Washington Suburban Sanitary Commission

Annual Financial Report

Year Ended
June 30, 2007

THOMPSON, COBB, BAZILIO & ASSOCIATES, P.C.
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Independent Auditor's Report

To The Commissioners
of the Washington Suburban Sanitary Commission:

We have audited the accompanying balance sheet of the Washington Suburban Sanitary Commission (WSSC) as of June 30, 2007 and the related statements of revenues, expenses and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of WSSC's management. Our responsibility is to express an opinion on these financial statements based on our audits. The financial statements of WSSC as of and for the year ended June 30, 2006 were audited by other auditors whose report dated August 25, 2006, expressed an unqualified opinion on those financial statements.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of WSSC as of June 30, 2007, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis and schedule of historical pension information (Schedule A) are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Washington, DC Thompson, Cobb, Bazilio & Associates, P.C.
August 31, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS
REQUIRED SUPPLEMENTARY INFORMATION

This section of the Washington Suburban Sanitary Commission (WSSC) annual financial report presents our discussion and analysis of WSSC's financial performance during the fiscal years that ended June 30, 2007 and 2006. Please read it in conjunction with WSSC's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

Fiscal Year 2007

- WSSC maintained AAA bond ratings from FitchRatings, Moody's Investor Service, and Standard & Poors.
- Combined water and sewer rates increased in fiscal year 2007.
- A Consent Decree with the Environmental Protection Agency, the Department of Justice, the State of Maryland, and four environmental groups entered its second 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 $389 million and are projected to be expended over 12 years. The costs for each fiscal year are**,** or will be included in WSSC's budget and capital improvements program.
- During fiscal year 2006, WSSC entered into an agreement with a private utility company to purchase the water and sewer systems of a residential community, located in Maryland. WSSC purchased these systems in December 2006 for $12 million.
- Operating revenues increased **$**5.8 million. The volume of water delivered to the system declined slightly during the fiscal year, and average rates billed to water and sewer customers increased approximately 3.1%.
- The Information Technology (IT) team restructure costs of $2.3 million were paid in fiscal 2007**.** These costs were accrued in fiscal 2006.
- Operating expenses increased $16.2 million during fiscal year 2007. An increase of $2.0 million in expenses can be attributed to street repairs made in 2007. Intermunicipal agency sewage disposal expenses increased $1.3 million as a result of the reconciliation of WSSC's share of estimated and actual expenses, and increased operating costs. Expenses incurred for IT operations which include professional fees, contract costs and salaries and fringes for IT staff, increased $4.1 million in comparison to the prior year. Other salaries and wages, and related fringe benefits charged to operations increased $3.8 million during the fiscal year. Rising energy and chemical costs contributed another increase of $1.0 million each.
- Capital assets (water and sewer lines, water tanks, treatment plants, pumping stations, multi-purpose facilities and other facilities), net of accumulated depreciation, increased by $166.7 million, while overall debt decreased by $85.1 million.
- The increase in net assets during the year included operating income, net of non-operating expenses, of $95.6 million, and capital contributions of $115.2 million.

Fiscal Year 2006

- WSSC maintained AAA bond ratings from FitchRatings, Moody's Investor Service, and Standard & Poors.
- Combined water and sewer rates increased in fiscal year 2006.
- A Consent Decree with the Environmental Protection Agency, the Department of Justice, the State of Maryland, and four environmental groups commenced on December 7, 2005. The Consent Decree formally identifies the remedial measures to eliminate and/or reduce Sanitary Sewer Overflows. Costs of these remedial measures are estimated at $389 million and are projected to be expended over 12 years. The costs for fiscal year 2007 are included in WSSC's budget and capital improvements program.

- Operating revenues increased 3.6%, or $15.9 million. The volume of water delivered to the system rose 1.1% during the fiscal year, and average rates billed to water and sewer customers increased approximately 2.5%.
- On March 2, 2006, WSSC announced its plan to restructure the Information Technology (IT) team by abolishing all merit positions and creating new non-merit, or contractual positions with comparable benefits. Employees holding merit jobs at the time of this announcement were provided an opportunity to compete for the new contractual positions. As of the end of July 2006, the IT restructure was substantially complete and 30 employees were involuntary terminated. All of those employees are eligible to receive a severance package. Total costs of this IT restructure will be paid over 70 weeks beginning in August 2006, and are projected to be $2.7 million.
- Operating expenses decreased $19.6 million during fiscal year 2006. In fiscal year 2005, a $37.5 million loss was recognized for the impairment in value of a biosolids composting facility that was placed in service in 1983. WSSC continues to pursue disposal of this facility. No corresponding loss was recognized in fiscal year 2006. An increase of $4.1 million in expenses can be attributed to rising energy costs. Intermunicipal agency sewage disposal expenses increased $5.1 million as a result of the reconciliation of WSSC's share of estimated and actual expenses, and increased operating costs. Salaries and wages, and related fringe benefits charged to operations increased $5.6 million during the fiscal year. In addition, costs accrued for the IT restructure as of the end of 2006 totaled $2.7 million.
- Capital assets (water and sewer lines, water tanks, treatment plants, pumping stations, multi-purpose facilities and other facilities), net of accumulated depreciation, increased by $144.1 million, while overall debt decreased by $27.1 million.
- The increase in net assets during the year included operating income, net of non-operating expenses, of $95.4 million, and capital contributions of $98.9 million.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of two parts - management's discussion and analysis and the required financial statements. The required financial statements consist of:

- Balance sheets
- Statements of revenues, expenses, and changes in net assets
- Statements of cash flows

The balance sheets provide a snapshot of WSSC's financial position at June 30, the end of the fiscal year. Figures on the balance sheets are cumulative from inception. WSSC's balance sheets present current and long-term assets and liabilities as well as net assets.

