2018

FOR THE YEAR ENDED JUNE 30

1918-2018

A Century of Serving Our Community

WSSC

Annual Financial Report

CliftonLarsonAllen LLP
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INDEPENDENT AUDITORS' REPORT

Commissioners of the
Washington Suburban Sanitary Commission
Laurel, Maryland

Report on the Financial Statements

We have audited the accompanying financial statements of the Washington Suburban Sanitary Commission (the Commission), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Commission as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Change in Accounting Principle

During the fiscal year ended June 30, 2018, the Commission adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions.* As a result of the implementation of this standard, the Commission reported a restatement for the changes in accounting principle (see Note P). Our auditor's opinion was not modified with respect to this restatement.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management discussion and analysis on pages 4-14, the schedule of changes in net pension liability and related ratios and related notes on page 55, the schedule of employer contributions and related notes on page 56, the schedule of changes in net OPEB liability and related ratios on page 57 and the schedule of employer contributions and related notes on page 58 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.

Prior Auditors

The financial statements of the Commission as of June 30, 2017 were audited by other auditors whose report dated September 15, 2017 expressed an unmodified opinion of those statements. As discussed in Note P to the financial statements, the Commission has restated its 2017 financial statements to retrospectively apply and implement GASB Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. The other auditors reported on the 2017 financial statements before the restatement.

As part of our audit of the 2018 financial statements, we also audited the restatement to the 2017 financial statements to retrospectively apply the implementation of GASB Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions,* as described in Note P. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review or apply any procedures to the Commission's 2017 financial statements other than with respect to the restatement and, accordingly, we do not express an opinion or any other form of assurance on the 2017 financial statements as a whole.

Commissioners of the
Washington Suburban Sanitary Commission

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 4, 2018, on our consideration of the Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the Commission's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Commission's internal control over financial reporting and compliance.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Baltimore, Maryland
October 4, 2018

This section of the Washington Suburban Sanitary Commission (WSSC) annual financial report presents our discussion and analysis of WSSC's financial performance for the fiscal years ended June 30, 2018 and 2017. GASB has issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which replaces the requirements of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.* The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions. The statement is effective for periods beginning after June 15, 2017. To comply with GASB Statement No. 75, prior year balances were restated resulting in a net $98.4 million decrease in net position as of June 30, 2017.

FINANCIAL HIGHLIGHTS

Fiscal Year 2018

- WSSC maintained AAA bond ratings from Fitch Ratings, Moody's Investors Service, and Standard & Poor's.
- In November 2017, WSSC issued $459.3 million of Consolidated Public Improvement Bonds to fund new construction, rehabilitation and replacement of water and sewer infrastructure.
- In November 2017, WSSC sold $220.2 million of refunding bonds with interest rates ranging from 3.00% to 5.00% to refund $217.5 million of outstanding callable water supply, sewage disposal and general construction bonds with interest rates ranging from 3.00% to 5.00%. The net proceeds of $237.2 million (including a premium of $18.1 million) were used to purchase selected open market securities. Those securities were deposited with an escrow agent to provide for all future debt service payments and the early redemption of callable bonds. The November 2017 refunding will reduce WSSC's total debt service payments over the next 15 years by $11.7 million and provide an economic gain of $9.8 million.
- In December 2017, WSSC sold $79.1 million of crossover refunding bonds with an interest rate of 5.00%. The bonds will refund $90.0 million of outstanding callable water supply, sewage disposal and general construction bonds with interest rates ranging from 4.35% to 5.00%. Build America Bonds – Direct Payment to the Issuer, Series 2009B will not defeased until the crossover date, and will not be removed as a liability until June 1, 2019. Proceeds from the refunding bonds were used to purchase U.S. government securities in an irrevocable trust with an escrow agent, and will provide future debt service payments on the Series 2009B until the crossover date of June 1, 2019. As a result of the crossover refunding issue, WSSC will save $4.9 million in debt service payments and achieve an economic gain of $4.2 million.
- The Commission redeemed $12.4 million in Notes on June 28, 2018 as part of the water, sewer and general debt service amortization.
- A Consent Decree with the Environmental Protection Agency, the Department of Justice, the State of Maryland, and four environmental groups entered its thirteenth year. The Consent Decree formally identifies the remedial measures to eliminate and/or reduce sanitary sewer overflows. In fiscal 2016, the U.S. District Court approved a six-year extension to the original term of the Consent Decree. Costs of the remedial measures are estimated at $2,060.6 million and are to be expended over at least 19 years, $742.4 million of which is expected to be incurred after fiscal year 2018. The costs for each fiscal year are or will be included in WSSC's budget and six-year capital improvements program.

- Under a Consent Decree executed by the District Court of Maryland on April 15, 2016, the Commission is required to undertake short-term operational changes and capital improvements at the Potomac Water Filtration Plant that will enable WSSC to reduce solids discharged to the river, and to plan, design and implement upgrades or new construction to achieve requirements established by MDE and incorporated in a new discharge permit. An Audit report and Long-Term Upgrade Plan were submitted by WSSC for consideration by MDE on December 26, 2016. WSSC and its consultant are preparing an Amended Long-Term Upgrade Plan to address deficiencies in the 2016 Plan and issues raised by MDE and Potomac Riverkeepers, Inc. in response to the Plan. Estimated order of magnitude costs for implementation of improvements in the draft revised Plan range from $151 million to $282 million, depending on the design plan options that are to be determined as part of the Parties' future resolution process. The WSSC Adopted FY19-24 Capital Improvements Program (CIP) has programmed a total of $155 million for implementation of improvements pursuant to a Long-Term Upgrade Plan. If necessary, WSSC will seek to amend the project for additional costs needed as part of an approved Long-Term Upgrade Plan.
- WSSC's operating revenues were consistent with fiscal year 2017. Average rates for water consumption and sewer use revenues were comparable to the prior year.
- Operating expenses increased $41.8 million, or 7.0%, during fiscal year 2018.
  - Increases in IT costs relate to the planned implementation of new billing, work and asset management systems in fiscal year 2019. Pre-configuration costs in the current year were $16.2 million.
  - An operating procedure was implemented for Blue Plains Multi-Jurisdictional Users Facilities' (MJUF) in fiscal year 2018. The procedure employs a new methodology to determine the allocated flow by users through the various facilities (such as pump stations and major conveyance pipelines through the District of Columbia) for O&M billing purposes. Additional costs for MJUF and Intermunicipal Agreement settlement adjustments totaled $14.2 million.
  - Merits, COLAs and the hiring of additional staff resulted in a $3.2 million increase in salaries.
  - Decreases in the unit price for electricity triggered a $1.9 million reduction in energy costs.
  - The majority of the remaining variance, or $10.1 million, represents depreciation on capital assets placed in service in recent years.
- Capital assets (water and sewer lines, water tanks, treatment plants, pumping stations, multi-purpose facilities and other facilities), net of accumulated depreciation, increased by $339.5 million, while overall debt increased $416.7 million in comparison to the previous fiscal year.
- The increase in net position during the year included net income of $48.5 million, and capital contributions of $71.1 million.

Fiscal Year 2017

- WSSC maintained AAA bond ratings from Fitch Ratings, Moody's Investors Service, and Standard & Poor's.
- In December 2016, WSSC issued $382.0 million of Consolidated Public Improvement Bonds to fund new construction, rehabilitation and replacement of water and sewer infrastructure.
- No refunding bonds were sold in fiscal year 2017.
- The Commission redeemed $12.4 million in Notes on June 28, 2017 as part of the water, sewer and general debt service amortization.
- A Consent Decree with the Environmental Protection Agency, the Department of Justice, the State of Maryland, and four environmental groups entered its twelfth year. The Consent Decree formally identifies the remedial measures to eliminate and/or reduce sanitary sewer overflows. In fiscal 2016, the U.S. District Court approved a six-year extension to the original term of the Consent Decree. Costs of the remedial measures are estimated at $1,967.0 million and are to be expended over at least 18 years, $748.0 million of which is expected to be incurred after fiscal year 2017. The costs for each fiscal year are or will be included in WSSC's budget and six-year capital improvements program.

- Under a Consent Decree executed by the District Court of Maryland on April 15, 2016, the Commission is required to undertake short-term operational changes and capital improvements at the Potomac Water Filtration Plant that will enable WSSC to reduce solids discharged to the river, and to plan, design and implement upgrades or new construction to achieve requirements established by MDE and incorporated in a new discharge permit. An Audit report and Long-Term Upgrade Plan were submitted by WSSC for consideration by MDE on December 26, 2016. Costs for implementation of improvements under the proposed plan are estimated at $157.5 million, and are to be expended over at least 7 years, $156.0 of which is expected to be incurred after fiscal year 2017. The costs are included in WSSC's budget and capital improvements program.
- WSSC's operating revenues rose $76.8 million. Average rates for water consumption and sewer use revenues increased 2.9% and billed consumption for the year increased 5.8%. The second phase-in year of the new Infrastructure Investment Fee resulted in additional revenues from the ready-to-serve charge.
- Operating expenses increased $38.4 million, or 6.9%, during fiscal year 2017.
  - WSSC continues to focus their efforts on meeting the requirements of the Consent Decree and incurred additional operating costs this year of $6.3 million.
  - Increased expenditures of $4.5 million were realized for water valve assessments and $2.7 million for PCCP monitoring and analysis.
  - Merits, COLAs and the hiring of additional staff resulted in a $5.6 million increase in salaries.
  - The majority of the remaining variance, or $13.8 million, represents depreciation on capital assets placed in service in recent years.
- Capital assets (water and sewer lines, water tanks, treatment plants, pumping stations, multi-purpose facilities and other facilities), net of accumulated depreciation, increased by $435.8 million, while overall debt increased $355.6 million in comparison to the previous fiscal year.
- The increase in net position during the year included net income of $95.7 million, and capital contributions of $85.5 million.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts - management's discussion and analysis, the required financial statements, and other required supplementary information. The required financial statements consist of:

- Balance sheets
- Statements of revenues, expenses, and changes in net position
- Statements of cash flows
- Notes to the financial statements

The balance sheets provide a snapshot of WSSC's financial position at June 30, the end of the fiscal year. WSSC's balance sheets present current and long-term assets and liabilities, deferred outflows and inflows of resources, as well as net position.

WSSC's statements of revenues, expenses and changes in net position reflect activity for the fiscal years. These statements measure operating revenues and expenses as well as non-operating revenues and expenses. The statements also present capital contributions as well as changes in net position.

The statements of cash flows present WSSC's inflows and outflows of cash. Cash flows from operating activities, capital and related financing activities, and investment activities are shown separately. Cash provided by operating activities is reconciled to operating income.

The financial statements also include notes that provide more detailed data and explanations for some of the information in the financial statements.

WSSC operates as an enterprise fund, which is one type of proprietary fund. Enterprise funds operate similarly to private businesses in that charges for services to customers are expected to cover expenses. WSSC's financial statements are presented using the accrual basis of accounting and the economic resources measurement focus. All assets and liabilities are included in the financial statements. Revenue is recognized when water or other services are delivered. Expenses are recognized when goods and services are received. All revenues and expenses are recognized regardless of when cash is received or paid.

FINANCIAL ANALYSIS

Net Position

Fiscal Year 2018

WSSC's net position increased 2.6% to $4,744.3 million (See Table A-1). The majority of this increase is attributable to the change in the net investment in capital assets. Capital assets, net of accumulated depreciation, increased 4.4% to $8,123.3 million. Unused bond proceeds at the end of the year were $83.6 million. During fiscal year 2018, developers constructed $31.0 million of capital assets and donated them to WSSC. Rights of way of $2.6 million were also donated. Additional information is presented in the Capital Asset and Debt Administration section of this discussion.

Total debt, including current maturities increased to $3,423.5 million. Capital contributions of $37.5 (net of donated capital assets) million were available to finance capital projects during the year. These funding sources reduced the amount of bonds WSSC needed to sell for construction of water and sewer projects. A more detailed description of WSSC's debt can be found in Notes J and K of the financial statements.

Fiscal Year 2017

WSSC's net position increased 4.1% to $4,624.7 million (See Table A-1). The majority of this increase is attributable to the change in the net investment in capital assets. Capital assets, net of accumulated depreciation, increased 5.9% to $7,783.8 million. Unused bond proceeds at the end of the year were $3.4 million. During fiscal year 2017, developers constructed $35.3 million of capital assets and donated them to WSSC. In addition, land and rights of way donated in fiscal year 2017 decreased $34.9 million in comparison to fiscal year 2016. Additional information is presented in the Capital Asset and Debt Administration section of this discussion.

Total debt, including current maturities increased to $3,006.8 million. Capital contributions of $48.1 (net of donated capital assets) million were available to finance capital projects during the year. These funding sources reduced the amount of bonds WSSC needed to sell for construction of water and sewer projects. A more detailed description of WSSC's debt can be found in Notes J and K of the financial statements.

