GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF THE INSPECTOR GENERAL

District of Columbia

WATER AND SEWER AUTHORITY

Financial Statements and
Independent Auditors' Report
For the Years Ended
September 30, 2012, and 2011

CHARLES J. WILLOUGHBY
INSPECTOR GENERAL

OIG No. 13-1-14LA **March 12, 2013**

GOVERNMENT OF THE DISTRICT OF COLUMBIA
Office of the Inspector General

Inspector General

March 12, 2013

The Honorable Vincent C. Gray
Mayor
District of Columbia
Mayor's Correspondence Unit, Suite 316
1350 Pennsylvania Avenue, N.W.
Washington, D.C. 20004

The Honorable Phil Mendelson
Chairman
Council of the District of Columbia
John A. Wilson Building, Suite 504
1350 Pennsylvania Avenue, N.W.
Washington, D.C. 20004

Dear Mayor Gray and Chairman Mendelson:

In connection with the audit of the District of Columbia's (the District) general purpose financial statements for fiscal year (FY) 2012, Bazilio Cobb, Associates (BCA) submitted the enclosed final report on the District of Columbia Water and Sewer Authority (Authority) OIG Report No. 13-1-14LA.

BCA opined that the financial statements present fairly, in all material respects, the financial position of the Authority as of September 30, 2012, and 2011, and changes in its financial position and cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

If you have questions or need additional information, please contact Ronald W. King, Assistant Inspector General for Audits, at (202) 727-2540.

Sincerely,

Charles J. Willoughby
Inspector General

CJW/ws

Enclosure

cc: See Distribution List

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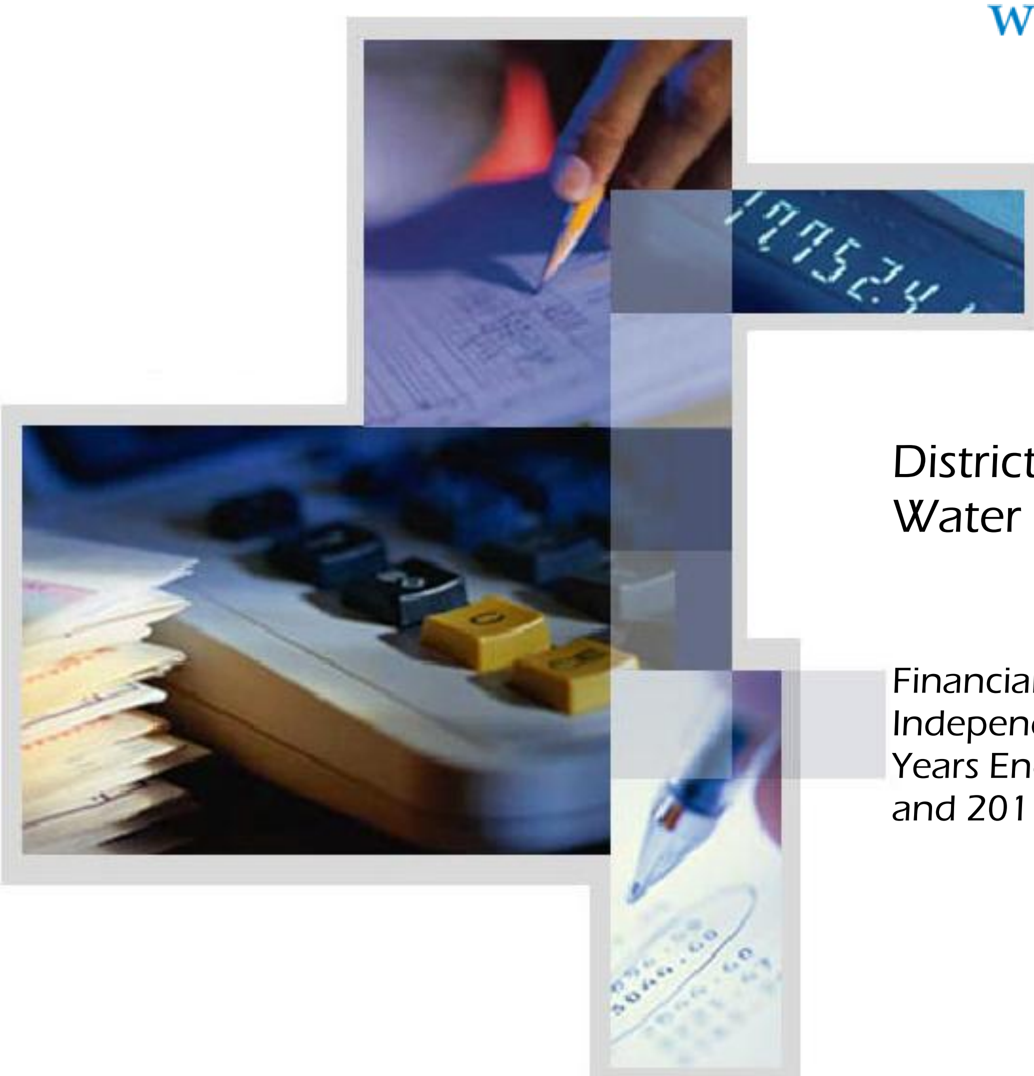

District of Columbia Water and Sewer Authority

Financial Statements and
Independent Auditor's Report
Years Ended September 30, 2012
and 2011

Bazilio Cobb Associates
Certified Public Accountants and Consultants
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DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

Financial Statements With Independent Auditor's Report

September 30, 2012 and 2011

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BCA Bazilio Cobb Associates
Certified Public Accountants and Consultants
1920 N Street NW, Suite 800 Washington, DC 20036
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Independent Auditor's Report

Board of Directors
District of Columbia Water and Sewer Authority:

We have audited the accompanying statements of net assets of the District of Columbia Water and Sewer Authority (the Authority), a component unit of the District of Columbia as of September 30, 2012 and 2011, and the related statements of revenues, expenses and change in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of September 30, 2012 and 2011, and changes in its financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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

Washington, DC
December 17, 2012

Bazilio Cobb Associates

DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

Management's Discussion and Analysis

This section of the District of Columbia Water and Sewer Authority's ("DC Water" or the "Authority") annual financial report presents the analysis of the Authority's financial performance during the fiscal year that ended on September 30, 2012. The Management's Discussion and Analysis ("MD&A") should be read in conjunction with the Authority's basic financial statements, beginning on page 13.

HIGHLIGHTS

Financial Highlights – 2012

- The Authority's net assets increased by $85.5 million to $1.2 billion, or 8.0 percent, as a result of fiscal year 2012 operations and capital contributions (see "Analysis of Net Assets" on page 5).
- Operating expenses increased by $1.8 million to $321.1 million, or 0.6 percent due to increases in: personnel services, water purchases and depreciation and amortization expense, partially offset by reductions in contractual services and utilities (see "Expenses" on pages 9 and 10).
- Operating revenues increased by $32.3 million to $440.6 million or 7.9 percent, primarily due to increased revenues from residential and commercial customers, Federal government and wholesale wastewater charges.
- Current assets increased by $19.7 million to $285.8 million, or 7.4 percent, primarily due to an increase in investments, retail customer receivables and receivables from the Federal government, partially offset by a decrease in receivables from other jurisdictions.
- Restricted assets increased by $98.3 million to $379.5 million, or 35.0 percent, primarily due to proceeds from issuance of the 2012 revenue bonds.
- Net utility plant (capital assets) increased by $411.9 million to $3.5 billion, or 13.5 percent, due to a planned increase in capital expenditures in line with the Authority's approved $3.8 billion, 10-year capital improvement program.
- The Authority's long-term debt, including current maturities, increased $284.8 million to $1.8 billion, or 18.4 percent, primarily due to the $440.6 million bond issuance in March 2012.

Financial Highlights – 2011

- The Authority's net assets increased by $44.7 million to $1.1 billion, or 4.4 percent, as a result of fiscal year 2011 operations and capital contributions (see "Analysis of Net Assets" on page 5).
- Operating expenses increased by $10.6 million to $319.3 million, or 3.5 percent, due to increases in: personnel services, contractual services, and depreciation and amortization expense, partially offset by reductions in chemicals and water purchases (see "Expenses" on pages 9 and 10).
- Operating revenues increased by $44.5 million to $408.3 million or 12.2 percent, primarily due to increased revenues from residential and commercial customers, Federal government and wholesale wastewater charges.
- Current assets increased by $18.8 million to $266.1 million, or 7.6 percent, primarily due to an increase in cash and cash equivalents and receivables from other jurisdictions, partially offset by a decrease in receivables from the Federal government.
- Restricted assets increased by $124.4 million to $281.2 million, or 79.3 percent, primarily due to proceeds from issuance of the 2010 revenue bonds.
- Net utility plant (capital assets) increased by $275.2 million to $3.1 billion, or 9.9 percent due to a planned increase in capital expenditures in line with the Authority's approved $3.8 billion, 10-year capital improvement program.
- The Authority's long-term debt, including current maturities, increased $282.2 million to $1.5 billion, or 22.7 percent, primarily due to the $300.0 million bond issuance in October 2010.

