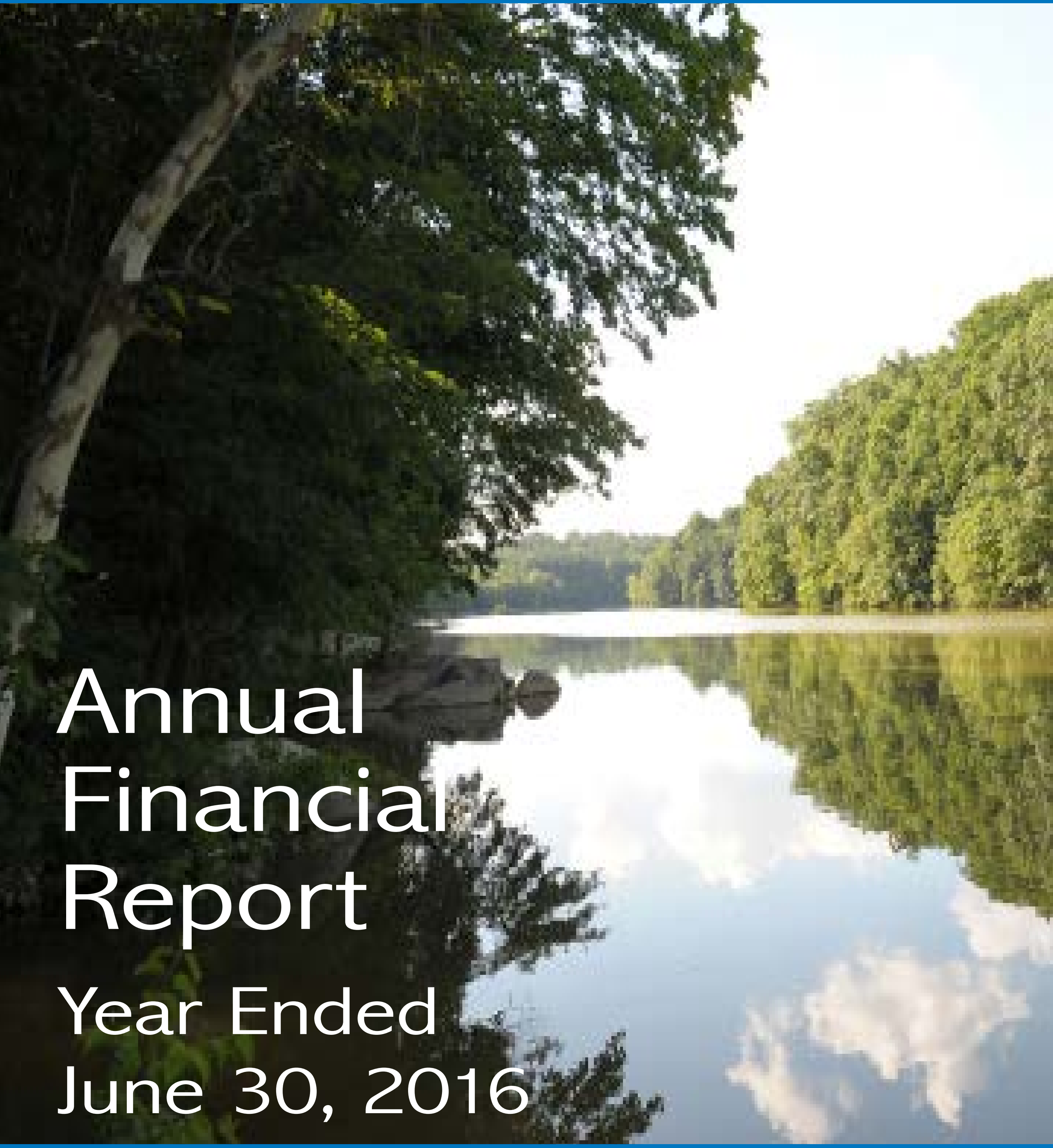
WSSC
Where Water Matters



Annual Financial Report

Year Ended June 30, 2016

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REPORT OF INDEPENDENT AUDITORS

To The Commissioners
of the Washington Suburban Sanitary Commission:

Report on Financial Statements

We have audited the accompanying financial statements of Washington Suburban Sanitary Commission (WSSC), which comprise the balance sheets as of June 30, 2016 and 2015, and the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free 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 auditor's 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 entity'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 entity'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 obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of WSSC as of June 30, 2016 and 2015, and the results of its operations and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Notes A and P to the financial statements, as of June 30, 2015, the Washington Suburban Sanitary Commission adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27.* Therefore, prior year balances have been restated resulting in a decrease in net position of $130.1 million as of June 30, 2014 over previously reported balances. Our opinion is not modified with respect to this matter.

Other Matter

Required Supplementary Information
Accounting principles generally accepted in the United States of America require that the accompanying management discussion and analysis on pages 3-11, the schedule of changes in net pension liability and related ratios and related notes on page 43, the schedule of contributions and related notes on pages 44 - 45, and the schedule of historical other postemployment benefits information on page 46 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Washington, D.C. BCA Watson Rice LLP
September 30, 2016

WASHINGTON SUBURBAN SANITARY COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS
REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015
(Unaudited)

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, 2016 and 2015.

FINANCIAL HIGHLIGHTS

Fiscal Year 2016

- WSSC maintained AAA bond ratings from Fitch Ratings, Moody's Investors Service, and Standard & Poor's.
- In October 2015 and May 2016, WSSC issued $390.0 million and $145.0 million, respectively, of Consolidated Public Improvement Bonds to fund new construction, rehabilitation and replacement of water and sewer infrastructure.
- In November 2015 and May 2016, WSSC sold $145.0 million and $36.0 million of refunding bonds to refund $148.0 million and $42.0 million, respectively, of outstanding callable water supply, sewage disposal and general construction bonds. The November 2015 and May 2016 refundings will reduce WSSC's total debt service payments by $13.0 million and $5.0 million and provide an economic gain of $12.0 million and $5.0 million, respectively.
- The Commission redeemed $90.0 million in Notes on November 18, 2015 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 eleventh 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 $1,931.0 million and are to be expended over at least 18 years, $888.0 million of which is expected to be incurred after fiscal year 2016. 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 are to be submitted by WSSC for consideration by January 2, 2017. Costs for implementation of improvements are estimated at $43.0 million, and are to be expended over at least 7 years, all of which is expected to be incurred after fiscal year 2016. The costs are included in WSSC's budget and capital improvements program.
- WSSC's operating revenues rose $3.4 million. Although average rates for water consumption and sewer use revenues increased 1.0%, billed consumption for the year decreased 4.5%. The enactment of a new Infrastructure Investment Fee and changes to the Account Maintenance Fee resulted in additional revenues from ready-to-serve charges.

- Operating expenses increased $31.2 million, or 5.9%, during fiscal year 2016. Intermunicipal agency sewage disposal expenses decreased $6.6 million, savings which are attributable to the recent construction of the digestor at Blue Plains. WSSC continues to focus their efforts on meeting the requirements of the Consent Decree and incurred additional operating costs this year of $5.0 million. Increased expenditures of $6.1 million were realized in the implementation of the Information Technology Team's 5-Year Strategic Plan and data storage improvement projects. Merits, COLAs and the hiring of additional staff triggered a $4.3 million increase in salaries. Emergency work to address the smooth operation of an aging infrastructure required an additional $3.5 million. The majority of the remaining variance, or $19.6 million, represents depreciation on capital assets placed in service in recent years, an abandonment of assets with planned replacements, and an impairment of the Western Branch incinerator.
- Capital assets (water and sewer lines, water tanks, treatment plants, pumping stations, multi-purpose facilities and other facilities), net of accumulated depreciation, increased by $580.7 million, while overall debt increased $334.2 million in comparison to the previous fiscal year.
- The increase in net position during the year included net income of $79.3 million, and capital contributions of $134.7 million.

Fiscal Year 2015

WSSC implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27* in fiscal year 2015. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. The statement is effective for periods beginning after June 15, 2014. To comply with GASB Statement No. 68, prior year balances were restated resulting in a net $130.1 million decrease in net position as of June 30, 2014. A summary of the transactions and the impact of the restatements are illustrated in Note P of the financial statements.

