Washington Suburban
Sanitary Commission

Annual Financial Report

Year Ended
June 30, 2011

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Independent Auditor's Report

To The Commissioners
of the Washington Suburban Sanitary Commission:

We have audited the accompanying balance sheets of the Washington Suburban Sanitary Commission (WSSC) as of June 30, 2011 and 2010 and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of WSSC's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of WSSC as of June 30, 2011 and 2010, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages two through nine and schedules of historical pension and other post-employment benefits information (Schedule A and Schedule B) on pages thirty-one and thirty-two are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. 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
August 30, 2011 Thompson, Cobb, Bazilio & Associates, PC

MANAGEMENT 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, 2011 and 2010. Please read it in conjunction with WSSC's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

Fiscal Year 2011

- WSSC maintained AAA bond ratings from FitchRatings, Moody's Investors Service, and Standard & Poor's.
- 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.
- A Consent Decree with the Environmental Protection Agency, the Department of Justice, the State of Maryland, and four environmental groups entered its fifth 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 $643 million and are projected to be expended over 12 years, $526 million of which is expected to be incurred after fiscal year 2011. The costs for each fiscal year are or will be included in WSSC's budget and capital improvements program.
- Operating revenues rose $47.3 million because of an increase in the amount of water delivered to the system and higher rates billed to water and sewer customers. A $7.6 million allowance for uncollectible water and sewer accounts was maintained to reflect continued uncertainty on the state of the economy and its related impact on delinquencies. Revenues generated from fees for construction of water and sewer extensions, house connections and related services recovered slightly after reductions experienced in the last two years in response to the downturn in the economy.
- Operating expenses increased $28.2 million, or 6.7%, during fiscal year 2011. Pension cost increases of $12.1 million were actuarially determined and associated with investment losses sustained in fiscal 2009. Outlays to perform evaluations and repairs of sewer basins were $3.2 million higher in 2011, while water main and valve repairs and related maintenance expenses increased $1.3 million. Claims for personal injury, property damage and personnel actions exceeded 2010 costs by $4.2 million. Increases in capital assets placed in service during the year resulted in a $3.5 million escalation in depreciation and amortization expenses.
- Capital assets (water and sewer lines, water tanks, treatment plants, pumping stations, multi-purpose facilities and other facilities), net of accumulated depreciation, increased by $191.1 million, while overall debt increased $67.3 million in comparison to the previous fiscal year.
- The increase in net assets during the year included operating income, net of non-operating expenses, of $103.3 million, and capital contributions of $36.9 million.

Fiscal Year 2010

- WSSC maintained AAA bond ratings from FitchRatings, Moody's Investors Service, and Standard & Poor's.
- 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.
- A Consent Decree with the Environmental Protection Agency, the Department of Justice, the State of Maryland, and four environmental groups entered its fourth 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 $763 million and are projected to be expended over 12 years, $673 million of which is expected to be incurred after fiscal year 2010. The costs for each fiscal year are, or will be included in WSSC's budget and capital improvements program.
- Operating revenues rose $31.6 million because of an increase in the amount of water delivered to the system and higher rates billed to water and sewer customers. The $6.9 million allowance for uncollectible water and sewer accounts was maintained to reflect continued uncertainty on the state of the economy and its related impact on delinquencies. Revenues generated from fees for construction of water and sewer extensions, house connections and related services have not improved substantially after reductions experienced last year in response to the downturn in the economy, but have stabilized.
- As a result of cost containment efforts by WSSC during the year, operating expenses are consistent with prior year totals at $422.5 million. Salaries and wages and related health care costs increased $1.6 million and $2.2 million, respectively. Outlays to perform sewer inspections, pipe cleaning and Sanitary Sewer Evaluation Surveys declined $5.0 million because of the timing of these contract awards. A 5% rise in WSSC's unit cost for electricity, coupled with a 3.9% increase in pumpage, resulted in additional costs of $1.9 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 $179.5 million, while overall debt increased $21.6 million in comparison to the previous fiscal year.
- The increase in net assets during the year included operating income, net of non-operating expenses, of $87.9 million, and capital contributions of $27.7 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
- 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. 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 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 assets.

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 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 2011

WSSC's net assets increased 4.0% to $3,677.1 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 4.0% to $4,936.4 million. Unused bond proceeds at the end of the year were $89.0 million. Investments of unused bond proceeds are restricted and classified as non-current assets. During fiscal year 2011, developers constructed $13.0 million of capital assets and donated them to WSSC. Additional information is presented in the Capital Asset and Debt Administration section of this discussion.