Authority Highlights - 2012

Bond Issuance – On March 14, 2012, DC Water issued subordinate lien public utility revenue bonds (Series 2012A-C) with a face value of $440.6 million which are due in 2044. The interest rate on series A and C is fixed and ranges from 2.0% to 5.0% over the life of the bonds. The interest rate on series B is variable. There was $53.3 million of original issue premium and approximately $2.8 million for cost of issuance and underwriter's discount costs associated with this issuance.

Debt Refunding – On March 14, 2012, DC Water advance-refunded $176.2 million of its 2003 public utility revenue bonds using proceeds from Series C of the 2012 issuance.

Rate Stabilization Fund – The Authority increased its rate stabilization fund to $28.0 million at the end of fiscal year 2012, with an allocation of $11.3 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 at the Authority's discretion.

Rate Increase – Effective October 1, 2011, the Board approved an increase of the Authority's retail water and sewer rates by 4.5 percent. This increase was in line with the Board's rate setting policy which strives to set rates so that each customer is charged for those costs necessary to provide each service, and rate increases are predictable and gradual.

Authority Highlights - 2011

Bond Issuance – On October 20, 2010, DC Water completed a successful launch of its $300.0 million Build America taxable bonds. These bonds were issued at total net interest rate of approximately 3.6 percent. This is the lowest rate ever issued in the Authority's history for long-term bonds and will save our rate payers approximately $2.7 million annually compared to issuing traditional tax exempt bonds.

Senior Service Debt Coverage – DC Water's policy requires that senior debt service coverage be maintained at a minimum of 140 percent, 20 percent higher than indenture requirements. DC Water's senior debt service coverage in 2011 was 321.0 percent. Combined debt service coverage was at 144.0 percent.

Rate Increase – Effective October 1, 2010, the Board approved an increase of the Authority's retail water and sewer rates by 12.5 percent. This increase was in line with the Board's rate setting policy which strives to set rates so that each customer is charged for those costs necessary to provide each service, and rate increases are predictable and gradual.

Accounts Receivable – In fiscal year 2011, retail accounts receivable over 90 days were aggressively managed to maintain a low level at $5.5 million, $0.6 million above the all-time low level, despite a difficult economic environment and the retail water and sewer rate increase of 12.5 percent in fiscal year 2011.

USING THIS ANNUAL REPORT

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

Required Financial Statements

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

- The Statement of Revenues, Expenses, and Change in Net Assets presents the changes in net assets from one reporting period to another by accounting for revenues and expenditures and measuring the financial results of operations. This statement measures the profitability (i.e. change in net assets) of the Authority's operations over the past year and can be used to determine whether the Authority has successfully recovered all of its costs through its user fees and other charges.

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

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

FINANCIAL ANALYSIS OF THE AUTHORITY AS A WHOLE

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

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

	FY 2012	FY 2011	FY 2010
Utility plant, net	$3,464,236	$3,052,296	$2,777,125
Current and other assets	951,373	818,429	651,590
Total assets	4,415,609	3,870,725	3,428,715
Current liabilities	317,403	274,512	215,377
Long-term debt outstanding	1,813,967	1,530,174	1,250,442
Long-term liabilities	1,126,497	993,821	935,421
Total liabilities	3,257,867	2,798,507	2,401,240
Net assets			
Invested in utility plant, net of	1,035,584	946,868	880,934
Restricted	63,597	62,505	44,333
Unrestricted	58,561	62,845	102,208
Total net assets	$1,157,742	$1,072,218	$1,027,475

Analysis of Net Assets

The Authority's total assets exceeded liabilities by $1.2 billion and $1.1 billion for the fiscal years ended September 30, 2012 and 2011, respectively. The Authority's net assets include its investment of $1.0 billion and $946.9 million in utility plant (e.g., infrastructure, buildings, equipment and fleet) for the fiscal years ended September 30, 2012 and 2011 respectively, less any related outstanding debt used to acquire those assets. The Authority uses its capital assets to provide services to its customers. Although the Authority's investment in its utility plant is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be liquidated for these liabilities. An additional portion of the Authority's net assets, $63.6 million and $62.5 million represents resources that are subject to external restrictions (primarily related to the Authority's bond indentures) on how they may be used. The remaining balance of $58.6 million and $62.8 million for the fiscal years ended September 30, 2012 and 2011, respectively, are unrestricted.

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

	FY 2012	FY 2011	FY 2010
Revenues			
Operating Revenues:			
Residential Commercial and multi-family customers	$ 256,846	$ 241,475	$ 209,796
Federal government	48,381	43,033	37,845
District government and D.C. Housing Authority	24,713	25,123	21,947
Charges for wholesale waste water treatment	94,549	90,414	87,505
Other	16,077	8,210	6,655
Total operating revenues	440,566	408,255	363,748
Non-operating revenues:			
Interest Income	933	2,008	1,561
Total revenues	441,499	410,263	365,309
Expenses			
Operating expenses:			
Personnel services	97,784	93,240	88,210
Contractual services	62,643	68,286	66,747
Chemicals, supplies and small equipment	28,815	28,188	29,003
Utilities and rent	26,786	29,429	29,929
Depreciation and amortization	74,342	70,209	64,425
Water purchases	28,389	27,170	27,587
Other	2,296	2,769	2,750
Total operating expenses	321,055	319,291	308,651
Non-operating expenses			
Interest expense and fiscal charges	71,895	71,621	58,370
Payment in lieu of taxes and right of way fee	21,982	21,982	20,474
Total non-operating expenses	93,877	93,603	78,844
Total expenses	414,932	412,894	387,495
Income (loss) before Federal grants and contributions	26,567	(2,631)	(22,186)
Federal grants and contributions	58,957	47,374	30,403
Change in net assets	85,524	44,743	8,217
Net assets, beginning of year	1,072,218	1,027,475	1,019,258
Net assets, end of year	$ 1,157,742	$ 1,072,218	$ 1,027,475

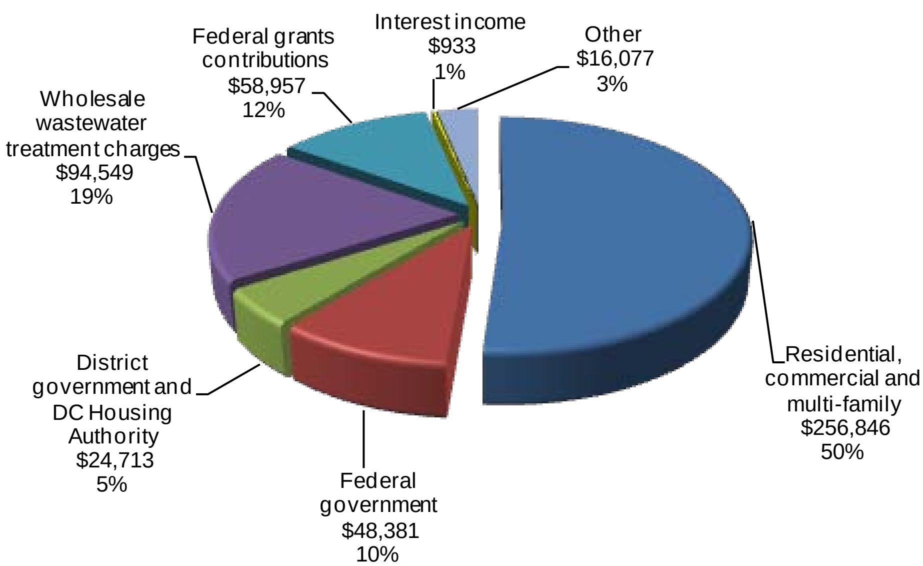
Analysis of Change in Net Assets

The Authority's financial performance remained stable in fiscal year 2012, with net assets exceeding $1.2 billion, an increase of $85.5 million over fiscal year 2011, including Federal grants and contributions. Excluding non-operating revenues (expenses) and Federal grants and contributions, which can vary significantly from year to year based on capital spending and other factors, operating income was $119.5 million, an increase of $30.6 million compared to fiscal year 2011 (see Statements of Revenues, Expenses and Change in Net Assets on page 14).

Total Revenues

Total revenues (including federal grants and interest income) were $500.5 million in fiscal year 2012, an increase of $42.8 million, or 9.4 percent over fiscal year 2011. This is primarily due to increases of $15.4 million from retail customers, $5.3 million from the Federal government, $4.1 million from wholesale wastewater charges, $7.9 million from other revenue sources and $11.6 million from Federal grant contributions.

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 $15.4 million to $256.8 million, or 6.4 percent over fiscal year 2011, primarily due to a rate increase in fiscal year 2012.

- Water and wastewater user charges from Federal government customers were $48.4 million in fiscal year 2012, an increase of $5.3 million or 12.4 percent, primarily due to a rate increase in fiscal year 2012.