- WSSC maintained AAA bond ratings from Fitch Ratings, Moody's Investors Service, and Standard & Poor's.
- In December 2014, WSSC issued $250.0 million of Consolidated Public Improvement Bonds to fund new construction, rehabilitation and replacement of water and sewer mains.
- In June 2015, WSSC issued $35.0 million in Series A and $55.0 million in Series B Bond Anticipation Notes.
- The Commission redeemed $30.1 million in Notes on June 2, 2015 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 tenth year. The Consent Decree formally identifies the remedial measures to eliminate and/or reduce sanitary sewer overflows. Costs of these remedial measures are estimated at $1,881.0 million and are projected to be expended over at least 12 years, $1,071.0 million of which is expected to be incurred after fiscal year 2015. The costs for each fiscal year are or will be included in WSSC's budget and six-year capital improvements program.
- WSSC's operating revenues rose $21.3 million due to a 6.0% increase in water and sewer billing rates.
- Operating expenses increased $21.6 million, or 4.3%, during fiscal year 2015. Intermunicipal agency sewage disposal expenses increased $16.9 million, $7.0 million of which represents increased operations and maintenance costs of the Blue Plains facility in comparison to FY14, while the remainder is a result of the settlement and adjustment of WSSC's share of actual expenses in prior fiscal years. WSSC expended $2.7 million on new programs for condition assessment of non-PCCP pipe and acoustic fiber optic monitoring. Also, an additional $2.3 million was spent on roadways impacted by pipeline rehabilitation.
- Capital assets (water and sewer lines, water tanks, treatment plants, pumping stations, multi-purpose facilities and other facilities), net of accumulated depreciation, increased by $493.6 million, while overall debt increased $222.7 million in comparison to the previous fiscal year.

- The increase in net position during the year included net income of $105.8 million, and capital contributions of $87.1 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. WSSC uses the direct method for presenting the statements of cash flows.

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 2016

WSSC's net position increased 4.9% to $4,543.6 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 8.6% to $7,329.7 million. There were no unused bond proceeds at the end of the year. During fiscal year 2016, developers constructed $34.9 million of capital assets and donated them to WSSC. In addition, donated values for land and rights of way increased $36.9 million. Additional information is presented in the Capital Asset and Debt Administration section of this discussion.

Total debt, including current maturities increased to $2,651.2 million. Capital contributions of $62.9 (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 2015

WSSC's net position increased 4.7% to $4,329.5 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 7.9% to $6,749.0 million. Unused bond proceeds at the end of the year were $15.2 million. Investments of unused bond proceeds are restricted and classified as non-current assets. During fiscal year 2015, developers constructed $39.9 million of capital assets and donated them to WSSC. Additional information is presented in the Capital Asset and Debt Administration section of this discussion.

Total debt, including current maturities increased to $2,317.0 million. Capital contributions of $47.2 (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 2016	FY 2015	FY 2014 As Restated (Note P)	FY 2016 % Change	FY 2015 % Change
Current and other assets	$ 321.9	$ 353.5	$ 437.0	(8.9)	(19.1)
Capital assets, net of accumulated depreciation	7,329.7	6,749.0	6,255.4	8.6	7.9
Total assets	7,651.6	7,102.5	6,692.4	7.7	6.1
Total deferred outflows of resources	92.3	16.6	17.9	456.0	(7.3)
Current and other liabilities	753.9	793.9	718.4	(5.0)	10.5
Bonds and notes payable, net of current maturities	2,395.2	1,968.4	1,807.7	21.7	8.9
Total liabilities	3,149.1	2,762.3	2,526.1	14.0	9.4
Total deferred inflows of resources	51.2	27.3	47.6	87.5	(42.6)
Net position:					
Net investment in capital assets	4,429.0	4,262.5	4,048.2	3.9	5.3
Restricted for growth construction	31.1	12.6	37.1	146.8	(66.0)
Unrestricted	83.5	54.4	51.3	53.5	6.0
Total net position	$ 4,543.6	$ 4,329.5	$ 4,136.6	4.9	4.7

Changes in Net Position

Fiscal Year 2016

WSSC's operating revenues rose $3.4 million (see Table A-2). Although average rates for water consumption and sewer use revenues increased 1.0%, billed consumption for the year decreased 3%. The enactment of a new Infrastructure Investment Fee and changes to the Account Maintenance Fee resulted in additional revenues from ready-to-serve charges. 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 $31.2 million, or 5.9%, during fiscal year 2016. Intermunicipal agency sewage disposal expenses decreased $6.6 million, savings which are attributable to the recent construction of the digestor at Blue Plains. WSSC continues to focus their efforts on meeting the requirements of the Consent Decree and incurred additional operating costs this year of $5.0 million. Increased expenditures of $6.1 million were realized in the implementation of the Information Technology Team's 5-Year Strategic Plan and data storage improvement projects. Merits, COLAs and the hiring of additional staff triggered a $4.3 million increase in salaries. Emergency work to address the smooth operation of an aging infrastructure required an additional $3.5 million. The majority of the remaining variance, or $19.6 million, represents depreciation on capital assets placed in service in recent years, an abandonment of assets with planned replacements, and an impairment of the Western Branch incinerator.

The net changes in revenues and expenses during the year resulted in a 25.0% decrease in income before capital contributions to $79.3 million. Capital contributions increased by 54.6% to $134.7 million. Grant revenue increased $13.4 million due to increased funding on WSSC's portion of costs incurred to upgrade the Blue Plains' Enhanced Nutrient Removal (ENR) and Tunnel projects. Donated assets, constructed and contributed by developers, decreased $5.0 million. 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.

Fiscal Year 2015

WSSC's operating revenues rose $21.3 million (See Table A-2) due to a 6.0% increase in water and sewer billing rates. 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 $21.6 million, or 4.3%, during fiscal year 2015. Intermunicipal agency sewage disposal expenses increased $16.9 million, $7.0 million of which represents increased operations and maintenance costs of the Blue Plains facility in comparison to FY14, while the remainder is a result of the settlement and adjustment of WSSC's share of actual expenses in prior fiscal years. WSSC expended $2.7 million on new programs for condition assessment of non-PCCP pipe and acoustic fiber optic monitoring. Also, an additional $2.3 million was spent on roadways impacted by pipeline rehabilitation.

The net changes in revenues and expenses during the year resulted in a 2.4% decrease in income before capital contributions to $105.8 million. Capital contributions decreased by 12.9% to $87.1 million. Grant revenue declined $12 million due to the close out of Enhanced Nutrient Removal (ENR) construction projects for WSSC and Blue Plains wastewater facilities. Donated assets, constructed and contributed by developers, increased $2.4 million.

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

	FY 2016	FY 2015	FY 2014 As Restated (Note P)	FY 2016 % Change	FY 2015 % Change
Operating revenues	$ 649.0	$ 645.6	$ 624.3	0.5	3.4
Operating expenses	(560.3)	(529.1)	(507.5)	5.9	4.3
Net non-operating revenues (expenses)	(9.4)	(10.7)	(8.4)	(12.1)	27.4
Income before capital contributions	79.3	105.8	108.4	(25.0)	(2.4)
Capital contributions	134.7	87.1	100.0	54.6	(12.9)
Changes in net position	$ 214.0	$ 192.9	$ 208.4	10.9	(7.4)

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

Fiscal Year 2016

As of June 30, 2016, WSSC had invested $7,329.7 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 $580.7 million, or 8.6%, over fiscal year 2015.

Fiscal Year 2015

As of June 30, 2015, WSSC had invested $6,749.0 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 $493.6 million, or 7.9%, over fiscal year 2014.

TABLE A-3
WSSC's Capital Assets
(net of depreciation and impairment losses, in millions of dollars)

	FY 2016	FY 2015	FY 2014 As Restated (Note P)	FY 2016 % Change	FY 2015 % Change
Land and rights of way	$ 117.9	$ 78.9	$ 78.0	49.4	1.2
Construction in progress	1,439.6	1,366.5	1,359.4	5.3	0.5
Water supply	1,756.0	1,665.1	1,418.7	5.5	17.4
Sewage disposal	2,541.9	2,162.7	1,936.1	17.5	11.7
General construction	1,386.7	1,387.2	1,381.8	0.0	0.4
Intangible assets	42.3	42.5	38.8	(0.5)	9.5
Other	45.3	46.1	42.6	(1.7)	8.2
Total capital assets	$ 7,329.7	$ 6,749.0	$ 6,255.4	8.6	7.9

Capital assets completed and placed in service in 2016 decreased $18.1 million or 2.9%, in comparison to fiscal year 2015. Rehabilitation or replacement of water and sewer mains and related house connections decreased 41.2%, or $133.3 million. Upgrades on wastewater treatment and water filtration plants increased $258.2 million, while construction of joint-use facilities declined $100.1 million. Major additions to capital assets being depreciated during fiscal year 2016 are illustrated in Table A-4.

