



# 2021

FOR THE YEAR ENDED JUNE 30

# Annual Financial Report



## INDEPENDENT AUDITORS' REPORT

Commissioners of the  
Washington Suburban Sanitary Commission  
Laurel, Maryland

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the business-type activities as of and for the years ended June 30, 2021 and 2020 and the aggregate remaining fund information as of and for the years ended December 31, 2020 and 2019 of the Washington Suburban Sanitary Commission (the Commission) and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditors' Responsibility***

Our responsibility is to express opinions 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

**Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business type activities of the Commission as of June 30, 2021 and June 30, 2020 and the aggregate remaining fund information as of December 31, 2020 and December 31, 2019 and the respective changes in financial positions and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matters**

*Required Supplementary Information*

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

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated October 27, 2021, on our consideration of the Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Commission's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Commission's internal control over financial reporting and compliance.



**CliftonLarsonAllen LLP**

Baltimore, Maryland  
October 27, 2021

**WASHINGTON SUBURBAN SANITARY COMMISSION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEARS ENDED JUNE 30, 2021 AND 2020  
(Unaudited)**

This section of the Washington Suburban Sanitary Commission (WSSC Water) annual financial report presents our discussion and analysis of WSSC Water's financial performance for the fiscal years ended June 30, 2021 and 2020.

**FINANCIAL HIGHLIGHTS**

***Fiscal Year 2021***

- WSSC Water maintained AAA bond ratings from Fitch Ratings, Moody's Investors Service, and S&P Global.
- In September 2020, WSSC Water issued \$325.9 million of Consolidated Public Improvement Bonds to fund new construction, rehabilitation and replacement of water and sewer infrastructure. \$47.5 million of this issue is green bond which allows investors to invest directly in environmentally beneficial projects (Green Projects). Green Bonds were rated E1/80 by S&P Global.
- WSSC Water's operating revenues decreased \$0.2 million in comparison with fiscal year 2020, due to the impact of COVID-19 on customers' consumption of water and usage of sewerage services and the need to increase reserves for the uncollected and aged receivable balance. In addition, front foot benefit assessments continue to decline.
- Operating expenses increased \$9.0 million, or 1.3%, during fiscal year 2021. Details are provided in the Financial Analysis summary.
- Non-operating expenses decreased \$41.9 million, or 43.2%, in comparison to fiscal year 2020. Details are provided in the Financial Analysis summary.
- The \$49.1 million increase in net position during the year included net loss of \$10.0 million, and capital contributions of \$59.1 million.

***Fiscal Year 2020***

- WSSC Water maintained AAA bond ratings from Fitch Ratings, Moody's Investors Service, and S&P Global.
- In December 2019, WSSC Water issued for the first time \$53.9 million of Consolidated Public Improvement Bonds to allow investors to invest directly in bonds which finance environmentally beneficial projects (Green Projects). Green Bonds were rated E1/80 by S&P Global.
- WSSC Water's operating revenues increased \$7.0 million, or 0.9% in comparison to fiscal year 2019. The increase of \$11.6 million in Water & Sewer and other miscellaneous revenues was offset by the continuous decline of front foot benefit assessments and house connection charges of \$4.7 million.
- Operating expenses increased \$50.3 million, or 7.8%, in comparison to fiscal year 2019.
- Non-operating expenses increased \$54.8 million, or 129.6%, in comparison to fiscal year 2019.
- Capital assets (water and sewer lines, water tanks, treatment plants, pumping stations, multi-purpose facilities and other facilities), net of accumulated depreciation, increased by \$199.8 million, while overall debt increased \$100.5 million in comparison to the previous fiscal year.
- The \$23.8 million increase in net position during the year included net loss of \$42.7 million, and capital contributions of \$66.5 million.

## OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

The statements of cash flows present WSSC Water'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.

Pension and OPEB statements of fiduciary net position provide a snapshot of the combined financial position for WSSC Water's Retirement Plan and Retiree Other Post-Employment Benefits Plan at December 31 of the two comparative calendar years, the Plans' fiscal year end. The statements present the Plans' assets, liabilities, and net position.