Total debt, including current maturities increased to $1,459.0 million. Capital contributions of $36.8 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 2010

WSSC's net assets increased 3.4% to $3,536.9 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 3.9% to $4,745.3 million. Unused bond proceeds at the end of the year were $31.3 million. Investments of unused bond proceeds are restricted and classified as non-current assets. During fiscal year 2010, developers constructed $7.6 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 $1,391.7 million. Capital contributions of $27.7 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 Net Assets
(in millions of dollars)

	FY 2011	FY 2010	FY 2009	FY 2011 % Change	FY 2010 % Change
Current and other assets	$ 428.5	$ 386.1	$ 423.4	11.0	(8.8)
Capital assets, net of accumulated depreciation	4,936.4	4,745.3	4,565.8	4.0	3.9
Total assets	5,364.9	5,131.4	4,989.2	4.6	2.9
Current and other liabilities	529.3	522.1	538.3	1.4	(3.0)
Bonds and notes payable, net of current maturities	1,158.5	1,072.4	1,029.5	8.0	4.2
Total liabilities	1,687.8	1,594.5	1,567.8	5.9	1.7
Net assets:					
Invested in capital assets, net of related debt	3,566.5	3,384.9	3,223.9	5.4	5.0
Restricted for growth construction	90.6	102.4	127.6	(11.5)	(19.7)
Unrestricted	20.0	49.6	69.9	(59.7)	(29.0)
Total net assets	$ 3,677.1	$ 3,536.9	$ 3,421.4	4.0	3.4

Changes in Net Assets

Fiscal Year 2011

WSSC's operating revenues rose $47.3 million (See Table A-2) because of an increase in the amount of water delivered to the system and higher rates billed to water and sewer customers. Revenues generated from fees for construction of water and sewer extensions, house connections and related services have recovered slightly after reductions experienced in the past two years in response to the downturn in the economy. Operating expenses increased $28.2 million, or 6.7%, during fiscal year 2011. Pension cost increases of $12.1 million were actuarially determined and associated with investment losses sustained in fiscal 2009. Outlays to perform evaluations and repairs of sewer basins were $3.2 million higher in 2011, while water main and valve repairs and related maintenance expenses increased $1.3 million. Claims for personal injury, property damage and personnel actions exceeded 2010 costs by $4.2 million. Increases in capital assets placed in service during the year resulted in a $3.5 million escalation in depreciation and amortization expenses.

The net changes in revenues and expenses during the year resulted in a 17.5% increase in income before capital contributions to $103.3 million. Capital contributions increased by 32.9% to $36.8 million, which is attributable to a recovery in new construction and the addition of capital assets constructed by developers (donated assets).

Fiscal Year 2010

WSSC's operating revenues rose $31.6 million (See Table A-2) because of an increase in the amount of water delivered to the system and higher rates billed to water and sewer customers. Revenues generated from fees for construction of water and sewer extensions, house connections and related services have not improved substantially after reductions experienced last year in response to the downturn in the economy, but have stabilized. As a result of cost containment efforts by WSSC during the year, operating expenses are consistent with prior year totals at $422.5 million. Salaries and wages and related health care costs increased $1.6 million and $2.2 million, respectively. Outlays to perform sewer inspections, pipe cleaning and Sanitary Sewer Evaluation Surveys declined $5.0 million because of the timing of these contract awards. A 5% rise in WSSC's unit cost for electricity, coupled with a 3.9% increase in pumpage, resulted in additional costs of $1.9 million.

The net changes in revenues and expenses during the year resulted in a 70.0% increase in income before capital contributions to $87.9 million. Capital contributions decreased by 54.3% to $27.7 million. The decline in new construction last year followed by limited recovery in the current year severely reduced the addition of capital assets constructed by developers (donated assets).

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

	FY 2011	FY 2010	FY 2009	FY 2011 % Change	FY 2010 % Change
Operating revenues	$ 564.6	$ 517.3	$ 485.7	9.1	6.5
Operating expenses	(450.7)	(422.5)	(422.5)	(6.7)	0.0
Non-operating revenues (expenses)	(10.6)	(6.9)	(11.5)	(53.6)	40.0
Income before contributions	103.3	87.9	51.7	17.5	70.0
Capital contributions	36.8	27.7	60.6	32.9	(54.3)
Changes in net assets	$ 140.1	$ 115.6	$ 112.3	21.2	2.9

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

Fiscal Year 2011

As of June 30, 2011, WSSC had invested $4,936.4 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 $191.1 million, or 4.0%, over fiscal year 2010.

