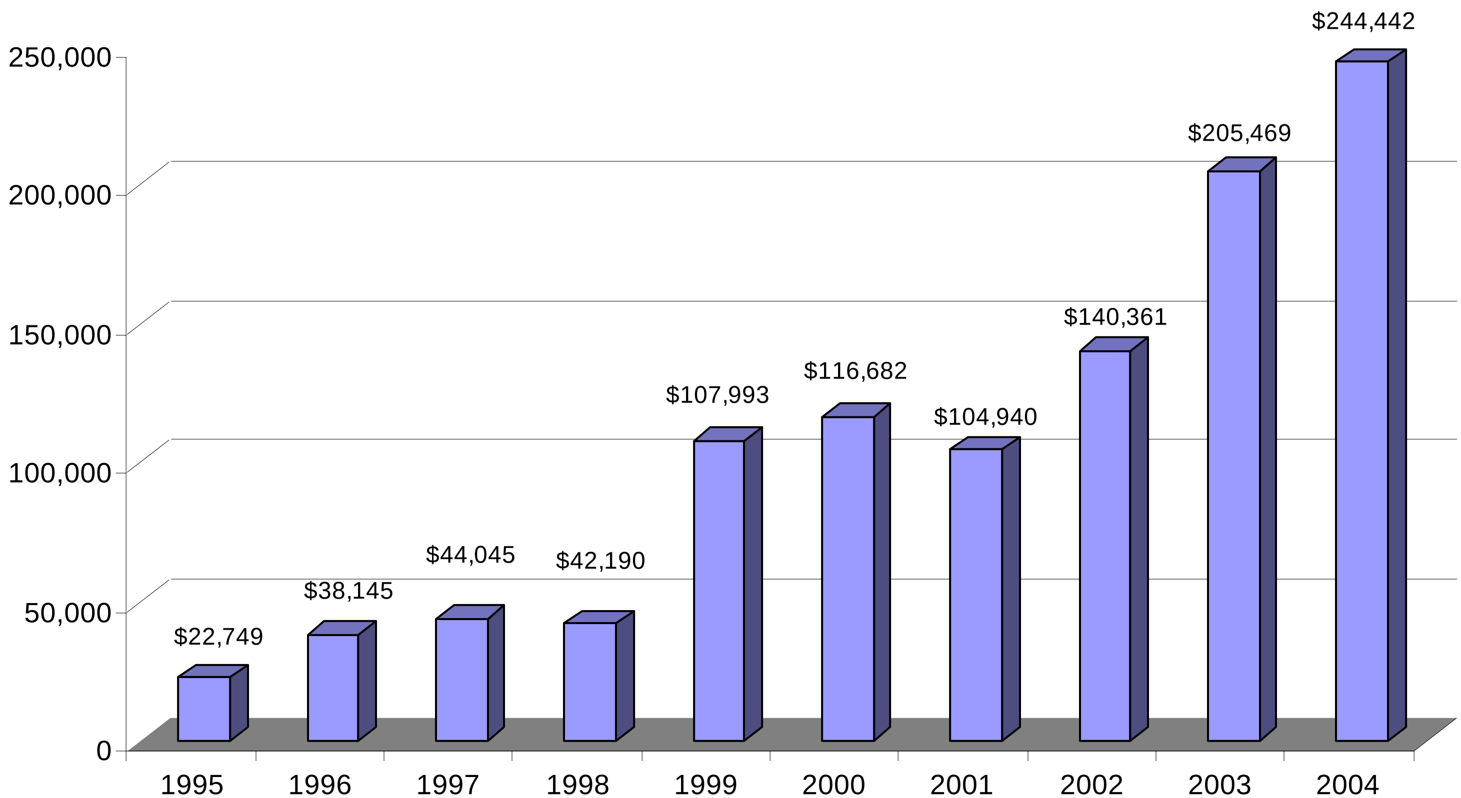
Note 1: In FY 1998 and FY 1999, net income included several one-time items. In FY 1998, these included: 1) $19 million in interest income due to a settlement with Loudoun County Sanitation Authority hor historical capacity at Blue Plains; and 2) $10 million in increased revenue due to the reduction of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