TABLE A-1
WSSC's Condensed Balance Sheet
(in millions of dollars)

	FY 2018	FY 2017 As Restated	FY 2016 As Restated	FY 2018 % Change	FY 2017 % Change
Current and other assets	$ 564.7	$ 398.4	$ 327.2	41.7	21.8
Capital assets, net of accumulated depreciation	8,123.3	7,783.8	7,348.1	4.4	5.9
Total assets	8,688.0	8,182.2	7,675.3	6.2	6.6
Total deferred outflows of resources	26.1	62.2	87.2	(58.0)	(28.7)
Current and other liabilities	812.0	908.5	872.6	(10.6)	4.1
Bonds and notes payable, net of current maturities	3,085.1	2,658.9	2,395.2	16.0	11.0
Total liabilities	3,897.1	3,567.4	3,267.8	9.2	9.2
Total deferred inflows of resources	72.7	52.3	51.2	39.0	2.1
Net position:					
Net investment in capital assets	4,685.4	4,569.4	4,425.7	2.5	3.2
Restricted for growth construction	8.4	19.3	31.1	(56.5)	(37.9)
Unrestricted	50.5	36.0	(13.3)	40.3	370.7
Total net position	$ 4,744.3	$ 4,624.7	$ 4,443.5	2.6	4.1

Changes in Net Position

Fiscal Year 2018

WSSC's operating revenues were consistent with fiscal year 2017 (see Table A-2). Average rates for water consumption and sewer use revenues were comparable to the prior year. Income from front foot benefit assessments and house connection charges continued to decline. Front foot benefit extensions and related house connections have been built primarily by outside developers for in excess of fifteen years. Assessments for construction by WSSC prior to that time are collected over the remaining term of the debt utilized to finance the construction.

Operating expenses increased $41.8 million, or 7.0%, during fiscal year 2018.

- Increases in IT costs relate to the planned implementation of new billing, work and asset management systems in fiscal year 2019. Pre-configuration costs in the current year were $16.2 million.
- An operating procedure was implemented for Blue Plains Multi-Jurisdictional Users Facilities' (MJUF) in fiscal year 2018. The procedure employs a new methodology to determine the allocated flow by users through the various facilities (such as pump stations and major conveyance pipelines through the District of Columbia) for O&M billing purposes. Additional costs for MJUF and Intermunicipal Agreement settlement adjustments totaled $14.2 million.
- Merits, COLAs and the hiring of additional staff resulted in a $3.2 million increase in salaries.
- Decreases in the unit price for electricity triggered a $1.9 million reduction in energy costs.
- The majority of the remaining variance, or $10.1 million, represents depreciation on capital assets placed in service in recent years.

The net changes in revenues and expenses during the year resulted in a 49.3% decrease in income before capital contributions to $48.5 million. Capital contributions decreased by 16.8% to $71.1 million. Grant revenue decreased $9.3 million due to a reduction in costs incurred on ENR projects. Donated assets, constructed and contributed by developers were down $4.4 million in comparison to the prior fiscal year.

Fiscal Year 2017

WSSC's operating revenues rose $76.8 million (see Table A-2). Average rates for water consumption and sewer use revenues increased 2.9% and billed consumption for the year increased 5.8%. The second phase-in year of the new Infrastructure Investment Fee resulted in additional revenues from the ready-to-serve charge. Conversely, income from front foot benefit assessments and house connection charges continued to decline. Front foot benefit extensions and related house connections have been built primarily by outside developers for in excess of fifteen years. Assessments for construction by WSSC prior to that time are collected over the remaining term of the debt utilized to finance the construction.

Operating expenses increased $38.4 million, or 6.9%, during fiscal year 2017.

- WSSC continues to focus their efforts on meeting the requirements of the Consent Decree and incurred additional operating costs this year of $6.3 million.
- Increased expenditures of $4.5 million were realized for water valve assessments and $2.7 million for PCCP monitoring and analysis.
- Merits, COLAs and the hiring of additional staff resulted in a $5.6 million increase in salaries.
- The majority of the remaining variance, or $13.8 million, represents depreciation on capital assets placed in service in recent years.

The net changes in revenues and expenses during the year resulted in a 17.6% increase in income before capital contributions to $95.7 million. Capital contributions decreased by 36.5% to $85.5 million. Grant revenue decreased $17.8 million due to a reduction in costs incurred on ENR projects. Donated assets, constructed and contributed by developers were comparable to the prior fiscal year. The methodology utilized to estimate acquisition values for donated land and rights of way was changed in fiscal year 2016 resulting in a $36.9 million increase. The increase in 2017, by utilizing the same methodology, was $2.1 million.

TABLE A-2
WSSC's Condensed Changes in Net Position
(in millions of dollars)

	FY 2018	FY 2017 As Restated	FY 2016 As Restated	FY 2018 % Change	FY 2017 % Change
Operating revenues	$ 725.2	$ 725.8	$ 649.0	(0.1)	11.8
Operating expenses	(638.4)	(596.6)	(558.2)	7.0	6.9
Net non-operating revenues (expenses)	(38.3)	(33.5)	(9.4)	14.3	256.4
Income before capital contributions	48.5	95.7	81.4	(49.3)	17.6
Capital contributions	71.1	85.5	134.7	(16.8)	(36.5)
Changes in net position	$ 119.6	$ 181.2	$ 216.1	(34.0)	(16.1)

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

Fiscal Year 2018

As of June 30, 2018, WSSC had invested $8,123.3 million, net of accumulated depreciation, in a broad range of capital assets including water and sewer lines, water tanks, treatment plants, pumping stations, multi-purpose facilities and other facilities. This amount represents a net increase of $339.5 million, or 4.4%, over fiscal year 2017.

Fiscal Year 2017

As of June 30, 2017, WSSC had invested $7,783.8 million, net of accumulated depreciation, in a broad range of capital assets including water and sewer lines, water tanks, treatment plants, pumping stations, multi-purpose facilities and other facilities. This amount represents a net increase of $435.8 million, or 5.9%, over fiscal year 2016.

TABLE A-3

WSSC's Capital Assets

(net of depreciation and impairment losses, in millions of dollars)

	FY 2018	FY 2017 As Restated	FY 2016 As Restated	FY 2018 % Change	FY 2017 % Change
Land and rights of way	$ 126.4	$ 121.7	$ 117.8	3.9	3.3
Construction in progress	1,527.6	1,574.8	1,433.6	(3.0)	9.8
Water supply	2,232.4	1,949.8	1,764.7	14.5	10.5
Sewage disposal	1,795.0	1,661.8	1,524.9	8.0	9.0
General construction	1,364.9	1,379.7	1,390.0	(1.1)	(0.7)
Intangible assets	1,041.3	1,053.4	1,071.7	(1.1)	(1.7)
Other	35.7	42.6	45.3	(16.2)	(6.0)
Total capital assets	$ 8,123.3	$ 7,783.8	$ 7,348.0	4.4	5.9

Capital assets completed and placed in service in 2018 increased $93.8 million or 19.8%, in comparison to fiscal year 2017. Upgrades of water filtration plants increased $107.8 million. Major additions to capital assets being depreciated during fiscal year 2018 are illustrated in Table A-4.

Capital assets completed and placed in service in 2017 decreased $60.6 million or 11.3%, in comparison to fiscal year 2016. Rehabilitation or replacement of water and sewer mains and related house connections increased 75.1%, or $170.2 million. Upgrades on wastewater treatment facilities decreased $239.2 million. Major additions to capital assets being depreciated during fiscal year 2017 are illustrated in Table A-5.

Additional information relative to WSSC's capital assets is presented in Note D of the financial statements.

TABLE A-4
WSSC's Additions to Capital Assets Being Depreciated
Fiscal Year 2018
(in millions of dollars)

	Water Supply	Sewage Disposal	General Construction
Financed from proceeds of bonds, notes, operating revenues or capital contributions:			
Water and sewer mains	$ 191.7	$ 169.1	$ 3.3
House connections	12.6	13.1	5.5
Water meters	0.8	0.8	-
Multi-use facility	-	-	1.8
Water filtration plants	105.4	-	-
Water storage facilities	25.4	-	-
Wastewater treatment facilities	-	5.6	-
Wastewater pumping stations	-	0.7	-
Miscellaneous assets	0.8	-	-
Constructed and contributed by developers:			
House connections	-	-	6.7
Water and sewer mains	-	-	24.3
Total fiscal year 2018 additions to capital assets being depreciated	$ 336.7	$ 189.3	$ 41.6

TABLE A-5
WSSC's Additions to Capital Assets Being Depreciated
Fiscal Year 2017
(in millions of dollars)

	Water Supply	Sewage Disposal	General Construction
Financed from proceeds of bonds, notes, operating revenues or capital contributions:			
Water and sewer mains	$ 190.3	$ 160.5	$ 4.0
House connections	11.0	25.8	5.3
Water meters	1.3	1.3	-
Water filtration plants	(2.4)	-	-
Water storage facilities	34.9	-	-
Wastewater treatment facilities	-	2.7	-
Wastewater pumping stations	-	2.6	-
Miscellaneous assets	1.2	-	-
Constructed and contributed by developers:			
House connections	-	-	4.8
Water and sewer mains	-	1.5	29.0
Total fiscal year 2017 additions to capital assets being depreciated	$ 236.3	$ 194.4	$ 43.1

TABLE A-6
WSSC's Additions to Capital Assets Being Depreciated
Fiscal Year 2016
(in millions of dollars)

	Water Supply	Sewage Disposal	General Construction
Financed from proceeds of bonds, notes, operating revenues or capital contributions:			
Water and sewer mains	$ 104.2	$ 84.6	$ 3.0
House connections	6.4	22.6	5.9
Water meters	1.2	1.1	
Water filtration plants	20.1		
Wastewater treatment facilities		241.9	
Wastewater pumping stations		2.3	
Multi-use facilities			6.1
Miscellaneous assets	0.1		
Constructed and contributed by developers:			
House connections			5.6
Water and sewer mains		1.3	28.0
Total fiscal year 2016 additions to capital assets being depreciated	$ 132.0	$ 353.8	$ 48.6

Bonds and Notes Payable

Fiscal Year 2018

At the end of fiscal year 2018, bonds and notes outstanding totaled $3,423.5 million, a $416.7 million increase in comparison to the previous fiscal year. In November 2017, WSSC issued $459.3 million of Consolidated Public Improvement Bonds to fund new construction, rehabilitation and replacement of water and sewer infrastructure.

Fiscal Year 2017

At the end of fiscal year 2017, bonds and notes outstanding totaled $3,006.8 million, a $355.6 million increase in comparison to the previous fiscal year. In December 2016, WSSC issued $381.8 million of Consolidated Public Improvement Bonds to fund new construction, rehabilitation and replacement of water and sewer infrastructure.

TABLE A-7
WSSC's Bonds and Notes Payable
(in millions of dollars)

	FY 2018	FY 2017	FY 2016	FY 2018 % Change	FY 2017 % Change
Water supply	$ 1,368.2	$ 1,155.9	$ 970.7	18.4	19.1
Sewage disposal	1,869.8	1,647.3	1,474.3	13.5	11.7
General construction	185.5	203.6	206.2	(8.9)	(1.3)
Total	3,423.5	3,006.8	2,651.2	13.9	13.4
Current maturities	338.4	347.9	256.0	(2.7)	35.9
Long-term portion	3,085.1	2,658.9	2,395.2	16.0	11.0
Total bonds and notes payable	$ 3,423.5	$ 3,006.8	$ 2,651.2	13.9	13.4

Bond Ratings

Fitch Ratings, Moody's Investors Service, and Standard & Poor's assigned and affirmed ratings of 'AAA', 'Aaa', and 'AAA', respectively, on WSSC's outstanding water supply, sewage disposal and general construction general obligation bonds. The agencies identified strengths of the Commission in support of their ratings which include a sizeable, diverse tax base in Montgomery and Prince George's Counties, good finances characterized by the self-supporting nature of the water and sewer system, and a skilled management team.

Limitations on Debt

Maryland law limits the amount of bonds and notes WSSC may have outstanding at any time. This limitation is generally based on legislated percentages of the real property assessable tax base and personal property and operating real property assessments within the Washington Suburban Sanitary District. As of June 30, 2018 and 2017, the calculated limits were $11,241.8 million and $10,898.3 million, respectively. WSSC's outstanding debt was significantly below those limits.

Additional information relative to WSSC's Bonds and Notes activity is presented in Notes J and K of the financial statements.

FUTURE FACTORS

In June 2016, WSSC initiated efforts with staff from both Prince George's and Montgomery Counties to review the existing 16-tier inclining block water and sewer rate structure and to identify alternate rate structures. The 16-tier rate structure had been in place since 1992. In March 2017, the Public Service Commission (PSC) in the case of *Richard D. Boltuck v. Washington Suburban Sanitary Commission* found, *inter alia*, that the existing rate structure was "unduly preferential to low-usage customers" and ordered the Commission to adopt a new rate structure. With the support of staff and consultants, WSSC developed a Cost of Service Study to analyze the cost of providing water and wastewater services to residential and non-residential customers and the revenues recovered from these customers. WSSC also developed and considered numerous rate structure options as potential replacements for the current 16-tier rate structure including a single volume rate, and 3-tier and 4-tier increasing block rates. On July 18, 2018, the WSSC Commissioners selected a new 4-tier water and sewer rate structure which will be effective July 1, 2019. Actual rates will be based on fiscal year 2020 revenue requirements.

CONTACT INFORMATION

Any questions regarding this report can be directed to the Finance Office at 14501 Sweitzer Lane, Laurel, Maryland, 20707. A copy of the report is also available on WSSC's website at www.wsscwater.com.