- Water and wastewater user charges from the District government and the District of Columbia Housing Authority were $24.7 million, a decrease of $0.4 million, or 1.6 percent, primarily due to a rate increase in fiscal year 2012 offset by a decrease in consumption.

- Wholesale wastewater treatment charges were $94.5 million, an increase of $4.1 million, or 4.6 percent over fiscal year 2011, primarily due to increased revenues from IMA participants. According to the Blue Plains Intermunicipal Agreement ("IMA") (see Note 1), wholesale customers pay a share of both the operating and capital costs of the plant. The payments for capital costs are amortized and recognized as income over the depreciable life of assets purchased (i.e., 60 years).

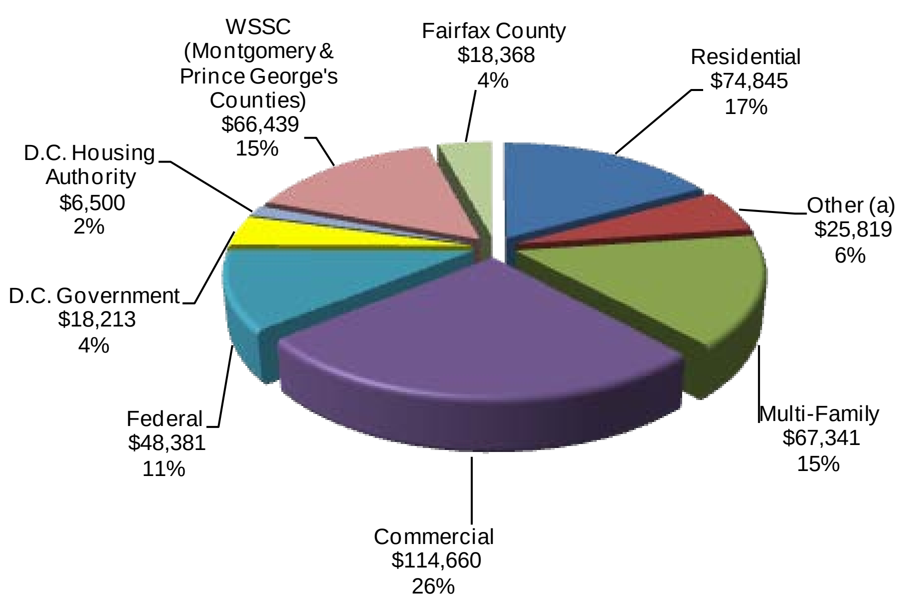
- Interest income, a non-operating revenue item, was $0.9 million, a decrease of $1.1 million, or 53.5 percent over the prior year, primarily due to lower returns on investments.

- Federal grant contributions were $59.0 million, an increase of $11.6 million, or 24.5 percent compared to last year, primarily due to increased capital construction spending in fiscal year 2012 on grant-eligible projects.

Diversity and Stability of Operating Revenues

The Authority's operating revenue base is very diverse, including established customers such as the Federal government, the District government, surrounding jurisdictions in Maryland and Virginia, and commercial and residential customers within the District. As shown on the chart below, no one category accounts for more than 26 percent of total revenues.

Operating Revenues by Source
($ in 000's)



(a) Other revenues include $7.3 million from Loudoun County and $2.4 million from Potomac interceptor.

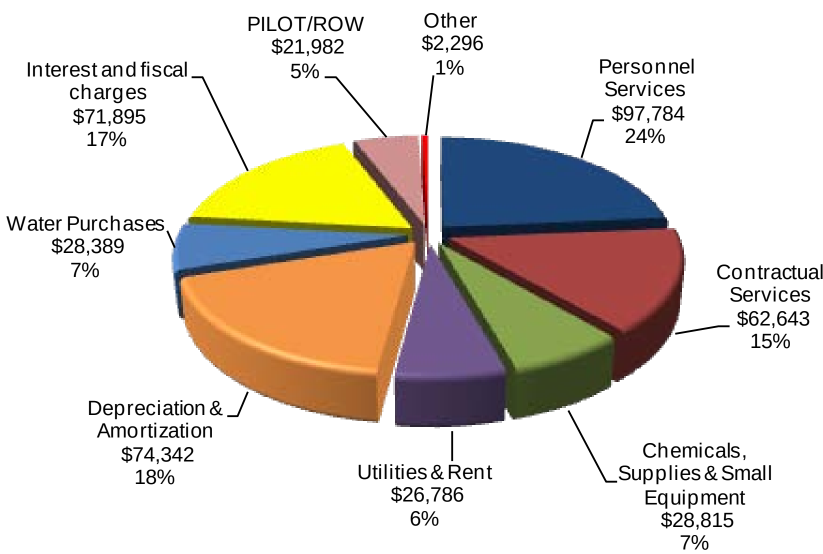
A description of each revenue source as well as a discussion of recent trends in each category follows:

- Revenues from commercial and multi-family customers in the District comprise approximately 41.0 percent of the Authority's total operating revenues. Commercial revenues are reliable due to the presence of many national associations, government consulting firms, and colleges and universities in the District. The commercial customer category also includes multi-family dwellings.
- The Authority provides wastewater conveyance and treatment services to Montgomery and Prince George's Counties in Maryland through the Washington Suburban Sanitary Commission ("WSSC") and Fairfax and Loudoun Counties in Northern Virginia. Operating revenues from WSSC and Fairfax County account for 19.0 percent of the Authority's revenues and are based primarily on their share of operating costs at Blue Plains. Loudoun County and Potomac Interceptor customers account for an additional 2.0 percent of the Authority's revenues and are included in other revenues. Operating costs are allocated to each user based on its sewer flows and purchased capacity at Blue Plains.
- Residential customers in the District account for 17.0 percent of total revenues.
- Payments from the Federal government comprise 11.0 percent of the Authority's total operating revenues and include customers such as the U.S. Congress, the Smithsonian Institution, and a range of federal departments and agencies.
- Revenues from the Government of the District of Columbia and the District of Columbia Housing Authority make up 6.0 percent of total operating revenues.

Expenses

Operating expenses increased by $1.8 million, or 0.6 percent, primarily due to a $4.5 million increase in personnel services, a $4.1 million increase in depreciation and amortization expense, and a $1.2 million increase in water purchases. These increases were offset by a $5.6 million decrease in contractual services and a $2.6 million decrease in utilities and rent.

Total Expenses
($ in 000's)



A detailed analysis of the operating expenses follows:

- Personnel services were $97.8 million, an increase of $4.5 million, or 4.9 percent over the prior year, primarily due to increases in wages in addition to increased number of personnel.
- Contractual services were $62.6 million, a decrease of $5.6 million, or 8.3 percent over the prior year, primarily due to lower litigation incurrence during the current year.
- Utilities and rent expenses were $26.8 million, a decrease of $2.6 million, or 9.0 percent compared to the prior year, primarily due to savings in electricity costs attributable to the adopted block purchasing strategy and a decline in influent flows into the treatment facilities.
- Depreciation and amortization expenses were $74.3 million, an increase of $4.1 million, or 5.9 percent over the prior year, which is in line with the increase in capital assets due to the capital improvement program.
- Water purchases were $28.4 million, an increase of $1.2 million, or 4.5 percent compared to the prior year, primarily due to a five percent rate increase from the Washington Aqueduct.

UTILITY PLANT AND DEBT ADMINISTRATION

Utility Plant

At the end of fiscal year 2012, the Authority had $3.5 billion invested in a broad range of capital assets (utility plant), including its wastewater collection, wastewater treatment and water distribution systems. This amount represents a net increase of nearly $412.0 million, or 13.5 percent over the prior year due to continued capital spending in accordance with the capital improvement program.

Table 3 summarizes the Authority's utility plant, net of accumulated depreciation, at September 30, 2012, 2011 and 2010. The changes are presented in detail in Note 4 to the financial statements.

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

	FY 2012	FY 2011	FY 2010
Wastewater treatment plant	$ 1,924,985	$ 1,839,010	$ 1,822,320
Wastewater collection facilities	716,651	689,575	598,404
Water distribution system	897,077	863,474	800,861
Capital equipment	167,641	155,770	144,307
Construction in progress	807,430	485,497	327,738
Less accumulated depreciation	(1,049,548)	(981,030)	(916,505)
Net utility plant	$ 3,464,236	$ 3,052,296	$ 2,777,125

Debt Administration

At the end of fiscal year 2012, the Authority had a total of $1.8 billion in long term debt outstanding, an increase of $245.7 million, or 16.1 percent, over fiscal year 2011 (see Note 10 for more information on long-term debt).