Capital assets completed and placed in service in 2015 increased $153.3 million or 32.6%, in comparison to fiscal year 2014. Rehabilitation or replacement of water and sewer mains and related house connections increased 56.9%, or $127.8 million. Also, construction of joint-use facilities rose $54.6 million. Major additions to capital assets being depreciated during fiscal year 2014 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 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	$ 83.3	$ 3.0
House connections	6.4	22.6	5.9
Water meters	1.2	1.1	
Water filtration plants	20.1		
Wastewater treatment facilities		238.4	
Wastewater pumping stations		2.3	
Multi-use facilities			6.1
Joint-use facilities		112.1	
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	$ 461.1	$ 48.6

TABLE A-5
WSSC's Additions to Capital Assets Being Depreciated
Fiscal Year 2015
(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	$ 270.6	$ 49.9	$ 3.3
House connections	7.0	17.7	4.1
Water meters	1.1	1.1	
Water filtration plants	0.2		
Water pumping stations	(2.2)		
Wastewater treatment facilities		0.1	
Water storage facilities	7.8		
Wastewater pumping stations			
Multi-use facilities		2.8	5.5
Joint-use facilities		212.2	
Miscellaneous assets	0.1	2.4	
Constructed and contributed by developers:			
House connections			6.5
Water and sewer mains			33.4
Total fiscal year 2015 additions to capital assets being depreciated	$ 284.6	$ 286.2	$ 52.8

Bonds and Notes Payable

Fiscal Year 2016

At the end of fiscal year 2016, bonds and notes outstanding totaled $2,651.2 million, a $334.2 million increase in comparison to the previous fiscal year. In October 2015 and May 2016, WSSC issued $390.0 million and $145.0 million, respectively, of Consolidated Public Improvement Bonds to fund new construction, rehabilitation and replacement of water and sewer infrastructure.

The Commission redeemed $90.0 million in Notes on November 18, 2015 as part of the water, sewer and general debt service amortization.

In November 2015 and May 2016, WSSC sold $145.0 million and $36.0 million of refunding bonds to refund $148.0 million and $42.0 million, respectively, of outstanding callable water supply, sewage disposal and general construction bonds. The November 2015 and May 2016 refundings will reduce WSSC's total debt service payments by $13.0 million and $5.0 million and provide an economic gain of $12.0 million and $5.0 million, respectively.

Fiscal Year 2015

At the end of fiscal year 2015, bonds and notes outstanding totaled $2,317.0 million, a $222.7 million increase in comparison to the previous fiscal year. In December 2015, WSSC issued $250.0 million of Consolidated Public Improvement Bonds to fund new construction, rehabilitation and replacement of water and sewer mains.

On June 24, 2015, the Commission issued $35.0 million in Series A and $55.0 million in Series B Bond Anticipation Notes.

The Commission redeemed $30.1 million in Notes on June 2, 2015 as part of the water, sewer and general debt service amortization.

TABLE A-6
WSSC's Bonds and Notes Payable
(in millions of dollars)

	FY 2016	**FY 2015**	**FY 2014 As Restated (Note P)**	**FY 2016 % Change**	**FY 2015 % Change**
Water supply	$ 970.7	$ 847.2	$ 778.9	14.6	8.8
Sewage disposal	1,474.3	1,230.0	1,041.1	19.9	18.1
General construction	206.2	239.8	274.3	(14.0)	(12.6)
Total	2,651.2	2,317.0	2,094.3	14.4	10.6
Current maturities	256.0	348.5	286.6	(26.5)	21.6
Long-term portion	2,395.2	1,968.5	1,807.7	21.7	8.9
Total bonds and notes payable	$ 2,651.2	$ 2,317.0	$ 2,094.3	14.4	10.6

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, 2016 and 2015, the calculated limits were $10,451.2 million and $9,289.7 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.

BUDGET

WSSC's operating and capital budgets are prepared annually utilizing the debt service method of accounting. These financial statements are presented in accordance with accounting principles generally accepted in the United States. Because different methods of accounting are utilized, comparisons of budgeted and actual revenues and expenses have not been presented.

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, 2016 AND 2015
(in thousands)

	2016	2015
ASSETS		
Current assets:		
Cash (Note B)	$ 15,743	$ 39,800
Investments (Note B)	129,639	132,494
Receivables, net (Note C)	121,650	128,684
State grants receivable	28,467	10,348
Prepaid expenses	628	1,521
Materials and supplies, net	16,065	15,663
Total current assets	312,192	328,510
Non-current assets:		
Capital assets, net of accumulated depreciation (Note D)	7,329,656	6,748,989
Investments restricted for capital construction (Note B)	-	15,225
Note receivable (Note E)	9,757	9,753
Total non-current assets	7,339,413	6,773,967
Total assets	7,651,605	7,102,477
DEFERRED OUTFLOWS OF RESOURCES		
Deferred amount from pension differences between projected and actual plan investments (Note L)	43,213	-
Deferred amount from pension resulting from changes in assumptions (Note L)	26,882	-
Deferred amount from pension contributions (Note L)	11,173	10,483
Deferred amount from debt refunding (Note F)	11,016	6,138
Total deferred outflows of resources	92,284	16,621
Total assets and deferred outflows of resources	$ 7,743,889	$ 7,119,098

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

WASHINGTON SUBURBAN SANITARY COMMISSION
BALANCE SHEETS
AS OF JUNE 30, 2016 AND 2015
(in thousands)

	2016	2015
LIABILITIES		
Current liabilities:		
Bonds and notes payable, current maturities (Notes J and K)	$ 256,015	$ 348,542
Accounts payable and accrued liabilities	114,873	106,517
Accrued bond and note interest payable	8,871	14,469
Deposits and unearned revenue	2,951	2,843
Total current liabilities	382,710	472,371
Non-current liabilities:		
Bonds and notes payable, net of current maturities (Notes J and K)	2,395,189	1,968,428
Accounts payable and accrued liabilities	110,224	88,872
Net pension liability (Note L)	210,570	175,477
Other postemployment benefits liability (Note M)	20,875	27,458
Deposits, unearned revenue and other long-term liabilities (Note I)	29,545	29,691
Total non-current liabilities	2,766,403	2,289,926
Total liabilities	3,149,113	2,762,297
DEFERRED INFLOWS OF RESOURCES		
Deferred amounts from pension differences between projected and actual plan investments (Note L)	-	19,560
Deferred amounts from pension differences between expected and actual experience (Note L)	51,226	7,696
Total deferred inflows of resources	51,226	27,256
Total liabilities and deferred inflows of resources	3,200,339	2,789,553
NET POSITION		
Net investment in capital assets	4,428,965	4,262,522
Restricted for growth construction	31,073	12,653
Unrestricted	83,512	54,370
Total net position	4,543,550	4,329,545
Total liabilities, deferred inflows of resources and net position	$7,743,889	$7,119,098

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, 2016 AND 2015
(in thousands)

	2016	2015
OPERATING REVENUES:		
Water consumption, sewer use and service charges	$ 589,014	$ 585,109
Front foot benefit assessments	20,666	24,698
House connection charges	5,310	6,100
Other	34,034	29,737
Total operating revenues	649,024	645,644
OPERATING EXPENSES:		
Operations	98,666	97,155
Maintenance	156,161	147,881
Intermunicipal agency sewage disposal	53,206	62,529
Administrative and general	82,281	76,116
Depreciation and amortization	169,943	145,482
Total operating expenses	560,257	529,163
Net operating revenues	88,767	116,481
NON-OPERATING REVENUES (EXPENSES):		
Interest on bonds and notes payable	(57,735)	(60,712)
Capitalized interest	35,252	31,640
Pension	11,032	16,460
Interest income on investments	452	185
Other interest income	1,583	1,765
Net non-operating expenses	(9,416)	(10,662)
Income before capital contributions	79,351	105,819
Capital contributions (Note G)	134,654	87,124
Changes in net position	214,005	192,943
Net position, beginning of the year	4,329,545	4,136,602
Net position, end of year	$ 4,543,550	$ 4,329,545