WASHINGTON SUBURBAN SANITARY COMMISSION
BALANCE SHEETS
AS OF JUNE 30, 2018 AND 2017
(in thousands)

	2018	2017 As Restated (Note P)
ASSETS		
Current assets:		
Cash (Note B)	$ 27,888	$ 18,514
Cash with fiscal agent (Note B)	92,403	-
Investments (Note B)	200,238	210,408
Accrued interest receivable	1,460	376
Receivables, net (Note C)	125,022	133,446
State grants receivable	8,446	6,694
Prepaid expenses	274	264
Materials and supplies, net	15,481	15,442
Total current assets	471,212	385,144
Non-current assets:		
Capital assets, net of accumulated depreciation (Note D)	8,123,311	7,783,836
Investments restricted for capital construction (Note B)	83,583	3,383
Note receivable (Note E)	9,836	9,790
Total non-current assets	8,216,730	7,797,009
Total assets	8,687,942	8,182,153
DEFERRED OUTFLOWS OF RESOURCES		
Deferred amount from pension differences between projected and actual plan investments (Note L)	-	26,340
Deferred amount from pension resulting from changes in assumptions (Note L)	16,129	21,505
Deferred amount from OPEB contributions (Note M)	4,236	5,275
Deferred amount from OPEB differences between expected and actual experience (Note M)	3,942	-
Deferred amount from debt refunding (Note F)	1,836	9,129
Total deferred outflows of resources	26,143	62,249
Total assets and deferred outflows of resources	$ 8,714,085	$8,244,402

The accompanying notes are an integral part of these financial statements.

WASHINGTON SUBURBAN SANITARY COMMISSION
BALANCE SHEETS
AS OF JUNE 30, 2018 AND 2017
(in thousands)

	2018	2017 As Restated (Note P)
LIABILITIES		
Current liabilities:		
Bonds and notes payable, current maturities (Notes J and K)	$ 338,363	$ 347,899
Accounts payable and accrued liabilities	208,173	214,836
Accrued bond and note interest payable	10,516	9,832
Deposits and unearned revenue	3,648	3,328
Total current liabilities	560,700	575,895
Non-current liabilities:		
Bonds and notes payable, net of current maturities (Notes J and K)	3,085,149	2,658,926
Net pension liability (Note L)	102,536	172,787
Net OPEB liability (Note M)	121,759	133,825
Deposits, unearned revenue and other long-term liabilities (Note I)	26,959	26,012
Total non-current liabilities	3,336,403	2,991,550
Total liabilities	3,897,103	3,567,445
DEFERRED INFLOWS OF RESOURCES		
Deferred amounts from pension differences between projected and actual plan investments (Note L)	29,595	-
Deferred amounts from pension differences between expected and actual experience (Note L)	35,576	50,073
Deferred amounts from OPEB differences between projected and actual plan investments (Note M)	7,524	2,196
Total deferred inflows of resources	72,695	52,269
Total liabilities and deferred inflows of resources	3,969,798	3,619,714
NET POSITION		
Net investment in capital assets	4,685,410	4,569,437
Restricted for growth construction	8,372	19,284
Unrestricted	50,505	35,967
Total net position	4,744,287	4,624,688
Total liabilities, deferred inflows of resources and net position	$8,714,085	$8,244,402

The accompanying notes are an integral part of these financial statements.

WASHINGTON SUBURBAN SANITARY COMMISSION
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017
(in thousands)

	2018	2017 As Restated (Note P)
OPERATING REVENUES:		
Water consumption, sewer use and service charges	$ 669,934	$ 669,536
Front foot benefit assessments	15,738	18,241
House connection charges	4,818	4,980
Other	34,743	33,039
Total operating revenues	725,233	725,796
OPERATING EXPENSES:		
Operations	107,636	106,156
Maintenance	159,074	164,333
Intermunicipal agency sewage disposal	68,363	54,334
Administrative and general	108,914	87,398
Depreciation and amortization	194,403	184,350
Total operating expenses	638,390	596,571
Net operating revenues	86,843	129,225
NON-OPERATING REVENUES (EXPENSES):		
Interest on bonds and notes payable	(90,718)	(79,861)
Capitalized interest	47,500	40,156
System development charge credit reimbursements	(13,912)	(1,489)
Pension	10,050	5,396
OPEB	286	(976)
Investment income	7,043	1,776
Other interest income	1,415	1,485
Net non-operating expenses	(38,336)	(33,513)
Income before capital contributions	48,507	95,712
Capital contributions (Note G)	71,092	85,504
Changes in net position	119,599	181,216
Net position, beginning of the year (as originally reported)		4,543,550
Restatement for GASB 75 (Note P)		(100,078)
Net position, beginning of the year (as restated for 2017)	4,624,688	4,443,472
Net position, end of year	$ 4,744,287	$ 4,624,688

The accompanying notes are an integral part of these financial statements.

WASHINGTON SUBURBAN SANITARY COMMISSION
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017
(in thousands)

	2018	2017 (As Restated)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from water and sewer customers	$ 673,369	$ 658,861
Receipts from front foot benefit assessments	16,977	19,578
Receipts from house connection charges	5,126	2,626
Receipts from other customers and miscellaneous	73,021	69,764
Payments to employees	(188,690)	(174,220)
Payments to District of Columbia Water & Sewer Authority	(64,276)	(55,523)
Payments to suppliers and others	(223,293)	(223,718)
Net cash provided by operating activities	292,234	297,368
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Proceeds from bonds and notes	772,335	497,112
Capital contributions	70,341	106,586
Bond redemptions and note repayments	(383,974)	(159,039)
Interest payments, premiums and discounts on bonds and notes	(53,001)	(57,981)
Capital asset construction	(542,424)	(602,943)
Net cash used in capital and related financing activities	(136,723)	(216,265)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from the sale of investments	931,353	601,840
Purchases of investments	(1,000,398)	(685,950)
Pension and OPEB	10,336	4,420
Interest income received	4,975	1,358
Net cash (used in) provided by investing activities	(53,734)	(78,332)
Net increase (decrease) in cash	101,777	2,771
Cash, beginning of year	18,514	15,743
Cash, end of year	$ 120,291	$ 18,514
Reconciliation of net operating revenues to net cash provided by operating activities:		
Net operating revenue	$ 86,842	$ 129,225
Adjustments to reconcile net operating revenue to net cash provided by operating activities:		
Depreciation and amortization	210,939	200,811
Effect of changes in assets, liabilities and deferred outflows of resources:		
Receivables, net	8,424	(6,341)
Materials and supplies	(39)	623
Prepaid expenses	(10)	365
Deferred outflows of resources - pension and OPEB	6,085	15,192
Accounts payable and accrued liabilities	3,579	(9,657)
Unearned revenue	220	(5,876)
Deferred inflows of resources - pension and OPEB	42,824	17,995
Long-term pension liability	(56,865)	(26,492)
Long-term OPEB liability	(9,765)	(18,477)
Net cash provided by operating activities	$ 292,234	$ 297,368

Noncash capital financing activities:

Capital assets of $33,638 and $37,420 were acquired through contributions from developers in 2018 and 2017, respectively.

The accompanying notes are an integral part of these financial statements.

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Washington Suburban Sanitary Commission (WSSC) is a bi-county political subdivision of the State of Maryland, created to provide water supply and sewage disposal services for Montgomery and Prince George's Counties. The financial statements are presented using the accrual basis of accounting and the economic resources measurement focus. Significant accounting policies are summarized below.

Operating and Non-Operating Revenues and Expenses

Revenues and expenses derived from financing and investment activities are classified as non-operating revenues and expenses. All other revenues and expenses are classified as operating.

Water and sewer service rates are established to provide sufficient funds to recover operating costs and debt service relating to the water supply and sanitary sewer systems. Metered water and sewer revenues are invoiced and recognized as customers utilize water. Revenue generated for which customers have not been invoiced is estimated based on past billings and recorded as unbilled revenue.

Estimated intermunicipal agency sewage disposal expenses are paid quarterly. Adjustments resulting from audits and/or reconciliations of WSSC’s share of estimated and actual expenses are recognized in the year of settlement.

Front foot benefit and house connection assessments levied on properties where water and/or sanitary sewer service is available are the principal source of funds to service general construction bond debt. Front foot benefit assessments are recorded as operating revenue ratably over the levy year; house connection assessments and fees are recognized as operating revenue over the life of the bonds issued to finance the house connections.

Capital Contributions

In July 1993, a system development charge (SDC) was established to help finance the cost of expanding water and sewage systems to accommodate growth in the Washington Suburban Sanitary District. System development charges are recorded as capital contributions when received. Certain qualified projects may be eligible for SDC credits or reimbursements. Only those SDC receipts filed in association with plumbing permits under which all covered work has obtained an approved final inspection are eligible for reimbursement. The credits are presented as non-operating expenses on the statement of revenues and changes in net position.

Developer fees and charges are established to recover costs related to services provided to outside developers for the construction of capital assets. These fees are recorded as permits are issued.

Federal and State grants are recognized as capital contributions when related capital costs are incurred.

Donated assets consist principally of capital assets constructed by developers and subsequently donated to WSSC. Values are established by using developers’ estimated costs to construct the assets or WSSC’s estimated costs to construct similar assets. Donated land and rights of way are recorded at estimated acquisition values. The capital assets, and related capital contributions, are recognized upon completion of construction.

A small portion of capital assets is related to donated assets acquired or constructed under a Department of Defense (DOD) contract executed during fiscal 2005 to operate and maintain the water and sewer systems at Bolling Air Force Base. Costs incurred by WSSC to acquire or enhance these systems are reimbursed by DOD and, consequently, recognized as capital assets and capital contributions. As of March 31, 2017, the contract to serve and maintain the water and wastewater systems at the Joint Base Anacostia-Bolling (formerly known as the Bolling Air Force Base) was terminated for mutual convenience. In the full and final settlement of this termination, WSSC retained funds collected for repairs and replacements while water and wastewater system assets were returned to the Federal government.

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

WSSC follows Governmental Accounting Standards Board Statement No. 33, "*Accounting and Financial Reporting for Nonexchange Transactions*" (GASB No. 33). GASB No. 33 requires recognition of all contributions of capital assets, including donated assets, as revenues (capital contributions in the Statements of Revenues, Expenses and Changes in Net Position).

Cash

Cash includes amounts in demand deposits.

Investments

Investments are stated at fair value, with any related gain or loss reported in investment income on the accompanying Statements of Revenues, Expenses and Changes in Net Position. Fair value is generally based on quoted market prices on the last business day of the fiscal year. Investments in market-traded securities, including U.S. government and agency securities, municipal and corporate bonds are reported at last quoted sales/bid prices provided by independent pricing vendors. Non-current investments represent unused bond proceeds at the end of the fiscal year.

Capital Assets

Capital assets include water and sewer lines, water distribution, wastewater collection and multi-purpose facilities, equipment and fleet. Capital assets are stated at historical costs, which include related payroll, payroll taxes, fringe benefits, administrative costs and interest capitalized during construction if applicable. Normal recurring maintenance and repair costs are charged to operations, whereas major repairs, improvements and replacements, which extend the useful lives of the assets, are capitalized. Costs incurred for capital construction are carried in construction in progress until completion.

Costs incurred for the purchase of software and water and wastewater capacity are treated as intangibles and amortized over the estimated useful life of the asset or the term of the contractual agreement.

Depreciation and Amortization

Capital assets are depreciated or amortized using the straight-line method. Estimated useful lives of some significant asset categories are as follows:

Buildings and other structures	40 – 50 years
Pipe and pipe improvements	35 – 100 years
Equipment and vehicles	3 – 12 years
Purchased capacity	50 years

Depreciation and capitalized interest on constructed assets are appropriately adjusted at substantial completion.

Inventory

Materials and supplies inventory is recorded utilizing a perpetual (moving average) cost methodology and is reduced for estimated losses due to obsolescence.

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Bonds and Notes Payable

Bonds and notes payable are recorded at the principal amount outstanding, net of any applicable premium or discount.

Bonds outstanding, which have been refunded and economically defeased, are not included in long-term debt. The related assets are not included in investments. The difference between the reacquisition price and the net carrying amount of the old debt is a deferred outflow of resources and is amortized as a component of interest expense (see Note F).

Pension

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the net position of the Washington Suburban Sanitary Commission Employees Retirement Plan (the Plan) and additions to/deductions from the Plan's net position have been determined on the same basis as they are reported by the Plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Pension costs are impacted by fluctuations in the market affecting actual and projected investment income and related deferred outflows or inflows. Investment activities are reported as non-operating revenues, therefore pension costs are allocated amongst operating and non-operating costs and/or revenues.

Other Postemployment Benefits (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the net position of the Washington Suburban Sanitary Commission Employees OPEB Plan (the OPEB Plan) and additions to/deductions from the OPEB Plan's net position have been determined on the same basis as they are reported by the OPEB Plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

OPEB costs are impacted by fluctuations in the market affecting actual and projected investment income and related deferred outflows or inflows. Investment activities are reported as non-operating revenues, therefore OPEB costs are allocated amongst operating and non-operating costs and/or revenues.

Compensated Absences

Employees earn annual leave based on length of service. Accumulated annual leave in excess of 360 hours at the end of each year is transferred to sick leave. At termination, employees will be paid for unused annual leave but will not receive any pay or time off for unused sick leave. At retirement, an employee may convert unused annual leave to sick leave. Unused sick leave at retirement may be credited to an employee's total service time for retirement benefit purposes. Annual leave earned but unused is accrued as a liability.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent 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 these estimates.

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Reclassifications

The 2017 financial statements reflect certain reclassifications to conform with the 2018 presentation.

Net Position

Capital assets, as defined above, net of related outstanding debt represent the largest portion of WSSC's net position, or net investment in capital assets.