Fiscal Year 2010

As of June 30, 2010, WSSC had invested $4,745.3 million, net of accumulated depreciation, in a broad range of capital assets including water and sewer lines, water tanks, treatment plants, pumping stations, multi-purpose facilities and other facilities. This amount represents a net increase of $179.5 million, or 3.9%, over fiscal year 2009.

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

	FY 2011	FY 2010	FY 2009	FY 2011 % Change	FY 2010 % Change
Land and rights of way	$ 78.0	$ 77.0	$ 75.7	1.3	1.7
Construction in progress	1,155.6	1,169.8	999.9	(1.2)	14.5
Water supply	1,050.4	1,019.8	1,012.5	3.0	0.7
Sewage disposal	1,237.0	1,083.0	1,070.1	14.2	1.2
General construction	1,380.0	1,367.1	1,376.4	0.9	(0.7)
Other	35.4	28.6	31.2	23.8	(8.3)
Total capital assets	$ 4,936.4	$ 4,745.3	$ 4,565.8	4.0	3.9

Capital assets completed and placed in service increased $190.5 million or 165%, in comparison to fiscal year 2010. Major additions to capital assets being depreciated during fiscal years 2011 and 2010 are illustrated in Tables A-4 and A-5, respectively.

TABLE A-4
WSSC's Additions to Capital Assets Being Depreciated
Fiscal Year 2011
(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	$ 52.0	$ 2.6	$ 3.6
House connections			38.0
Water meters			1.6
Wastewater treatment facilities		0.2	
Water storage facilities	7.7		
Wastewater pumping stations		1.7	
Multi-use facilities			0.3
Joint-use facilities		185.1	
Constructed and contributed by developers:			
House connections			2.3
Water and sewer mains			10.6
Total fiscal year 2011 additions to capital assets being depreciated	$ 59.7	$189.6	$ 56.4

TABLE A-5
WSSC's Additions to Capital Assets Being Depreciated
Fiscal Year 2010
(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	$35.2	$ 0.4	$ 3.1
House connections			21.9
Water meters			1.0
Water filtration plants	0.4		
Wastewater treatment facilities		0.1	
Water pumping stations			
Wastewater pumping stations		0.2	
Joint-use facilities		45.3	
Constructed and contributed by developers:			
House connections			1.5
Water and sewer mains		0.7	5.4
Total fiscal year 2010 additions to capital assets being depreciated	$35.6	$46.7	$32.9

Bonds and Notes Payable

Fiscal Year 2011

At the end of fiscal year 2011, bonds and notes outstanding totaled $1,459.0 million, a $67.3 million increase in comparison to the previous fiscal year.

Fiscal Year 2010

At the end of fiscal year 2010, bonds and notes outstanding totaled $1,391.7 million, a $21.6 million increase in comparison to 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 K of the financial statements.

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

	FY 2011	FY 2010	FY 2009	FY 2011 % Change	FY 2010 % Change
Water supply	$ 544.7	$ 490.3	$ 458.5	11.1	6.9
Sewage disposal	536.9	456.1	420.3	17.7	8.5
General construction	377.4	445.3	490.5	(15.2)	(9.2)
Storm water drainage	0.0	0.0	0.8	0.0	(100.0)
Total	1,459.0	1,391.7	1,370.1	4.8	1.6
Current maturities	300.5	319.3	340.6	(5.9)	(6.3)
Long-term portion	1,158.5	1,072.4	1,029.5	8.0	4.2
Total bonds and notes payable	$ 1,459.0	$ 1,391.7	$ 1,370.1	4.8	1.6

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. 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, 2011 and 2010, the calculated limits were $9,275.4 million and $9,569.3 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, 2011 AND 2010
(in thousands)

	2011	2010
ASSETS:		
Current assets:		
Cash (Note B)	$ 27,854	$ 4,418
Investments (Note B)	166,707	216,290
Receivables, net (Note C)	117,930	105,950
Prepaid expenses	302	332
Materials and supplies, at average cost	12,024	12,385
Total current assets	324,817	339,375
Non-current assets:		
Capital assets, net of accumulated depreciation (Note E)	4,936,438	4,745,317
Investments restricted for capital construction (Note B)	89,005	31,307
Note receivable (Note F)	9,613	9,652
Federal and State grants receivable	2,574	3,414
Deferred charges and other assets (Note D)	2,465	2,319
Total non-current assets	5,040,095	4,792,009
Total assets	$5,364,912	$5,131,384
LIABILITIES		
Current liabilities:		
Bonds and notes payable, current maturities (Notes J and K)	$ 300,451	$ 319,299
Accounts payable and accrued expenses	115,364	100,251
Accrued bond and note interest payable	11,349	11,416
Deposits and deferred credits	1,988	3,249
Total current liabilities	429,152	434,215
Non-current liabilities**:**		
Bonds and notes payable, current maturities (Notes J and K)	1,158,526	1,072,421
Long-term pension liability (Note L)	37,105	29,341
Other postemployment benefits (OPEB) liability (Note M)	31,682	25,120
Deposits, deferred credits and other long-term liabilities (Note I)	31,358	33,345
Total non-current liabilities	1,258,671	1,160,227
Total liabilities	1,687,823	1,594,442
COMMITMENTS AND CONTINGENCIES (Note O)		
NET ASSETS		
Invested in capital assets, net of related debt	3,566,466	3,384,904
Restricted for growth construction	90,607	102,374
Unrestricted	20,016	49,664
Total net assets	3,677,089	3,536,942
Total liabilities and net assets	$5,364,912	$5,131,384