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, 2016 AND 2015
(in thousands)

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from water and sewer customers	$ 602,302	$ 576,992
Receipts from front foot benefit assessments	21,955	28,135
Receipts from house connection charges	4,785	5,691
Receipts from other customer and miscellaneous	69,555	72,356
Payments to employees	(178,432)	(173,697)
Payments to District of Columbia Water & Sewer Authority	(54,245)	(55,620)
Payments to suppliers and others	(190,788)	(193,568)
Net cash provided by operating activities	275,132	260,289
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from bonds and notes	729,468	393,963
Capital contributions	116,286	105,361
Bond redemptions and note repayments	(431,197)	(175,833)
Interests payments, premiums and discounts on bonds and notes	(30,667)	(53,159)
Capital assets construction	(712,644)	(614,158)
Net cash used in capital and related financing activities	(328,754)	(343,826)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from the sale of investments	508,200	567,126
Purchases of investments	(489,997)	(501,744)
Pension	11,032	16,460
Interest income received	330	193
Net cash provided by investing activities	29,565	82,035
Net decrease in cash	(24,057)	(1,502)
Cash, beginning of year	39,800	41,302
Cash, end of year	$ 15,743	$ 39,800
Reconciliation of net operating revenues to net cash provided by operating activities:		
Net operating revenue	$ 88,767	$ 116,481
Adjustments to reconcile net operating revenue to net cash provided by operating activities:		
Depreciation and amortization	178,988	159,735
Changes in assets, liabilities and deferred inflows and outflows of resources:		
Receivables, net	7,035	859
Materials and supplies	(402)	(2,150)
Prepaid expenses	893	(803)
Deferred outflows of resources	(70,584)	(183)
Accounts payable and accrued liabilities	16,306	3,896
Unearned revenue	207	370
Deferred inflows of resources	23,970	(20,329)
Net pension liability	35,092	6,821
Long-time OPEB liability	(5,140)	(4,408)
Net cash provided by operating activities	$ 275,132	$ 260,289

Noncash capital financing activities:
Capital assets of $71,850 and $39,919 were acquired through contributions from developers and others in 2016 and 2015, 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. Water and sewer revenues are recognized as water is delivered to the system.

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.

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 capital contributions when received.

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.

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).

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Capital Assets

Capital assets include water and sewer lines, water distribution, wastewater collection and multi-purpose facilities, capital 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. 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 using the straight-line method over the estimated service lives of the property, which averaged 48 and 49 years in fiscal 2016 and 2015, respectively.

Inventory

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

Bond Refunding Costs

The difference between the reacquisition price and the carrying value of refunded bonds is deferred and amortized to operations (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.

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. Actual results may differ from these estimates.

Reclassifications

The 2015 financial statements reflect certain reclassifications to conform with the 2016 presentation.

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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. 68, *Accounting and Financial Reporting for Pensions* improved the accounting and financial reporting by state and local government employers about financial support for pensions that is provided by other entities. GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement* No. 68. addresses an issue relating to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined pension plan after the measurement date of the government's beginning net pension liability. These statements were effective for periods beginning after June 15, 2014, and were implemented in fiscal year 2015. Corresponding balances in 2014 were restated (See Note P).

GASB Statement No. 72, *Fair Value Measurement and Application* addresses accounting and financial reporting issues related to fair value measurements. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. This Statement is effective for financial statements for periods beginning after June 15, 2015, and was implemented in fiscal 2016.

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 fiscal years beginning after June 15, 2016. The Commission's management is evaluating the impact of the pronouncement on its financial statements.

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. The Commission's management is evaluating the impact of the pronouncement on its financial statements.

GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments,* reduces the GAAP hierarchy to two categories of authoritative GAAP from the four categories under GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments.* The first category of authoritative GAAP consists of GASB Statements of Governmental Accounting Standards. The second category comprises GASB Technical Bulletins and Implementation Guides, as well as guidance from the AICPA that is cleared by the GASB. This Statement is effective for fiscal years beginning after June 15, 2015. The adoption of the pronouncement does not have an impact on WSSC's financial statements.

B. CASH AND INVESTMENTS

At June 30, 2016 and 2015, cash per WSSC's records amounted to $15,743,000 and $39,800,000, respectively, and per reported bank balances was $24,252,000 and $48,748,000, 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.

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%

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 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. At June 30, 2016 and 2015, all WSSC investments, or the collateral securities for such investments, were held by various Trust Companies in WSSC's name. None of these investments required securities to be held by a broker's or dealer's trust department or agent in WSSC's name.

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, 2016 and 2015, 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, 2016 and 2015 are presented below for each investment type.

Investments are recorded at fair value in accordance with GASB Statement No. 72, Fair Value Measurement and Application. Accordingly, 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.

B. CASH AND INVESTMENTS (continued)

Investments at June 30, 2016 (in thousands):

Investment Type	Credit Rating	Remaining Maturity	Cost	Fair Value
Repurchase agreements	Aaa	1 year or less	$ 29,680	$ 29,680
Federal agency securities	Aaa	1 year or less	99,828	99,959
Total investments (includes $31,074 restricted for capital projects none which is classified as non-current)			$129,508	$129,639

Investments at June 30, 2015 (in thousands):

Investment Type	Credit Rating	Remaining Maturity	Cost	Fair Value
Repurchase agreements	Aaa	1 year or less	$ 17,727	$ 17,727
Federal agency securities	Aaa	1 year or less	129,992	129,998
Total investments (includes $27,878 restricted for capital projects and $15,225 which is classified as non-current)			$147,719	$147,725

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. Investments in any one issuer that represent 5% or more of total investments are as follows (in thousands):

Issuer	Investment Type	Fair Value Measurement (Level 1) June 30, 2016
FHLB	Federal agency securities	$ 89,966
FNMA	Federal agency securities	9,993

Issuer	Investment Type	Fair Value Measurement (Level 1) June 30, 2015
FHLB	Federal agency securities	$ 129,998

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. At June 30, 2016, FHLB and FNMA agency securities were identified as Level 1 investments, and repurchase agreements were identified as Level 2 investments.

C. RECEIVABLES

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

	2016	2015
Front foot benefit assessments accrued and billed	$ 11,858	$ 13,313
Water and sewer services unbilled	49,764	55,758
Water and sewer services billed	56,023	57,873
Miscellaneous	15,602	13,186
	133,247	140,130
Less allowance for doubtful accounts	(11,597)	(11,446)
Total receivables, net	$ 121,650	$ 128,684

D. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2016 was as follows (in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land and rights of way	$ 78,893	$ 38,946	$ -	$ 117,839
Construction in progress	1,366,478	696,384	(623,242)	1,439,620
Total capital assets not being depreciated	1,445,371	735,330	(623,242)	1,557,459
Capital assets being depreciated:				
Water supply	2,305,097	132,025	-	2,437,122
Sewage disposal	3,052,107	461,092	(22,708)	3,490,491
General construction	2,508,398	48,615	(3,876)	2,553,137
Intangible assets	56,583	2,168	-	58,751
Other	146,815	17,735	(7,585)	156,965
Total capital assets being depreciated	8,069,000	661,635	(34,169)	8,696,466
Less accumulated depreciation for:				
Water supply	(640,016)	(41,082)	-	(681,098)
Sewage disposal	(889,418)	(71,363)	12,223	(948,558)
General construction	(1,121,209)	(47,397)	2,156	(1,166,450)
Intangible assets	(14,023)	(2,463)	-	(16,486)
Other	(100,716)	(13,449)	2,488	(111,677)
Total accumulated depreciation	(2,765,382)	(175,754)	16,867	(2,924,269)
Capital assets being depreciated, net	5,303,618	485,881	(17,302)	5,772,197
Total capital assets, net	$ 6,748,989	$1,221,211	$ (640,544)	$7,329,656