Net position associated with unspent SDC proceeds is restricted for growth construction.

Unrestricted net position is the residual amount not included in the other classifications.

Accounting Changes

GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, replaces GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans.* Statement No. 74 addresses the financial reports of defined benefit OPEB Plans that are administered through trusts that meet specified criteria. The Statement requires a statement of fiduciary net position, a statement of changes in fiduciary net position, more extensive note disclosures and RSI related to the measurement of the OPEB liabilities for which assets have been accumulated, including information about the annual money-weighted rate of return on plan investments. Statement No. 74 also sets forth note disclosure requirements for defined contribution OPEB plans. This Statement is effective for Plans with fiscal years beginning after June 15, 2016. The pronouncement was adopted by the OPEB Plan in fiscal year 2018.

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions,* replaces the requirements of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.* Among other things, Statement No. 75 requires governments to report a liability on the face of the financial statements for the OPEB that they provide and requires governments in all types of OPEB plans to present more extensive note disclosures and required supplementary information about their OPEB liabilities. This Statement is effective for fiscal years beginning after June 15, 2017. GASB No.75 was implemented in fiscal year 2018 and related prior year balances were restated.

GASB Statement No. 77, *Tax Abatement Disclosures,* requires disclosure of tax abatement agreements and programs so that others may evaluate the financial health of governments, make decisions and assess accountability. This Statement is effective for fiscal years beginning after December 15, 2015. The adoption of the pronouncement did not have an impact on WSSC's financial statements.

GASB Statement No. 83, *Certain Asset Retirement Obligations*, establishes uniform accounting and financial reporting requirements for asset retirement obligations (AROs). This Statement is effective for fiscal years beginning after June 15, 2018. Management is evaluating the impact of the pronouncement on its financial statements.

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

GASB Statement No. 84, *Fiduciary Activities,* establishes uniform accounting and financial reporting requirements for fiduciary activities. This Statement is effective for fiscal years beginning after December 15, 2018. Management is evaluating the impact of the pronouncement on its financial statements.

GASB Statement No. 85, *Omnibus 2017,* establishes accounting and financial reporting requirements for blending component units, goodwill, fair value measurement and application, and postemployment benefits. This Statement is effective for fiscal years beginning after June 15, 2017. Where applicable, the pronouncement was adopted in fiscal year 2018 with the enhancement of certain financial statement disclosures.

GASB Statement No. 86, *Certain Debt Extinguishment Issues,* establishes standards of accounting and financial reporting for in-substance defeasance transactions in which cash and other monetary assets acquired with only existing resources are placed in an irrevocable trust for the purpose of extinguishing debt. This Statement is effective for fiscal years beginning after June 15, 2017. The adoption of the pronouncement did not have an impact on WSSC's financial statements.

GASB Statement No. 87, *Leases,* establishes uniform accounting and financial reporting requirements for leases by lessees and lessors. This Statement is effective for fiscal years beginning after December 15, 2019. Management is evaluating the impact of the pronouncement on its financial statements.

GASB Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements,* establishes additional financial statement disclosure requirements related to debt obligations of governments, including direct borrowings and direct placements. Direct borrowings and direct placements have terms negotiated directly with the investor or lender and are not offered for public sale. This Statement is effective for fiscal years beginning after June 15, 2018. Management is evaluating the impact of the pronouncement on its financial statements

GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period,* establishes requirements for interest cost incurred before the end of a construction period. This Statement is effective for fiscal years beginning after December 15, 2019. Changes adopted to conform to the provisions of the Statement should be applied prospectively. Management is evaluating the impact of the pronouncement on its financial statements.

B. CASH AND INVESTMENTS

At June 30, 2018 and 2017, cash per WSSC's records amounted to \$27.9 million and \$18.5 million, respectively, and reported bank balances were \$32.6 million and \$23.4 million, respectively. All collected bank balance funds were secured by Federal depository insurance or by collateral held in WSSC's name under a tri-party collateral agreement with M&T and BNY Mellon.

In addition, BNY Mellon held cash and investments of \$92.4 million at June 30, 2018. These funds, the net proceeds of a crossover refunding of Build America Bonds – Direct Payment to the Issuer, Series 2009B, were used to purchase U.S. government securities (SLGS) in an irrevocable trust with an escrow agent. The proceeds will provide future debt service payments on the Series 2009B until the crossover date of June 1, 2019.

B. CASH AND INVESTMENTS (continued)

WSSC's investment policy conforms to Maryland laws on the investment of public monies. Consequently, WSSC is authorized to invest in the investment types identified in the table below. The table also identifies certain provisions of the Maryland law or WSSC investment policy, which address interest rate risk, credit risk and concentration of credit risk.

Authorized Investment Type	Maximum Maturity	Maximum Percentage Of Portfolio	Maximum Investment In One Issuer
U.S. Government securities	1 year	None	None
Federal agency securities	1 year	None	None
Bankers' acceptances	6 months	None	20%
Collateralized repurchase agreements	1 year	None	20%
Commercial paper	1 year	5%	None
Certificates of deposit	1 year	None	20%
Money market investments		None	None

Any investment with a maturity in excess of 1 year must be approved by the Treasurer and will be limited to U.S. Government and Federal agency securities. The aggregated value of investments with any one bank or broker will not exceed 20% of the total investment portfolio at the time of investment, unless approved by the Investment Manager or WSSC Treasurer.

Custodial credit risk is the risk that, in the event of a failure of a financial institution, WSSC would not be able to recover deposits, the value of its investments, or collateral securities that are in the possession of an outside party. Maryland State law requires that collateral shall be maintained for all deposits and certificates of deposit with amounts in excess of Federal insurance coverage. State law also requires the securities collateralizing repurchase agreements have a market value of at least 102 percent of the principal of the investment plus accrued interest. There were no repurchase agreements at June 30, 2018 and 2017.

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. As of June 30, 2018 and 2017, all of WSSC's investments had remaining maturities of 1 year or less.

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. Credit risk is measured by the assignment of a rating by a nationally recognized statistical rating organization. WSSC may invest in bankers' acceptances and commercial paper having a short-term rating of the highest letter and numerical rating issued by at least one nationally recognized statistical rating organization. WSSC does not have a formal policy for other investment types; however virtually all remaining investments are in, or collateralized by, Federal agency securities. Actual ratings as of June 30, 2018 and 2017 are presented below for each investment type.

B. CASH AND INVESTMENTS (continued)

Investments at June 30, 2018 (in thousands):

Investment Type	Credit Rating	Remaining Maturity	Cost	Fair Value
Money market investments	Aaa	1 year or less	$ 52,688	$ 52,688
Certificates of deposit	Aaa	1 year or less	12,090	12,171
Commercial paper	A-1+	1 year or less	4,974	4,987
U. S. Government Treasury bonds	Aaa	1 year or less	64,632	64,759
Federal agency securities	Aaa	1 year or less	148,280	149,216
Total investments (includes $8,868 restricted for capital projects and $83,583 which is classified as non-current)			$ 282,664	$ 283,821

Investments at June 30, 2017 (in thousands):

Investment Type	Credit Rating	Remaining Maturity	Cost	Fair Value
Money market investments	Aaa	1 year or less	$ 52,014	$ 52,014
Certificates of deposit	Aaa	1 year or less	12,000	11,983
Commercial paper	A-1+	1 year or less	4,978	4,993
U. S. Government Treasury bonds	Aaa	1 year or less	10,000	9,934
Federal agency securities	Aaa	1 year or less	134,626	134,867
Total investments (includes $19,284 restricted for capital projects and $3,383 which is classified as non-current)			$ 213,618	$ 213,791

B. CASH AND INVESTMENTS (continued)

Concentration of credit risk is the risk of loss due to the magnitude of WSSC's investment in the securities of any single issuer. The investment policy of WSSC contains no limitations on the amount that can be invested in any one issuer. Those that represent 5% or more of total investments are as follows (in thousands):

Issuer	Investment Type	2018	2017
FHLB	Federal agency securities	$ 89,306	$ 94,920
FHLMC	Federal agency securities	59,910	39,947
U.S. Government	Treasury bonds	64,759	9,935

The change in fair value of investments is recognized as an increase or decrease to investment assets and investment income.

Repurchase agreements are recorded at cost, which approximates fair value.

WSSC categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The valuation technique uses a three level hierarchy of inputs to measure fair value. Investments classified in Level 1 within the fair value hierarchy are valued using prices quoted in active markets for identical assets. Level 2 investment valuations utilize inputs other than quoted prices included in Level 1 that are observable, either directly or indirectly. If fair value inputs are unobservable, the investments will be classified as Level 3.

Fair value measurements at June 30, 2018 (in thousands) using:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Investments by fair value level:				
Certificates of deposit	$ 12,171	$ -	$ -	$ 12,171
Commercial paper	4,987	-	-	4,987
U. S. Government Treasury bonds	64,759	-	-	64,759
Federal agency securities	149,216	-	-	149,216
Total investments by fair value level	$ 231,133	$ -	$ -	231,133
Investments at cost -				
Money market investments				52,688
Total investments				$ 283,821

B. CASH AND INVESTMENTS (continued)

Fair value measurements at June 30, 2017 (in thousands) using:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Investments by fair value level:				
Certificates of deposit	$ 11,983	$ -	$ -	$ 11,983
Commercial paper	4,993	-	-	4,993
U. S. Government Treasury bonds	9,934	-	-	9,934
Federal agency securities	134,867	-	-	134,867
Total investments by fair value level	$ 161,777	$ -	$ -	161,777
Investments at cost -				
Money market investments				52,014
Total investments				$ 213,791

C. RECEIVABLES

Receivables consisted of the following at June 30 (in thousands):

	2018	2017
Front foot benefit assessments accrued and billed	$ 8,975	$ 10,365
Water and sewer services unbilled	48,690	50,079
Water and sewer services billed	56,597	62,005
Miscellaneous	17,191	21,112
	131,453	143,561
Less allowance for doubtful accounts	(6,431)	(10,115)
Total receivables, net	$ 125,022	$ 133,446

D. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2018 was as follows (in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land and rights of way	$ 121,711	$ 4,665	$ -	$ 126,376
Construction in progress	1,574,818	595,740	(642,929)	1,527,629
Total capital assets not being depreciated	1,696,529	600,405	(642,929)	1,654,005
Capital assets being depreciated:				
Water supply	2,676,156	336,724	(9,529)	3,003,351
Sewage disposal	2,371,338	189,381	-	2,560,719
General construction	2,597,686	41,595	(4,636)	2,634,645
Intangible assets	1,388,814	19,090	-	1,407,904
Other	167,179	6,476	(5,226)	168,429
Total capital assets being depreciated	9,201,173	593,266	(19,391)	9,775,048
Less accumulated depreciation for:				
Water supply	(726,372)	(48,649)	3,998	(771,023)
Sewage disposal	(709,481)	(56,205)	-	(765,686)
General construction	(1,218,043)	(52,921)	1,237	(1,269,727)
Intangible assets	(335,392)	(31,202)	-	(366,594)
Other	(124,578)	(13,033)	4,899	(132,712)
Total accumulated depreciation	(3,113,866)	(202,010)	10,134	(3,305,742)
Capital assets being depreciated, net	6,087,307	391,256	(9,257)	6,469,306
Total capital assets, net	$ 7,783,836	$ 991,661	$ (652,186)	$ 8,123,311

D. CAPITAL ASSETS (continued)

Restated (see Note P) capital asset activity for the year ended June 30, 2017 was as follows (in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land and rights of way	$ 117,837	$ 3,874	$ -	$ 121,711
Construction in progress	1,433,550	580,933	(439,665)	1,574,818
Total capital assets not being depreciated	1,551,387	584,807	(439,665)	1,696,529
Capital assets being depreciated:				
Water supply	2,446,730	236,320	(6,894)	2,676,156
Sewage disposal	2,186,386	194,366	(9,414)	2,371,338
General construction	2,557,112	43,051	(2,477)	2,597,686
Intangible assets	1,376,987	11,827	-	1,388,814
Other	156,965	11,773	(1,559)	167,179
Total capital assets being depreciated	8,724,180	497,337	(20,344)	9,201,173
Less accumulated depreciation for:				
Water supply	(682,055)	(46,464)	2,147	(726,372)
Sewage disposal	(661,494)	(51,629)	3,642	(709,481)
General construction	(1,167,047)	(52,905)	1,909	(1,218,043)
Intangible assets	(305,286)	(30,106)	-	(335,392)
Other	(111,675)	(14,412)	1,509	(124,578)
Total accumulated depreciation	(2,927,557)	(195,516)	9,207	(3,113,866)
Capital assets being depreciated, net	5,796,623	301,821	(11,137)	6,087,307
Total capital assets, net	$ 7,348,010	$ 886,628	$ (450,802)	$ 7,783,836

Interest costs of $47.5 million and $40.2 million were capitalized during fiscal years 2018 and 2017, respectively.

Purchased Software

Purchased software and related development stage costs of $1.9 million and $5.7 million were capitalized in accordance with GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets* in fiscal years 2018 and 2017, respectively. Costs of $12.3 million are included in the Construction in Progress balance as of June 30, 2018 and will commence amortization upon implementation of the software. Intangible assets include the balance of costs placed in service, net of accumulated amortization, of $8.0 million and $9.4 million in fiscal 2018 and 2017, respectively.