Table 4 – Long-Term Debt Outstanding
As of September 30, 2012
($ in 000's)

SENIOR DEBT	INTEREST RATES	YEAR OF FINAL MATURITY	AMOUNT OUTSTANDING
1998 public utility revenue bonds	5.50 - 6.00%	2028	$ 218,815
2009 public utility revenue bonds series A	3.00 - 6.00%	2039	296,205
SUBTOTAL SENIOR DEBT			515,020
SUBORDINATE DEBT			
2012 public utility revenue bonds series A	2.00 - 5.00%	2037	177,430
2012 public utility revenue bonds series B-1	2.26%	2044	52,690
2012 public utility revenue bonds series B-2	2.26%	2040	47,310
2012 public utility revenue bonds series C	4.00 - 5.00%	2033	163,215
2010 public utility revenue bonds series A	4.07 - 5.52%	2044	300,000
2008 public utility revenue bonds series A	4.00 - 5.00%	2034	279,955
2007 public utility revenue bonds series A	4.75 - 5.50%	2042	218,715
Notes payable to the federal government for Jennings Randolph Reservoir	3.25%	2041	14,273
Notes payable to WSSC for Little Seneca Reservoir	5.98 - 6.60%	2014	63
TOTAL SUBORDINATE DEBT			1,253,651
TOTAL DEBT OUTSTANDING			1,768,671
CURRENT PORTION OF DEBT OUTSTANDING			(19,692)
DEBT OUTSTANDING, LESS CURRENT PORTION			$ 1,748,979

Long-term debt outstanding as presented on the accompanying statements of net assets includes net unamortized bond premiums, discounts and amount deferred on refunding of $65.0 million as of September 30, 2012.

Table 5
DC Water Bond Ratings

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

In May 2010, the Authority closed on its $225.0 million commercial paper program. This program provides interim financing for a portion of the Authority's approved $3.8 billion capital improvement program. Other financing sources include long-term revenue bonds, United States Environmental Protection Agency grants, wholesale customer contributions, and pay-as-you-go financing. Under the commercial paper program, the Authority issues fixed-rate, short-term (no greater than 270 days) notes. The Authority's commercial paper program is backed by an irrevocable letter of credit with J.P Morgan Chase Bank National Association for Series A ($100.0 million tax-exempt) and Series B ($50.0 million tax-exempt), and with U.S. Bank National Association for Series C ($75.0 million taxable). The notes are rated based on the respective rating of J.P. Morgan Chase and U.S. Bank. The letter of credit serves as an additional source of security for the notes thereby enhancing their appeal and marketability. There was $41.2 million in outstanding taxable and tax-exempt commercial paper at the end of fiscal year 2012.

Table 6
DC Water Commercial Paper Ratings

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

RATES

Effective October 1, 2011, the Authority raised its retail water and wastewater rates by 4.5 percent, The Authority's approved ten-year financial plan includes projected rate increases of 4.0 percent to 6.5 percent and also includes projected revisions to its metering and right-of-way / payment in lieu of taxes pass-through fees.

CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

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

DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

Statements of Net Assets

September 30, 2012 and 2011

(In thousands)

Assets	**2012**	**2011**
Current assets:		
Cash and cash equivalents (note 3)	$ 94,472	$ 112,944
Investments (note 3)	100,489	69,764
Customer receivables, net of allowance for doubtful accounts of $15,271 in 2012 and $14,350 in 2011 (note 7)	50,233	39,252
Due from Federal government (note 6)	23,491	20,505
Due from other jurisdictions (note 8)	7,975	16,202
Inventory	6,674	7,264
Due from District government (note 13)	1,964	—
Prepaid assets	519	204
Total current assets	285,817	266,135
Noncurrent assets:		
Restricted assets (note 3):		
Cash and cash equivalents	175,567	98,054
Investments	203,940	183,121
Total restricted cash equivalents and investments	379,507	281,175
Utility plant (note 4):		
In-service	3,706,354	3,547,829
Less accumulated depreciation	(1,049,548)	(981,030)
Net utility plant in service	2,656,806	2,566,799
Construction-in-progress	807,430	485,497
Net utility plant	3,464,236	3,052,296
Other noncurrent assets:		
Purchased capacity, net of accumulated amortization of $65,833 in 2012 and $60,543 in 2011 (note 5)	254,007	247,050
Unamortized bond issuance costs	19,536	17,430
Due from other jurisdictions (note 8)	12,506	6,639
Total other noncurrent assets	286,049	271,119
Total noncurrent assets	4,129,792	3,604,590
Total assets	4,415,609	3,870,725
Liabilities		
Current liabilities:		
Accounts payable and accrued expenses	143,375	119,850
Compensation payable (note 9)	18,302	16,748
Accrued interest	43,841	39,945
Deferred revenue	42,875	33,568
Commercial paper notes payable (note 11)	41,200	35,200
Current maturities of long-term debt (note 10)	19,692	18,721
Due to jurisdictions	7,645	8,500
Due to Storm Water Fund (note 13)	473	417
Due to District government (note 13)	—	1,563
Total current liabilities	317,403	274,512
Noncurrent liabilities:		
Deferred revenue	1,071,616	918,787
Deferred revenue - combined sewer overflow	27,788	43,314
Other liabilities (note 12)	27,093	31,720
Long-term debt, excluding current maturities (note 10)	1,813,967	1,530,174
Total noncurrent liabilities	2,940,464	2,523,995
Total liabilities	3,257,867	2,798,507
Net Assets		
Invested in utility plant, net of related debt	1,035,584	946,868
Restricted for:		
Debt service	51,344	50,872
Capital projects	12,253	11,633
Unrestricted	58,561	62,845
Total net assets	$ 1,157,742	$ 1,072,218

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

DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

Statements of Revenues, Expenses and Change in Net Assets
Years Ended September 30, 2012 and 2011
(In thousands)

	2012	2011
Operating revenues:		
Water and wastewater user charges:		
Residential, commercial and multi-family customers	$ 256,846	$ 241,475
Federal government	48,381	43,033
District government and D.C. Housing Authority (note 13)	24,713	25,123
Charges for wholesale wastewater treatment	94,549	90,414
Other	16,077	8,210
Total operating revenues	440,566	408,255
Operating expenses:		
Personnel services	97,784	93,240
Contractual services	62,643	68,286
Chemicals, supplies and small equipment	28,815	28,188
Utilities and rent	26,786	29,429
Depreciation and amortization	74,342	70,209
Water purchases	28,389	27,170
Other	2,296	2,769
Total operating expenses	321,055	319,291
Operating income	119,511	88,964
Non-operating revenues (expenses):		
Interest income	933	2,008
Payment in lieu of taxes and right of way fee (note 13)	(21,982)	(21,982)
Interest expense and fiscal charges	(71,895)	(71,621)
Total non-operating revenues (expenses)	(92,944)	(91,595)
Change in net assets before Federal grants and contributions	26,567	(2,631)
Federal grants and contributions	58,957	47,374
Change in net assets	85,524	44,743
Net assets, beginning of year	1,072,218	1,027,475
Net assets, ending of year	$ 1,157,742	$ 1,072,218

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

DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

Statements of Cash Flows

Years Ended September 30, 2012 and 2011

(In thousands)

		2012		2011
Cash flows from operating activities:				
Cash received from customers	$	425,174	$	401,510
Cash paid to suppliers for goods and services		(149,123)		(154,385)
Cash paid to employees for services		(96,230)		(91,535)
Net cash provided by operating activities		179,821		155,590
Cash flows from capital and related financing activities:				
Proceeds from issuance of revenue bonds		491,102		297,580
Proceeds from other jurisdictions		174,259		82,856
Repayments of bond principal and notes payable to Federal and District governments		(194,941)		(17,792)
Acquisition of utility plant and purchased capacity		(472,377)		(302,536)
Payments of interest and fiscal charges		(96,393)		(74,715)
Contributions of capital from Federal government		39,560		27,485
Proceeds from issuance of commercial paper		6,000		6,000
Net cash (used in) provided by capital and related financing activities		(52,790)		18,878
Cash flows from non-capital financing activities:				
Transfers out (payment in lieu of taxes and right of way fee)		(17,514)		(20,618)
Net cash used by non-capital financing activities		(17,514)		(20,618)
Cash flows from investing activities:				
Cash received for interest		1,068		1,894
Investment purchases		(730,705)		(564,757)
Investment maturities		679,161		422,156
Net cash used in by investing activities		(50,476)		(140,707)
Net increase in cash and cash equivalents		59,041		13,143
Cash and cash equivalents (including restricted) at beginning of year		210,998		197,855
Cash and cash equivalents (including restricted) at end of year	$	270,039	$	210,998
Operating income	$	119,511	$	88,964
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation and amortization		74,342		70,209
Change in operating assets and liabilities:				
(Increase) decrease in customer and other receivables		(3,127)		183
Decrease in inventory		275		241
(Decrease) increase in payables and accrued liabilities		(1,750)		5,729
Decrease in deferred revenue		(9,430)		(9,736)
Net cash provided by operating activities	$	179,821	$	155,590

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

(1) Reporting Entity

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

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

The Authority’s wastewater service territory includes over 2.1 million people in Montgomery and Prince George’s Counties in Maryland, Fairfax and Loudoun Counties in Virginia, and the District. The Blue Plains Intermunicipal Agreement (“IMA”) was executed in September 1985 among the District; Fairfax County, Virginia; and the Washington Suburban Sanitary Commission (“WSSC”), which comprises Montgomery and Prince George’s Counties in Maryland (collectively referred to as the Participants). The IMA provided for the expansion of the Plant’s processing capacity to 370 million gallons per day. The IMA also provided for the allocation of capital, operating, and maintenance costs among the Participants. Capital costs of the Plant are allocated among the Participants in proportion to their respective wastewater treatment capacity allocation as defined in the IMA. Operating costs are allocated based on wastewater flows from each participant.