D. CAPITAL ASSETS (continued)

Capital asset activity for the year ended June 30, 2015 was as follows (in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land and rights of way	$ 78,013	$ 880	$ -	$ 78,893
Construction in progress	1,359,444	591,093	(584,059)	1,366,478
Total capital assets not being depreciated	1,437,457	591,973	(584,059)	1,445,371
Capital assets being depreciated:				
Water supply	2,021,189	284,594	(686)	2,305,097
Sewage disposal	2,765,973	286,178	(44)	3,052,107
General construction	2,457,642	52,756	(2,000)	2,508,398
Intangible assets	51,091	5,492	-	56,583
Other	135,940	16,690	(5,815)	146,815
Total capital assets being depreciated	7,431,835	645,710	(8,545)	8,069,000
Less accumulated depreciation for:				
Water supply	(602,495)	(38,207)	686	(640,016)
Sewage disposal	(829,876)	(59,586)	44	(889,418)
General construction	(1,075,827)	(47,382)	2,000	(1,121,209)
Intangible assets	(12,309)	(1,714)	-	(14,023)
Other	(93,344)	(13,160)	5,788	(100,716)
Total accumulated depreciation	(2,613,851)	(160,049)	8,518	(2,765,382)
Capital assets being depreciated, net	4,817,984	485,661	(27)	5,303,618
Total capital assets, net	$ 6,255,441	$1,077,634	$ (584,086)	$ 6,748,989

Purchased software and related development stage costs of $2.1 million and $5.5 million were capitalized in accordance with GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets* in fiscal years 2016 and 2015, respectively. Costs of $9.0 million are included in the Construction in Progress balance as of June 30, 2016 and will commence amortization upon implementation of the software. Intangible assets include the balance of costs placed in service, net of accumulated amortization, of $6.1 million and $6.0 million in fiscal 2016 and 2015, respectively.

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 $27.7 million and $27.9 million, for fiscal years 2016 and 2015, respectively, are included above.

In addition, 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. Asset balances, net of accumulated amortization, totaling $8.4 million and $8.6 million, for fiscal years 2016 and 2015, respectively, are included in intangible assets above.

D. CAPITAL ASSETS (continued)

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, $13.2 million in fiscal 2016 and $13.4 million in fiscal 2015, 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%, commencing 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, 2016 and 2015, the balance of this Note Receivable was $9.7 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 matures upon the earlier of January 15, 2024, (fifteenth anniversary of the date of the note) or the date for the Payment Event for the last parcel for which an additional payment is due.

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) Contributions to the Retirement Plan subsequent to the measurement date of the net pension liability and before the end of WSSC's reporting period
(c) Differences between expected and actual experience in the measurement of the total pension liability
(d) Net difference between projected and actual earnings on pension plan investments
(e) Results of changes in pension assumptions

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

G. CAPITAL CONTRIBUTIONS

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

	2016	2015
System development charges	$ 27,734	$ 25,884
Developer fees	4,293	3,978
Federal and State grants	30,777	17,343
House connections	5,612	6,467
Land and rights of way	36,939	-
Other construction projects	29,299	33,452
Total	$ 134,654	$ 87,124

H. COMPENSATED ABSENCE LIABILITY

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

	2016	2015
Compensated absence liability – beginning of year	$ 11,287	$ 11,154
Increases (incurred)	9,833	9,503
Decreases	(9,171)	(9,370)
Compensated absence liability – end of year	$ 11,949	$ 11,287

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):

	2016	2015
Unearned revenue for house connections	$ 17,614	$ 18,261
Unearned front foot benefit revenue	902	1,063
Other unearned revenue	2,135	1,187
Construction deposits	1,507	1,835
House connection deposits	4,585	4,773
Other	2,802	2,572
Total	$ 29,545	$ 29,691

J. BONDS AND NOTES PAYABLE

Bonds and notes payable activity for the year ended June 30, 2016 was as follows (in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance	Current Maturities
Bonds and notes payable:					
Water supply	$ 804,443	$ 311,573	$ (203,441)	$ 912,575	$ 112,883
Sewage disposal	1,166,390	357,923	(129,539)	1,394,774	112,125
General construction	227,734	59,971	(98,216)	189,489	31,007
	2,198,567	729,467	(431,196)	2,496,838	256,015
Plus unamortized premium/discount	118,403	52,871	(16,908)	154,366	-
Total bonds and notes payable	$ 2,316,970	$ 782,338	$ (448,104)	$ 2,651,204	$ 256,015

Bonds and notes payable activity for the year ended June 30, 2015 was as follows (in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance	Current Maturities
Bonds and notes payable:					
Water supply	$ 736,643	$ 140,000	$ (72,200)	$ 804,443	$ 179,357
Sewage disposal	983,477	253,960	(71,047)	1,166,390	126,584
General construction	260,318	3	(32,587)	227,734	42,601
	1,980,438	393,963	(175,834)	2,198,567	348,542
Plus unamortized premium/discount	113,852	18,933	(14,382)	118,403	-
Total bonds and notes payable	$ 2,094,290	$ 412,896	$ (190,216)	$ 2,316,970	$ 348,542

In accordance with GASB 65, deferred amounts from debt refundings are now illustrated as Deferred Outflows or Inflows of Resources on the Balance Sheet. This change was implemented in fiscal 2014.

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

Bonds payable accrue interest at rates ranging from 0.7% to 5.0%, with an effective interest rate of 3.75% at June 30, 2016. All bonds payable at June 30, 2016, exclusive of refunded bonds, are due serially through the year 2046. Generally, the bonds are callable at a premium after a specified number of years.

In October 2015 and May 2016, WSSC issued $390 million and $145 million, respectively, of Consolidated Public Improvement Bonds to fund new construction, rehabilitation and replacement of water and sewer infrastructure.

In December 2014 and April 2014, WSSC issued $250 million and $150 million, respectively, of Consolidated Public Improvement Bonds to fund new construction, rehabilitation and replacement of water and sewer infrastructure.

J. BONDS AND NOTES PAYABLE (continued)

In September 2009, WSSC issued $180 million of Consolidated Public Improvement Bonds in two series; $90 million in Tax-Exempt Bonds, Series 2009A and $90 million in Taxable Build America Bonds - Direct Payment to the Issuer, Series 2009B. In September 2010, WSSC issued $240 million of Consolidated Public Improvement Bonds in two series; $120 million in Tax-Exempt Bonds, Series 2010A and $120 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, 2014 and June 1, 2015 subsidies were reduced by 2.5%. The December 1, 2015 and June 1, 2016 subsidies were reduced by 2.38%. 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%.

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
2017	$256,015	$ 92,729	$ (3,279)
2018	139,072	86,553	(3,279)
2019	133,567	80,271	(3,279)
2020	138,310	76,260	(3,279)
2021	136,018	70,106	(3,142)

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
2022-2026	$610,158	$ 273,178	(11,199)
2027-2031	479,089	165,551	(2,951)
2032-2036	228,318	94,585	-
2037-2041	202,216	56,124	-
2042-2046	174,075	15,628	-

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 0.01% to 0.45% during fiscal 2016 and from 0.02% to 0.11% during fiscal 2015. 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 and is subject to certain conditions is $107.5 million. In aggregate, the total line of credit is $215.0 million.

J. BONDS AND NOTES PAYABLE (continued)

At June 30, 2016 and 2015, $120.0 million and $210.0 million respectively, of the Notes were outstanding. WSSC expects to redeem these Notes with proceeds of future bond issues or annual amortization. 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 $90.0 million and $30.1 million in Notes on November 18, 2015 and June 2, 2015, 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 $120.0 million has been included in current maturities (fiscal 2017 principal maturities), and an estimated $4.2 million has been included in the fiscal 2017 interest requirements. Additional estimated interest requirements at prevailing rates through 2034 on these Notes, assuming future redemption from proceeds of bonds, would total $48.1 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 sewer systems for $1.0 million and $4.3 million, respectively. Corresponding notes payable accrue interest at 7.0% over a 30-year term.

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, 2016, WSSC borrowed $366.0 million from the program. The total principal balance outstanding as of June 30, 2016 and 2015 was $245.4 million and $248.0 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, 2016 and 2015 were $22.2 million and $22.8 million, respectively.

WSSC is in compliance with all terms of its debt agreements at June 30, 2016 and 2015.