D. CAPITAL ASSETS (continued)

Purchased Capacity

Jennings Randolph

An intangible asset for purchased capacity has been established for WSSC's share of capital costs in the Jennings Randolph Reservoir (Bloomington Dam). The Reservoir provides backup and peak-day water supply to WSSC and is operated by the U.S. Army Corps of Engineers, Baltimore District. WSSC funds 50% of the capital costs, and intangible asset balances of $27.3 million and $27.5 million, for fiscal years 2018 and 2017, respectively, are included above.

Mattawoman and Poolesville

WSSC participates in the funding of capital costs for the Mattawoman and Poolesville Wastewater Treatment Plants through agreements with Charles County and the Town of Poolesville, respectively. In exchange for this participation, WSSC obtains the right to discharge wastewater from the Washington Suburban Sanitary District into said facilities. Costs of $1.5 million are included in the Construction in Progress balance as of June 30, 2018 and will commence amortization when placed in service. Asset balances, net of accumulated amortization, totaling $8.3 million and $8.7 million, for fiscal years 2018 and 2017, respectively, are included in intangible assets above.

Blue Plains

The Commission, the District of Columbia (the District), the District of Columbia Water and Sewer Authority (DC Water), Fairfax County, Virginia, Montgomery County, Maryland, and Prince Georges County, Maryland are "Parties" to a regional Intermunicipal Agreement (IMA) that provides for dedicated allocation of wastewater flow capacity for treatment at the Blue Plains facility in Washington DC. The *Blue Plains Intermunicipal Agreement of 1985 Equity Payment Study* and the subsequent equity payments required by the 1985 IMA reconciled all capital cost contributions for the Parties prior to 1987 and established a new baseline as of 1988 for calculating and allocating future capital costs associated with Blue Plains.

The 1985 IMA was replaced, effective April 3, 2013, by a new Blue Plains Intermunicipal Agreement of 2012 (the "2012 IMA"), which was executed by each of the original signatories to the 1985 IMA. The 2012 IMA provides for the allocation of capital, operating, and maintenance costs among the Parties. The parties have demonstrated their willingness to share in the burdens associated with the demands for regional wastewater collection and treatment and biosolids management. Capital costs of Blue Plains are allocated among the Parties in proportion to their respective capacity allocation of the wastewater treatment, collection, and conveyance facilities as defined in the 2012 IMA. Operating costs are allocated on a proportional basis, by the wastewater flows from each participant to the Blue Plains facilities. The Commission has a wastewater treatment capacity entitlement of 169.60 MGD, which is approximately 45.8% of the Plant's total capacity of 370 MGD.

An operating procedure was implemented for Multi-Jurisdictional Users Facilities' (MJUF) in fiscal year 2018. The procedure employs a new methodology to determine the allocated flow by users through the various facilities (such as pump stations and major conveyance pipelines through the District of Columbia) for O&M billing purposes. There was no change in the Blue Plains capital cost allocation as defined.

To address technical, policy and financial issues related to the 2012 IMA, the Parties may act at three different levels of authority: 1) the policy level, as an IMA signatory, 2) the administrative level, as a member of the Leadership Committee, and 3) the technical level, as a member of the Regional Committee. WSSC has representation at each of these levels.

D. CAPITAL ASSETS (continued)

If any participant's projected annual flow is anticipated to exceed its allocated flow capacity, the following options are available for consideration by the Regional and Leadership Committees, with participation from all of the Parties: 1) wastewater flow management adjustments, 2) modification of treatment processes at Blue Plains, 3) diversion of flows from the Blue Plains Service Area to other facilities, 4) sale or rental of excess capacity at Blue Plains between the Parties, and 5) expansion or addition of treatment and/or storage facilities. The rental or sale of allocated flow capacity shall be at the discretion of the Party which is providing the capacity for sale or rent, and the related Parties to the transaction will mutually agree on the cost basis.

The 2012 IMA remains in effect until amended, replaced or terminated by mutual consent of the Parties.

The Commission's capital investment in Blue Plains, under the 2012 IMA, is accounted for as an intangible asset and is amortized over the estimated useful lives of the underlying assets. Costs of $393.0 million are included in the Construction in Progress balance as of June 30, 2018 and will commence amortization when assets are placed in service. Asset balances, net of accumulated amortization, totaling $997.7 million and $1,007.8 million, for fiscal years 2018 and 2017, respectively, are included in intangible assets above.

The amount shown in the statements of revenues, expenses and changes in net assets for depreciation and amortization does not include depreciation of vehicles and equipment. Depreciation of these assets, $13.0 million in fiscal 2018 and $14.4 million in fiscal 2017, is classified with other related operating and maintenance costs.

E. NOTE RECEIVABLE

On April 4, 2007, WSSC entered into a Purchase and Sale Contract with Montgomery County for the County's purchase of WSSC's property which previously was the site of a biosolids composting facility. On January 15, 2009, the closing date of the sale, WSSC received a promissory note in the amount of $10,000,000 from Montgomery County.

Interest accrues at a rate of 4.43%, which commenced six months after the execution of the promissory note. Under the provisions of the promissory note, the minimum annual payment by Montgomery County is $400,000 and is due on July 15, 2009 and annually thereafter. Payments shall be allocated first to interest, then to principal. At June 30, 2018 and 2017, the balance of this Note Receivable was $9.8 million.

As Montgomery County develops the property, additional payments become due when a 'Payment Event' occurs. A 'Payment Event' is defined as a sale or ground lease of a parcel or the commencement of initial construction on a parcel. The additional payment shall be applied to the minimum annual payment amount. Montgomery County is obligated to pay additional payments for amounts in excess of the minimum annual payment.

The principal portion of additional payments shall be at least determined based upon the ratio of the developable square feet (DSF) of the sold or developed parcel to the sum of the DSF of the sold or developed parcel plus the total DSF of the unsold parcels. Interest shall be the outstanding unpaid interest accrued as of the date of the applicable Payment Event.

The promissory note was amended and restated in 2017, to change the repayment schedule and extend the maturity date from January 15, 2024 to July 15, 2027. Under the amended Promissory Note, the County agrees to pay $400,000, with interest at 4.43%, commencing July 15, 2017 and annually thereafter until the principal and all accrued and unpaid interest and other charges are paid.

F. DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES

Deferred outflows of resources represent a consumption of net position that is applicable to a future period. Reported examples include:

(a) Deferred losses on bond refundings resulting from the difference between the carrying value of the refunded debt and its reacquisition price
(b) Net difference between projected and actual earnings on pension plan investments
(c) Results of changes in pension assumptions
(d) Contributions to the OPEB Plan subsequent to the measurement date of the net OPEB liability and before the end of WSSC's reporting period
(e) Differences between expected and actual experience in the measurement of the total OPEB liability

Deferred inflows of resources represent an acquisition of net assets that is applicable to a future period. Reported examples include:

(a) Differences between expected and actual experience in the measurement of the total pension liability

(b) Net difference between projected and actual earnings on pension plan investments

(c) Net difference between projected and actual earnings on OPEB plan investments

G. CAPITAL CONTRIBUTIONS

Capital contributions consisted of the following for the years ended June 30 (in thousands):

	2018	2017
System development charges	$ 28,447	$ 28,875
Developer fees	5,301	6,233
Federal and State grants	3,706	12,976
House connections	6,699	4,800
Land and rights of way	2,651	2,075
Other construction projects	24,288	30,545
Total	$ 71,092	$ 85,504

H. COMPENSATED ABSENCE LIABILITY

Compensated absence liability activity consisted of the following for the years ended June 30 (in thousands):

	2018	2017
Compensated absence liability – beginning of year	$ 12,255	$ 11,949
Increases (incurred)	10,748	10,270
Decreases	(10,193)	(9,964)
Compensated absence liability – end of year	$ 12,810	$ 12,255

This liability is included in accounts payable and accrued expenses on the balance sheet

I. DEPOSITS, UNEARNED REVENUE AND OTHER LONG-TERM LIABILITIES

Deposits, unearned revenue and other long-term liabilities, reflected as non-current liabilities on the Balance Sheet, consisted of the following at June 30 (in thousands):

	2018	2017
Unearned revenue for house connections	$ 16,124	$ 16,693
Unearned front foot benefit revenue	619	759
Construction deposits	2,224	1,075
House connection deposits	3,424	2,966
Other	4,568	4,519
Total	$ 26,959	$ 26,012

J. BONDS AND NOTES PAYABLE

Bonds and notes payable activity for the year ended June 30, 2018 was as follows (in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance	Current Maturities
Bonds and notes payable:					
Water supply	$ 1,087,603	$ 331,225	$ (134,529)	$ 1,284,299	$ 156,703
Sewage disposal	1,556,907	420,015	(211,952)	1,764,970	129,683
General construction	190,401	21,095	(37,493)	174,003	51,977
	2,834,911	772,335	(383,974)	3,223,272	338,363
Plus unamortized premium/discount	171,914	48,917	(20,591)	200,240	-
Total bonds and notes payable	$ 3,006,825	$ 821,252	$ (404,565)	$ 3,423,512	$ 338,363

Bonds and notes payable activity for the year ended June 30, 2017 was as follows (in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance	Current Maturities
Bonds and notes payable:					
Water supply	$ 912,575	$ 233,000	$ (57,972)	$ 1,087,603	$ 163,041
Sewage disposal	1,394,774	242,093	(79,960)	1,556,907	129,996
General construction	189,489	22,019	(21,107)	190,401	54,862
	2,496,838	497,112	(159,039)	2,834,911	347,899
Plus unamortized premium/discount	154,366	36,924	(19,376)	171,914	-
Total bonds and notes payable	$ 2,651,204	$ 534,036	$ (178,415)	$ 3,006,825	$ 347,899

The unamortized amounts above represent premiums received on outstanding debt issuances.

J. BONDS AND NOTES PAYABLE (continued)

Bonds payable accrue interest at rates ranging from 0.7% to 6.0%, with an effective interest rate of 3.82% at June 30, 2018. All bonds payable at June 30, 2018, exclusive of refunded bonds, are due serially through the year 2047. Generally, the bonds are callable at a premium after a specified number of years.

In November 2017, WSSC issued $459.3 million of Consolidated Public Improvement Bonds to fund new construction, rehabilitation and replacement of water and sewer infrastructure.

In December 2016, WSSC issued $381.8 million of Consolidated Public Improvement Bonds to fund new construction, rehabilitation and replacement of water and sewer infrastructure.

In September 2009, WSSC issued $180.0 million of Consolidated Public Improvement Bonds in two series; $90.0 million in Tax-Exempt Bonds, Series 2009A and $90.0 million in Taxable Build America Bonds - Direct Payment to the Issuer, Series 2009B. In September 2010, WSSC issued $240.0 million of Consolidated Public Improvement Bonds in two series; $120.0 million in Tax-Exempt Bonds, Series 2010A and $120.0 million in Taxable Build America Bonds - Direct Payment to the Issuer, Series 2010B. The American Recovery and Reinvestment Act of 2009 created the Build America Bonds program. This program is intended to assist state and local municipalities in issuing debt. One provision of the program is for issuance of taxable Build America Bonds to finance capital expenditures while providing a federal subsidy of 35% of the interest payment to the issuer. Due to government sequestration enacted in March 2013, the December 1, 2015 and June 1, 2016 subsidies were reduced by 2.38%. The December 1, 2016 and June 1, 2017 subsidies were reduced by 2.42%. The December 1, 2017 and June 1, 2018 subsidies were reduced by 2.31%. The subsidy is payable over the life of the issue, and in the schedule below it is assumed that the remainder of subsidy payments will be made at the original 35%.

On December 13, 2017, the Commission completed a crossover refunding for the 2009 Build America Bonds – Direct Payment to the Issuer, Series 2009B. The crossover date for the bonds is June 1, 2019, at which time the 2009 Build America Bonds, 2009B will be fully defeased and redeemed.

Bond and note maturities and interest thereon, including Taxable Build America Bond subsidies, for the next five years are as follows (in thousands):

Year ended June 30	Principal Maturities	Interest Requirements	Build America Bond Subsidies
2019	$338,363	$ 121,832	$ (3,279)
2020	161,051	115,000	(3,279)
2021	159,624	107,693	(3,142)
2022	153,225	103,938	(2,854)
2023	151,091	97,037	(2,557)

Bond and note maturities and interest thereon, including Taxable Build America Bond subsidies, in five-year increments for fiscal years after 2021 are as follows (in thousands):

Year ended June 30	Principal Maturities	Interest Requirements	Build America Bond Subsidies
2024-2028	$728,402	$389,033	$ (7,972)
2029-2033	523,097	255,965	(767)
2034-2038	355,871	169,802	-
2039-2043	408,187	94,926	-
2044-2047	244,361	19,077	-

J. BONDS AND NOTES PAYABLE (continued)

Bond Anticipation Notes (the Notes) are remarketed weekly by WSSC's remarketing agent at prevailing weekly tax-exempt interest rates. Interest rates on the Notes ranged from 0.61% to 1.90% during fiscal year 2018 and from 0.39% to 0.95% during fiscal year 2017. Any or all buyers of the Notes may demand payment from WSSC's remarketing agent upon seven days' notice. WSSC's remarketing agents are prepared to remarket the Notes in such eventuality. The Notes were sold under a bank line of credit agreement which acts as a guarantee of liquidity for the Notes in the event that the Notes cannot be remarketed. On August 28, 2013, the Commission replaced the series '"A" notes with two separate series (A&B), each backed by their own line of credit. The maximum amount available under each line of credit which expires in August 2019, subject to certain conditions, is $107.5 million. In aggregate, the total line of credit is $215.0 million.