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

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

Source: FY 1995 – 2004 Audited Statements of Revenue, Expenses and Changes in Net Assets

EXHIBIT 4: CAPITAL DISBURSEMENTS
FY 1995 - 2005
($000)



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

Source: FY 1995 – 2004 Audited Statements of Cash Flows

EXHIBIT 5: DEBT SERVICE COVERAGE
FY 2004
($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	190,307
Wholesale revenues	49,950
Other non-operating revenues	27,807
(Contributions to) / Transfers from Rate Stabilization Fund	(6,000)
TOTAL REVENUES	262,064
OPERATING EXPENSES	184,426
REVENUES LESS OPERATING EXPENSES	77,638
SENIOR DEBT SERVICE	14,880
Replenishment of Senior Debt Service Reserve Fund	-
SUBORDINATE DEBT SERVICE	30,079
TOTAL OUTSTANDING & PROJECTED DEBT SERVICE	44,959
PAYMENT IN LIEU OF TAXES / RIGHT OF WAY FEE	18,216
ANNUAL BALANCE FROM OPERATIONS	14,463
BEGINNING CASH RESERVE BALANCE	118,738
CASH RESERVE BALANCE BREAKDOWN	
Beginning Undesignated Reserve Balance	54,330
Additions to / (Payments from) Undesignated Reserve	
Annual balance from operations	14,463
Prior year federal billing reconciliation	(1,923)
(Refund to) / Payment from wholesale customers	(7,275)
Prepayment of Washington Aqueduct Treasury loans	(1,161)
Pay-as-you-go capital financing	(16,436)
(Additions to) / Transfers from 60-Day Operating Reserve	(1,956)
(Additions to) / Transfers from Renewal & Replacement Reserve	-
Ending Undesignated Reserve Balance	40,042
Beginning 60-Day Operating Reserve Balance	29,409
Additions to / (Transfers from) 60-Day Operating Reserve	1,956
Ending 60-Day Operating Reserve Balance	31,365
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	**$106,407**
Cash Reserve Requirement Based on Board Policy	**$94,562**
Beginning Rate Stabilization Fund Balance	21,500
Additions to / Transfers from Rate Stabilization Fund	6,000
Ending Rate Stabilization Fund Balance	27,500

ANALYSIS OF DEBT SERVICE COVERAGE

CALC. OF NET REVENUES AVAILABLE FOR SENIOR DEBT SERVICE	
Revenues Less Operating Expenses	77,638
Prior year federal billing reconciliation	(1,923)
(Refund to) / Payment from wholesale customers	(7,275)
NET REVENUES AVAILABLE FOR SENIOR DEBT SERVICE	68,440
SENIOR DEBT SERVICE COVERAGE	4.60x
CALCULATION OF SUBORDINATE DEBT SERVICE COVERAGE	
Net revenues available for senior debt service	68,440
Less senior debt service	(14,880)
NET REVENUES AVAILABLE FOR SUBORDINATE DEBT SERVICE	53,560
SUBORDINATE DEBT SERVICE COVERAGE	1.78x
COMBINED DEBT SERVICE COVERAGE	1.52x