K. BOND REFUNDINGS

In November 2015, WSSC sold $145,325,000 of refunding bonds with interest rates ranging from 3.00% to 5.00% to refund $148,100,000 of outstanding callable water supply, sewage disposal and general construction bonds with interest rates ranging from 2.00% to 5.00%. The net proceeds of $159,320,000 (including a premium of $14,703,000) were used to purchase U.S. Government 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 2015 refunding will reduce WSSC’s total debt service payments over the next 12 years by $12,800,000 and provide an economic gain of $12,143,000.

In May 2016, WSSC sold $36,440,000 of refunding bonds with interest rates ranging from 4.00% to 5.00% to refund $41,980,000 of outstanding callable water supply, sewage disposal and general construction bonds with interest rates ranging from 4.00% to 4.25%. The net proceeds of $42,087,000 (including a premium of $5,751,000) were used to purchase U.S. Government 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 May 2016 refunding will reduce WSSC’s total debt service payments over the next 9 years by $5,086,000 and provide an economic gain of $5,009,000.

As a result of the refundings, the 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 2015.

K. BOND REFUNDINGS (continued)

WSSC has sold refunding bonds totalling $3,553,345,000 for the purpose of refunding and defeasing $3,443,042,000 of outstanding bonds. The purpose of these refundings was 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.

Prior to fiscal 1994, these refundings were accounted for in accordance with Statement of Financial Accounting Standards No. 76, *Extinguishment of Debt.* At the time of the respective refundings, WSSC recognized extraordinary losses aggregating approximately $89,726,000 resulting from the issuance of additional principal. However, interest savings over the remaining terms of the refunded bonds are estimated to aggregate approximately $191,863,000.

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 2029 using the proportionate-to-stated interest method. Amortization totaling $1,625,000 and $1,464,000 in fiscal 2016 and 2015, respectively, was recorded as interest on bonds and notes payable in the accompanying statements of revenues, expenses and changes in net position.

Details of the current and prior years' refunding are shown in the table below (in thousands):

Date of Refunding	Amount of Refunded Bonds	Remaining Term at Refunding Date	Amount of Refunding Bonds	Estimated Interest Savings	Extraordinary Loss Previously Recognized	Deferred Loss/(Gain)
11-24-15	$ 148,100	12 years	$ 145,325	$ 10,025	$ -	$ 6,929
05-26-16	42,087	9 years	36,440	(455)	-	380
04-15-14	52,830	9 years	47,395	2	-	(663)
04-09-13	105,820	14 years	101,560	4,926	-	4,098
11-25-09	79,730	20 years	83,965	5,622	-	4,467
10-15-06	80,360	19 years	82,285	5,544	-	1,989
03-15-04	63,980	20 years	62,510	731	-	2,880
02-01-04	271,815	19 years	266,395	10,059	-	14,941
10-28-03	14,500	11 years	15,780	3,107	-	1,103
09-15-03	70,485	11 years	70,590	5,435	-	2,352
03-01-03	454,905	17 years	428,945	22,269	-	23,612
04-15-02	43,610	10 years	43,705	4,483	-	904
12-01-01	100,150	14 years	100,095	9,672	-	(110)
15-15-97	42,400	14 years	45,265	4,967	-	2,712
01-01-97	74,375	23 years	79,600	7,467	-	4,595
01-15-94	437,695	22 years	435,675	84,556	-	42,761
11-01-93	243,835	22 years	278,730	38,845	-	28,155
03-01-93	127,975	21 years	139,705	12,908	7,730	-
06-01-92	50,475	20 years	54,775	4,896	4,200	-
11-15-91	88,355	24 years	95,435	8,083	5,580	-
05-15-91	229,775	23 years	248,865	22,276	10,944	-
03-01-90	48,395	21 years	53,885	6,700	4,216	-
10-15-86	64,160	22 years	74,680	15,000	9,182	-
05-15-86	149,055	29 years	174,490	27,000	18,542	-
07-15-85	111,750	23 years	118,015	18,000	11,002	-
04-01-84	24,765	23 years	29,210	8,000	3,797	-
09-01-77	221,660	23 years	242,025	69,000	14,533	-

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 were 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, 2016 and 2015, which amounted to $118.8 million and $50.0 million, respectively, are considered to be defeased and are not reflected in the accompanying financial statements.

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.

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, 2015 and 2014, there were 1,577 and 1,540 employees, respectively, participating in the Open Version of the Plan, and 8 and 9 employees, respectively, participating in the Closed Version of the Plan, a total of 1,585 and 1549 employee participants, respectively.

As of December 31, 2015 and 2014, there were 1,580 and 1,542 retirees and/or beneficiaries, respectively, receiving benefits from the Plan, and there were 92 and 86 terminated vested employees, respectively, not yet receiving benefits. Ten and thirteen employees retired in fiscal years 2015 and 2014, 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 $22.3 million and $21.0 million on July 1, 2015 and 2014, respectively. At December 31, 2015 and 2014, $11.2 million and $10.5 million, respectively, of these contributions were recorded as deferred outflows of resources on the Balance Sheet. For the years ended December 31, 2015 and 2014, the Plan recognized WSSC's contributions of $21.7 and $20.7 million, respectively.

L. RETIREMENT PLAN (continued)

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.

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of July 1, 2015, using the following actuarial assumptions, applied to all periods included in the measurement:

	2015	2014
Inflation	2.50%	3.50%
Salary increases		
Up to 5 years of Service	7.50%	5.00%
6+ years of service	2.75%	5.00%
Investment rate of return	7.00%	8.00%

The mortality rates for 2015 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, 2015 valuation were based on the results of an actuarial experience analysis covering 2011 through 2015. The actuarial assumptions used in the July 1, 2014 valuation were based on the results of an actuarial experience analysis prior to 2010.

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. Further details on assumptions are provided in the valuation report.

L. RETIREMENT PLAN (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 pension plan's target asset allocation and the final investment return assumption are summarized in the following tables:

Asset class:	2015	2014
U.S. Equity	5.70%	5.70%
Non-U.S. Equity	2.00%	6.04%
U.S. Fixed income	2.60%	2.74%
Real estate	4.10%	4.10%
Total Weighted Average Real Return	**4.76%**	**4.82%**
Plus Inflation	2.50%	3.50%
Total Return without Adjustment	7.26%	8.32%
Risk Adjustment	-0.26%	-0.32%
Total Expected Return	**7.00%**	**8.00%**

Discount Rate

The discount rate used to measure the total pension liability was 7.00% and 7.65% for 2015 and 2014, respectively 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 2015 fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. The pension plan's 2014 fiduciary net position was projected to be exhausted tin the year 2066.

Therefore, the long-term expected rate of return on pension plan investments for 2015 was applied to all periods of projected benefit payments to determine the total pension liability. For the 2014 evaluation, the discount rate represents the single equivalent rate resulting from discounting at the long term expected rates of return until 2066 and discounting with the 20 year municipal bond index rate of 3.15% thereafter.

Other Key Actuarial Assumptions

The other key actuarial assumptions that determined the total pension liability as of December 31, 2015 and 2014 included:

Valuation date	July 1, 2015	July 1, 2014
Measurement date	December 31, 2015	December 31, 2014
Inflation	2.50%	3.50%
Salary increased including inflation	2.75% to 7.50%	5.00%

L. RETIREMENT PLAN (continued)

Changes in the Net Pension Liability

Changes in the Net Pension Liability for the years ended December 31, 2015 and 2014 were as follows (in thousands):

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) – (b)
Balances at 12/31/14	$ 919,442	$ 743,965	$ 175,477
Changes for the year:			
Service cost	9,828	-	9,828
Interest	61,611	-	61,611
Differences between expected and actual experience	(53,390)	-	(53,390)
Changes in assumptions	32,258	-	32,258
Contributions – employer	-	21,656	(21,656)
Contributions – employee	-	3,930	(3,930)
Net investment income	-	(10,372)	10,372
Benefit payments, including refunds of employee contributions	(56,673)	(56,673)	-
Administrative expense*	-	-	-
Net change	(6,366)	(41,459)	35,093
Balances at 12/31/15	$ 913,076	$ 702,506	$ 210,570
Plan's fiduciary net position as a percentage of the total pension liability	76.94%		