Pension and OPEB statements of changes in the fiduciary net position reflect combined activities for the comparative calendar years for both Plans. The statements present the additions into and deductions from the Plans as well as the Plans' net position changes.

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

WSSC Water 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 Water's financial statements are presented using the accrual basis of accounting and the economic resources measurement focus. All assets and liabilities are included in the financial statements. Revenue is recognized when water or other services are delivered. Expenses are recognized when goods and services are received. All revenues and expenses are recognized regardless of when cash is received or paid.

## FINANCIAL ANALYSIS

### Net Position

#### *Fiscal Year 2021*

WSSC Water's net position increased by \$49.1 million or 1.0% to \$4,956.9 million (See Table A-1). The increase was due to a \$15.0 million increase in capital restricted for growth and a \$40.6 million decrease in the negative unrestricted capital. Net investment in capital assets remained fairly flat with a slight decrease of \$6.4 million or .1%. Although unrestricted capital in net position are a negative \$36.7 and \$77.3 million at June 30, 2021 and 2020, without the impact of pension and OPEB, they would have been \$205.9 million compared with \$190.9 million respectively. Capital assets, net of accumulated

depreciation, increased 2.4% to \$8,851.0 million. Current and other assets increased by \$31.7 million or 7.5%, primarily due to a \$39.9 million increase in cash and investments. Unused bond proceeds at the end of the year were \$114.3 million. During fiscal year 2021, developers constructed \$17.4 million of capital assets and donated them to WSSC Water. Additional information is presented in the Capital Asset and Debt Administration section of this discussion.

Total debt excluding current maturities increased to \$3,550.9 million or 6.5%. Current and other liabilities decreased \$10.3 million or 1.3%. Current maturities of debt increased by \$.7 million to \$338.2 million. Capital contributions of \$41.5 (net of donated capital assets) million were available to finance capital projects during the year. These funding sources reduced the amount of bonds WSSC Water needed to sell for construction of water and sewer projects. A more detailed description of WSSC Water's debt can be found in Notes I and J of the financial statements.

***Fiscal Year 2020***

WSSC Water's net position increased 0.5% to \$4,907.7 million (See Table A-1). The increase in net investment in capital is partially offset by the decrease in unrestricted capital. Capital assets, net of accumulated depreciation, increased 2.4% to \$8,646.6 million. Unused bond proceeds at the end of the year were \$100.4 million. During fiscal year 2020, developers constructed \$31.8 million of capital assets and donated them to WSSC Water. Additional information is presented in the Capital Asset and Debt Administration section of this discussion.

Total debt, including current maturities increased to \$3,670.5 million. Capital contributions of \$34.7 (net of donated capital assets) million were available to finance capital projects during the year. These funding sources reduced the amount of bonds WSSC Water needed to sell for construction of water and sewer projects. A more detailed description of WSSC Water's debt can be found in Notes I and J of the financial statements.