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, 2011 AND 2010
(in thousands)

	2011	2010
OPERATING REVENUES:		
Water consumption, sewer use and service charges	$ 482,836	$ 435,255
Front foot benefit assessments	48,447	52,172
House connection charges	10,297	10,566
Other	23,007	19,291
Total operating revenues	564,587	517,284
OPERATING EXPENSES:		
Operations	91,879	88,728
Maintenance	124,573	109,578
Intermunicipal agency sewage disposal	54,994	54,385
Administrative and general	70,870	64,196
Depreciation and amortization	108,335	105,622
Total operating expenses	450,651	422,509
Net operating revenues	113,936	94,775
NON-OPERATING REVENUES (EXPENSES):		
Interest on bonds and notes payable	(52,244)	(50,199)
Capitalized interest	37,324	37,667
Prince George's County storm drain debt service reimbursement, net of refund		605
Interest income on investments	846	1,112
Other interest income	3,424	3,936
Net non-operating expenses	(10,650)	(6,879)
Income before capital contributions	103,286	87,896
Capital contributions (Note G)	36,861	27,658
Changes in net assets	140,147	115,554
Net assets, beginning of year	3,536,942	3,421,388
Net assets, end of year	$3,677,089	$3,536,942

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, 2011 AND 2010
(in thousands)

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from water and sewer customers	$ 469,225	$ 429,876
Receipts from front foot benefit assessments	50,253	54,019
Receipts from house connection charges	10,297	10,566
Receipts from other customers and miscellaneous	42,170	38,552
Payment to employees	(135,009)	(133,383)
Payment to DC Water	(47,520)	(46,055)
Payment to suppliers and others	(151,486)	(149,310)
Net cash provided by operating activities	237,930	204,265
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Proceeds from bonds and notes	240,033	264,677
Capital contributions	36,390	22,024
Prince George's County storm drain debt service reimbursement, net of refund	—	605
Bond redemptions and note repayments	(184,511)	(245,295)
Interest payments, premiums and discounts on bonds and notes	(38,099)	(44,867)
Capital asset construction	(261,464)	(239,961)
Net cash used in capital and related financing activities	(207,651)	(242,817)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from the sale of investments	725,608	820,023
Purchases of investments	(733,833)	(792,183)
Interest income received	1,382	1,485
Net cash (used in) provided by investing activities	(6,843)	29,325
Net increase (decrease) in cash	23,436	(9,227)
Cash beginning of year	4,418	13,645
Cash, end of year	$ 27,854	$ 4,418
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net operating revenues	$ 113,936	$ 94,775
Adjustments to reconcile net operating revenues to net cash provided by operating activities:		
Depreciation and amortization	117,410	113,702
Changes in assets and liabilities:		
Increase in receivables, net	(11,980)	(1,454)
Decrease in materials and supplies	361	861
Decease in deferred charges and other assets	30	85
Increase (decrease) in accounts payable and accrued liabilities	8,424	(2,790)
Decrease in deferred credits	(1,898)	(507)
Increase (decrease) in long-term pension liability	6,312	(5,830)
Increase in long-term OPEB liability	5,335	5,423
Net cash provided by operating activities	$ 237,930	$ 204,265

Noncash capital financing activities:

Capital assets of $12,957 and $7,691 were acquired through contributions from developers in 2011 and 2010, 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 deferred and amortized to operating revenue over the life of the bonds issued to finance the house connections.

Recoveries of the Prince George's County portion of the cost of storm water drainage debt service, made through annual reimbursements from the County and recorded as non-operating revenue, were paid in full in fiscal year 2010.

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. 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 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.

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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 49 years in fiscal 2011 and 2010.

Inventory

Inventory is recorded at weighted average cost.

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 K).

Annual Leave

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 2010 financial statements reflect certain reclassifications to conform with the 2011 presentation.