L. RETIREMENT PLAN (continued)

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) – (b)
Balances at 12/31/13	$ 904,618	$ 736,769	$ 167,849
Changes for the year:			
Service cost	11,099	-	11,099
Interest	67,318	-	67,318
Differences between expected and actual experience	(8,658)	-	(8,658)
Contributions – employer	-	20,732	(20,732)
Contributions – employee	-	3,823	(3,823)
Net investment income	-	37,576	(37,576)
Benefit payments, including refunds of employee contributions	(54,935)	(54,935)	-
Administrative expense*	-	-	-
Net change	14,824	7,196	7,628
Balances at 12/31/14	$ 919,442	$ 743,965	$ 175,477
Plan's fiduciary net position as a percentage of the total pension liability	80.91%		

*Administrative expenses are paid directly by WSSC

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% and 7.65%, for 2015 and 2014, respectively, 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%
WSSC's net pension liability (2015)	$ 315,410	$ 210,570	$ 122,063

	1% Decrease 6.65%	Current Discount Rate 7.65%	1% Increase 8.65%
WSSC's net pension liability (2014)	$ 279,342	$ 175,477	$ 87,246

L. RETIREMENT PLAN (continued)

Pension Expense

For the years ended June 30, 2016 and 2015, WSSC recognized pension expense as follows (in thousands):

	2016	2015
Pension cost distributions:		
Operating	$ 17,800	$ 20,052
Non-operating	(11,032)	(16,460)
Capital	4,933	5,476
Total pension expense	$ 11,701	$ 9,068

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, 2016 and 2015 from the following sources (in thousands):

Deferred Outflows	2016	2015
Net difference between projected and actual earnings on pension plan investments	$ 43,213	$ -
Changes in assumptions	26,882	-
Deferred Outflows	$ 70,095	$ -
Deferred Inflows		
Differences between expected and actual experience	$ (51,226)	$ 7,696
Net difference between projected and actual earnings on pension plan investments	-	(19,560)
Deferred Inflows	$ (51,226)	$ (27,256)

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
2017	($1,379)
2018	($1,379)
2019	(13,275)
2020	(9,243)
2021	4,484
Thereafter	1,923

Historical trend information showing the Plan's progress is presented in the Plan's December 31, 2015 comprehensive annual financial report, which can be requested from WSSC's offices.

L. RETIREMENT PLAN (continued)

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 2016 and 2015, the Restoration Plan paid benefits totaling $27,000 in each year.

M. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Plan Description

WSSC provides healthcare, prescription drug, dental and life insurance benefits to retirees and their dependents, and pays a portion of the related costs. All full time active employees who retire or are disabled directly from WSSC and meet the eligibility criteria can participate. The Washington Suburban Sanitary Commission Other Postemployment Benefits Trust (the “Trust”) is a single-employer contributory fund established in 2007 to provide life insurance and medical benefits for the Retiree Plan participants and beneficiaries of WSSC under conditions set forth by the Trust Agreement. The provision of postemployment benefits is determined under a set of personnel policies (herein referred to, collectively, as the “Plan”).

Eligibility for post retirement health care benefits requires a minimum of two years participation in a WSSC sponsored plan immediately prior to retirement. At the end of fiscal 2016, substantially all of WSSC’s retired employees (or beneficiaries) are eligible for those benefits. WSSC contributes up to 77% of the amount of health care insurance costs for eligible retired employees and their families.

Employees who retired in 1982 and after are eligible for life insurance benefits. The amount of retiree life insurance 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.

Funding Policy

The required contribution is based on projected pay-as-you-go obligations, with an additional amount to prefund benefits as determined annually by WSSC.

For fiscal year 2016, WSSC contributed $21.4 million, including $11.4 million for current claims and/or premiums (approximately 53% of total claims and/or premiums) and an additional $10.0 million to fund the Trust. Retirees receiving benefits contributed $3.8 million or approximately 24% of total claims and/or premiums, through their required contributions.

For fiscal year 2015, WSSC contributed $22.4 million, including $12.4 million for current claims and/or premiums (approximately 55% of total claims and/or premiums) and an additional $10.0 million to fund the Trust. Retirees receiving benefits contributed $3.8 million or approximately 23% of total claims and/or premiums, through their required contributions.

M. OTHER POSTEMPLOYMENT BENEFITS (OPEB) (continued)

Annual OPEB Cost and Net OPEB Obligation

WSSC's annual OPEB cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over thirty years, beginning with the year that the phase-in funding ends.

The long-term OPEB liability is estimated based on existing WSSC policies regarding retiree healthcare benefits. This level of coverage is not guaranteed in the future. The obligation will be periodically re-evaluated.

WSSC's annual OPEB cost and long-term liability for fiscal years 2016 and 2015 were (in thousands):

	2016	2015
Annual required contribution	$ 14,961	$ 16,890
Correction to the prior year contribution	(2,068)	(2,604)
Interest on long-term OPEB liability	1,922	2,480
Annual OPEB cost	14,815	16,766
Phase-in funding	(10,000)	(10,000)
Benefits paid	(11,398)	(12,379)
Increase in long-term OPEB liability	(6,583)	(5,613)
Long-term OPEB liability – beginning of year	27,458	33,071
Long-term OPEB liability – end of year	$ 20,875	$ 27,458

WSSC's annual OPEB cost, the percentage of annual OPEB cost contributed and the long-term OPEB liability for fiscal years 2016 and 2015 were (in thousands):

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Long-term OPEB Liability
6/30/2016	$14,815	144.4%	$20,875
6/30/2015	16,766	133.5%	27,458

Funded Status and Funding Progress

As of June 30, 2015, the most recent actuarial valuation date, the plan was 31.7% funded. The actuarial accrued liability for benefits at June 30, 2015 was $218.2 million, and with assets of $69.1 million, the resulting unfunded actuarial liability (UAAL) was $149.0 million. The covered payroll (annual payroll of active employees covered by the OPEB Plan) was $118.1 million, and the ratio of the UAAL to the covered payroll was 124.5%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of the occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the Trust and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress is presented as required supplementary information following the notes to the financial statements in Schedule B. This schedule presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial liabilities for benefits.

M. OTHER POSTEMPLOYMENT BENEFITS (OPEB) (continued)

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

As of the last valuation, WSSC had 1,594 retired employees and 1,582 active employees who participated in health plans, excluding spouses and dependents. Life insurance plan participation was 1,207 and 1,424, respectively for retirees and active employees. The average age is 70.1 and 47.8 respectively for retirees and active employees.

Actuarial assumptions used in the most recent valuation, as of June 30, 2015, are as follows:

Actuarial cost method	Entry age normal.
Discount rate	7.0%
Yearly increase in medical/prescription costs	Medical claims and retiree premiums will increase at an annual trend rate of 8.0% pre-65 and 6.0% post-65 for 2013, grading down to an ultimate rate of 5.5% in 2018 for pre-65 and 5.5% in 2018 for post-65.
Mortality rates after retirement	Retirement Plan–2000 Health Mortality Tables, with Blue Collar adjustments and one year set forward for non-disability retirees; RP2000 Disabled Mortality Tables for disability retirees.
Retirement age assumptions	Ranging from 50 to 70+
Coverage	100% of current retirees are covered and 100% of current active employees will elect coverage at least two years prior to retirement age under the medical and life insurance plans.
Amortization method	30 year amortization of the unfunded Actuarial Accrued Liability as a level dollar.

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 2017 are not expected to exceed $685 million, a portion of which will be funded by capital contributions. Commitments in connection with this construction program approximated $297 million at June 30, 2016.

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 agreement (the Blue Plains Intermunicipal Agreement of 2012) that provides for dedicated allocation of sewage flow capacity for wastewater treatment at the Blue Plains facility in Washington DC. The parties have demonstrated their willingness to share in the burdens associated with the demands for regional wastewater collection and treatment and biosolids management. Therefore, WSSC has executed an equitable arrangement for determining WSSC's share of capital costs in relationship to its allocated flow capacity and for payment of the WSSC share of operating and maintenance costs related to its actual flow to Blue Plains. Currently, the Commission has a capacity entitlement of 169.60 MGD, which is approximately 45.8% of the Plant's total capacity of 370 MGD.