Source: Authority Department of Finance and Budget

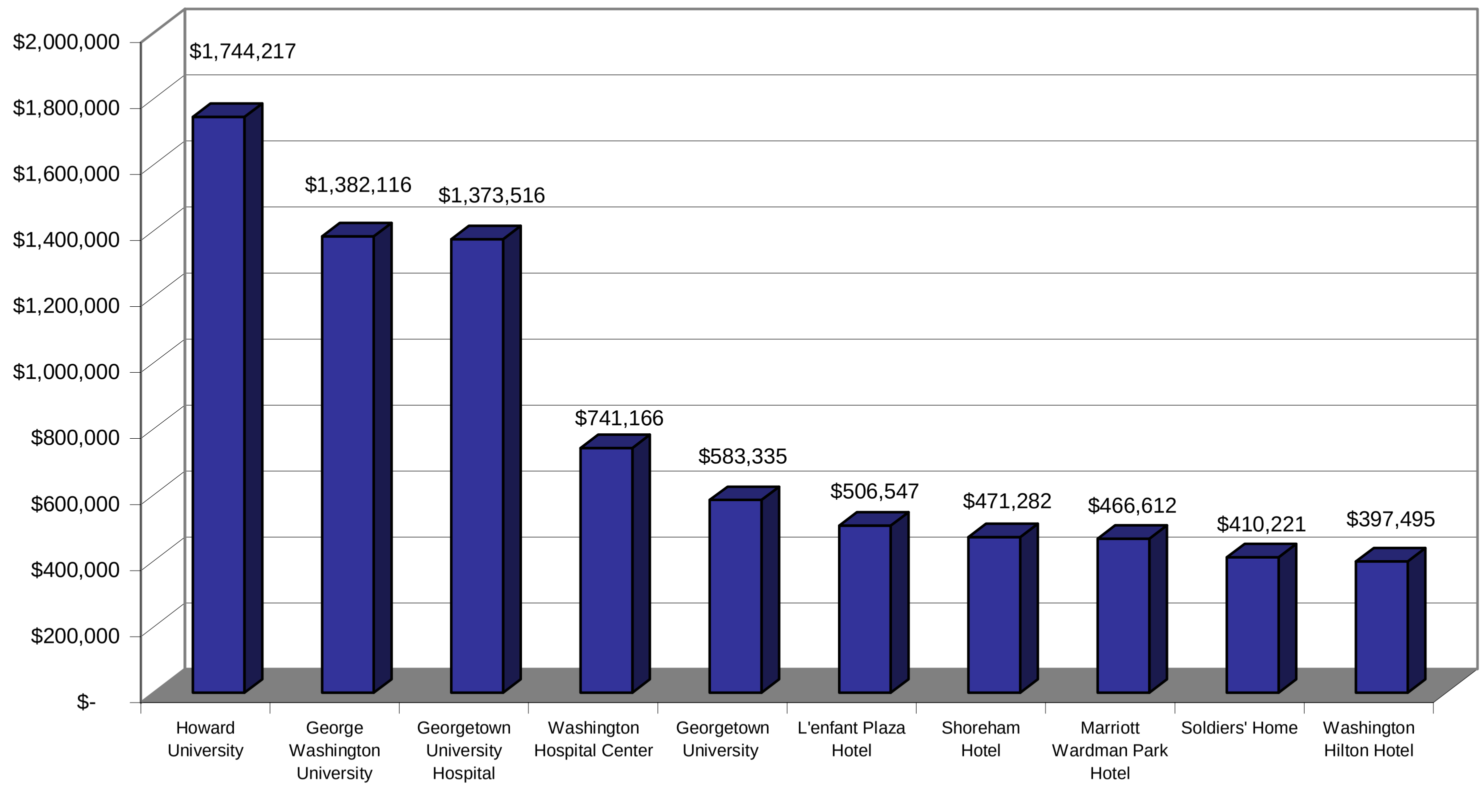
EXHIBIT 6: NUMBER AND TYPE OF CUSTOMER ACCOUNTS AS OF SEPTEMBER 30, 2004

TYPE OF ACCOUNT		NUMBER OF ACCOUNTS
Residential		102,188
Commercial [(A)]		18,283
Governmental		
Federal	529	
District of Columbia	569	
DC Housing Authority	1,196	
Total Governmental		2,294
WASA		29
Washington Aqueduct		1
Wholesale		7
TOTAL NUMBER OF ACCOUNTS		122,802

[(A)] Included in commercial accounts are 46 exempt accounts (39 for Howard University and 7 for Soldiers' Home)