WSSC's statements of revenues, expenses and changes in net assets reflect activity for the fiscal year. 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 assets.

The statements of cash flows present WSSC's inflow and outflow of cash. Cash flows from operating activities, capital and related financing activities, and investment activities are all shown separately. Cash provided by operating activities is reconciled to operating income. WSSC uses the direct method for presenting the cash flow statements.

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

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 Assets

Fiscal Year 2007

WSSC's net assets increased 7.2% to $3,141.4 million (See Table A-1). The majority of this increase is attributable to the change in net assets invested in capital assets, net of related debt. Capital assets, net of accumulated depreciation, increased 4.1% to $4,221.6 million. Unused bond proceeds at the end of the year were $25.8 million. Investments are restricted for unused bond proceeds and classified as non-current assets. During fiscal year 2007, developers constructed $66.7 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, decreased 5.9% to $1,359.6 million. Capital contributions of $115.2 million and operating revenues of $5.0 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 I and J of the financial statements.

Fiscal Year 2006

WSSC's net assets increased 7.1% to $2,930.6 million (See Table A-1). The majority of this increase is attributable to the change in net assets invested in capital assets, net of related debt. Capital assets, net of accumulated depreciation, increased 3.7% to $4,054.9 million. Unused bond proceeds at the end of the year were $63.1 million. Investments are restricted for unused bond proceeds and classified as non-current assets. During fiscal year 2006, developers constructed $59.0 million of capital assets and donated them to WSSC. Additional information is presented in the Capital Asset and Debt Administration section of this discussion and analysis.

Total debt, including current maturities, decreased 1.8% to $1,444.7 million. Capital contributions of $98.9 million and operating revenues of $5.0 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 I and J of the financial statements.

TABLE A-1
WSSC's Net Assets
(in millions of dollars)

	FY 2007	FY 2006	FY 2005	FY 2007 % Change	FY 2006 % Change
Current and other assets	$ 467.2	$ 499.6	$ 486.4	(6.5)	2.7
Capital assets, net of accumulated depreciation	4,221.6	4,054.9	3,910.8	4.1	3.7
Total assets	4,688.8	4,554.5	4,397.2	2.9	3.6
Current and other liabilities	420.1	422.7	427.3	(0.1)	(1.1)
Bonds and notes payable, net of current maturities	1,127.3	1,201.2	1,233.6	(6.2)	(2.6)
Total liabilities	1,547.4	1,623.9	1,660.9	(4.7)	(2.2)
Net assets:					
Invested in capital assets, net of related debt	2,887.8	2,673.3	2,492.5	8.0	7.3
Restricted for growth construction	124.8	105.9	91.9	17.8	15.2
Unrestricted	128.8	151.4	151.9	(14.9)	(0.3)
Total net assets	$ 3,141.4	$ 2,930.6	$ 2,736.3	7.2	7.1

Changes in Net Assets

Fiscal Year 2007

WSSC's operating revenues increased $5.8 million (See Table A-2). The amount of water delivered to the system declined slightly during the fiscal year, and average rates billed to water and sewer customers increased approximately 3.1%. Operating expenses increased 4.7% to $362.9 million. An increase of $2.0 million in expenses can be attributed to street repairs made in 2007. Intermunicipal agency sewage disposal expenses increased $1.3 million as a result of the reconciliation of WSSC's share of estimated and actual expenses, and increased operating costs. Expenses incurred for IT operations which include professional fees, contract costs and salaries and fringes for IT staff, increased $4.1 million in comparison to the prior year. Other salaries and wages, and related fringe benefits charged to operations increased $3.8 million during the fiscal year. Rising energy and chemical costs contributed another increase of $1.0 million each.

The net of increases in both revenues and expenses during the year resulted in a 0.2% increase in income before contributions to $95.6 million. Capital contributions increased by 16.5% to $115.2 million.

Fiscal Year 2006

WSSC's operating revenues increased $15.9 million (See Table A-2). The amount of water delivered to the system rose 1.1% during the fiscal year, and average rates billed to water and sewer customers increased approximately 2.5%. Operating expenses decreased by 5.4% to $346.7 million. In fiscal year 2005, a $37.5 million loss was recognized for the impairment in value of a biosolids composting facility that was placed in service in 1983. WSSC continues to pursue disposal of this facility. No corresponding loss was recognized in fiscal year 2006. An increase of $4.1 million in expenses can be attributed to rising energy costs. Intermunicipal agency sewage disposal expenses increased $5.1 million as a result of the reconciliation of WSSC's share of estimated and actual expenses, and increased operating costs. Salaries and wages, and related fringe benefits charged to operations increased $5.3 million during the fiscal year. In addition, costs accrued for the IT restructure as of the end of 2006 totaled $2.7 million.

The net result of an increase in revenues and a decrease in expenses, primarily the impairment loss, during the year resulted in a 94.7% increase in income before contributions to $95.4 million. Capital contributions increased by 6.9% to $98.9 million.

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

	FY 2007	**FY 2006**	**FY 2005**	**FY 2007 % Change**	**FY 2006 % Change**
Operating revenues	$ 464.4	$ 458.6	$ 442.7	1.3	3.6
Operating expenses	(362.9)	(346.7)	(366.3)	(4.7)	5.4
Non-operating revenues (expenses)	(5.9)	(16.5)	(27.4)	64.2	39.8
Income before contributions	95.6	95.4	49.0	0.2	94.7
Capital contributions	115.2	98.9	92.5	16.5	6.9
Changes in net assets	$ 210.8	$ 194.3	$ 141.5	8.5	37.3

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

Fiscal Year 2007

As of June 30, 2007, WSSC had invested $4,221.6 million 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 $166.7 million, or 4.1%, over fiscal year 2006.

Fiscal Year 2006

As of June 30, 2006, WSSC had invested $4,054.9 million 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 $144.1 million, or 3.7%, over fiscal year 2005.