For fiscal years 2016 and 2015, the Commission paid $102.7 million and $135.7 million, respectively, to fund its share of construction costs. The Commission estimates its share of the construction costs over the next seven years to be $409.8 million, of which $88.9 million is expected to be incurred in fiscal year 2017 and the balance over fiscal years 2018 to 2023. In addition, for fiscal years 2016 and 2015, the Commission made total payments of $55.7 million and $54.3 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 $1,931 million and are to be expended over at least 18 years, $888 million of which is expected to be incurred after fiscal year 2016. 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.

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 are to be submitted by WSSC for consideration by January 2, 2017. Costs for implementation of improvements are estimated at $43 million, and are to be expended over at least 7 years, all of which is expected to be incurred after fiscal year 2016. The costs are included in WSSC's budget and capital improvements program.

O. COMMITMENTS AND CONTINGENCIES (continued)

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.

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):

	2016	2015
Claim liability - beginning of year	$20,554	$19,265
Current year claims and changes in estimates	9,054	5,867
Claim payments	(7,867)	(4,578)
Claim liability - end of year	$21,741	$20,554

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

During fiscal 2016 and 2015, WSSC leased a variety of equipment with annual rental payments of approximately $763,000 and $$672,000, respectively.

P. RESTATEMENTS

In fiscal year 2015, WSSC implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - An Amendment of GASB Statement No. 27*. The Statement improved accounting and financial reporting by state and local governments for pensions and was effective for periods beginning after June 15, 2014. To comply with GASB Statement No. 68, prior year balances were restated resulting in a net $130.1 million decrease in net position as of June 30, 2014.

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

(1) The net pension liability, actuarially determined in accordance with GASB 68 requirements, has been reported. Additional pension costs and adjustments to the net pension liability were distributed across the organization based on current WSSC practice.

(2) Contributions to the Plan from WSSC subsequent to the measurement date of the net pension liability and before the end of its reporting period have been reported as deferred outflows of resources.

(3) WSSCs balances of deferred outflows of resources and deferred inflows of resources related to pensions, have been reported and classified as follows:

(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

P. RESTATEMENTS (continued)

	Fiscal 2014 as previously reported	Restatement As of July 1, 2013	Restatement As of June 30, 2014	Fiscal 2014 Restated
Current and other assets	$ 437,048	$ -	$ -	$ 437,048
Capital assets, net of accumulated depreciation	6,230,579	25,253	(391)	6,255,441
Total assets	6,667,627	25,253	(391)	6,692,489
Deferred outflows of resources	7,602	9,519	730	17,851
Total assets and deferred outflows	$ 6,675,229	$ 34,772	$ 339	$ 6,710,340
Current and other liabilities	$ 600,899	$ 182,333	$ (64,741)	$ 718,491
Bonds and notes payable, net of current maturities	1,807,662	-	-	1,807,662
Total liabilities	2,408,561	182,333	(64,741)	2,526,153
Deferred inflows of resources	-	-	47,585	47,585
Total liabilities and deferred inflows	2,408,561	182,333	(17,156)	2,573,738
Net investment in capital assets	4,078,030	(2,318)	(27,455)	4,048,257
Restricted for growth construction	37,069	-	-	37,069
Unrestricted	151,569	(145,243)	44,950	51,276
Total net position	4,266,668	(147,561)	17,495	4,136,602
Total liabilities, deferred inflows and net position	$ 6,675,229	$ 34,772	$ 339	$ 6,710,340
Operating revenues	$ 624,358		$ -	$ 624,358
Operating expenses	(506,874)		(656)	(507,530)
Non-operating revenues (expenses)	(26,593)		18,151	(8,442)
Income before capital contributions	90,891		17,495	108,386
Capital contributions	99,982		-	99,982
Change in net position	$ 190,873		$ 17,495	$ 208,368

Q. SUBSEQUENT EVENTS

The WSSC has evaluated events subsequent to June 30, 2016 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
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
SCHEDULE A-1
Unaudited

Total Pension Liability	2015	2014	2013
Service cost	$ 9,828,010	$ 11,098,519	$ 10,541,264
Interest on total pension liability	61,611,259	67,317,785	66,214,298
Effect of plan changes	-	-	-
Effect of assumption changes or inputs	32,257,956	-	-
Difference between expected and actual experience	(53,390,196)	(8,657,936)	-
Benefit payments, including refunds of contributions	(56,672,851)	(54,934,361)	(53,545,268)
Net change in pension liability	(6,365,822)	14,824,007	23,210,294
Total pension liability, beginning of the year	919,442,048	904,618,041	881,407,746
Total pension liability, end of year (a)	913,076,226	919,442,048	904,618,040
Plan Fiduciary Net Pension:			
Employer contributions	21,655,933	20,731,968	19,768,897
Member contributions	3,930,364	3,823,065	3,652,732
Investment income net of investment expenses	(10,371,882)	37,575,760	110,734,486
Benefit payments	(56,672,851)	(54,934,361)	(53,545,268)
Administrative expenses	-	-	-
Net change in plan fiduciary position	(41,458,436)	7,196,432	80,610,847
Fiduciary net position, beginning of the year	743,965,038	736,768,598	656,157,751
Fiduciary net position, end of year (b)	702,506,602	743,965,030	736,768,598
Net Pension Liability, end of year (a-b)	$ 210,569,624	$ 175,477,018	$ 167,849,442
Plan fiduciary net position as a percentage of total pension liability	76.94%	80.91%	81.45%
Covered payroll	$ 128,141,615	$ 122,674,367	$ 116,975,722
Plan's net pension liability as a percentage of covered payroll	164.33%	143.04%	143.49%

See accompanying independent auditor's report.

** *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 available. Information for the years prior to the implementation of GASB 67 and 68 are not available for display (2006 through 2012).*

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 – Information relative to actuarial assumptions is presented in Note L of the financial statements.

WASHINGTON SUBURBAN SANITARY COMMISSION
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CONTRIBUTIONS
SCHEDULE A-2
Unaudited

Year Ended December 31,	Actuarially Determined Contribution	Actual Employer Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contribution as a % of Covered Payroll
2006	$ 18,816,521	$ 15,752,964	$ 3,063,557	$ 93,212,805	16.9%
2007	20,663,778	15,755,202	4,908,576	93,226,047	16.9%
2008	18,115,582	15,832,225	2,283,357	93,681,805	16.9%
2009	13,322,921	16,337,171	(3,014,250)	96,669,651	16.9%
2010	19,248,208	17,491,535	1,756,673	103,500,207	16.9%
2011	24,526,595	18,455,605	6,070,990	109,204,763	16.9%
2012	22,748,813	18,862,636	3,886,177	111,613,231	16.9%
2013	24,242,634	19,768,897	4,473,737	116,975,722	16.9%
2014	27,284,797	20,731,968	6,552,829	122,674,367	16.9%
2015	20,100,358	21,655,933	(1,555,575)	128,141,615	16.9%

See accompanying independent auditor's report.

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.

WASHINGTON SUBURBAN SANITARY COMMISSION
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CONTRIBUTIONS
SCHEDULE A-2
Unaudited

Notes to Schedule of Contributions (Continued):

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age (funding valuation uses a fixed rate of contribution)
Amortization method	Not applicable
Amortization period	Not applicable
Amortization period at 01/01/2015	Not applicable
Asset valuation method	5-year smoothed market
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
Cost of living adjustments	2.50%
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, 2015 valuation were based on the results of an actuarial experience analysis covering 2011 through 2015.

WASHINGTON SUBURBAN SANITARY COMMISSION
REQUIRED SUPPLEMENTAL INFORMATION
SCHEDULE OF HISTORICAL OTHER POSTEMPLOYMENT BENEFITS (OPEB) INFORMATION
SCHEDULE B
Unaudited
(In thousands)

Actuarial Valuation Date June 30	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
2011	$ 21,296	$205,941	$184,645	10.34%	$113,634	162.5%
2013	41,300	217,196	175,896	19.02	103,943	169.2
2015	69,137	218,175	149,038	31.69	118,090	124.5

Fiscal Year Ended June 30	Annual OPEB Cost	Percentage of OPEB Contributed	Long-term OPEB Liability
2014	$ 16,752	122.0%	$ 33,071
2015	16,766	133.5	27,458
2016	14,815	144.4	20,875

According to policy, WSSC completes an actuarial study at least once every two years. No studies were performed in 2012 and 2014, consequently results are not displayed.