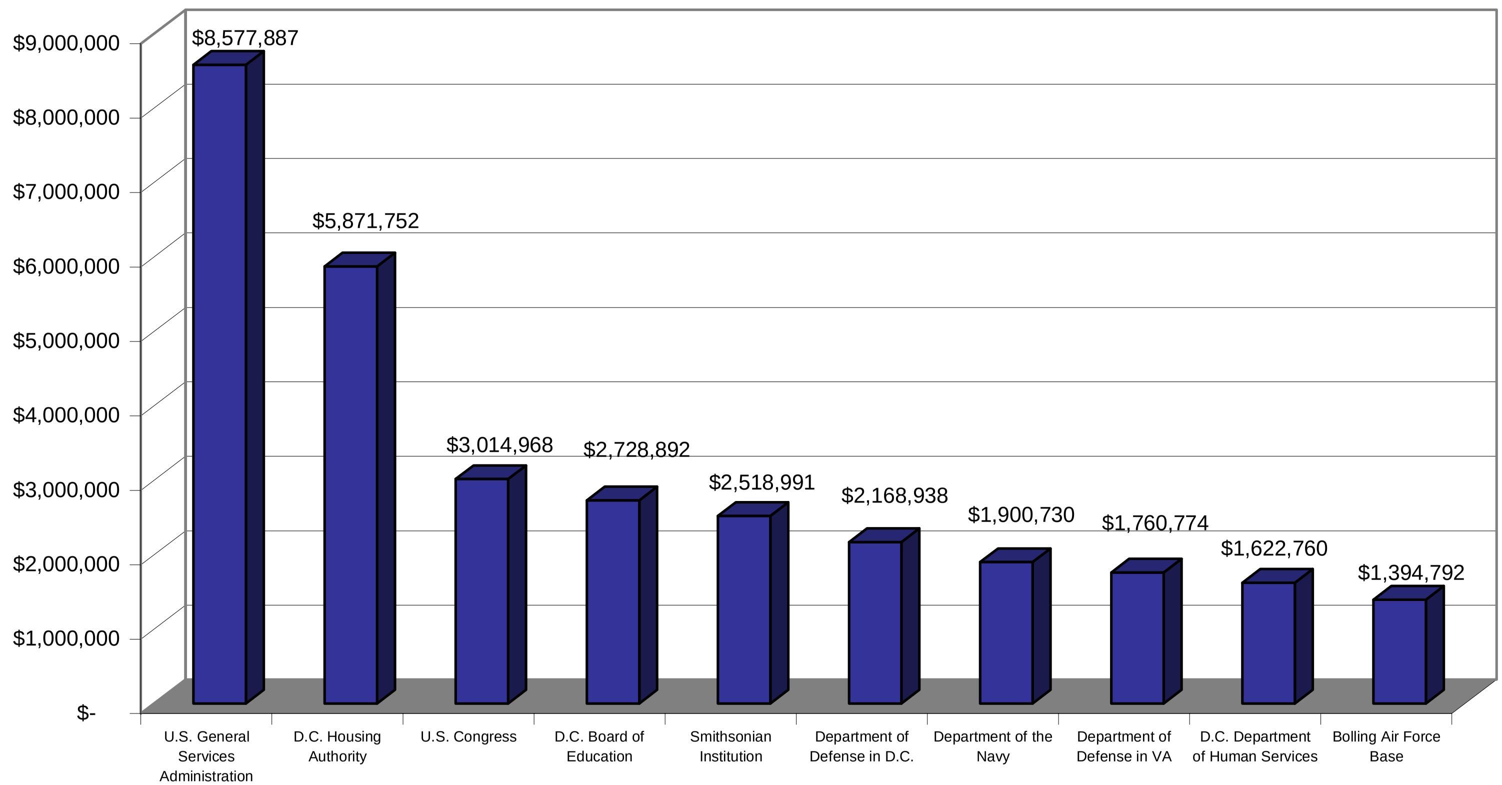
Source: D.C. Water and Sewer Authority Department of Customer Service