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

	FY 2007	FY 2006	FY 2005	FY 2007 % Change	FY 2006 % Change
Land and rights of way	$ 80.9	$ 80.9	$ 80.5	0.0	0.5
Construction in progress	735.5	720.2	626.4	2.1	15.0
Water supply	994.9	937.5	920.1	6.1	1.9
Sewage disposal	1,057.6	1,008.4	1,021.1	4.9	(1.2)
General construction	1,333.1	1,292.5	1,249.0	3.1	3.5
Other	19.6	15.4	13.7	27.3	12.4
Total capital assets	$ 4,221.6	$ 4,054.9	$ 3,910.8	4.1	3.7

Capital assets completed and placed in service increased $61.4 million or 43%, in comparison to fiscal year 2006. Major additions to capital assets being depreciated during fiscal years 2007 and 2006 are illustrated in Tables A-4 and A-5, respectively.

TABLE A-4
WSSC's Additions to Capital Assets Being Depreciated
Fiscal Year 2007
(in millions of dollars)

	Water Supply	Sewage Disposal	General Construction
Financed from proceeds of bonds, notes, operating revenues or capital contributions:			
Water and sewer main rehabilitation	$ 3.2	$ 5.2	
Water and sewer mains	30.1	8.0	$ 6.1
Water meters			1.3
House connections			11.2
Water storage facilities	7.9		
Water filtration facilities	39.7		
Wastewater treatment facilities		25.1	
Pumping stations	0.9	1.1	
Joint-use facilities	0.4	36.6	
Dams	1.9		0.2
Constructed and contributed by developers:			
House connections			9.0
Wastewater pumping stations		4.0	
Water and sewer mains			53.7
Total fiscal year 2007 additions to capital assets being depreciated	$84.1	$80.0	$81.5

TABLE A-5
WSSC's Additions to Capital Assets Being Depreciated
Fiscal Year 2006
(in millions of dollars)

	Water Supply	Sewage Disposal	General Construction
Financed from proceeds of bonds, notes, operating revenues or capital contributions:			
Water and sewer main rehabilitation	$ 4.1	$ 1.3	
Water and sewer mains	37.8	4.7	$10.0
Water meters			2.3
House connections			11.7
Water filtration facilities	1.1		
Wastewater treatment facilities		2.4	
Pumping stations		0.1	
Joint-use facilities		8.3	
Constructed and contributed by developers:			
House connections			7.3
Water and sewer mains			51.8
Total fiscal year 2006 additions to capital assets being depreciated	$43.0	$16.8	$83.1

Bonds and Notes Payable

Fiscal Year 2007

At the end of fiscal year 2007, bonds and notes outstanding totaled $1,359.6 million. This is a 5.9% decrease from the previous fiscal year.

Fiscal Year 2006

At the end of fiscal year 2006, bonds and notes outstanding totaled $1,444.7 million. This is a 1.8% decrease from the previous fiscal year.

The primary sources of revenue utilized for repayment of debt are water consumption and sewer use charges and front foot benefit assessments. In addition, WSSC obtains funds from other sources to reduce the amount of bonds it needs to sell to construct water and sewer projects. These other sources include payments from applicants for new service, payments from other jurisdictions for projects that specifically benefit them, and state and federal grants. A more detailed description of WSSC's bonds and notes payable can be found in Notes J and I of the financial statements.

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

	FY 2007	FY 2006	FY 2005	FY 2007 % Change	FY 2006 % Change
Water supply	$ 382.9	$ 375.2	$ 365.7	2.1	2.6
Sewage disposal	386.7	414.1	399.7	(6.6)	3.6
General construction	587.9	652.7	703.2	(9.9)	(7.2)
Storm water drainage	2.1	2.7	3.2	(22.2)	(15.6)
Total	1,359.6	1,444.7	1,471.8	(5.9)	(1.8)
Current maturities	232.3	243.5	238.2	(4.6)	2.2
Long-term portion	1,127.3	1,201.2	1,233.6	(6.2)	(2.6)
Total bonds and notes payable	$ 1,359.6	$ 1,444.7	$ 1,471.8	(5.9)	(1.8)

Bond Ratings

FitchRatings, Moody's Investors Service, and Standard & Poor's assigned ratings of 'AAA', 'Aaa', and 'AAA', respectively, on WSSC's outstanding water supply, sewage disposal and general construction general obligation bonds in fiscal years 2006 and 2007. WSSC's superior credit was attributed in large part, to strong fiscal practices, streamlined operations, and management's commitment to keeping the utility competitive.

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, 2007 and 2006, the calculated limits were $7,339.6 million and $6,436.6 million, respectively. WSSC's outstanding debt was significantly below those limits.

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.

WASHINGTON SUBURBAN SANITARY COMMISSION
BALANCE SHEETS
AS OF JUNE 30, 2007 AND 2006
(in thousands)

	2007	2006
ASSETS		
Current assets:		
Cash (Note B)	$ 12,608	$ 11,226
Short-term investments (Note B)	297,852	299,591
Receivables, net (Note C)	110,985	100,494
Prepaid expenses	284	287
Materials and supplies, at average cost	9,140	8,831
Total current assets	430,869	420,429
Non-current assets:		
Capital assets, net of accumulated depreciation (Note E)	4,221,613	4,054,939
Long-term investments (Note B)	31,786	71,069
Federal and State grants receivable	—	2,895
Deferred charges and other assets (Note D)	4,592	5,173
Total non-current assets	4,257,991	4,134,076
Total assets	$4,688,860	$ 4,554,505
LIABILITIES		
Current liabilities:		
Bonds and notes payable, current maturities (Note I)	$ 232,308	$ 243,563
Accounts payable and accrued expenses	96,312	88,057
Accrued bond and note interest payable	13,292	14,930
Deposits and deferred credits (Note H)	3,541	2,862
Total current liabilities	345,453	349,412
Non-current liabilities:		
Bonds and notes payable, net of current maturities (Notes I and J)	1,127,251	1,201,167
Long-term pension liability (Note K)	39,520	40,033
Deposits, deferred credits and other long-term liabilities (Note H)	35,211	33,247
Total non-current liabilities	1,201,982	1,274,447
Total liabilities	1,547,435	1,623,859
COMMITMENTS AND CONTINGENCIES (Note M)		
NET ASSETS		
Invested in capital assets, net of related debt	2,887,840	2,673,278
Restricted for growth construction	124,784	105,886
Unrestricted	128,801	151,482
Total net assets	3,141,425	2,930,646
Total liabilities and net assets	$4,688,860	$ 4,554,505