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

|  | <b>FY 2021</b>    | <b>FY 2020</b>    | <b>FY 2019</b>    | <b>FY 2021</b><br><b>% Change</b> | <b>FY 2020</b><br><b>% Change</b> |
|--|-------------------|-------------------|-------------------|-----------------------------------|-----------------------------------|
| Current and other assets                           | \$ 455.1          | \$ 423.4          | \$ 500.6          | 7.5                               | (15.4)                            |
| Capital assets, net of accumulated depreciation    | 8,851.0           | 8,646.6           | 8,446.8           | 2.4                               | 2.4                               |
| <b>Total assets</b>                                | <b>9,306.1</b>    | <b>9,070.0</b>    | <b>8,947.4</b>    | <b>2.6</b>                        | <b>1.4</b>                        |
| <b>Total deferred outflows of resources</b>        | <b>47.7</b>       | <b>22.3</b>       | <b>96.0</b>       | <b>113.9</b>                      | <b>(76.8)</b>                     |
| Current and other liabilities                      | 772.1             | 782.4             | 902.7             | (1.3)                             | (13.3)                            |
| Bonds and notes payable, net of current maturities | 3,550.9           | 3,333.0           | 3,236.3           | 6.5                               | 3.0                               |
| <b>Total liabilities</b>                           | <b>4,323.0</b>    | <b>4,115.4</b>    | <b>4,139.0</b>    | <b>5.0</b>                        | <b>(0.6)</b>                      |
| <b>Total deferred inflows of resources</b>         | <b>73.9</b>       | <b>69.2</b>       | <b>20.4</b>       | <b>6.8</b>                        | <b>239.2</b>                      |
| Net position:                                      |                   |                   |                   |                                   |                                   |
| Net investment in capital assets                   | 4,964.9           | 4,971.3           | 4,942.5           | (0.1)                             | 0.6                               |
| Restricted for growth construction                 | 28.7              | 13.7              | 9.8               | 109.5                             | 39.8                              |
| Unrestricted                                       | (36.7)            | (77.3)            | (68.3)            | 52.5                              | 13.2                              |
| <b>Total net position</b>                          | <b>\$ 4,956.9</b> | <b>\$ 4,907.7</b> | <b>\$ 4,884.0</b> | <b>1.0</b>                        | <b>0.5</b>                        |

**Changes in Net Position**

***Fiscal Year 2021***

- WSSC Water’s operating revenues decreased \$0.2 million in comparison with fiscal year 2020 (see Table A-2). In spite of the rate increase, water and sewer consumption revenue only increased by \$3.9 million in fiscal year 2021 largely due to the COVID-19 pandemic. Operating revenue was reduced by a \$29.3 million increase to the reserve for uncollected aged accounts receivable. This increase to the reserve was \$18.9 million higher than the fiscal year 2020 adjustment. Annual front foot benefit assessments continued to decline, by another \$2.1 million. Front foot benefit extensions and related house connections have been built primarily by outside developers since 1993. Assessments for construction by WSSC Water prior to that time are collected over the remaining term of the debt utilized to finance the construction. Water, Sewer and Other revenues were impacted by the following:
  - Water and sewer rates were increased in FY21.
  - Consumption on commercial and governmental accounts decreased due to COVID-19 closures and subsequently to the continued telework environment resulting in less on-site consumption at the highest billed rate.
  - Water and sewer accounts receivable balance increased by \$14.0 million, of which \$12.1 million is from billed receivables, as of June 30, 2021 compared with June 30, 2020 due to the moratorium on late fees and water turn offs. However, the aged receivable balance reserve was increased to \$41.7 million at the end of fiscal year 2021. As a result, the reserve balance was increased by \$29.3 million in total in fiscal year 2021, compared with the reserve increase of \$10.4 million in fiscal year 2020.
  - Actual sewer revenue in FY21 was below budget. Future budgets for sewer revenue will be adjusted.
  - Not assessing late payment charges and less bay restoration administration fees resulted in a revenue loss of \$3.4 million and \$0.6 million, respectively, in fiscal year 2021. These losses were partially offset by \$2.5 million plumbing and cross connection revenue increases.
  
- Operating expenses increased \$9.0 million, or 1.3%, during fiscal year 2021.
  - The net of current year billing and prior year adjustments of intermunicipal agency sewage disposal costs related to the Blue Plains facility decreased by \$1.2 million in fiscal year 2021.
  - Salary and fringe increased by \$5.8 million, \$3.8 million of which is for insurance due to less pharmacy rebates and an increase in healthcare cost and workers’ compensation adjustments.
  - Material expense increased by \$1.5 million due to more corrective maintenance and meter replacements.
  - Professional and contractual services (net of a non-capitalizable power reliability study and less spending on consultant inspection and computer system development) decreased by \$12.9 million.
  - Contract services and restoration work (net of decreased spending on sewer reconditioning and manhole rehabilitation services, less reclassification of non-capitalizable construction costs, and increased spending on paving) decreased by \$15.5 million.
  - Increase of depreciation and amortization and exclusion of the lower loss on disposal of assets from operating expenses in FY21 contributed to an additional \$29.7 million cost increase.
  - Other accruals and adjustments increased by \$1.5 million.
  