Net Assets

Net assets restricted for particular purposes, and assets invested in capital assets, net of related debt, are presented separately on the balance sheets.

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

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Net assets associated with unspent bond proceeds are restricted for capital projects. As of June 30, 2011 and 2010, unspent bond proceeds totaled $89,005,000, and $31,307,000, 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 2007, the GASB issued Statement No. 51, "*Accounting and Financial Reporting for Intangible Assets*." Generally, the GASB requires the capitalization of intangible assets such as computer software, and water and land rights on property that WSSC does not own. To comply with GASB No. 51, WSSC capitalized $1.0 million and $1.8 million in fiscal years 2011 and 2010, respectively, for purchased software and related development stage costs.

B. CASH AND INVESTMENTS

At June 30, 2011 and 2010, cash per WSSC's records amounted to $27,854,000 and $4,418,000, respectively, and per reported bank balances was $41,089,000 and $11,634,000, 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 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%

B. CASH AND INVESTMENTS (continued)

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, 2011 and 2010, 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, 2011 and 2010, 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, 2011 and 2010 are presented below for each investment type.

Investments at June 30, 2011 (in thousands):

Investment Type	Credit Rating	Remaining Maturity	Cost	Fair Value
Repurchase agreements	Aaa	1 year or less	$ 5,777	$ 5,777
Federal agency securities	Aaa	1 year or less	249,935	250,122
Total investments (includes $89,005 restricted for capital projects, classified as non-current)			$255,712	$255,899

Investments at June 30, 2010 (in thousands):

Investment Type	Credit Rating	Remaining Maturity	Cost	Fair Value
Repurchase agreements	Aaa	1 year or less	$ 20,539	$ 20,539
Federal agency securities	Aaa	1 year or less	227,058	227,133
Total investments (includes $31,307 restricted for capital projects, classified as non-current)			$247,597	$247,672

On August 5, 2011, Standard & Poor's downgraded the U.S. government's credit rating to AA+ and issued a negative outlook. Moody's Investor Services and Fitch Ratings maintained their AAA ratings.

B. CASH AND INVESTMENTS (continued)

WSSC records 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.

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, 2011 (in thousands)
FNMA	Federal agency securities	$129,961
FHLB	Federal agency securities	34,998
FHLMC	Federal agency securities	84,976

Issuer	Investment Type	Reported Amount at June 30, 2010 (in thousands)
FNMA	Federal agency securities	$222,058

C. RECEIVABLES

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

	2011	2010
Front foot benefit assessments accrued and billed	$ 28,908	$ 31,214
Water and sewer services unbilled	45,567	42,252
Water and sewer services billed	43,263	34,106
Services billed to others and miscellaneous	10,233	8,345
	127,971	115,917
Less allowance for doubtful accounts	(10,041)	(9,967)
Total receivables, net	$117,930	$105,950

D. DEFERRED CHARGES AND OTHER ASSETS

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

	2011	2010
Unamortized issuance cost of refunding bonds	$ 2,465	$ 2,319
Total	$ 2,465	$ 2,319

E. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2011 was as follows (in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land and rights of way	$ 77,024	$ 1,006	$ (17)	$ 78,013
Construction in progress	1,169,778	250,761	(264,941)	1,155,598
Total capital assets not being depreciated	1,246,802	251,767	(264,958)	1,233,611
Capital assets being depreciated:				
Water supply	1,495,281	59,737	(208)	1,554,810
Sewage disposal	1,739,227	189,607	(79)	1,928,755
General construction	2,267,510	56,398	(792)	2,323,116
Other	101,789	16,183	(2,634)	115,338
Total capital assets being depreciated	5,603,807	321,925	(3,713)	5,922,019
Less accumulated depreciation for:				
Water supply	(475,528)	(28,850)	3	(504,375)
Sewage disposal	(656,209)	(35,908)	342	(691,775)
General construction	(900,415)	(43,311)	584	(943,142)
Other	(73,140)	(9,074)	2,314	(79,900)
Total accumulated depreciation	(2,105,292)	(117,143)	3,243	(2,219,192)
Capital assets being depreciated, net	3,498,515	204,782	(470)	3,702,827
Total capital assets, net	$4,745,317	$ 456,549	$(265,428)	$4,936,438

Purchased software and related development stage costs of $0.9 million and $1.8 million were capitalized in accordance with GASB Statement No. 51, *"Accounting and Financial Reporting for Intangible Assets"* in fiscal years 2011 and 2010, respectively. Costs of $1.2 million are included in the Construction in Progress balance above and will commence amortization upon implementation of the software. The remaining $1.5 million was placed in service in fiscal 2011 and is included in Other Capital Assets.