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

WASHINGTON SUBURBAN SANITARY COMMISSION
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2007 AND 2006
(in thousands)

	2007	2006
OPERATING REVENUES:		
Water consumption, sewer use and service charges	$ 369,589	$ 362,542
Front foot benefit assessments	63,792	66,497
House connection charges	11,597	11,689
Other	19,386	17,904
Total operating revenues	464,364	458,632
OPERATING EXPENSES:		
Operations	73,543	68,915
Maintenance	88,933	80,605
Intermunicipal agency sewage disposal	47,399	46,542
Administrative and general	55,888	56,482
Depreciation and amortization	97,152	94,112
Total operating expenses	362,915	346,656
Net operating revenue	101,449	111,976
NON-OPERATING REVENUES (EXPENSES):		
Interest on bonds and notes payable	(62,513)	(69,460)
Capitalized interest	32,155	28,375
Prince George's County storm drain debt service reimbursement, net of refund	(2,252)	771
Interest income on investments	21,423	17,791
Other interest income	5,344	5,994
Net non-operating expenses	(5,843)	(16,529)
Income before capital contributions	95,606	95,447
Capital contributions (Note G)	115,173	98,885
Changes in net assets	210,779	194,332
Net assets, beginning of year	2,930,646	2,736,314
Net assets, end of year	$ 3,141,425	$2,930,646

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, 2007 AND 2006
(in thousands)

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from water and sewer customers	$ 362,485	$ 362,066
Receipts from front foot benefit assessments	65,043	67,975
Receipts from house connection charges	12,825	13,861
Receipts from other customers and miscellaneous	38,072	37,925
Payments to employees	(120,582)	(110,323)
Payments to District of Columbia Water & Sewer Authority	(41,629)	(39,732)
Payments to suppliers and others	(117,416)	(115,563)
Net cash provided by operating activities	198,798	216,209
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Proceeds from bonds and notes	152,358	181,148
Capital contributions	48,447	41,310
Prince George’s County storm drain debt service reimbursement, net of refund	(2,252)	771
Bond redemptions and note repayments	(235,752)	(209,953)
Interest payments, premiums and discounts on bonds and notes	(60,996)	(62,632)
Capital asset construction	(161,665)	(168,263)
Net cash used in capital and related financing activities	(259,860)	(217,619)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from the sale of investments	1,385,414	2,354,334
Purchases of investments	(1,342,743)	(2,358,668)
Interest income received	19,773	16,599
Net cash provided by investing activities	62,444	12,265
Net increase in cash	1,382	10,855
Cash, beginning of year	11,226	371
Cash, end of year	$ 12,608	$ 11,226
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net operating revenue	$ 101,449	$ 111,976
Adjustments to reconcile net operating revenue to net cash provided by operating activities:		
Depreciation and amortization	100,768	97,869
Changes in assets and liabilities:		
(Increase) decrease in receivables, net	(7,637)	3,142
Increase in materials and supplies	(310)	(46)
Decrease in deferred charges and other assets	3	37
Increase in accounts payable and accrued liabilities	2,250	7,485
Increase (decrease) in deferred credits	2,694	(2,960)
Decrease in long-term pension liability	(419)	(1,294)
Net cash provided by operating activities	$ 198,798	$ 216,209

Noncash capital financing activities:
Capital assets of $66,715 and $59,066 were acquired through contributions from developers in 2007 and 2006, 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.

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 deferred and amortized to operating revenue over the life of the bonds issued to finance the house connections.

Recovery of the Prince George's County portion of the cost of storm water drainage debt service is made through annual reimbursement from the County and is recorded as non-operating revenue. If necessary, ad valorem taxes may be levied to cover debt service of storm water drainage bonds and other bonds and notes. No ad valorem taxes were levied in fiscal 2007 or 2006. In 2007, excess debt service reimbursements of $3,000,000 were refunded to the County and returned to WSSC as a contribution toward the acquisition of a water and sewer system of a residential community located in Maryland.

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 water pollution 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. They are recorded at estimated fair value using developers' estimated costs to construct the assets or WSSC's estimated costs to construct similar assets. The capital assets, and related capital contributions, are recognized upon completion of construction.

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Capital Assets

Capital assets are stated at original construction cost, which includes related payroll, payroll taxes, fringe benefits, administrative costs and interest capitalized during construction.

Depreciation and Amortization

Capital assets are depreciated using the straight-line method over the estimated service lives of the property, which averaged 50 and 49 years in fiscal 2007 and 2006, respectively.

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 2006 financial statements reflect certain reclassifications to conform with the 2007 presentation.

Bond Refunding Costs

The issuance costs of refunding bonds are amortized to operations using a proportionate-to-stated interest method (see Note D). The reacquisition price of the refunded bonds in excess of carrying value is also deferred and amortized to operations (see Note J).

Contributions of Capital Assets

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 Statement of Revenues, Expenses and Changes in Net Assets).