- Non-operating expenses decreased \$41.9 million, or 43.2%, in comparison to fiscal year 2020.
  - Interest expense on bond and notes payable net of capitalized interest increased by \$14.2 million.
  - Loss on disposal decreased by \$12.9 million compared with FY20. Fiscal year 2021 loss on disposal is primarily due to abandonments from the Richard G. Hocervar headquarter building, Rocky Gorge Pumping Station, Piscataway Clarifier and Bio Energy Phase 1 projects.

- Adjustments for deferred earnings and experiences for pension and OPEB, as determined by the actuaries, increased non-operating revenue in FY21. Conversely, they increased non-operating expenses in FY20. This results in a net variance of \$45.8 million.
- Interest income decreased by \$2.4 million.

The net changes in revenues and expenses during the year resulted in net loss of \$10.0 million before capital contributions. Capital contributions decreased by 11.1% to \$59.1 million. Grant revenue increased \$2.8 million. Donated assets, constructed and contributed by developers were down \$14.4 million in comparison to the prior fiscal year.

### ***Fiscal Year 2020***

- WSSC Water’s operating revenues increased \$7.0 million or 0.9% in comparison with 2019 (see Table A-2). The increase of \$11.6 million in Water & Sewer and other miscellaneous revenues was offset by the continuous decline of front foot benefit assessments and house connection charges of \$4.7 million. Front foot benefit extensions and related house connections have been built primarily by outside developers since 1993. Assessments for construction by WSSC Water prior to that time are collected over the remaining term of the debt utilized to finance the construction. Water and sewer revenues were impacted by the following:
  - Water and sewer rates were increased in FY20.
  - Consumption on commercial and governmental accounts decreased about 15% due to COVID19. The year-end unbilled calculation for those accounts were also adjusted down accordingly.
  - Water and sewer accounts receivable balance increased 50% as of June 30, 2020 compared with June 30, 2019 due to a temporary collection policy change. As a result, the reserve balance was increased by \$10.4 million at the end of fiscal year 2020 while it was decreased by \$0.3 million a year earlier.
  - Actual sewer revenue in FY20 was below budget. Future budgets for sewer revenue will be adjusted.
- Operating expenses increased \$50.3 million, or 7.8%, during fiscal year 2020.
  - Net increase of intermunicipal agency sewage disposal costs related to the Blue Plains facility is \$11.1 million. Settlement adjustments in 2020 resulted in additional costs of \$7.7 million. Conversely, settlement adjustments in 2019 resulted in reductions of \$7.3 million. The total \$15 million increase in settlement adjustments was reduced by a decrease of O&M payments in FY20 and other prior year adjustments of \$3.9 million.
  - Merits, COLAs, additional hiring of staff and less leave use resulted in a \$5.9 million increase in salaries and accrued leave.
  - Professional and contractual services (IT and A&E projects, biosolid hauling and storage design, Billing & Revenue Division’s expense and bond sale expense) increased \$16.5 million.
  - Contract services and restoration work (Consent Decree, manhole rehabilitation, Brighton Dam upgrade and paving) increased \$12.4 million.
  - Claims expenses and accruals increased \$5.7 million.
  - Heat, light and power decreased \$3.9 million.
- Non-operating expenses increased \$54.8 million, or 129.3%, in comparison to fiscal year 2019.
  - Interest expense on bond and notes payable increased \$4.4 million.
  - Loss on disposal increase of \$19.3 million was mainly the result of WAM project write-off and abandonments for the Broadcreek Augmentation project.
  - Adjustments for deferred earnings for pension and OPEB, as determined by the actuaries, increased non-operating expenses in FY20. Conversely, they increased non-operating revenue in FY19. This results in a net variance of \$23.4 million.
  - \$9.5 million resulted from investment income decrease.