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

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

(2) Summary of Significant Accounting Policies

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

(a) Measurement Focus and Basis of Accounting

The term "measurement focus" is used to denote what is being measured and reported in the Authority's financial statements. The Authority is accounted for on the "flow of economic resources" measurement focus. The flow of economic resources refers to the reporting of all the net assets available to the Authority for the purposes of providing related water and sewer services. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost recovery), financial position and cash flows. All assets and liabilities (whether current or noncurrent) and associated activities are reported and equity is reported as net assets. The term "basis of accounting" is used to determine when a transaction or event is recognized in the Authority's financial statements. The Authority uses the full accrual basis of accounting, with revenues recorded when earned and expenses recorded when incurred, even though actual payment or receipt may not occur until after the period ends.

The Authority elected GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting,* not to follow Financial Accounting Standards Board ("FASB") pronouncements issued subsequent to November 30, 1989. Therefore, the Authority follows all GASB pronouncements; and FASB pronouncements issued on or before November 30, 1989, unless those pronouncements conflict or contradict GASB pronouncements.

As allowed by GASB 20, the Authority accounts for its regulatory assets and liabilities in accordance with FASB Accounting Standards Codification ("ASC") 980-10, *Regulated* Operations: In general, FASB ASC 980-10 covers the type of regulation that permits rates to be set at levels intended to recover the estimated costs of providing regulated services, including the cost of capital. There are times in which the revenues intended to cover certain costs are provided either before or after the costs have been incurred. If the costs will be recovered in the future, a regulatory asset is capitalized and reduced as the related revenues are provided. If the current recovery is for costs that will be incurred in future periods, regulatory liabilities are accrued and reduced as those costs are incurred. As of September 30, 2012 and 2011, no regulatory assets or liabilities were required to be reported in accordance with FASB ASC 980-10.

The Authority follows the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments.* GASB Statement No. 34 established standards for external financial reporting for all states and local governmental entities, which includes a statement of net assets, a statement of revenues, expenses and change in net assets, and a statement of cash flows.

(2) Summary of Significant Accounting Policies (Continued)

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

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

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

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

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

(b) Revenues and Expenses

Revenues and expenses are distinguished between operating and non-operating items. Operating revenues generally result from providing services in connection with the Authority's principal ongoing operations. The principal operating revenues of the Authority are water and wastewater user charges, and charges for wholesale wastewater treatment. Revenues from user charges and sales of services are recognized as the related services are provided. Refunds to customers are charged to income in the period in which those refunds are paid.

Operating expenses include the costs associated with the conveyance of water and wastewater, treatment of wastewater, administrative expenses, and depreciation of capital assets. All revenues and expenses not meeting these definitions are reported as non-operating revenues and expenses.

Water and Wastewater User Charges

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

(2) Summary of Significant Accounting Policies (Continued)

Charges for Wholesale Wastewater Treatment and Deferred Revenue

The cost of operating and maintaining the wastewater treatment plant and related collection facilities applicable to non-District users is billed to participating jurisdictions based upon their share of flows. The charges for operating and maintenance costs and for overhead costs incurred on capital projects are recorded as charges for wholesale wastewater treatment revenue in the year the costs are incurred.

The costs of capital projects required for the joint use facilities are allocated to the participating jurisdictions based on their applicable capacity allocation. The reimbursements for capital related costs are recorded as deferred revenue and are amortized into charges for wholesale wastewater treatment over the estimated useful lives of the related assets.

(c) Cash and Cash Equivalents

DC Water maintains its own cash accounts for the collection of all revenues and payment of all expenses. DC Water invests all unrestricted cash balances, in excess of the required compensating balances, in interest-bearing accounts. The Authority's cash equivalents consist of unrestricted and restricted investments such as money market funds, commercial paper, and federal agency discount notes, which have an original maturity of 90 days or less, and are readily convertible to known amounts of cash. For purposes of the accompanying statements of cash flows, cash and cash equivalents also include DC Water's restricted cash balances. See note 3(d).

(d) Investments

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

(e) Restricted Assets

Restricted assets consist of appropriations from the U.S. Congress for combined sewer overflow projects, unexpended commercial paper and revenue bond proceeds, debt service reserves, workers' compensation reserves, and funds for the current payment of revenue bond debt service.

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

(2) Summary of Significant Accounting Policies (Continued)

(f) Utility Plant

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

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

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

(g) Purchased Capacity

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

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

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

(In $ thousands)

(2) Summary of Significant Accounting Policies (Continued)

The Authority funds 40 percent of all capital and operating costs. Purchased capacity is generally amortized over the estimated useful lives of the facilities of 60 years.

(h) Inventory

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

(i) Debt Financing Costs

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

(j) Reclassifications

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

(k) Use of Estimate and Assumptions

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

(l) Vacation and Sick Leave

Employees earn vacation and sick leave based on a prescribed formula, which allows employees to accumulate an unlimited amount of sick pay and vacation pay up to the maximum shown in the table below. The amounts of vacation leave earned but unused by employees' vests and is accrued as a liability. Sick pay does not vest, and accordingly, it is recorded when used. See Note 14d for additional disclosure on sick leave for non-union employees.

Employees Length of servcice	Union Employees	Non-union Employees
1 - 3 years	240 hours	240 hours
4 - 14 years	240 hours	320 hours
Over 15 years	240 hours	360 hours

(In $ thousands)

(3) Cash Deposits and Investments

(a) Cash Deposits

At September 30, 2012 and 2011, the carrying amounts of the Authority's unrestricted and restricted bank deposits were $88,863 and $111,896, respectively. These bank deposits are entirely insured or collateralized with securities held by the Authority's agent in its name.

(b) Cash Equivalents and Investments

As of September 30, 2012 and 2011, the Authority had the following investments:

Type of Investments	2012	Weighted Average Maturity (Years)	2011	Weighted Average Maturity (Years)
Money market funds	$181,176	0.083	$ 99,102	0.083
Government agencies	244,470	1.080	232,899	1.390
Commercial paper	49,959	0.310	19,986	0.286
Certificate of deposits	10,000	1.520	-	
Total Investments	$485,605	0.638	$351,987	0.961

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

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

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

In 2012, the Authority began participating in the Certificate of Deposit Account Registry Services ("CDARS"). The service allows the Authority to allocate funds into certificates of deposit in increments, which ensure the funds are eligible for full FDIC insurance.

At September 30, 2012, the certificate of deposit purchased a total of $10 million through CDARS mature at various dates through March 2014 and were interest bearing at rates ranging from 0.5% to 0.9%.

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

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

(In $ thousands)

(3) Cash Deposits and Investments (Continued)

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

Custodial Risk - For an investment, custodial risk is the risk that in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of the outside party. The Authority's investment policy requires that, at the time funds are invested, collateral for repurchase agreements be held in the Authority's name by a custodial agent for the term of the agreement and investments in obligations of the United States or its agencies be held by the Federal Reserve in a custodial account. Investment grade means investments with a rating of AA or A-1/P-1 or better. Investments are restricted as to the amount in each type of investment to ensure appropriate diversification.

(c) Cash and Investment Schedule

A schedule of cash equivalents and investments as of September 30, 2012 and 2011 follows:

	2012			2011		
Description	Unrestricted	Restricted	Total	Unrestricted	Restricted	Total
Cash and cash equivalents						
Demand deposits	$ 83,836	5,027	$ 88,863	$ 104,845	7,051	$111,896
Money market funds	10,636	170,540	181,176	8,099	91,003	99,102
Total cash and cash equivalents	94,472	175,567	270,039	112,944	98,054	210,998
Investments						
Government agencies	50,527	193,943	244,470	59,773	173,126	232,899
Commercial paper	39,962	9,997	49,959	9,991	9,995	19,986
Certificate of deposit	10,000	-	10,000	-	-	-
Total Investments	100,489	203,940	304,429	69,764	183,121	252,885
Total cash, cash equivalents & investments	$ 194,961	$379,507	$574,468	$ 182,708	$281,175	$463,883

Included in unrestricted demand deposits and agency discount notes are $27,951 for the Rate Stabilization Fund. The Authority established the Rate Stabilization Fund in fiscal year 2001. The balance in this account will be used in the future at the Authority's discretion.