At June 30, 2018 and 2017, $190.2 million and $202.6 million respectively, of the Notes were outstanding. WSSC expects to redeem these Notes with proceeds of future bond issues or annual amortization. The Commission issued $42.5 million in Series A Notes and $52.5 million in Series B Notes on August 31, 2016. On June 24, 2015, the Commission issued $35.0 million in Series A Notes and $55.0 million in Series B Notes. On February 26, 2014, WSSC issued $50.0 million in Series B Notes. The Commission redeemed $12.4 million and $90.0 million in Notes on June 6, 2018 and June 28, 2017, respectively, as part of the water, sewer and general debt service amortization. The Notes are treated as bonds, and as such, are expected to be amortized over a 20-year term. However, because these Notes are callable, the entire $190.2 million has been included in current maturities (fiscal 2018 principal maturities), and an estimated $6.7 million has been included in the fiscal 2019 interest requirements. Additional estimated interest requirements at prevailing rates through 2036 on these Notes, assuming future redemption from proceeds of bonds, would total $73.4 million.

On July 15, 2005, WSSC commenced work on a utility service contract with the U.S. Department of Defense to operate and maintain the Bolling Air Force Base water distribution and wastewater collection systems. Under the terms of this contract, WSSC acquired the existing water and wastewater systems for $1.0 million and $4.3 million, respectively. Corresponding notes payable accrued interest at 7.0% over a 30-year term. As of March 31, 2017, the contract to serve and maintain the water and wastewater systems at the Joint Base Anacostia-Bolling (formerly known as the Bolling Air Force Base) was terminated for mutual convenience. In the full and final settlement of this termination, WSSC retained funds collected for repairs and replacements while water and wastewater system assets were returned to the Federal government.

Since November 1989, WSSC has participated in a loan program established by the State of Maryland to loan money to Maryland municipalities for local water and sewer projects. The program, known as the Maryland Water Quality Revolving Loan Fund, is designed to offer these municipalities loans at reduced interest rates. As of June 30, 2018, WSSC borrowed $400.1 million from the program. The total principal balance outstanding as of June 30, 2018 and 2017 was $248.1 million and $250.1 million, respectively.

Proceeds of notes payable to the Federal government were used to make improvements to the Jennings Randolph Reservoir for backup and peak-day water supply. The note payable accrues interest at 3.25% and balances outstanding at June 30, 2018 and 2017 were $20.9 million and $21.5 million, respectively.

WSSC is in compliance with all terms of its debt agreements at June 30, 2018 and 2017.

K. BOND REFUNDINGS

WSSC sells refunding bonds, thereby defeasing outstanding bonds, to reduce total debt service payments over the remaining life of the refunded bonds and to obtain an economic gain (difference between the present value of the old and new debt service payments) from the transactions.

K. BOND REFUNDINGS (continued)

The refunded bonds continue to be general obligations of WSSC until redeemed or called. However, the net proceeds of the refunding bonds are applied toward the purchase of U.S. Government obligations (held in escrow) with maturities and interest sufficient to meet debt service and call premiums, if any, on the refunded bonds. The holders of the refunded bonds have first lien on all assets held in escrow. Refunded bonds outstanding at June 30, 2018 and 2017, which amounted to $217.5 million and $83.8 million, respectively, are considered to be defeased and are not reflected in the accompanying financial statements.

In November 2017, WSSC sold $220.2 million of refunding bonds with interest rates ranging from 3.00% to 5.00% to refund $217.5 million of outstanding callable water supply, sewage disposal and general construction bonds with interest rates ranging from 3.00% to 5.00%. The net proceeds of $237.2 million (including a premium of $18.1 million) were used to purchase selected open market securities. Those securities were deposited with an escrow agent to provide for all future debt service payments and the early redemption of callable bonds. The November 2017 refunding will reduce WSSC's total debt service payments over the next 15 years by $11.7 million and provide an economic gain of $9.8 million.

In December 2017, WSSC sold $79.1 million of crossover refunding bonds with an interest rate of 5.00%. The bonds will refund $90.0 million of outstanding callable water supply, sewage disposal and general construction bonds with interest rates ranging from 4.35% to 5.00%. Build America Bonds – Direct Payment to the Issuer, Series 2009B will not defeased until the crossover date, and will not be removed as a liability until June 1, 2019. Proceeds from the refunding bonds were used to purchase U.S. government securities in an irrevocable trust with an escrow agent, and will provide future debt service payments on the Series 2009B until the crossover date of June 1, 2019. As a result of the crossover refunding issue, WSSC will save $4.9 million in debt service payments and achieve an economic gain of $4.2 million.

Refunded bonds are considered to be defeased and the liability is not reflected in the financial statements.

No refunding bonds were sold in fiscal year 2017.

Effective July 1, 1993, WSSC adopted GASB Statement No. 23, *Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities*. GASB No. 23 requires deferral of the difference between the reacquisition price and the carrying amount of the old debt. The difference is reported in the accompanying financial statements as a deferred outflow of resources and is being amortized to interest on bonds and notes through the year 2030 using the proportionate-to-stated interest method. Amortization totaling $1.4 million and $1.9 million in fiscal 2018 and 2017, respectively, was recorded as an interest adjustment on bonds and notes payable in the accompanying statements of revenues, expenses and changes in net position.

In accordance with GASB 65, deferred amounts from debt refundings are now illustrated as Deferred Outflows or Inflows of Resources on the Balance Sheet.

L. RETIREMENT PLAN

Plan Description

The Washington Suburban Sanitary Commission Employees' Retirement Plan (the Plan), a single employer contributory defined benefit retirement plan, was established in 1967 to provide retirement and death benefits for the employees of the Washington Suburban Sanitary Commission (WSSC) under conditions set forth in the Plan Document based on an employee's age, length of service, and compensation. The Retirement Plan Document is amended from time to time, with the Plan last amended on January 15, 2016. The Plan may be amended by Commission resolution or by the Executive Director on behalf of the Commission.

L. RETIREMENT PLAN (continued)

WSSC implemented the Open Version of the Plan on July 1, 1978. Members of the Plan as of June 30, 1978 had an option to be included in the Open Version. This option expired December 31, 1978. The Open Version is mandatory for new employees. It generally provides for reduced employee contributions and benefits.

As of December 31, 2017 and 2016, there were 1,616 and 1,624 employees, respectively, participating in the Open Version of the Plan, and 7 and 7 employees, respectively, participating in the Closed Version of the Plan, a total of 1,623 and 1,631 employee participants, respectively.

As of December 31, 2017 and 2016, there were 1,600 and 1,585 retirees and/or beneficiaries, respectively, receiving benefits from the Plan, and there were 105 and 100 terminated vested employees, respectively, not yet receiving benefits. Sixteen and six employees retired in fiscal years 2017 and 2016, respectively, and began receiving benefits in subsequent fiscal years.

Actuarial studies are performed at least once every two years as of June 30th and the measurement date for the net pension liability is December 31st.

Contributions

WSSC funds annual pension plan costs based upon a level percentage of payroll costs. WSSC's contribution, which is paid in a lump sum on July 1 each year, amounted to $24.2 million and $22.6 million on July 1, 2017 and 2016, respectively.

Pension Benefits

The Plan provides for 100% vesting of retirement benefits after five years of credited service.

Generally, the normal retirement benefits payable to an eligible participant are equal to the sum of:

1. 2.1% of final average monthly compensation multiplied by the Closed Version credited service, plus

2. 1.4% of final average monthly compensation multiplied by the Open Version credited service where the sum of Closed Version credited service and Open Version credited service, exclusive of accumulated sick leave service is subject to a maximum of 36 years.

The Plan provides options for disability and early retirement to eligible participants or their surviving spouses.

The Plan provides for periodic cost of living increases to retirement benefits. Participants covered by the Closed Version will receive an increase two months following a sustained increase in the Consumer Price Index of 3% or more. Participants in the Open Version receive an increase each March 1, based on the preceding calendar year’s increase in the Consumer Price Index. The first increase may be pro-rated depending on the time of retirement.

L. RETIREMENT PLAN (continued)

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of July 1, 2017, using the following actuarial assumptions, applied to all periods included in the measurement:

	2017	2016
Inflation	2.50%	2.50%
Salary increases		
Up to 5 years of Service	7.50%	7.50%
6+ years of service	2.75%	2.75%
Investment rate of return	7.00%	7.00%

The mortality rates for 2017 were based on the RP-2000 Healthy Annuitant Mortality Table for Males or Females, with Blue Collar adjustments and one-year age set-forward, and projected to 2025 using Scale BB. The GAM83 tables with 10-year set forward were used for the valuation of disabled members.

The actuarial assumptions used in the July 1, 2017 valuation were based on the results of an actuarial experience analysis covering 2011 through 2016.

Further details on assumptions are provided in the valuation report.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. This is then modified through a Monte-Carlo simulation process, by which a (downward) risk adjustment is applied to the baseline expected return. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation and the final investment return assumption are summarized in the following table:

	Approximate Portfolio Allocation	Long Term Expected Real Rate of Return
Asset class:		
Domestic Equity	40.00%	5.75%
Non-U.S. Equity	25.00%	6.25%
U.S. Fixed Income	30.00%	2.80%
Real Estate	5.00%	4.40%
Total Weighted Average Real Return	100.00%	4.92%
Plus Inflation		2.50%
Total Return without Adjustment		7.42%
Risk Adjustment		-0.42%
Total Expected Return		7.00%

L. RETIREMENT PLAN (continued)

Discount Rate

The discount rate used to measure the total pension liability was 7.00% for 2017 and 2016. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that Commission contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate.

Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension investments was applied to all periods of projected benefit payments to determine the total pension liability.

Other Key Actuarial Assumptions

The other key actuarial assumptions that determined the total pension liability as of December 31, 2017 and 2016 included:

Valuation date	July 1, 2017	July 1, 2016
Measurement date	December 31, 2017	December 31, 2016
Inflation	2.50%	2.50%
Salary increased including inflation	2.75% to 7.50%	2.75% to 7.50%

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the Plan, calculated using the discount rate of 7.00% for each of 2017 and 2016, as well as what the Plan's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate (in thousands).

	1% Decrease 6.00%	Current Discount Rate 7.00%	1% Increase 8.00%
Net Pension Liability - 2017	$ 207,447	$ 102,536	$ 13,785
Net Pension Liability - 2016	$ 278,238	$ 172,787	$ 83,774

L. RETIREMENT PLAN (continued)

Changes in the Net Pension Liability

Changes in the Net Pension Liability for the year ended December 31, 2017 were as follows (in thousands):

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) – (b)
Balances at 12/31/16	$ 917,584	$ 744,798	$ 172,786
Changes for the year:			
Service cost	10,745	-	10,745
Interest	63,200	-	63,200
Differences between expected and actual experience	3,474	-	3,474
Changes in assumptions	-	-	-
Contributions – employer	-	24,193	(24,193)
Contributions – employee	-	5,291	(5,291)
Net investment income	-	118,185	(118,185)
Benefit payments, including refunds of employee contributions	(58,642)	(58,642)	-
Administrative expense*	-	-	-
Net change	18,777	89,027	(70,250)
Balances at 12/31/17	$ 936,361	$ 833,825	$ 102,536
Plan's fiduciary net position as a percentage of the total pension liability	89.05%		

L. RETIREMENT PLAN (continued)

Changes in the Net Pension Liability for the year ended December 31, 2016 were as follows (in thousands):

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a) – (b)
Balances at 12/31/15	$ 913,076	$ 713,680	$ 199,396
Changes for the year:			
Service cost	10,576	-	10,576
Interest	61,936	-	61,936
Differences between expected and actual experience	(10,449)	-	(10,449)
Changes in assumptions	-	-	-
Contributions – employer	-	22,606	(22,606)
Contributions – employee	-	4,214	(4,214)
Net investment income	-	61,852	(61,852)
Benefit payments, including refunds of employee contributions	(57,555)	(57,555)	-
Administrative expense*	-	-	-
Net change	4,508	31,117	(26,609)
Balances at 12/31/16	$ 917,584	$ 744,797	$ 172,787
Plan's fiduciary net position as a percentage of the total pension liability	81.17%		

* Administrative expenses are paid directly by WSSC

Pension Expense

For the years ended June 30, 2018 and 2017, WSSC recognized pension expense as follows (in thousands):

	2018	2017
Pension cost distributions:		
Operating	$ 20,544	$ 18,460
Non-operating	(10,050)	(5,396)
Capital	(8,546)	5,129
Total pension expense	$ 1,948	$ 18,193

L. RETIREMENT PLAN (continued)

Deferred Outflows (Inflows) of Resources

Deferred outflows of resources and deferred inflows of resources related to pensions were reported for the years ended June 30, 2018 and 2017 from the following sources (in thousands):

Deferred Outflows	2018	2017
Changes in assumptions	$ 16,129	$ 21,505
Net difference between projected and actual earnings on pension plan investments	-	26,340
Deferred Outflows	$ 16,129	$ 47,845
Deferred Inflows		
Differences between expected and actual experience	$ (35,576)	$ (50,073)
Net difference between projected and actual earnings on pension plan investments	(29,595)	-
Deferred Inflows	$ (65,171)	$ (50,073)

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows (in thousands):

Year ended June 30	Amortization
2019	$3,615
2020	7,811
2021	21,685
2022	15,548
2023	383

Historical trend information showing the Plan's progress is presented in the Plan's December 31, 2017 comprehensive annual financial report, which can be requested from WSSC’s offices.