The net changes in revenues and expenses during the year resulted in net loss of \$42.7 million before capital contributions. Capital contributions decreased by 21.1% to \$66.5 million. Grant revenue increased \$0.6 million. Donated assets, constructed and contributed by developers were down \$19.5 million in comparison to the prior fiscal year.

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

|  | <b>FY 2021</b> | <b>FY 2020</b> | <b>FY 2019</b>  | <b>FY 2021</b><br><b>% Change</b> | <b>FY 2020</b><br><b>% Change</b> |
|--|----------------|----------------|-----------------|-----------------------------------|-----------------------------------|
| Operating revenues                         | \$ 749.6       | \$ 749.8       | \$ 742.8        | (0.0)                             | 0.9                               |
| Operating expenses                         | (704.4)        | (695.4)        | (645.1)         | 1.3                               | 7.8                               |
| Net non-operating revenues (expenses)      | (55.2)         | (97.1)         | (42.3)          | (43.2)                            | 129.6                             |
| <b>Income before capital contributions</b> | <b>(10.0)</b>  | <b>(42.7)</b>  | <b>55.4</b>     | <b>(76.6)</b>                     | <b>(177.1)</b>                    |
| Capital contributions                      | 59.1           | 66.5           | 84.3            | (11.1)                            | (21.1)                            |
| <b>Changes in net position</b>             | <b>\$ 49.1</b> | <b>\$ 23.8</b> | <b>\$ 139.7</b> | <b>106.3</b>                      | <b>(83.0)</b>                     |

## CAPITAL ASSETS, CONSENT DECREE, AND DEBT ADMINISTRATION

### Capital Assets

#### *Fiscal Year 2021*

As of June 30, 2021, WSSC Water had invested \$8,851.1 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 \$204.5 million, or 2.4%, over fiscal year 2020.

#### *Fiscal Year 2020*

As of June 30, 2020, WSSC Water had invested \$8,646.6 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 \$199.8 million, or 2.4%, over fiscal year 2020.

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

|                             | <b>FY 2021</b>    | <b>FY 2020</b>    | <b>FY 2019</b>    | <b>FY 2021</b>  | <b>FY 2020</b>  |
|-----------------------------|-------------------|-------------------|-------------------|-----------------|-----------------|
|                             |                   |                   |                   | <b>% Change</b> | <b>% Change</b> |
| Land and rights of way      | \$ 135.8          | \$ 132.7          | \$ 129.4          | 2.3             | 2.6             |
| Construction in progress    | 1,206.6           | 1,372.7           | 1,462.4           | (12.1)          | (6.1)           |
| Water supply                | 2,769.0           | 2,597.3           | 2,393.3           | 6.6             | 8.5             |
| Sewage disposal             | 2,117.6           | 1,994.0           | 1,906.5           | 6.2             | 4.6             |
| General construction        | 1,362.8           | 1,370.8           | 1,388.5           | (0.6)           | (1.3)           |
| Intangible assets           | 1,243.6           | 1,153.2           | 1,135.4           | 7.8             | 1.6             |
| Other                       | 15.7              | 25.9              | 31.3              | (39.4)          | (17.3)          |
| <b>Total capital assets</b> | <b>\$ 8,851.1</b> | <b>\$ 8,646.6</b> | <b>\$ 8,446.8</b> | <b>2.4</b>      | <b>2.4</b>      |

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

### **Bonds and Notes Payable**

#### ***Fiscal Year 2021***

At the end of fiscal year 2021, bonds and notes outstanding totaled \$3,889.1 million, a \$218.6 million increase in comparison to the previous fiscal year.

- In September 2020, WSSC Water issued \$325.9 million of Consolidated Public Improvement Bonds to fund new construction, rehabilitation and replacement of water and sewer infrastructure. \$47.5 million of this issue is green bond which allows investors to invest directly in environmentally beneficial projects (Green Projects). Green Bonds were rated E1/80 by S&P Global.