E. CAPITAL ASSETS (continued)

Capital asset activity for the year ended June 30, 2010 was as follows (in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land and rights of way	$ 75,678	$ 1,347	$ (1)	$ 77,024
Construction in progress	999,963	256,095	(86,280)	1,169,778
Total capital assets not being depreciated	1,075,641	257,442	(86,281)	1,246,802
Capital assets being depreciated:				
Water supply	1,459,741	35,633	(93)	1,495,281
Sewage disposal	1,692,556	46,671	—	1,739,227
General construction	2,235,251	32,953	(694)	2,267,510
Other	99,202	5,783	(3,196)	101,789
Total capital assets being depreciated	5,486,750	121,040	(3,983)	5,603,807
Less accumulated depreciation for:				
Water supply	(447,250)	(28,370)	92	(475,528)
Sewage disposal	(622,458)	(33,751)	—	(656,209)
General construction	(858,872)	(42,215)	672	(900,415)
Other	(68,030)	(8,080)	2,970	(73,140)
Total accumulated depreciation	(1,996,610)	(112,416)	3,734	(2,105,292)
Capital assets being depreciated, net	3,490,140	8,624	(249)	3,498,515
Total capital assets, net	$4,565,781	$266,066	$(86,530)	$4,745,317

Purchased software and related development stage costs of $1.8 million were capitalized in accordance with GASB Statement No. 51, "*Accounting and Financial Reporting for Intangible Assets*" in fiscal 2011. These costs are included in the Construction in Progress balance above and will commence amortization upon implementation of the software.

F. 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, 2011 and 2010, the balance of this Note Receivable was $9.6 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.

F. NOTE RECEIVABLE (continued)

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.

G. CAPITAL CONTRIBUTIONS

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

	2011	2010
System development charges	$ 15,475	$ 13,496
Developer fees	5,168	5,428
Federal and State grants	3,261	1,105
House connections	2,301	1,478
Other construction projects	10,656	6,151
Total	$ 36,861	$ 27,658

H. COMPENSATED ABSENCE LIABILITY

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

	2011	2010
Compensated absence liability – beginning of year	$ 10,812	$ 10,500
Increases (incurred)	7,826	7,900
Decreases	(7,826)	(7,588)
Compensated absence liability – end of year	$ 10,812	$ 10,812

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

I. 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):

	2011	2010
Deferred revenue for house connections	$ 21,042	$ 21,819
Deferred front foot benefit revenue	2,187	2,689
Construction deposits	2,597	3,948
House connection deposits	3,880	3,467
Other	1,652	1,422
Total	$ 31,358	$ 33,345

J. BONDS AND NOTES PAYABLE

Bonds and notes payable activity for the year ended June 30, 2011 was as follows (in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance	Current Maturities
Bonds and notes payable:					
Water supply	$ 479,868	$100,000	$ (50,177)	$ 529,691	$ 112,014
Sewage disposal	446,787	120,033	(45,124)	521,696	116,416
General construction	444,443	20,000	(89,210)	375,233	72,021
Storm water drainage	–	–	–	–	–
	1,371,098	240,033	(184,511)	1,426,620	300,451
Plus deferred amount	20,622	15,175	(3,440)	32,357	–
Total bonds and notes payable	$1,391,720	$255,208	$(187,951)	$1,458,977	$ 300,451

Bonds and notes payable activity for the year ended June 30, 2010 was as follows (in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance	Current Maturities
Bonds and notes payable:					
Water supply	$ 449,084	$109,375	$ (78,591)	$ 479,868	$ 114,677
Sewage disposal	412,119	122,848	(88,180)	446,787	119,016
General construction	489,769	31,935	(77,261)	444,443	85,606
Storm water drainage	745	–	(745)	–	–
	1,351,717	264,158	(244,777)	1,371,098	319,299
Plus deferred amount	18,410	4,633	(2,421)	20,622	–
Total bonds and notes payable	$1,370,127	$268,791	$(247,198)	$1,391,720	$ 319,299

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

Bonds payable accrue interest at rates ranging from 1.0% to 6.0%, with an effective interest rate of 4.23% at June 30, 2011. All bonds payable at June 30, 2011, exclusive of refunded bonds, are due serially through the year 2030. Generally, the bonds are callable at a premium after a specified number of years.

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. The subsidy is payable over the life of the issue, details of which are illustrated below.

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. The subsidy is payable over the life of the issue, details of which are illustrated below.