Net Assets

GASB No. 34 establishes financial reporting standards for state and local governments regarding the required financial statements, presentation of management's discussion and analysis

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

and classification of net assets. GASB No. 34 requires that net assets restricted for particular purposes, and net assets invested in capital assets, net of related debt, be presented separately on the balance sheets.

Net assets associated with unspent SDC proceeds are restricted for growth construction.

Net assets associated with unspent bond proceeds are restricted for capital projects. As of June 30, 2007, and 2006, unspent bond proceeds totaled $25,786,000, and $63,069,000, respectively. However, cash and investments net of the related debt resulted in a zero net asset balance.

Accounting Guidelines

In accordance with the provisions of Statement No. 20 of the Governmental Accounting Standards Board (GASB), Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting, issued in September 1993, WSSC has elected to apply all applicable GASB pronouncements and not to follow Financial Accounting Standards Board Statements and Interpretations issued after November 30, 1989.

Recent Accounting Pronouncements

In June 2004, the GASB issued Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions. GASB No. 45 will require WSSC to record a liability for certain postemployment benefits. WSSC has not determined the impact of this pronouncement on the financial statements at this time. For WSSC, GASB No. 45 will not be effective until the year ending June 30, 2008.

The GASB recently issued Statement No. 49, Accounting and Financial Reporting for Pollution Remediation Obligations. This standard may require WSSC to record a liability for certain pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution. WSSC has not determined the impact of this pronouncement on the financial statements at this time. For WSSC, GASB No. 49 will not be effective until the year ending June 30, 2008.

B. CASH AND INVESTMENTS

At June 30, 2007 and 2006, cash per WSSC’s records amounted to $12,608,000 and $11,226,000, respectively, and per reported bank balances was $13,751,000 and $11,998,000, respectively. Funds previously maintained in an account which was swept each night for investment in overnight repurchase agreements, were transferred to an interest-bearing checking account in 2006. The balance of this account was $12,522,000 and $11,079,000 at June 30, 2007 and 2006, respectively. All collected bank balance funds were secured by Federal depository insurance or by collateral held in WSSC’s name by the Federal Reserve Bank.

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 on the following page. 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.

B. CASH AND INVESTMENTS (continued)

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 to have a market value of at least 102 percent of the principal of the investment plus accrued interest. At June 30, 2007 and 2006, 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, 2007 and 2006, 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, 2007 and 2006 are presented on the following page for each investment type.

B. CASH AND INVESTMENTS (continued)

Investments at June 30, 2007 (in thousands):

Investment Type	Credit Rating	Remaining Maturity	Cost	Fair Value
Federal agency securities	Aaa	1 year or less	$ 148,977	$ 149,082
Commercial paper	P-1	1 year or less	14,820	15,000
Repurchase agreements	Aaa	1 year or less	165,841	164,161
Total investments (includes $31,786 restricted for capital projects, classified as non-current)			$ 329,638	$ 328,243

Investments at June 30, 2006 (in thousands):

Investment Type	Credit Rating	Remaining Maturity	Cost	Fair Value
Federal agency securities	Aaa	1 year or less	$ 184,251	$ 184,329
Commercial paper	P-1	1 year or less	14,911	15,000
Repurchase agreements	Aaa	1 year or less	171,498	171,498
Total investments (includes $71,069 restricted for capital projects, classified as non-current)			$ 370,660	$ 370,827

WSSC records short-term investments in money market instruments such as repurchase agreements and U.S. Government securities with original maturities at acquisition of less than 1 year at cost, which approximates fair value. Non-current investments are recorded at market.

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:

Issuer	Investment Type	Reported Amount at June 30, 2007 (in thousands)
FNMA	Federal agency securities	$102,938
FHLMC	Federal agency securities	43,907
FNMA	Collateral securities for repurchase agreements	111,350
FHLMC	Collateral securities for repurchase agreements	38,650

B. CASH AND INVESTMENTS (continued)

Issuer	Investment Type	Reported Amount at June 30, 2006 (in thousands)
FHLB	Federal agency securities	$19,767
FNMA	Federal agency securities	79,419
FHLMC	Federal agency securities	79,139
FNMA	Collateral securities for repurchase agreements	89,561
FHLMC	Collateral securities for repurchase agreements	60,439

C. RECEIVABLES

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

	2007	2006
Front foot benefit assessments accrued and billed	$ 38,511	$ 40,328
Water and sewer services unbilled	36,452	34,149
Water and sewer services billed	30,521	25,504
Services billed to others and miscellaneous	9,550	4,773
	115,034	104,754
Less allowance for doubtful accounts	(4,049)	(4,260)
Total receivables, net	$110,985	$100,494

D. DEFERRED CHARGES AND OTHER ASSETS

Deferred charges and other assets consisted of the following at June 30 (in thousands):

	2007	2006
Net deferred cost of storm water drainage property transferred to Prince George's County	$2,053	$2,663
Unamortized issuance cost of refunding bonds	2,539	2,510
Total	$4,592	$5,173

E. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2007 was as follows (in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land and rights of way	$ 80,886	$ 14	$ –	$ 80,900
Construction in progress	720,185	156,493	(141,171)	735,507
Total capital assets not being depreciated	801,071	156,507	(141,171)	816,407
Capital assets being depreciated:				
Water supply	1,303,243	84,154	(452)	1,386,945
Sewage disposal	1,594,713	79,971	(177)	1,674,507
General construction	2,031,637	81,567	(2,583)	2,110,621
Other	75,454	7,783	(991)	82,246
Total capital assets being depreciated	5,005,047	253,475	(4,203)	5,254,319
Less accumulated depreciation for:				
Water supply	(365,736)	(26,336)	49	(392,023)
Sewage disposal	(548,812)	(30,649)	–	(579,461)
General construction	(739,127)	(40,031)	1,669	(777,489)
Other	(60,032)	(3,615)	979	(62,668)
Total accumulated depreciation	(1,713,707)	(100,631)	2,697	(1,811,641)
Capital assets being depreciated, net	3,291,340	152,844	(1,506)	3,442,678
Reserve for impairment in value	(37,472)	–	–	(37,472)
Total capital assets, net	$4,054,939	$309,351	$ (142,677)	$ 4,221,613