(In $ thousands)

(3) Cash Deposits and Investments (Continued)

(d) Restricted Cash and Investment Schedule

A schedule of restricted cash equivalents and investments as of September 30, 2012 and 2011 follows:

Description	2012	2011
Restricted cash and cash equivalents		
Revenue bonds 2010 digesters	$ 41,011	$ 17,224
Revenue bonds 2012 B-2	27,067	-
Revenue bonds 2012 B-1	12,295	-
Principal payment account 1998 revenue bonds	11,081	10,501
Combined sewer overflow (CSO) federal appropriations	10,055	15,165
Revenue bonds 2012 A	9,619	-
Debt service interest payment account, 2012 A,C revenue bonds	8,726	-
Debt service reserve account, 1998 revenue bonds	8,712	4,038
Debt service interest payment account, 2010 revenue bonds	8,477	8,616
Debt service interest payment account, 2009 revenue bonds	8,034	8,063
Debt service interest payment account, 2008 revenue bonds	7,001	7,126
Debt service interest payment account, 1998 revenue bonds	6,146	10,880
Principal payment account 2008 revenue bonds	5,746	5,585
Debt service interest payment account, 2007 revenue bonds	5,677	5,676
Principal payment account 2009 revenue bonds	2,486	2,020
Debt service interest payment account, 2012 B-1,2 revenue bonds	2,258	-
Commercial paper	1,176	1,124
Workers' compensation reserve account	-	1,036
District Department of Transportation 11th street bridge	-	1,000
Total restricted cash and cash equivalents	175,567	98,054
Restricted investments		
Revenue bonds 2012 A	109,338	-
Combined sewer overflow (CSO) federal appropriation	29,985	40,219
Revenue bonds 2012 B-1	24,993	-
Revenue bonds 2012 B-2	19,994	-
Debt service reserve account, 1998 revenue bonds	15,335	20,009
Revenue bonds 2010 cap interest	4,295	7,142
Revenue bonds 2010	-	115,751
Total restricted investments	203,940	183,121
Total restricted cash, cash equivalents & investments	$ 379,507	$ 281,175

(In $ thousands)

(4) Utility Plant

Activity in utility plant, including capitalized interest of $15,150, for the year ended September 30, 2012 was as follows:

	Balance 9/30/2011	Additions	Disposals	Transfers	Balance 9/30/2012
Utility Plant					
Wastewater treatment plant	$ 1,839,010	$ 86,604	$ (629)	$ -	$ 1,924,985
Wastewater collection facilities	689,575	27,076	-	-	716,651
Water distribution system	863,474	33,603	-	-	897,077
Capital equipment	155,770	12,394	(523)	-	167,641
Total utility plant in service	3,547,829	159,677	(1,152)	-	3,706,354
Less accumulated depreciation:					
Wastewater treatment plant	(454,216)	(30,742)	11	-	(484,947)
Wastewater collection facilities	(205,642)	(11,467)	-	-	(217,109)
Water distribution system	(192,845)	(15,455)	-	-	(208,300)
Capital equipment	(128,327)	(11,388)	523	-	(139,192)
Total accumulated depreciation	(981,030)	(69,052)	534	-	(1,049,548)
Net utility plant in service	2,566,799	90,625	(618)	-	2,656,806
Construction-in-progress	485,497	481,610	-	(159,677)	807,430
Net utility plant	$ 3,052,296	$ 572,235	$ (618)	$ (159,677)	$ 3,464,236

Activity in utility plant, including capitalized interest of $11,204, for the year ended September 30, 2011 was as follows:

	Balance 9/30/2010	Additions	Disposals	Transfers	Balance 9/30/2011
Utility Plant					
Wastewater treatment plant	$ 1,822,320	$ 16,690	$	$	$ 1,839,010
Wastewater collection facilities	598,404	91,171	-	-	689,575
Water distribution system	800,861	62,613	-	-	863,474
Capital equipment	144,307	12,196	(733)	-	155,770
Total utility plant in service	3,365,892	182,670	(733)	-	3,547,829
Less accumulated depreciation:					
Wastewater treatment plant	(424,522)	(29,694)	-	-	(454,216)
Wastewater collection facilities	(195,138)	(10,504)	-	-	(205,642)
Water distribution system	(178,501)	(14,344)	-	-	(192,845)
Capital equipment	(118,344)	(10,716)	733	-	(128,327)
Total accumulated depreciation	(916,505)	(65,258)	733	-	(981,030)
Net utility plant in service	2,449,387	117,412	-	-	2,566,799
Construction-in-progress	327,738	340,429	-	(182,670)	485,497
Net utility plant	$ 2,777,125	$ 457,841	$ -	$ (182,670)	$ 3,052,296

(In $ thousands)

(5) Purchased Capacity

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

Purchased capacity activity for the year ended September 30, 2012 was as follows:

	Balance 9/30/2011	Additions	Balance 9/30/2012
Purchased Capacity			
Washington Aqueduct	$ 275,403	$ 12,247	$ 287,650
Jennings Randolph Reservoir	19,863	-	19,863
Little Seneca Lake	12,327	-	12,327
Total in service	307,593	12,247	319,840
Less accumulated depreciation:			
Washington Aqueduct	(47,634)	(4,692)	(52,326)
Jennings Randolph Reservoir	(7,465)	(393)	(7,858)
Little Seneca Lake	(5,444)	(205)	(5,649)
Total accumulated depreciation	(60,543)	(5,290)	(65,833)
Purchased capacity, net	$ 247,050	$ 6,957	$ 254,007

Purchased capacity activity for the year ended September 30, 2011 was as follows:

	Balance 9/30/2010	Additions	Balance 9/30/2011
Purchased Capacity			
Washington Aqueduct	$ 247,088	$ 28,315	$ 275,403
Jennings Randolph Reservoir	19,863	-	19,863
Little Seneca Lake	12,327	-	12,327
Total in service	279,278	28,315	307,593
Less accumulated depreciation:			
Washington Aqueduct	(43,280)	(4,354)	(47,634)
Jennings Randolph Reservoir	(7,072)	(393)	(7,465)
Little Seneca Lake	(5,239)	(205)	(5,444)
Total accumulated depreciation	(55,591)	(4,952)	(60,543)
Purchased capacity, net	$ 223,687	$ 23,363	$ 247,050

(In $ thousands)

(6) Due from Federal Government

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

Description	2012	2011
Washington Aqueduct advances	$ 17,434	$ 18,396
Federal grants receivable	6,057	2,109
Total	$ 23,491	$ 20,505

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

(7) Customer Receivables

Customer receivables include unbilled revenues of $15,587 and $12,986 at September 30, 2012 and 2011, respectively.

(8) Due from Other Jurisdictions

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

Description	2012	2011
Current:		
Washington Suburban Sanitary Commission	$ 6,025	$ 11,380
Fairfax	914	2,661
Loudoun County Sanitation Authority	414	1,080
Northern Virginia (a)	94	101
Potomac Interceptor	528	980
Total current	7,975	16,202
Noncurrent:		
Washington Suburban Sanitary Commission	7,129	2,417
Northern Virginia (a)	3,350	3,444
Fairfax	1,389	524
Loudoun County Sanitation Authority	638	254
Total noncurrent	12,506	6,639
Total due from jurisdictions	$ 20,481	$ 22,841

(a) Northern Virginia

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

(In $ thousands)

(9) Compensation Payable (Compensated Absences)

Compensation payable as of September 30, 2012 and 2011 was $18,302 and $16,748, respectively. As this liability is expected to be paid off within a year, it is classified as a current liability. The accrual for annual leave (vacation payable) which is part of compensation payable as of September 30, 2012 and 2011 was as follows:

Description	2012	2011
Balance, beginning of year	$ 6,659	$ 6,195
Increases (incurred)	1,076	1,282
Decreases	(879)	(818)
Balance, end of year	$ 6,856	$ 6,659

(In $ thousands)

(10) Long-Term Debt

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

A schedule of long-term debt activity for the year ended September 30, 2012 is shown below:

Description	Balance 9/30/2011	New Debt Issued	Debt Retired	Balance 9/30/2012	Due Within One Year
2012 public utility revenue bonds:					
Series A interest at 2.0 % to 5.0%, maturing in 2037	$ -	$ 177,430	$ -	$ 177,430	$ -
Series B-1 interest at 2.26%, maturing in 2044	-	52,690	-	52,690	-
Series B-2 interest at 2.26%, maturing in 2040	-	47,310	-	47,310	-
Series C interest at 4.0% to 5.0%, maturing in 2033		163,215	-	163,215	-
2010 series a public utility revenue bonds; interest at 4.1% to 5.5%, maturing in 2044	300,000	-	-	300,000	-
2009 series a public utility revenue bonds; interest at 3.0% to 6.0%, maturing in 2039	298,225	-	(2,020)	296,205	2,485
2008 series a public utility revenue bonds; interest at 4.0% to 5.0%, maturing in 2034	285,540	-	(5,585)	279,955	5,745
2007 series a public utility revenue bonds; interest at 4.75% to 5.50%, maturing in 2041	218,715	-	-	218,715	-
2003 public utility revenue bonds; interest ranges from 5.0% to 5.25%, maturing in 2033	176,220	-	(176,220)	-	-
1998 public utility revenue bonds; interest ranges from 5.50% to 6.00%, maturing in 2028	229,315	-	(10,500)	218,815	11,080
Notes payable to the federal government for Jennings Randolph Reservoir (Bloomington Dam); interest at 3.25%, maturing in 2041	14,603	-	(330)	14,273	341
Notes payable to WSSC for Little Seneca Lake; interest ranges from 5.98% to 6.60% maturing in 2014	104	-	(41)	63	41
District of Columbia general obligation bonds: 1993; interest ranges from 5.40% to 6.0% maturing in 2012	245	-	(245)	-	-
Total bonds and notes	$ 1,522,967	$ 440,645	$ (194,941)	$ 1,768,671	$ 19,692

Long-term debt outstanding, as presented on the accompanying statement of net assets, includes net unamortized bond premiums, discounts and amount deferred on refunding of $64,988.