EXHIBIT 7: LARGEST COMMERCIAL CUSTOMER ACCOUNTS FY 2004



Source: Authority Department of Customer Service

EXHIBIT 8: LARGEST RETAIL CUSTOMER ACCOUNTS (INCLUDES GOVERNMENT AND RESIDENTIAL) FY 2004



Source: Authority Department of Customer Service

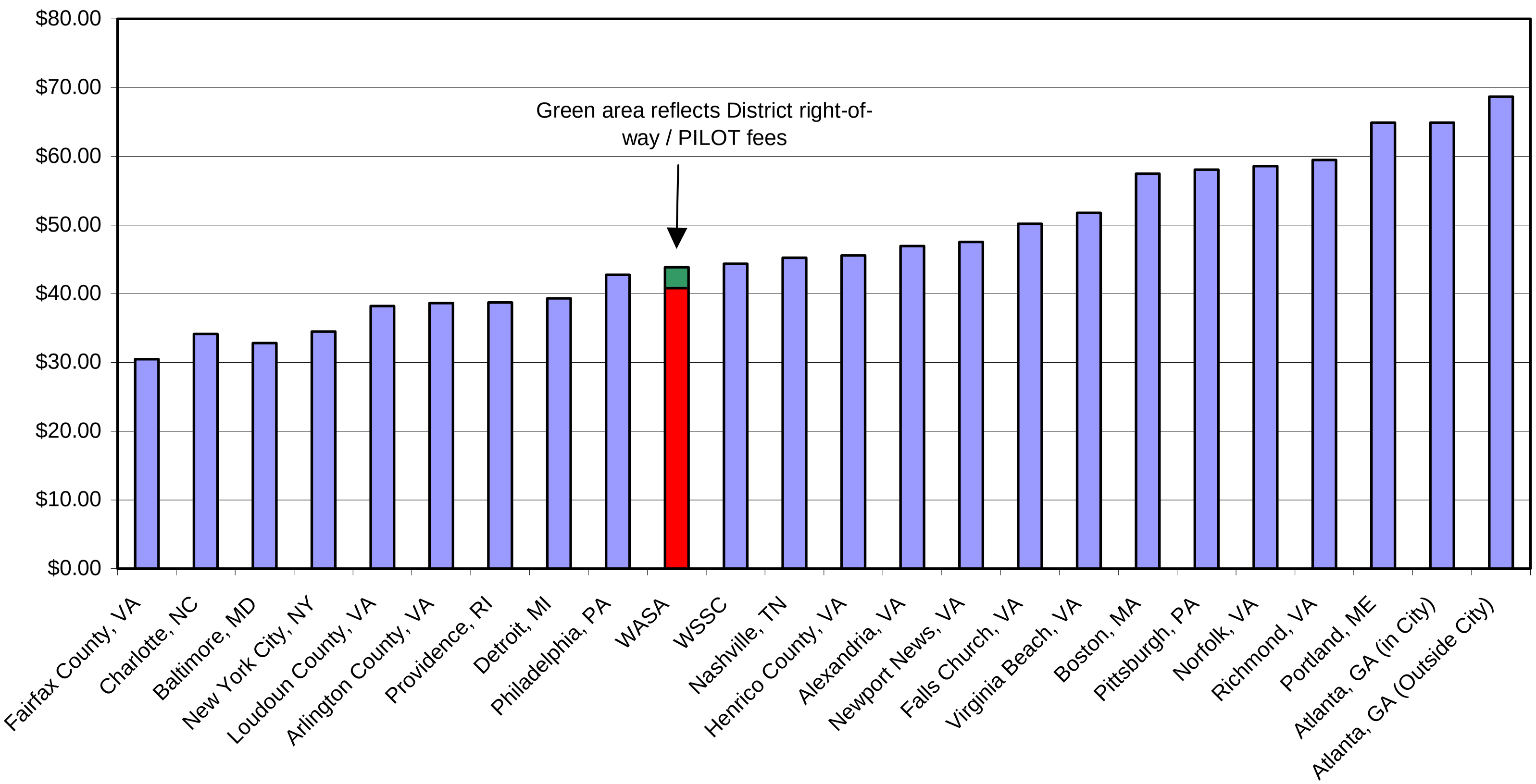
EXHIBIT 9: HISTORY OF RETAIL WATER & SEWER RATES PER Ccf FY 1980 – 2004