E. CAPITAL ASSETS (continued)

Capital asset activity for the year ended June 30, 2006 was as follows (in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land and rights of way	$ 80,541	$ 347	$ (2)	$ 80,886
Construction in progress	626,356	171,475	(77,646)	720,185
Total capital assets not being depreciated	706,897	171,822	(77,648)	801,071
Capital assets being depreciated:				
Water supply	1,260,609	42,991	(357)	1,303,243
Sewage disposal	1,578,122	16,802	(211)	1,594,713
General construction	1,950,627	83,108	(2,098)	2,031,637
Other	72,947	5,553	(3,046)	75,454
Total capital assets being depreciated	4,862,305	148,454	(5,712)	5,005,047
Less accumulated depreciation for:				
Water supply	(340,534)	(25,205)	3	(365,736)
Sewage disposal	(519,527)	(29,285)	–	(548,812)
General construction	(701,609)	(39,551)	2,033	(739,127)
Other	(59,276)	(3,757)	3,001	(60,032)
Total accumulated depreciation	(1,620,946)	(97,798)	5,037	(1,713,707)
Capital assets being depreciated, net	3,241,359	50,656	(675)	3,291,340
Reserve for impairment in value	(37,472)	–	–	(37,472)
Total capital assets, net	$ 3,910,784	$222,478	$ (78,323)	$ 4,054,939

A reserve for impairment in value was established in 2005 for a biosolids composting facility which was placed in service in 1983.

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, $3,615,000 in fiscal 2007 and $3,757,000 in fiscal 2006, is classified with other related operating and maintenance costs.

F. ACCOUNTING FOR TERMINATION BENEFITS

In June 2005, the GASB issued Statement No. 47, Accounting for Termination Benefits. This pronouncement was effective for the year ending June 30, 2006, and requires accrual of termination of benefits if an offer for voluntary termination benefits is accepted or a plan for involuntary termination has been approved. This pronouncement did not change WSSC's accounting for such benefits.

On March 2, 2006, WSSC announced its plan to restructure the Information Technology (IT) team by abolishing all merit positions and creating new non-merit, or contractual, positions with comparable benefits. Employees holding merit jobs at the time of this announcement were provided an opportunity to compete for the new contractual positions. As of the end of July 2006, the IT restructure was substantially complete and 30 employees were involuntary terminated with a severance package. Severance pay is based on the employee's gross salary and is calculated at the rate of two weeks pay for each completed year and portion of a year of creditable service. Eligibility for life insurance, health care, and Employee Assistance Program benefits continue throughout the severance period. Estimated costs of these termination benefits are based on unadjusted premiums or expenses, net of any payments by the employee. Contributions to the Employees' Retirement Plan are deducted, and credited service continues for purposes of the WSSC Employees' Retirement Plan until the end of the severance period. Total costs of this IT restructure, which were accrued at June 30, 2006, were to be disbursed over 70 weeks beginning in August 2006, and were projected to be $2,665,000. Of this amount, $2,345,000 was paid in fiscal 2007.

G. CAPITAL CONTRIBUTIONS

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

	2007	2006
System development charges	$ 36,523	$31,676
Developer fees	6,451	7,906
Federal and State water pollution control grants	(516)	237
County contributions toward the acquisition and enhancement of water and sewer systems	6,000	—
Donated assets:		
House connections	9,024	7,279
Other construction projects	57,691	51,787
Total	$115,173	$98,885

H. DEPOSITS, DEFERRED CREDITS AND OTHER LONG-TERM LIABILITIES

Deposits, deferred credits and other long-term liabilities consisted of the following at June 30 (in thousands):

	2007	2006
Deferred revenue for house connections	$22,577	$20,091
Deferred front foot benefit revenue	3,873	4,441
Construction deposits	5,171	5,222
House connection deposits	2,858	2,990
Other	732	503
Total	$35,211	$33,247

I. BONDS AND NOTES PAYABLE

Bonds and notes payable activity for the year ended June 30, 2007 was as follows (in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance	Current Maturities
Bonds and notes payable:					
Water supply	$ 368,652	$ 81,040	$ (73,044)	$ 376,648	$ 57,890
Sewage disposal	405,972	29,828	(56,371)	379,429	98,056
General construction	653,287	41,490	(105,738)	589,039	75,727
Storm water drainage	2,655	—	(600)	2,055	635
	1,430,566	152,358	(235,753)	1,347,171	232,308
Plus deferred amount	14,164	(789)	(987)	12,388	—
Total bonds and notes payable	$1,444,730	$ 151,569	$(236,740)	$1,359,559	$232,308

Bonds and notes payable activity for the year ended June 30, 2006 was as follows (in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance	Current Maturities
Bonds and notes payable:					
Water supply	$ 359,330	$ 65,000	$ (55,678)	$ 368,652	$ 59,554
Sewage disposal	391,763	106,148	(91,939)	405,972	108,625
General construction	705,033	10,000	(61,746)	653,287	74,784
Storm water drainage	3,245	—	(590)	2,655	600
	1,459,371	181,148	(209,953)	1,430,566	243,563
Plus deferred amount	12,397	2,368	(601)	14,164	—
Total bonds and notes payable	$1,471,768	$ 183,516	$(210,554)	$1,444,730	$243,563

The deferred amounts represent deferred interest on bond refundings and premiums on outstanding debt issuances.