J. BONDS AND NOTES PAYABLE (continued)

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
2012	$300,015	$ 59,580	$ (3,279)
2013	116,615	53,770	(3,279)
2014	109,486	48,278	(3,279)
2015	94,579	45,953	(3,279)
2016	84,816	41,133	(3,279)

Bond and note maturities and interest thereon, including Taxable Build America Bond subsidies, in five-year increments for fiscal years after 2016 are as follows (in thousands):

Year ended June 30	Principal Maturities	Interest Requirements	Build America Bond Subsidies
2017-2021	$368,552	$143,898	$(16,259)
2022-2026	249,919	63,273	(11,199)
2027-2031	101,496	10,932	(2,951)
2032-2035	1,142	127	

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 0.13% to 0.33% during fiscal 2011, and from 0.10% to 0.48% during fiscal 2010. 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 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. WSSC did not issue any Bond Anticipation Notes in 2011. 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, 2011 and 2010, $173.4 million and $185.3 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 $173.4 million has been included in current maturities (fiscal 2012 principal maturities), and an estimated $6.9 million has been included in the fiscal 2012 interest requirements. Additional estimated interest requirements at prevailing rates through 2029 on these Notes, assuming future redemption from proceeds of bonds, would total $65.8 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, 2011 and 2010, WSSC borrowed $148.4 million from the program. The total principal balance outstanding as of June 30, 2011 and 2010 was $71.0 million and $78.6 million, respectively.

J. BONDS AND NOTES PAYABLE (continued)

WSSC is in compliance with all terms of its debt agreements at June 30, 2011.

K. BOND REFUNDINGS

In November 2009, WSSC sold $83,965,000 of refunding bonds with interest rates ranging from 2.00% to 5.00% to advance refund $79,730,000 of outstanding callable water supply, sewage disposal and general construction bonds with interest rates of 5.00%. The net proceeds of $92,228,000 (including a premium of $8,622,000 and after payment of $150,000 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 November 2009 refunding reduced WSSC's total debt service payments over the next 20 years by $1,387,000 and provided an economic gain of $1,391,000.

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 bonds were refunded in fiscal year 2011.

In prior years, WSSC sold refunding bonds totalling $3,138,660,000 for the purpose of refunding and defeasing $3,014,475,000 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). 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 2029 using the proportionate-to-stated interest method. Amortization totaling $4,374,000 and $5,265,000, in fiscal 2011 and 2010, respectively, was recorded as interest on bonds and notes payable in the accompanying statements of revenues, expenses and changes in net assets.

K. BOND REFUNDINGS (continued)

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
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	73,375	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, 2011 and 2010, which amounted to $79,730,000 and $160,090,000, respectively, are considered to be defeased and are not reflected in the accompanying financial statements.

L. 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.

L. RETIREMENT PLAN (continued)

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.

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, 2011 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 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 assumed forward ten years for disability retirement pensioners.
Retirement age assumptions	Ranging from age 45 to 69

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 $110,029,000, and the total actual payroll was $108,627,000. The significant actuarial assumptions used to compute the actuarially determined contribution requirement are the same as those previously described.

L. RETIREMENT PLAN (continued)

WSSC's annual pension cost and long-term pension liability for fiscal years 2011 and 2010 were (in thousands):

	2011	2010
Annual required contribution	$21,771	$ 6,757
Interest on long-term pension liability	2,749	2,174
Annual pension cost	24,520	8,931
Contributions made	(16,756)	(16,016)
Increase(decrease) in long-term pension liability	7,764	(7,085)
Long-term pension liability – beginning of year	29,341	36,426
Long-term pension liability – end of year	$37,105	$29,341

The difference between the amount contributed and the amount charged to operating expenses and capital assets is recorded as a change 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, 2010 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 2011 and 2010, the Restoration Plan paid benefits totaling $49,000 and $45,000, respectively.

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 2009 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 2011, substantially all of WSSC's retired employees (or beneficiaries) are eligible for those benefits. WSSC contributes up to 80% of the amount of health care insurance costs for eligible retired employees and their families.

M. OTHER POSTEMPLOYMENT BENEFITS (OPEB) (continued)

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.

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 2011, WSSC contributed $14.7 million to the Trust, including $8.7 million for current claims and/or premiums (approximately 76 percent of total claims and/or premiums) and an additional $6 million to fund benefits. Retirees receiving benefits contributed $3.1 million or approximately 24% of the total claims and/or premiums, through their required contributions.