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

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

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

EXHIBIT 10: RESIDENTIAL WATER & WASTEWATER BILL COMPARISONS
MONTHLY BASIS
AS OF SUMMER 2004 (1)



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

Source: Authority Department of Finance & Budget

EXHIBIT 11: SCHEDULE OF INSURANCE AS OF SEPTEMBER 30, 2004

TYPE OF COVERAGE	COMPANY	POLICY PERIOD	COVERAGE LIMITS
Blanket Property and Boiler & Machinery	Factory Mutual Insurance Company	October 1, 2003 – October 1, 2004	$500,000,000 Blanket Buildings and Contents – Specified Locations $10,000,000 Miscellaneous Locations $100,000,000 Earth Movement $100,000,000 Flood, except $10,000,000 Blue Plains Flood Included in Blanket – TRIA Terrorism $1,000,000 - Other Terrorism $10,000,000 Extra Expense and Expediting Costs $10,000,000 Transit Any One Shipment Deductibles: $250,000 Any Loss, except $500,000 Flood, except $1,000,000 Blue Plains Flood
Miscellaneous Equipment Floater Policy	Hartford Insurance Company	April 7, 2004 – April 7, 2005	$6,000,000 Per Occurrence Deductibles: $10,000 Per Occurrence, except $25,000 Flood
Fidelity & Crime Insurance	Travelers	October 1, 2003 – October 1, 2004	$5,000,000 - Employee Dishonesty, Forgery, Computer Fraud, Money & Securities Deductible: $50,000 Per Occurrence
Commercial General Liability	Self-Funded		$1,000,000 each occurrence
Commercial Automobile	Self-Funded		$1,000,000 any one accident 100% Physical Damage - self-funded
Worker's Compensation	Self-Funded		Statutory WC Benefits Employer's Liability - $1,000,000 Each Accident; $1,000,000 Disease/ Employee
Excess Worker's Compensation Insurance	AIG	April 7, 2004 – April 7, 2005	$50,000,000 - WC Benefits; $1,000,000 - Employer's Liability (Included - Terrorism) Retentions: $1,000,000/accident; $1,000,000 Disease/ Employee.
Excess General Liability, Automobile Liability, and Employers Liability Insurance	AEGIS Insurance	April 7, 2004 – April 7, 2005	$35,000,000 in excess of $1,000,000 (Included - Terrorism)
Excess Liability	Energy Insurance Mutual	April 7, 2004 – April 7, 2005	$65,000,000 in excess of $35,000,000 ($25,000,000 - Terrorism sublimit)
Public Official Liability	RSVI / Darwin	April 7, 2004 – April 7, 2005	$20,000,000 Each Loss / Aggregate Retention: $500,000/$1,000,000 wrongful act
Fiduciary Liability	Travelers	October 1, 2003 – October 1, 2004	$3,000,000 Each Loss / Aggregate Deductible: $10,000 per claim

EXHIBIT 12: WATER DEMAND
FY 1996 - 2003

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)
1996	51,553	141.2	161.3	192.4	39,416	108.0
1997	49,172	134.7	158.3	207.2	37,405	102.5
1998	47,671	130.6	159.2	178.7	37,323	102.3
1999	50,140	137.4	167.0	201.3	34,428	94.3
2000	48,051	131.6	153.0	209.7	31,987	87.6
2001	48,144	131.9	148.3	180.4	32,008	87.7
2002	48,634	133.2	152.1	170.3	32,147	88.1
2003	45,655	125.1	141.2	164.9	31,335	85.8

Note: FY 2004 data is not available as of CAFR printing date. This exhibit will be updated in FY 2005.