Bonds payable accrue interest at rates ranging from 1.1% to 7.0%, with an effective interest rate of 4.57% at June 30, 2007. All bonds payable at June 30, 2007, exclusive of refunded bonds, are due serially through the year 2029. Generally, the bonds are callable at a premium after a specified number of years.

I. BONDS AND NOTES PAYABLE (continued)

Bond and note maturities and interest thereon for the next five years are as follows (in thousands):

Year ended June 30	Principal Maturities	Interest Requirements
2008	$232,308	$59,906
2009	139,183	52,927
2010	135,099	45,983
2011	116,490	40,897
2012	102,297	35,144

Bond and note maturities and interest thereon in five-year increments for fiscal years after 2012 are as follows (in thousands):

Years ended June 30	Principal Maturities	Interest Requirements
2013- 2017	$359,586	$113,765
2018- 2022	187,223	45,992
2023- 2027	70,164	9,732
2028- 2032	4,034	729
2033- 2035	787	59

During fiscal 2006, WSSC issued $10.0 million of weekly maturing Bond Anticipation Notes (the Notes) to fund current construction. The Notes were remarketed weekly by WSSC's remarketing agent at prevailing weekly tax-exempt interest rates. Interest rates on the Notes ranged from 3.25% to 3.92% during fiscal 2007, and from 2.03% to 3.87% during fiscal 2006. Any or all buyers of the Notes may demand payment from WSSC's remarketing agent upon seven days notice. WSSC's remarketing agent is prepared to remarket the Notes in such eventuality. The Notes were originally sold in two separate Series (A and B) under bank line of credit agreements which act as guarantees of liquidity for the Notes in the event that the Notes cannot be remarketed. In June 2006, Series B Notes were replaced with Series A Notes in the amount of $59.9 million and the contract with the liquidity provider for Series B Notes was terminated. The maximum amount available under the line of credit, which expires in June 2015, and is subject to certain conditions, is $215 million.

At June 30, 2007 and 2006, $89.5 million and $98.6 million respectively, of the Notes were outstanding. WSSC expects to redeem these Notes with proceeds of future bond issues or annual 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 $89.5 million has been included in current maturities (fiscal 2007 principal maturities), and an estimated $4.0 million has been included in the fiscal 2007 interest requirements. Additional estimated interest requirements at prevailing rates through 2026 on these Notes, assuming future redemption from proceeds of bonds, would total $42.2 million.

During fiscal 2007 and 2006, WSSC issued $70.0 million and $100.0 million, respectively, of bonds to fund new construction.

I. BONDS AND NOTES PAYABLE (continued)

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.

WSSC borrowed $28.9 million from the 1990 and 1991 State of Maryland Water Quality Revolving Loan Program to fund the construction of certain sewage treatment facilities.

During fiscal 2000, WSSC entered into a Master Loan Agreement with the State of Maryland Water Quality Revolving Loan Program to borrow $107.5 million. This loan is to be used to fund the construction of a consolidated laboratory facility, a water filtration plant solids handling facility, certain sewage treatment facilities and other sewage and energy performance projects. As of June 30, 2007, WSSC had borrowed $81.3 million from the program.

WSSC is in compliance with all terms of its debt agreements at June 30, 2007.

J. BOND REFUNDINGS

In October 2006, WSSC sold $82,285,000 of refunding bonds with interest rates ranging from 4.00% to 4.25% to advance refund $80,360,000 of outstanding callable water supply, sewage disposal and general construction bonds with interest rates ranging from 4.25% to 5.00%. The net proceeds of $83,006,000 (including a premium of $1,078,000 and after payment of $170,000 of issuance costs) 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 October 2006 refunding reduced WSSC's total debt service payments over the next 19 years by $3,619,000 and provided an economic gain of 3,733,000.

As a result of the refundings, the refunded bonds are considered to be defeased and the liability is not reflected in the financial statements.

In prior years, WSSC sold refunding bonds totalling $3,056,375,000 for the purpose of refunding and defeasing $2,934,115,000 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.

J. BOND REFUNDINGS (continued)

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). 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 deduction from bonds payable and is being amortized to interest on bonds and notes through the year 2025 using the proportionate-to-stated interest method. Amortization totaling $8,970,000 and $10,429,000, in fiscal 2007 and 2006, respectively, was recorded as interest on bonds and notes payable in the accompanying statements of revenues, expenses and changes in net assets.

Details of the current year and prior years' refundings are as follows (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
10-15-06	$ 80,360	19 years	$ 82,285	$ 5,544		$ 1,989
03-15-05	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)
11-15-97	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	172,490	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	—

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, 2007 and 2006, which amounted to $144,340,000 and $128,440,000, respectively, are considered to be defeased and are not reflected in the accompanying financial statements.

K. RETIREMENT PLAN

Plan Description

Substantially all WSSC employees participate in the Washington Suburban Sanitary Commission Employees' Retirement Plan (the Plan), which is administered by WSSC. The Plan, established in 1967, is a single-employer contributory defined benefit retirement plan. The Commission has been designated as the Plan sponsor and amendments to the Plan must be approved by the Commission. Effective July 1, 1978, WSSC approved a new version of the Plan (Open Version). Members of the Plan as of June 30, 1978 had an option through December 31, 1978 to be included in the Open Version or to continue participation in the original version of the Plan (Closed Version). The Open Version is mandatory for all new employees. It generally provides for reduced employee contributions and benefits.

The Plan requires employees under the Closed Version to contribute 6% of gross wages and employees under the Open Version to contribute 3% of gross wages as a condition of employment. Upon withdrawal from the Plan, participants are refunded their contributions plus 5% interest thereon.

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 2.1% of the participant's final average monthly compensation times Closed Version credited service, if applicable, plus 1.4% of final average monthly compensation, as defined, times Open Version credited service.