(In $ thousands)

(10) Long-Term Debt (Continued)

A schedule of long-term debt activity for the year ended September 30, 2011 is shown below:

Description	Balance 9/30/2010	New Debt Issued	Debt Retired	Balance 9/30/2011	Due Within One Year
2010 series a public utility revenue bonds (build america bonds); interest at 4.1% to 5.5%, maturing in 2044	$ -	$ 300,000	$ -	$ 300,000	$ -
2009 series a public utility revenue bonds; interest at 3.0% to 6.0%, maturing in 2039	300,000	-	(1,775)	298,225	2,020
2008 series a public utility revenue bonds; interest at 4.0% to 5.0%, maturing in 2034	290,000	-	(4,460)	285,540	5,585
2007 series a public utility revenue bonds; interest at 4.75% to 5.50%, maturing in 2042	218,715	-	-	218,715	-
2003 public utility revenue bonds; interest ranges from 5.0% to 5.25%, maturing in 2033	176,220	-	-	176,220	-
1998 public utility revenue bonds; interest ranges from 5.50% to 6.00%, maturing in 2028	239,270	-	(9,955)	229,315	10,500
Notes payable to the federal government for Jennings Randolph Reservoir (Bloomington Dam); interest at 3.25%, maturing in 2041	14,923	-	(320)	14,603	330
Notes payable to WSSC for Little Seneca Lake; interest ranges from 5.98% to 6.60% maturing in 2014	142	-	(38)	104	41
District of Columbia general obligation bonds:					
1993; interest ranges from 5.40% to 6.0% maturing in 2012	495	-	(250)	245	245
1994; interest ranges from 5.05% to 6.50% maturing in 2011	995	-	(995)	-	-
Total bonds and notes	$ 1,240,760	$ 300,000	$ (17,793)	$ 1,522,967	$ 18,721

Long-term debt outstanding, as presented on the accompanying statement of net assets, includes net unamortized bond premiums and discounts of $25,928.

(a) Senior Debt

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

(10) Long-Term Debt (Continued)

In February 2009, the Authority issued senior lien public utility revenue bonds (Series 2009A Bonds) with a face value of $300,000, consisting of $38,355 Serial Bonds and $261,645 Term Bonds. The Serial Bonds have maturity dates and interest rates ranging from 2010-2030 and 3.0 percent to 5.4 percent, respectively. The Term Bonds have maturity dates and interest rates ranging from 2024-2039 and 4.8 percent to 6.0 percent, respectively. There was $1,426 of original issue premium and approximately $2,392 for the cost of issuance, bond insurance and underwriter's discount costs associated with this issuance. Debt proceeds were used to refinance $14,800 of the taxable Series A Commercial Paper Notes and $50,000 of the tax exempt Series B Commercial Paper Notes with the remainder used to finance the ongoing capital improvement program.

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

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

(b) Subordinate Debt

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

In March 2012, the Authority issued subordinate lien revenue bonds with a face value of $440,645. The bonds were structured in three Series: Series 2012A consisted of $177,430 with interest rates ranging from 2.0% to 5.0% maturing in 2037. Series 2012B consisting of $100,000 with interest rate at 2.26% maturing in 2044.

(10) Long-Term Debt (Continued)

Series 2012C consisting of $163,215 with interest rates ranging from 4.0 % to 5.0% maturing in 2033. Gross proceeds from the 2012 Bonds totaled $493,934, including $53.289 of the original issue premium. Approximately $302,413 was used to fund various capital projects; $188,688 was used to advance-refund series 2003 bonds, and $2,833 was used to pay the underwriter's discount and cost of issuance.

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

In October 2010, the Authority issued public utility subordinate lien revenue bonds, (Series 2010A Bonds). The Build America Bonds federally taxable issuer subsidy in the amount of 35% yielded all-in true interest costs of 3.6%.

The $300,000 par amount consisted of $18,550 in serial bonds maturing in 2033 and gross interest rates ranging from 4.1% to 4.6%, $30,950 in term bonds maturing in 2028 and a gross interest rate of 5.4%, and $250,500 in index term bonds maturing in 2044 and a gross interest rate of 5.5%. Approximately $214,640 was issued to fund costs of certain capital improvements, including $2,420 for the cost of issuance and underwriter's discount. In addition, approximately $75,000 was issued to fund the Digester Project and $10,360 for capitalized interest.

In April 2008, the Authority refunded the 2004 and 2007 Series B subordinated public utility revenue bonds for $295,000 and $59,000, respectively. Simultaneously, the Authority issued subordinated lien public utility revenue bonds (Series 2008A) with a face value of $290,375 which are due in 2034.

The interest rate on these securities is fixed and will have an effective average rate of 4.7% over the life of the bonds. There was $11,678 of original issue premium and approximately $5,888 for the cost of issuance, bond insurance and underwriter's discount costs associated with this issuance. As required by the Master Indenture, the Authority has agreed to fix, charge, and collect rates and fees at levels sufficient to cover 100 percent of annual principal and interest payments (see "Bond Covenants" below). The scheduled payments of principal and interest on the Series 2008A bonds are guaranteed by a municipal bond insurance policy issued by the Assured Guaranty Program.

The refunded debt of Series 2004 and 2007B Series is considered defeased, and the respective liabilities have been removed from financial statements. The current refunding in 2008 resulted in an economic cost (difference between the present value of the old and new debt service payments) of $12,320 and an increase in aggregate debt service payments of $22,597.

(10) Long-Term Debt (Continued)

In June 2007, the Authority issued $218,715 of tax-exempt subordinated lien public utility revenue bonds (Series 2007A bonds) and $59,000 of taxable subordinated lien public utility revenue bonds (Series 2007B bonds). As required by the Master Indenture, the Authority has agreed to fix, charge, and collect rates and fees at levels sufficient to cover 100 percent of annual principal and interest payments (see "Bond Covenants" on the next page). Gross proceeds from the Series 2007A bonds totaled $234,923, including $15,661 of original issue premium. Approximately $30,000 was used to repay outstanding commercial paper, and $2,824 was used to pay the underwriter's discount, insurance and the cost of issuance. The scheduled payments of principal and interest on Series 2007A bonds are guaranteed by a municipal bond insurance policy issued by the Financial Guaranty Insurance Company ("FGIC"). Gross proceeds from the Series 2007B bonds totaled $59,000. Proceeds from the Series 2007B bonds were used entirely to fund the Authority's share of capital improvements to the Washington Aqueduct. The scheduled payments of principal and interest on Series 2007B bonds are guaranteed by a municipal bond insurance policy issued by CIFG Assurance North America, Inc. The Series 2007B bonds were refunded in April 2008.

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

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

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

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 back-up and peak-day water supply for the Authority.

(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, 2012 and 2011. The primary requirements of the Master Indenture are summarized below:

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

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

Debt Service Reserve Fund — The Authority has established debt service reserve accounts for certain series of bonds, which are only to be used to pay debt service in the event of insufficient funds. The Series 1998 bonds debt service reserve account balance as of September 30, 2012 and 2011 was $24,047, respectively, and is required to be maintained at 125 percent of current and future average annual Series 1998 debt service.