Retirement Restoration Plan

Effective July 1, 1995, WSSC established the Washington Suburban Sanitary Commission Employees' Retirement Restoration Plan (the Restoration Plan), a non-qualified plan. The purpose of the Restoration Plan is to restore most of the benefits foregone by participants in the WSSC Employees' Retirement Plan when such benefits are limited by the maximum benefit provisions of Section 415 of the Internal Revenue Code. During fiscal years 2018 and 2017, the Restoration Plan paid benefits totaling $27,000 and $39,000, respectively.

M. OTHER POST EMPLOYMENT BENEFITS (OPEB)

Plan Description

Post-employment benefits are provided under a set of personnel policies (herein referred to, collectively, as the “OPEB Plan”). The OPEB Plan and its underlying trust, a single employer defined benefit plan, was established in 2007 to provide life insurance, healthcare and prescription drug benefits for OPEB Plan participants and beneficiaries of the WSSC under conditions set forth in the Trust Agreement, including the payment of reasonable administrative expenses. WSSC employees are eligible to continue group insurance coverage after retirement provided that retiring employees have had coverage in effect for two years prior to retirement.

As of December 31, 2017 and 2016, there were 1,623 and 1,631 active employees and 1,600 and 1,585 retirees, respectively. WSSC has the right to amend the Trust Fund Agreement.

Actuarial studies are performed at least once every two years as of June 30th and the measurement date for the net pension liability is December 31st.

Member and Employer Contributions

WSSC contributes to the OPEB Plan as it deems appropriate. WSSC initially elected to phase-in payments to the Trust over a five-year period, such that 20% of the difference between the annual required contribution and total cash expenses (funded on a “Pay-as-you-go” basis) would be funded in fiscal year 2007 and 40% of this difference would be funded in fiscal year 2008. During the third year (2009) of the phase in, WSSC elected to phase-in this difference over an eight- year period, which ended in 2014. WSSC made cash contributions of $10.0 million for the years ending December 31, 2017 and 2016.

The OPEB Plan recognizes revenues and expenditures for third-party payments made by WSSC related to benefits payments and administrative expenses. Accordingly, the OPEB Plan has included "on behalf” payments made by WSSC during the years 2017 and 2016 of $15.8 million and $15.3 million, respectively.

“On-behalf” payments by WSSC made subsequent to the measurement dates of December 31, 2017 and 2106 are reported as deferred outflows of contributions at June 30, 2018 and 2017 totaling $4.2 million and $5.3 million, respectively.

M. OTHER POST EMPLOYMENT BENEFITS (OPEB) (continued)

OPEB Benefits

The OPEB Plan pays 70-80% of the full premium for medical and prescription drug coverage for eligible participants and qualified dependents. In addition, employees who retired in 1982 and after are eligible for life insurance benefits. The amount of retiree life insurance coverage begins at 85% of the employee's salary as of the day immediately prior to retirement, and decreases over a four-year period, until coverage equals either 25% of that salary or $5,000, whichever is greater.

OPEB Plan Termination

In the event of the OPEB Plan termination, assets shall be allocated for the payment of benefits and administrative expenses in accordance with the OPEB Plan and Trust Agreement.

Actuarial Assumptions

The total OPEB liability was determined by an actuarial valuation as of July 1, 2017, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.50%
Healthcare cost trends	
2017	5.75%
2018	5.50%
2019	5.25%
2020	4.75%
Thereafter	4.50%
Post-Medicare	4.50%
Investment rate of return	7.00%

The mortality rates for 2017 were based on the RP-2000 Healthy Annuitant mortality table, for males and females. The GAM83 tables with 10-year set forward were used for the valuation of disabled members. The actuarial assumptions used in the July 1, 2016 valuation were based on the results of an actuarial experience analysis in 2016.

Further details on assumptions are provided in the valuation report.

M. OTHER POST EMPLOYMENT BENEFITS (OPEB) (continued)

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. This is then modified through a Monte-Carlo simulation process, by which a (downward) risk adjustment is applied to the baseline expected return. Best estimates of arithmetic real rates of return for each major asset class included in the OPEB plan's target asset allocation and the final investment return assumption are summarized in the following tables:

	Target Allocation	Long Term Expected Real Rate of Return
Asset class:		
Domestic Equity	48.30%	5.70%
Non-U.S. Equity	18.70%	5.95%
U.S. Fixed Income - Investment	20.60%	2.25%
U.S. Fixed Income - High Yield	8.30%	3.78%
Emergency Markets Currency	4.10%	3.80%
Total Weighted Average Real Return	100.00%	4.80%
Plus Inflation		2.50%
Total Return without Adjustment		7.30%
Risk Adjustment		-0.30%
Total Expected Return		7.00%

Discount Rate

The discount rate used to measure the total OPEB liability was 7.00%. The OPEB Plan's funding expectations/policy is to contribute approximately $10.0 million per year to the OPEB trust, in addition to paying benefits for retirees. Based on those assumptions, the OPEB Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the expected trust return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

M. OTHER POST EMPLOYMENT BENEFITS (OPEB) (continued)

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The following presents the net OPEB liability, calculated using the discount rate of 7.00%, as well as what WSSC's net OPEB liability would be if it were calculated using rates that are 1.00% lower or 1% higher than the current rate (in thousands).

	1% Decrease 6.00%	Current Discount Rate 7.00%	1% Increase 8.00%
Total OPEB Liability	$ 268,418	$ 240,305	$ 216,940
Plan Fiduciary Net Position	118,546	118,546	118,546
Net OPEB Liability	$ 149,872	$ 121,759	$ 98,394
Ratio of Plan Net Position to Total OPEB Liability	44.2%	49.3%	54.6%

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trends

The following presents the net OPEB liability, calculated using the trend assumptions below, as well as, what WSSC's net OPEB liability would be if it were calculated using rates that are 1% lower or 1% higher than the current rate (in thousands).

	1% Decrease 3.50%	Current Trend 4.50%	1% Increase 5.50%
Total OPEB Liability	$ 216,000	$ 240,305	$ 269,737
Plan Fiduciary Net Position	118,546	118,546	118,546
Net OPEB Liability	$ 97,454	$ 121,759	$ 151,191
Ratio of Plan Net Position to Total OPEB Liability	54.9%	49.3%	43.9%

Other Key Actuarial Assumptions

The other key actuarial assumptions that determined the total OPEB liability as of December 31, 2017 and 2016 included:

Valuation date	July 1, 2017	July 1, 2017
Measurement date	December 31, 2017	December 31, 2016
Inflation	2.50%	2.50%

M. OTHER POST EMPLOYMENT BENEFITS (OPEB) (continued)

Changes in the Net OPEB Liability

Changes in the Net OPEB Liability for the year ended December 31, 2017 were as follows (in thousands):

	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a) – (b)
Balances at 12/31/16	$ 228,143	$ 94,318	$ 133,825
Changes for the year:			
Service cost	2,716	-	2,716
Interest	16,104	-	16,104
Differences between expected and actual experience	4,927	-	4,927
Changes in assumptions	-	-	-
Contributions – employer, including benefits paid	-	21,586	- (21,586)
Contributions – retiree	-	4,168	(4,168)
Net investment income	-	14,247	(14,247)
Benefit payments, including refunds of employee contributions	(11,586)	(15,754)	4,168
Administrative expense*	-	(20)	20
Net change	12,161	24,227	(12,066)
Balances at 12/31/17	$ 240,304	$ 118,545	$ 121,759
Plan's fiduciary net position as a percentage of the total pension liability	49.33%		

M. OTHER POST EMPLOYMENT BENEFITS (OPEB) (continued)

Restated changes in the Net OPEB Liability for the year ended December 31, 2016 were as follows (in thousands):

	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a) – (b)
Balances at 12/31/15	$ 221,336	$ 75,955	$ 145,381
Changes for the year:			
Service cost	2,852	-	2,852
Interest	15,303	-	15,303
Differences between expected and actual experience	-	-	-
Changes in assumptions	-	-	-
Contributions – employer	-	21,348	(21,348)
Contributions – retiree	-	3,967	(3,967)
Net investment income	-	8,363	(8,363)
Benefit payments, including refunds of employee contributions	(11,348)	(15,315)	3,967
Administrative expense*	-	-	-
Net change	6,807	18,363	(11,556)
Balances at 12/31/16	$ 228,143	$ 94,318	$ 133,825
Plan's fiduciary net position as a percentage of the total pension liability	41.34%		

* Administrative expenses are paid directly by WSSC

M. OTHER POST EMPLOYMENT BENEFITS (OPEB) (continued)

OPEB Expense

For the years ended June 30, 2018 and 2017 (as restated), WSSC recognized OPEB expense as follows (in thousands):

	2018	2017
OPEB cost distributions:		
Operating	$ 9,357	$ 8,978
Non-operating	(286)	976
Capital	1,975	2,162
Total OPEB expense	$ 11,046	$ 12,116

Deferred Outflows (Inflows) of Resources

Deferred outflows of resources and deferred inflows of resources related to pensions were reported for the years ended June 30, 2018 and 2017 (as restated) from the following sources (in thousands):

Deferred Outflows	2018	2017
Contributions made subsequent to the measurement date	$ 4,236	$ 5,275
Net difference between expected and actual experience	3,942	-
Deferred Outflows	$ 8,178	$ 5,275
Deferred Inflows		
Net difference between projected and actual earnings on pension plan investments	$ (7,524)	$ (2,196)
Deferred Inflows	$ (7,524)	$ (2,196)

Contributions made subsequent to the measurement date will be recognized as expense in the next year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in pension expense as follows (in thousands):

Year ended June 30	Amortization
2019	$1,033
2020	1,033
2021	1,032
2022	484

M. OTHER POST EMPLOYMENT BENEFITS (OPEB) (continued)

Historical trend information showing the Plan's progress is presented in the Plan's December 31, 2017 comprehensive annual financial report, which can be requested from WSSC's offices.

N. DEFERRED COMPENSATION PLAN

WSSC offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The deferred compensation plan, available to all employees, permits them to defer a portion of their salaries until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. All of the assets of the deferred compensation plan are held in a trust for the exclusive benefit of participants and beneficiaries. Participants' rights under the plan are equal to the fair market value of the deferred account for each participant.

O. COMMITMENTS AND CONTINGENCIES

Construction expenditures for fiscal 2019 are not expected to exceed $656 million, a portion of which will be funded by capital contributions. Commitments in connection with this construction program approximated $223 million at June 30, 2018.

For fiscal years 2018 and 2017, the Commission paid $83.0 million and $84.1 million, respectively, to fund its share of construction costs under the regional Blue Plains Intermunicipal Agreement of 2012. The Commission estimates its share of the construction costs over the next six years to be $433.5 million, of which $65.3 million is expected to be incurred in fiscal year 2019 and the balance over fiscal years 2020 to 2025. In addition, for fiscal years 2018 and 2017, the Commission made total payments of $56.5 million and $47.2 million, respectively, to DC Water for its share of operating and maintenance costs.

WSSC receives several federal and state grants. The grant funds expended are subject to compliance audits by the grantors.

The United States Department of Justice, the United States Environmental Protection Agency and the Maryland Department of the Environment (collectively, "the Regulators") alleged, in previous years, that sanitary sewer overflows ("SSOs") from WSSC's sanitary sewer collection system were violations of the Federal Clean Water Act and analogous State law. Federal agencies have pursued similar enforcement actions nationally against public wastewater treatment system owners. WSSC contested this action and the initial remedial measures proposed by the Regulators. Negotiations to resolve the enforcement action through the entry of a mutually agreeable Consent Decree began in March 2002. In July 2005, a proposed Consent Decree was executed between WSSC, the Regulators and four environmental groups in which WSSC agreed to undertake certain remedial measures to eliminate and/or reduce SSO occurrences. The proposed Consent Decree was approved by the U.S. District Court with an official start date of December 7, 2005. In fiscal 2016, the U.S. District Court approved a six-year extension to the original term of the Consent Decree. Costs of these remedial measures are estimated at $2.060.6 million and are to be expended over at least 19 years, $742.4 million of which is expected to be incurred after fiscal year 2018. The costs are included in WSSC's budget and capital improvements program. WSSC also paid civil penalties totaling $1.1 million. These costs were accrued in fiscal 2005, and paid in fiscal 2006.

O. COMMITMENTS AND CONTINGENCIES (continued)

In February 2014, the Potomac Riverkeeper, Inc. ("PR") and the Chesapeake Bay Foundation, Inc. ("CBF") filed a complaint for injunctive relief and penalties in U.S. District Court in Maryland alleging violations of the Clean Water Act ("CWA") by the Commission (the "Issuer"). Under a Consent Decree executed by the District Court of Maryland on April 15, 2016, the Commission is required to undertake short-term operational changes and capital improvements at the Potomac Water Filtration Plant that will enable WSSC to reduce solids discharged to the river, and to plan, design and implement upgrades or new construction to achieve requirements established by MDE and incorporated in a new discharge permit. An Audit report and Long-Term Upgrade Plan were submitted by WSSC for consideration by MDE on December 26, 2016. WSSC and its consultant are preparing an Amended Long-Term Upgrade Plan to address deficiencies in the 2016 Plan and issues raised by MDE and PR in response to the Plan. Estimated order of magnitude costs for implementation of improvements in the draft revised Plan range from $151 million to $282 million, depending on the design plan options that are to be determined as part of the Parties' future resolution process. The WSSC Adopted FY19-24 Capital Improvements Program (CIP) has programmed a total of $155 million for implementation of improvements pursuant to a Long-Term Upgrade Plan. If necessary, WSSC will seek to amend the project for additional costs needed as part of an approved Long-Term Upgrade Plan.