Source: Authority Department of Water Services and Washington Aqueduct

EXHIBIT 13: WATER DELIVERED (PUMPED) AND BILLED (SOLD) IN Ccf FY 1996 – 2004

FISCAL YEAR	TREATED WATER DELIVERED	WATER BILLED	SOLD/PUMPED RATIO
1996	68,921,591	52,695,847	76.46%
1997	65,737,500	50,007,037	76.07%
1998	63,730,922	49,896,545	78.29%
1999	67,032,821	46,026,213	68.66%
2000	64,239,492	42,763,218	66.57%
2001	64,363,369	42,791,940	66.48%
2002	65,019,144	42,977,802	66.10%
2003	61,036,537	41,891,644	68.63%
2004	62,466,939	42,291,441	67.70%

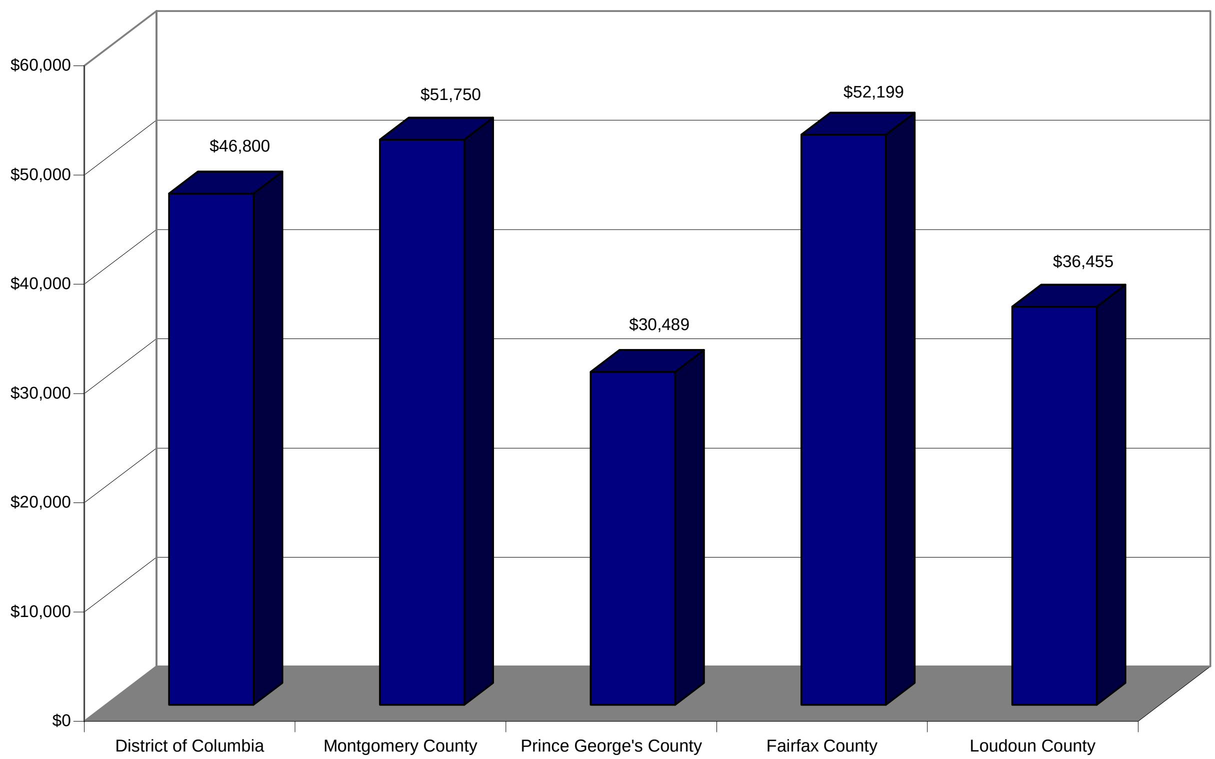
Source: Ccf Delivered, Washington Aqueduct; Ccf Billed, Authority Department of Customer Service