(d) Debt Service to Maturity

The future debt-service obligations at September 30, 2012 are as follows:

Fiscal Year	Principal	Interest	Total
2013	$ 19,692	$ 73,696	$ 93,388
2014	25,189	81,559	106,748
2015	26,473	80,229	106,702
2016	27,870	78,785	106,655
2017	29,317	77,340	106,657
2018 - 2022	178,210	361,332	539,542
2023 - 2027	239,470	311,004	550,474
2028 - 2032	303,669	245,479	549,148
2033 - 2037	390,602	158,211	548,813
2038 - 2042	446,282	50,758	497,040
2043 - 2045	81,897	3,361	85,258
Total	$1,768,671	$1,521,754	$3,290,425

(In $ thousands)

(11) Commercial Paper

Commercial Paper Notes — The Authority has established a commercial paper ("CP") program to provide interim financing for Costs of the System. Three series of notes have been issued under the commercial paper program: the tax-exempt Series A CP Notes in an aggregate principal amount not to exceed $100,000, the tax-exempt Series B CP Notes in an aggregate principal amount not to exceed $50,000, and the taxable Series C CP Notes in an aggregate principal amount not to exceed $75,000 (collectively, the "Commercial Paper Notes"), each as subordinate debt. To provide liquidity and credit support for the Commercial Paper Notes, the Authority obtained irrevocable, direct-pay letters of credit (the "Letters of Credit") issued by J.P. Morgan Chase Bank and U.S. Bank National Association (collectively, the "Banks") which expire on May 31, 2013. In connection with the Banks' issuance of the Letters of Credit, the Authority and each Bank entered into a Reimbursement Agreement.

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

A schedule of commercial paper activity for year ended September 30, 2012 is shown below:

Description	Balance 9/30/2011	Additions	Reductions	Balance 9/30/2012
Series C, (taxable) interest ranges from .15% to .28%	$ 29,200	$ -	$ -	$ 29,200
Series B, (tax-exempt) interest ranges from .08% to .22%	6,000	7,500	(1,500)	12,000
	$ 35,200	$ 7,500	$ (1,500)	$ 41,200

(12) Commitments and Contingencies – Other Liabilities

A schedule of other liabilities as of September 30, 2012 and 2011 is shown below:

Description	2012	2011
Federal grants disallowance	$ 1,858	$ 1,665
Litigation contingency	2,450	8,291
Rolling owner controlled insurance program	10,332	9,504
Risk management contingency	12,453	12,260
Total other liabilities	$27,093	$31,720

(a) Federal Grants

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

(In $ thousands)

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

(b) Litigation

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

Changes in the balances of litigation contingencies during the years ended September 30, 2012 and 2011 were as follows:

Description	2012	2011
Balance, beginning of year	$ 8,291	$ 6,081
Current year claims and changes in estim	(946)	2,585
Claim payments	(4,895)	(375)
Balance, end of year	$ 2,450	$ 8,291

(c) Rolling Owner Controlled Insurance Program (ROCIP)

The Authority procures insurance for the majority of its construction contractors through ROCIP. Coverage includes general liability, umbrella and workers' compensation insurance for almost every construction project undertaken by DC Water. The result is substantially higher and broader coverage, enhanced safety and loss control, increased minority participation and potential cost savings.

The Authority completed its final year of the first ROCIP (ROCIP 1) in April of 2012 and began the third year of ROCIP II. ROCIP II continues for two more years (the ROCIP structure is typically three years to enroll projects and five years to complete) – therefore the need to run programs somewhat simultaneously. At the end of fiscal year 2012, 65 projects and 393 contractors were enrolled in ROCIP I and 48 projects and 472 contractors were enrolled in ROCIP II. ROCIP II will support an estimated $1.15 billion of planned construction projects. In October 2012, ROCIP III was incepted and will run for five years. We anticipate 65 projects will be enrolled and an estimate of $970 million in planned construction.

(d) Risk Management

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

The Authority has purchased $1,000,000 property coverage (Property Policy) to protect its owned or leased facilities, buildings and contents. Except for catastrophic on-site protection provided on the Property Policy, the Authority self-insures its fleet of vehicles.

(In $ thousands)

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

The deductible for each claim for buildings and contents is $1,000. Off-site watercraft and specified equipment are insured under an Inland Marine Policy. Deductibles range from $10 to $25 on this policy for each occurrence.

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

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

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

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

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, 2012 and 2011 were as follows:

Description	2012	2011
Balance, beginning of year	$ 12,260	$ 12,384
Current year claims and changes in estim	2,333	2,318
Claim payments	(2,140)	(2,442)
Balance, end of year	$ 12,453	$ 12,260

(In $ thousands)

Commitments and Contingencies – Other Liabilities (Continued)

(e) Construction Commitments

Contractual commitments for utility plant construction and capital equipment for the years ended September 30, 2012 and 2011 were $1,041,086 and $1,042,732, respectively. Construction commitments are not recorded in the financial statements.

Description	2012	2011
Total contractual commitments	$1,042,732	$ 365,084
Additional commitments (less) work performed and retainage	(1,646)	677,648
Outstanding contract commitments	$1,041,086	$1,042,732

(f) Lease Commitments

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

The Authority's rental expenses for the years ended September 30, 2012 and 2011 were as follows:

Description	2012	2011
Facilities leases	$ 1,553	$ 1,364
Automobile equipment lease	20	2
Machinery leases	68	413
Total	$ 1,641	$ 1,779

Future minimum noncancelable lease payments on existing operating leases at September 30, 2012, which have an initial term of one year or more, are as follows.

Future Minimum Lease Payments	
2013	$ 1,018
2014	1,085
2015	1,081
2016	1,113
2017	1,170
Thereafter	1,051
Total	$ 6,518

(13) Related Party and Similar Transactions

The enabling legislation, described in Note 1, established that the District would pay for water and wastewater services. The Authority recorded revenues of $18,213 and $17,827 from the District government and $6,500 and $7,296 from the District of Columbia Housing Authority ("DCHA") for fiscal years 2012 and 2011, respectively. Both the District government and DCHA revenues are included in water and wastewater user charges in the accompanying statements of revenues, expenses and change in net assets.

The Authority recorded an expense of $16,882 for payments-in-lieu-of-taxes to the District for services such as road repairs, fire protection, police protection, and other services for each of the years ended September 30, 2012 and 2011. The Authority also recorded an expense of $5,100 for the District's right-of-way fee, charged to all area utilities for infrastructure occupancy in public streets, for each of the years ended September 30, 2012 and 2011.

The amounts due from / (to) the District government as of September 30, 2012 and 2011 were $1,964 and ($1,563), respectively. The amount due from the District at September 30, 2012 includes approximately $2,800 billings to the District's Department of Transportation (DDOT) for job inspections and approximately $1,190 in payables to DDOT for construction of DC Water infrastructure projects.

The District of Columbia Council created the Storm Water Compliance Amendment Act of 2000 which established the Authority as the Storm Water Administrator and a fund was established. The administration of the fund was transferred to the District Department of the Environment ("DDOE") in 2007. The Authority continues to bill and collect storm water fees as a separate item and transfers the funds to the DDOE quarterly. The Authority incurred $757 and $821 of reimbursable expenses for years ended September 30, 2012 and 2011, respectively.

Additionally, the Authority had a net payable of $473 and $417 to the Storm Water Fund for years ended September 30, 2012 and 2011, respectively. The amounts shown on the Statements of Net Assets as due to Storm Water Fund are net of collection and administrative costs.

(14) Employee Benefits

(a) Defined Benefit Plans

Employees hired prior to October 1, 1987 participate in certain federal benefit plans administered by the federal government's Office of Personnel Management ("OPM"). The plans are cost sharing multi-employer plans, which provide retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan participants and beneficiaries. In fiscal year 2012, there were 208 DC Water employees covered by these plans. The OPM issues a publically available financial report that includes financial statements and required supplementary information, which may be obtained at www.opm.gov.

(14) Employee Benefits (Continued)

Employees and the Authority each contribute a percentage of the employees' salaries to the Federal government, which administers the plans. During fiscal years 2012, 2011 and 2010, the Authority's contributions to the plans were $1,061, $1,116 and $1,169, respectively. These amounts were 100 percent of the required contributions under the plans for each of the fiscal years presented.

The required percentage of salaries to be contributed by the employees was 7.00 percent for each of the three fiscal years ended 2012. The required percentage of salaries to be contributed by the Authority was also 7.0 percent for each of the three fiscal years ended 2012.

(b) Defined Contribution Plans

Defined Contribution Plan - Employees who were hired after September 30, 1987, participate in the U.S. Social Security system and a defined contribution plan sponsored by the Authority. The District of Columbia Water and Sewer Authority Defined Contribution Plan is a qualified trust under Internal Revenue Code Section 401(a). During fiscal years 2012, 2011 and 2010, the Authority's contribution was seven percent of base pay up to the social security wage base, plus 5% of base pay in excess of the social security wage base for each eligible employee. Employees do not contribute to the plan. Employees become 100 percent vested in their account balance after three years of service.

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

The Authority makes a matching contribution of 100 percent of the amount that the employee defers to the 457(b) Deferred Compensation Plan; up to a maximum contribution of five percent of base pay for eligible employees.

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

During fiscal years 2012, 2011 and 2010, the Authority's contributions to both defined contribution plans were $5,453, $5,225 and $4,182, respectively.

(c) Post-Employment Insurance Plans

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

(d) Retirement Health Savings Plan

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