WSSC is involved in judicial and administrative proceedings. These actions include personal injury, property damage, personnel and environmental claims, and various claims filed by contractors against WSSC for cost overruns on construction contracts. While the outcomes of these matters are uncertain, it is the opinion of management and WSSC's General Counsel that resolution of all claims outstanding will not have a material adverse effect on the financial position or changes in net position of WSSC.

WSSC purchases insurance on its property (structures, contents, boiler and machinery, etc.) for physical damages where it has been determined that a reasonable amount of exposure exists. In addition, WSSC is self-insured for workers' compensation in accordance with the statutory requirements of the State of Maryland. The workers' compensation accrued liability includes an estimate for claims incurred but not yet reported to the claims administrator. WSSC also maintains crime and terrorism insurance and fiduciary liability policies having various self-insured retention levels. Claims have not exceeded policy limits in the past three years.

WSSC is self-insured for all public liability. Each year, funds are budgeted for normal claims. However, should the past loss experience change, or should a catastrophic loss occur in excess of applicable insurance coverage, funds for such loss or losses would have to be obtained from ad valorem taxation or other sources of revenue since a self-insurance fund has not been established.

General liability and workers' compensation claim activity consisted of the following at June 30 (in thousands):

	2018	2017
Claim liability - beginning of year	$ 16,981	$ 21,742
Current year claims and changes in estimates	10,475	7,014
Claim payments	(13,019)	(11,775)
Claim liability - end of year	$ 14,437	$ 16,981

This liability is included in accounts payable and accrued expenses on the balance sheet.

During fiscal 2018 and 2017, WSSC leased a variety of equipment with annual rental payments of approximately $1.3 million and $1.8 million, respectively.

P. RESTATEMENT

GASB has issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which replaces the requirements of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.* The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions. The statement is effective for periods beginning after June 15, 2017. To comply with GASB Statement No. 75, prior year balances were restated resulting in a net $100.1 million decrease in net position as of June 30, 2016.

A summary of the transaction and the impact of the restatement are illustrated below:

(1) The net OPEB liability, actuarially determined in accordance with GASB 75 requirements, has been reported. Additional OPEB costs and adjustments to the net OPEB liability were distributed across the organization based on current WSSC practice.
(2) Contributions to the OPEB Plan from WSSC subsequent to the measurement date of the net OPEB liability and before the end of its reporting period have been reflected as deferred outflows of resources.
(3) WSSCs balances of deferred outflows of resources and deferred inflows of resources related to OPEB, have been represented.
(4) All fringe benefits, including insurance costs, are allocated across the organization based on charges for salaries and wages, therefore a portion of the restatement impacts capital assets.

P. RESTATEMENT (continued)

	Fiscal 2017 as previously reported	Restatement as of July 1, 2016	Restatement as of June 30, 2017	Fiscal 2017 Restated
Current and other assets	$ 398,317	$ -	$ -	$ 398,317
Capital assets, net of accumulated depreciation	7,767,282	18,355	(1,801)	7,783,836
Total assets	8,165,599	18,355	(1,801)	$ 8,182,153
Deferred outflows of resources	56,974	6,074	(799)	62,249
Total assets and deferred outflows	$ 8,222,573	$ 24,429	$ (2,600)	$ 8,244,402
Current and other liabilities	$ 790,519	$ 124,507	$ (6,507)	$ 908,519
Bonds and notes payable, net of current maturities	2,658,926	-	-	2,658,926
Total liabilities	3,449,445	124,507	(6,507)	3,567,445
Deferred inflows of resources	50,073	-	2,196	52,269
Total liabilities and deferred inflows	3,499,518	124,507	(4,311)	3,619,714
Net investment in capital assets	4,573,318	(3,290)	(591)	4,569,437
Restricted for growth construction	19,284	-	-	19,284
Unrestricted	130,453	(96,788)	2,302	35,967
Total net position	4,723,055	(100,078)	1,711	4,624,688
Total liabilities, deferred inflows and net position	$ 8,222,573	$ 24,429	$ (2,600)	$ 8,244,402
Operating revenues	$ 725,796		$ -	$ 725,796
Operating expenses	(599,258)		2,687	(596,571)
Non-operating revenues (expenses)	(32,537)		(976)	(33,513)
Income before capital contributions	94,001		1,711	95,712
Capital contributions	85,504		-	85,504
Change in net position	$ 179,505		$ 1,711	$ 181,216

Q. SUBSEQUENT EVENTS

The WSSC has evaluated events subsequent to September 14, 2018 and through the date the financial statements were available to be issued, and determined there have not been any events that have occurred that would require adjustments to the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

WASHINGTON SUBURBAN SANITARY COMMISSION
REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
SCHEDULE A-1

	2017	2016	2015	2014	2013
Total Pension Liability					
Service cost	$ 10,744,773	$ 10,576,413	$ 9,828,010	$ 11,098,519	$ 10,541,264
Interest on total pension liability	63,199,824	61,935,402	61,611,259	67,317,785	66,214,298
Effect of plan changes	-	-	-	-	-
Effect of assumption changes or inputs	-	-	32,257,956	-	-
Differences between expected and actual experience	3,474,382	(10,448,960)	(53,390,196)	(8,657,936)	-
Benefit payments, including refunds	(58,642,039)	(57,554,539)	(56,672,851)	(54,934,361)	(53,545,268)
Net change in total pension liability	18,776,940	4,508,316	(6,365,822)	14,824,007	23,210,294
Total pension liability, beginning of the year	917,584,542	913,076,226	919,442,048	904,618,041	881,407,747
Total pension liability, end of the year	936,361,482	917,584,542	913,076,226	919,442,048	904,618,041
Plan Fiduciary Net Pension					
Employer contributions	24,193,212	22,606,531	22,346,849	20,965,016	20,498,919
Member contributions	5,290,757	4,213,793	3,930,364	3,823,065	3,652,732
Investment income, net of investment expenses	118,185,475	61,852,141	(10,371,882)	37,575,768	110,734,486
Benefit payments, including refunds	(58,642,039)	(57,554,539)	(56,672,851)	(54,934,361)	(53,545,268)
Net change in plan fiduciary net position	89,027,405	31,117,926	(40,767,520)	7,429,488	81,340,869
Plan fiduciary net position, beginning of year	744,797,952	713,680,026	754,447,546	747,018,058	665,677,189
Plan fiduciary net position, end of year	833,825,357	744,797,952	713,680,026	754,447,546	747,018,058
Net pension liability, beginning of year	172,786,590	199,396,200	164,994,502	157,599,983	215,730,558
Net pension liability, end of year	$ 102,536,125	$ 172,786,590	$ 199,396,200	$ 164,994,502	$ 157,599,983
Plan fiduciary net position as a percentage of total pension liability	89.0%	81.2%	78.2%	82.1%	82.6%
Covered payroll	$ 143,155,112	$ 133,766,444	$ 132,229,882	$ 124,053,349	$ 121,295,379
Plan's net pension liability as a percentage of covered payroll	71.6%	129.2%	150.8%	133.0%	129.9%

This schedule is presented to illustrate the requirement to show information for 10 years. The Plan presents information for available years and additional years will be displayed as they become avaialble.

Notes to Schedule of Changes in Net Pension Liability and Related Ratios:

Benefit changes: - There have been no changes in benefit assumptions since the implementation of GASB 67 and 68.

Changes in assumptions - There were several changes in actuarial assumptions since the prior year, including rates of mortality, retirement, and termination; as well as inflation, salary increases, and investment return.

WASHINGTON SUBURBAN SANITARY COMMISSION
REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
SCHEDULE OF EMPLOYER CONTRIBUTIONS - PENSION
SCHEDULE A-2

Year Ended December 31,	Actuarially Determined Contribution	Actual Employer Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a % of Covered Payroll
2008	21,786,354	15,916,076	5,870,278	94,177,964	16.9%
2009	14,444,809	16,758,266	(2,313,457)	99,161,337	16.9%
2010	12,201,033	18,224,804	(6,023,771)	107,839,077	16.9%
2011	26,295,382	18,686,402	7,608,980	110,570,426	16.9%
2012	22,757,807	19,038,875	3,718,932	112,656,065	16.9%
2013	22,739,819	20,498,919	2,240,900	121,295,379	16.9%
2014	25,745,448	20,965,016	4,780,432	124,053,349	16.9%
2015	20,100,358	22,346,849	(2,246,491)	132,229,876	16.9%
2016	18,393,733	22,606,531	(4,212,798)	133,766,456	16.9%
2017	18,591,764	24,193,212	(5,601,448)	143,155,101	16.9%

Notes to Schedule of Contributions:

Valuation date:

Actuarially determined contribution rates are calculated as of July 1st of the fiscal year in which the contributions are reported. WSSC's policy is to complete an actuarial study at least once every two years.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal (funding valuation uses a fixed rate of contribution)
Inflation	2.50%
Salary increases	2.75 to 7.50 % including inflation
Investment rate of return	7.0% net of pension plan investment expenses, including inflation
Retirement age	Table of rates by age and eligibility
Mortality	Mortality rates were based on the RP-2000 Healthy Annuitant Mortality Table for Males or Females, with Blue Collar adjustments and one-year age set-forward and projected to 2025 using Scale BB. The actuarial assumptions used in the July 1, 2017 valuation were based on the results of the actuarial experience analysis covering 2011 through 2016.

WASHINGTON SUBURBAN SANITARY COMMISSION
REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
SCHEDULE OF CHANGES IN NET OPEB LIABILITY AND RELATED RATIOS
SCHEDULE A-3

	2017	2016
Total OPEB Liability		
Service cost	$ 2,715,880	$ 2,852,227
Interest on total OPEB liability	16,104,693	15,302,770
Effect of plan changes	-	-
Effect of assumption changes or inputs	-	-
Differences between expected and actual experience	4,927,026	-
Benefit payments, including refunds	(11,586,194)	(11,348,096)
Net change in total OPEB liability	12,161,405	6,806,901
Total OPEB liability, beginning of the year	228,143,752	221,336,851
Total OPEB liability, end of the year	240,305,157	228,143,752
Plan Fiduciary Net Pension		
Employer contributions, including benefits paid	21,586,194	21,348,096
Member contributions	4,168,418	3,967,312
Investment income, net of investment expenses	14,247,468	8,362,666
Benefit payments, including refunds	(15,754,612)	(15,315,408)
Administrative expenses	(20,000)	-
Net change in plan fiduciary net position	24,227,468	18,362,666
Plan fiduciary net position, beginning of year	94,318,236	75,955,570
Plan fiduciary net position, end of year	118,545,704	94,318,236
Net OPEB liability, beginning of year	133,825,516	145,381,281
Net OPEB liability, end of year	$ 121,759,453	$ 133,825,516
Plan fiduciary net position as a percentage of total OPEB liability	49.3%	41.3%
Covered employee payroll	$ 124,331,306	$ 122,144,339
Net OPEB liability as a percentage of covered employee payroll	97.9%	109.6%

This schedule is presented to illustrate the requirement to show information for 10 years. The OPEB Plan presents information for available years and additional years will be displayed as they become avaialble.

WASHINGTON SUBURBAN SANITARY COMMISSION
REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
SCHEDULE OF EMPLOYER CONTRIBUTIONS - OPEB
SCHEDULE A-4

Year Ended December 31,	Actuarially Determined Contribution	Actual Employer Contribution	Contribution Deficiency (Excess)	Covered Employee Payroll	Contributions as a % of Covered Employee Payroll
2008	22,466,763	12,963,000	9,503,763	84,760,168	15.3%
2009	22,745,474	13,829,000	8,916,474	89,245,204	15.5%
2010	21,175,619	14,675,000	6,500,619	97,055,169	15.1%
2011	21,298,235	14,735,000	6,563,235	99,513,383	14.8%
2012	20,180,734	17,539,809	2,640,925	101,390,459	17.3%
2013	20,128,000	19,060,000	1,068,000	109,165,841	17.5%
2014	16,752,000	20,437,000	(3,685,000)	111,648,014	18.3%
2015	16,766,000	22,379,000	(5,613,000)	119,006,893	18.8%
2016	14,960,787	21,348,096	(6,387,309)	122,144,339	17.5%
2017	14,960,787	21,586,194	(6,625,407)	124,331,306	17.4%

Notes to Schedule of Contributions:

Valuation date:

Actuarially determined contribution rates are calculated as of July 1st of the fiscal year in which the contributions are reported. WSSC's policy is to complete an actuarial study at least once every two years.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal
Inflation	2.50%
Investment rate of return	7.00%
Asset valuations methodology	Assets are based on market value
Healthcare cost trend rates	5.75% for 2017, 5.50% for 2018, 5.25% for 2019, 4.75% for 2020, 4.50% thereafter, Post-Medicare 4.50% for all years
Retirement age	Table of rates by age and eligibility
Mortality	Mortality rates were based on the RP-2000 Healthy Annuitant Mortality Table for Males or Females, with Blue Collar adjustments and one-year age set-forward and projected to 2025 using Scale BB. The actuarial assumptions used in the July 1, 2017 valuation were based on the results of the actuarial experience analysis covering 2016.