GASB Statements No. 47, Accounting for Termination Benefits, requires disclosure of changes in the actuarial accrued liability for the Plan attributable to termination benefits. The increased present value liability for excess benefits related to involuntary terminations is estimated at $825,000.

Actuarial Assumptions

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Significant actuarial assumptions used in the most recent valuation, as of June 30, 2006 are as follows:

Actuarial method	Frozen initial liability modification of the entry age normal method.
Rate of return on investments	8.0%
Yearly increase in cost of living	3.5%
Yearly increase in salary scale	5.0%
Yearly increase in total payroll	5.0%
Annual rates of severance prior to retirement	Severance due to withdrawal is based on WSSC experience. Severance due to to mortality or disability is based on published rates adjusted to reflect actual experience.
Mortality rates after retirement	Retirement Plan -2000 Healthy Annuitant tables for non-disability pensioners. Group Annuity - 1983 tables adjusted for disability retirement pensioner.
Retirement age assumptions	Ranging from age 45 to 69.

K. RETIREMENT PLAN (continued)

Actuarially Determined Contribution Requirements
And Contribution Made

WSSC's retirement plan funding policy provides for actuarially determined yearly contributions calculated on a level percentage of payroll costs basis. The covered payroll used by the actuary in determining the contribution was $88,934,000, and the total actual payroll was $97,254,000. The significant actuarial assumptions used to compute the actuarially determined contribution requirement are the same as those previously described.

WSSC's annual pension cost and long-term pension liability for fiscal 2007 and fiscal 2006 are (in thousands):

	2007	2006
Annual required contribution	$12,287	$11,171
Interest on long-term pension liability	2,927	2,965
Annual pension cost	15,214	14,136
Contributions made	(15,727)	(15,727)
Decrease in long-term pension liability	(513)	(1,591)
Long-term pension liability – beginning of year	40,033	41,624
Long-term pension liability – end of year	$39,520	$40,033

The difference between the amount contributed and the amount charged to operating expenses and capital assets is recorded as a reduction to the long-term pension liability. The annual required contribution for the current year was determined as part of an annual actuarial valuation.

Historical Trend Information

The historical trend information designed to provide information about the Plan's progress made in accumulating sufficient assets to pay benefits when due is presented in Schedule A.

Six-year historical trend information showing the Plan's progress is presented in the Plan's December 31, 2006 comprehensive annual financial report, which can be requested from WSSC's offices.

Retirement Restoration Plan

Effective July 1, 1995, WSSC established the Washington Suburban Sanitary Commission Employees' Retirement Restoration Plan (the Restoration Plan), a non-qualified plan. The purpose of the Restoration Plan is to restore most of the benefits foregone by participants in the WSSC Employees' Retirement Plan when such benefits are limited by the maximum benefit provisions of Section 415 of the Internal Revenue Code. During fiscal years 2007 and 2006, the Restoration Plan paid benefits totaling $52,000 and $47,000**,** respectively.

K. RETIREMENT PLAN (continued)

Post Retirement Benefits

In addition to providing pension benefits, WSSC provides certain health care and life insurance benefits for retired employees.

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 2006, substantially all of the 1,455 retired employees (or beneficiaries) are eligible for those benefits. WSSC contributes from 78% to 80% of the amount of health care insurance costs for eligible retired employees and their families. Health care benefits are expensed as insurance costs are incurred, rather than over the service life of the employee. During fiscal 2007 and 2006, WSSC expensed approximately $11,516,000 and $10,779,000, respectively, for post retirement benefits. If such costs were accrued over the lives of employees, the amount expensed on an annual basis would be substantially greater and a liability for amounts to be funded in the future for services rendered to date would need to be recorded.

Employees who retired in 1982 and after are eligible for post retirement 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. During fiscal 2007, WSSC paid premiums of $60,000 for 1,059 retirees, and, during fiscal 2006, $56,000 for 1,035 retirees. The cost of these benefits are expensed when the premiums are paid, rather than over the service life of the employee.

L. 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.

M. COMMITMENTS AND CONTINGENCIES

Construction expenditures for fiscal 2008 are not expected to exceed $282 million, a portion of which will be funded by capital contributions. Commitments in connection with this construction program approximated $108 million at June 30, 2007.

Intermunicipal agency sewage disposal expenses are accrued as incurred, based on estimates. These expenses are subject to audit by WSSC and others.

M. COMMITMENTS AND CONTINGENCIES (continued)

WSSC administers several 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. Costs of these remedial measures are estimated at $389 million and are to be expended over 12 years. The costs are included in WSSC's budget and capital improvements program. WSSC also agreed to pay civil penalties totaling $1.1 million and these costs were accrued in fiscal 2005, and paid in fiscal 2006.

During fiscal year 2006, WSSC entered into an agreement with a private utility company to purchase the water and sewer systems of a residential community, located in Maryland. WSSC purchased these systems in December 2006 for $12 million.

WSSC is involved in judicial, condemnation and administrative proceedings. These actions include personal injury, property damage and personnel 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 assets 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.

During fiscal 2007 and 2006, WSSC leased various equipment with annual rental payments of approximately $418,000 and $557,000 respectively. There are no annual commitments under long term non-cancelable operating leases as of June 30, 2007.

WASHINGTON SUBURBAN SANITARY COMMISSION **SCHEDULE A**
REQUIRED SUPPLEMENTAL INFORMATION
SCHEDULE OF HISTORICAL PENSION INFORMATION
Unaudited
(In thousands)

Actuarial Valuation Date June 30	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
2004	$549,682	$596,274	$46,592	92.2%	$89,386	52.1%
2005	572,870	616,371	43,501	92.9	88,934	48.9
2006	601,159	642,652	41,493	93.5	89,510	46.4

Fiscal Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Long-Term Pension Liability
2005	$12,104	122%	$41,624
2006	14,136	111	40,033
2007	15,214	103	39,520