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 2011 and 2010 were (in thousands):

	2011	2010
Annual required contribution	$19,413	$21,337
Interest on long-term OPEB liability	1,884	1,396
Adjustment to annual required contribution	—	(1,466)
Annual OPEB cost	21,297	21,267
Phase-in funding	(6,000)	(5,000)
Benefits paid	(8,735)	(9,675)
Increase in long-term OPEB liability	6,562	6,592
Long-term OPEB liability – beginning of Year	25,120	18,528
Long-term OPEB liability – end of year	$31,682	$25,120

WSSC's annual OPEB cost, the percentage of annual OPEB cost contributed and the long-term OPEB liability for fiscal years 2011 and 2010 were (in thousands):

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Long-term OPEB Liability
6/30/2011	$21,297	67.0%	$31,682
6/30/2010	$21,267	69.0%	$25,120

M. OTHER POSTEMPLOYMENT BENEFITS (OPEB) (continued)

Funded Status and Funding Progress

As of June 30, 2011, the most recent actuarial valuation date, the plan was 5.2% funded. The actuarial accrued liability for benefits at June 30, 2011 was $218.1 million, and with assets of $11.3 million, the resulting unfunded actuarial liability (UAAL) was $206.8 million. The covered payroll (annual payroll of active employees covered by the OPEB Plan) was $112.6 million, and the ratio of the UAAL to the covered payroll was 183.7%.

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.

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, the company had 1,220 retired employees and 1,441 active employees who participated in health plans, excluding spouses and dependents. Life insurance plan participation is 1,449 and 1,441 for retirees and active employees, respectively. The average age is 67.57 and 47.00 for retirees and active employees, respectively.

M. OTHER POSTEMPLOYMENT BENEFITS (OPEB) (continued)

Actuarial assumptions used in the most recent valuation, as of June 30, 2011, are as follows:

Actuarial cost method	Projected unit credit cost method.
Discount rate	7.5%
Yearly increase in medical/prescription costs	Medical claims and retiree premiums will increase at an annual trend rate of 10.0% pre-65 and 7.5% post-65 for 2011, grading down to an ultimate rate of 5.5% in 2017 for pre-65 and 5.5% in 2014 for post-65.
Mortality rates after retirement	Retirement Plan–2000 Combined Health Mortality Table for non-disability retirees 1983 Group Annuity Mortality Table (Corrected) set forward 10 years for Males/Females for disability retirees.
Retirement age assumptions	Ranging from 45 to 69
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 2012 are not expected to exceed $566 million, a portion of which will be funded by capital contributions. Commitments in connection with this construction program approximated $138 million at June 30, 2011.

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

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

O. COMMITMENTS AND CONTINGENCIES (continued)

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 $643 million and are to be expended over 12 years, $526 million of which is expected to be incurred after fiscal year 2011. The costs are included in WSSC's budget and capital improvements program. WSSC also agreed to pay civil penalties totaling $1.1 million. These costs were accrued in fiscal 2005, and paid in fiscal 2006.

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.

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

	2011	2010
Claim liability - beginning of year	$12,224	$14,018
Current year claims and changes in estimates	10,122	2,695
Claim payments	(3,830)	(4,489)
Claim liability - end of year	$18,516	$12,224

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

During fiscal 2011 and 2010, WSSC leased a variety of equipment with annual rental payments of approximately $382,000 and $303,000, respectively. There are no annual commitments under long-term non-cancelable operating leases as of June 30, 2011.

WASHINGTON SUBURBAN SANITARY COMMISSION **SCHEDULE A**

REQUIRED SUPPLEMENTAL INFORMATION

SCHEDULE OF HISTORICAL OTHER PENSION INFORMATION

Unaudited

(In thousands)

Actuarial Valuation Date June 30	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
2008	$727,310	$769,488	$42,178	94.5%	$102,652	41.1%
2009	619,402	655,825	36,423	94.4	108,583	33.5
2010	672,657	701,999	29,342	95.8	110,029	26.7

Fiscal Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Long-Term Pension Liability
2009	$10,512	150%	$36,426
2010	8,931	179	29,341
2011	24,520	68	37,105

See independent auditors’ report.

WASHINGTON SUBURBAN SANITARY COMMISSION **SCHEDULE B**

REQUIRED SUPPLEMENTAL INFORMATION

SCHEDULE OF HISTORICAL OTHER POSTEMPLOYMENT BENEFITS (OPEB) INFORMATION

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
2008*	$1,861	$237,715	$235,854	0.78%	$103,152	228.6%
2009	5,071	208,729	203,658	2.43	109,377	186.2
2010	11,308	218,145	206,837	5.18	112,609	183.7

Fiscal Year Ended June 30	Annual OPEB Cost	Percentage of OPEB Contributed	Long-term OPEB Liability
2009	$22,853	60.5%	$18,528
2010	21,267	69.0	25,120
2011	21,297	69.0	36,182

See independent auditors' report.

*Estimates rolled forward from the 2007 actuarial study.