EXHIBIT 14: POPULATION OF SERVICE AREA JURISDICTIONS

JURISDICTION	POPULATION ESTIMATE
District of Columbia	563,384
Montgomery County	918,881
Prince George's County	838,716
Fairfax County	1,000,405
Loudoun County	221,746

Source: United States Census Bureau (latest available data is for 2003)

EXHIBIT 15: PER CAPITA PERSONAL INCOME
DISTRICT OF COLUMBIA



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

Latest available data is for 2002

EXHIBIT 16: UNEMPLOYMENT RATES

JURISDICTIONS	UNEMPLOYMENT RATE
District of Columbia	7.0%
Montgomery County	2.6%
Prince George's County	4.7%
Fairfax County	2.5%
Loudoun County	2.9%

Source: U.S. Department of Labor, Bureau of Labor Statistics
Latest available data is for 2003

EXHIBIT 17: EMPLOYMENT BY SECTOR

	DISTRICT OF COLUMBIA	MONTGOMERY COUNTY	PRINCE GEORGE'S COUNTY	FAIRFAX COUNTY (A)	LOUDOUN COUNTY (B)
Agriculture, Forestry, Mining, etc.	(C)	0.19%	0.12%	0.12%	0.51%
Construction	1.87%	6.11%	9.07%	5.78%	10.29%
Manufacturing	(C)	3.06%	3.06%	1.74%	3.41%
Transportation & Public Utilities	(C)	1.66%	4.71%	(C)	10.05%
Wholesale & Retail Trade	3.20%	11.86%	15.68%	12.06%	10.94%
Finance, Insurance & Real Estate	5.22%	10.66%	6.76%	9.10%	6.25%
Services	57.30%	51.66%	39.34%	58.36%	45.85%
Government (Federal, State & Local)	29.54%	13.80%	19.22%	12.00%	12.26%
Military	2.87%	1.00%	2.04%	0.84%	0.44%
TOTAL	100.00%	100.00%	100.00%	100.00%	100.00%

(A) Mining data for Fairfax County are not included
(B) Utilities and wholesale trade data for Loudoun County are not included
(C) Indicates data are not shown to avoid disclosure of confidential information

Source: U.S. Department of Commerce, Bureau of Economic Analysis
Latest available data is for 2002

EXHIBIT 18: SUMMARY OF MAJOR PERMITS & ADMINISTRATIVE ORDERS FY 2004

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

EXHIBIT 18: SUMMARY OF MAJOR PERMITS & ADMINISTRATIVE ORDERS FY 2004 (Continues)

Water	Description	Expiration Date	Current Status
1996 Administrative Order & Consent Agreement 111-96-001-DS	Requires compliance with the WASA-prepared and EPA-approved remediation plan: Public notification program Financial management program Water quality sampling program Storage facility rehabilitation program Cross connection control program Storage facility maintenance program Corrosion control treatment program	N/A	In Compliance All items completed as of 12-31-2002.
2004 Administrative Order for Compliance on Consent SWDA-03-2004-0259DS	Requires certain actions, including: Updating of inventory of lead service lines Replace a certain number of lead service lines and conduct post-replacement sampling Public education	N/A	In Compliance

EXHIBIT 19: MISCELLANEOUS STATISTICS ABOUT AUTHORITY OPERATIONS FY 2004

Utilities & Supplies Per Day (at Blue Plains)

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

Wastewater Treatment Capacity

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

EXHIBIT 19: MISCELLANEOUS STATISTICS ABOUT AUTHORITY OPERATIONS FY 2004 (Continues)

Wastewater Plant Permit Limitations

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

Wastewater Plant Processes

Primary Treatment

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

EXHIBIT 19: MISCELLANEOUS STATISTICS ABOUT AUTHORITY OPERATIONS FY 2004 (Continues)

Secondary Treatment

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

NIitrification/Denitrification

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

Filtration & Disinfection

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