#### ***Fiscal Year 2020***

At the end of fiscal year 2020, bonds and notes outstanding totaled \$3,670.5 million, a \$100.5 million increase in comparison to the previous fiscal year.

- In December 2019, WSSC Water issued \$233.6 million of Consolidated Public Improvement Bonds to fund new construction, rehabilitation and replacement of general and water infrastructure construction. Included in this issue was \$53.9 million of Consolidated Public Improvement Bonds (first Green Bond series) to allow investors to invest directly in bonds which finance environmentally beneficial projects (Green Projects). Green Bonds were rated E1/80 by S&P Global.
- In February 2020, WSSC Water sold \$99.2 million of refunding bonds with interest rate of 5.00% to refund \$120.0 million of outstanding callable water supply, sewage disposal and general construction bonds with interest rates ranging from 3.55% to 4.85%. The net proceeds of \$122.1 million (including a premium of \$23.2 million) were used to purchase selected open market securities. Those securities were deposited with an escrow agent to provide for all future debt service payments and the early redemption of callable bonds. The February 2020 refunding will reduce WSSC Water's total debt service payments over the next 11 years by \$13.4 million and provide an economic gain of \$12.7 million.
- On June 1, 2020, the September 2010 Build America Bonds (Series B) were defeased and redeemed.

**TABLE A-4**  
**WSSC's Bonds and Notes Payable**  
**(in millions of dollars)**

|                                      | <b>FY 2021</b>    | <b>FY 2020</b>    | <b>FY 2019</b>    | <b>FY 2021</b><br><b>% Change</b> | <b>FY 2020</b><br><b>% Change</b> |
|--------------------------------------|-------------------|-------------------|-------------------|-----------------------------------|-----------------------------------|
| Water supply                         | \$ 1,745.3        | \$ 1,601.0        | \$ 1,438.8        | 9.0                               | 11.3                              |
| Sewage disposal                      | 1,979.4           | 1,898.6           | 1,956.7           | 4.3                               | (3.0)                             |
| General construction                 | 164.4             | 170.9             | 174.5             | (3.8)                             | (2.1)                             |
| <b>Total</b>                         | <b>3,889.1</b>    | <b>3,670.5</b>    | <b>3,570.0</b>    | <b>6.0</b>                        | <b>2.8</b>                        |
| Current maturities                   | 338.2             | 337.5             | 333.7             | 0.2                               | 1.1                               |
| Long-term portion                    | 3,550.9           | 3,333.0           | 3,236.3           | 6.5                               | 3.0                               |
| <b>Total bonds and notes payable</b> | <b>\$ 3,889.1</b> | <b>\$ 3,670.5</b> | <b>\$ 3,570.0</b> | <b>6.0</b>                        | <b>2.8</b>                        |

***Bond Ratings***

Fitch Ratings, Moody's Investors Service, and S&P Global assigned and affirmed ratings of 'AAA', 'Aaa', and 'AAA', respectively, on WSSC Water's outstanding water supply, sewage disposal and general construction general obligation bonds. The agencies identified strengths of the Commission in support of their ratings which include a sizeable, diverse tax base in Montgomery and Prince George's Counties, good finances characterized by the self-supporting nature of the water and sewer system, and a skilled management team. The bonds and notes are ultimately secured by an unlimited ad valorem property tax which may be assessed on properties in the WSSD district, although no such tax has been levied due to sufficient revenues.

***Limitations on Debt***

Maryland law limits the amount of bonds and notes WSSC Water 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, 2021 and 2020, the calculated limits were \$12,399.5 million and \$11,987.5 million, respectively. WSSC Water's outstanding debt was significantly below those limits.

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

**CONTACT INFORMATION**

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

**WASHINGTON SUBURBAN SANITARY COMMISSION**  
**BALANCE SHEETS**  
**AS OF JUNE 30, 2021 AND 2020**  
(in thousands)

|  | <b><u>2021</u></b>        | <b><u>2020</u></b>        |
|--|---------------------------|---------------------------|
| <b>ASSETS</b>  |                           |                           |
| Current assets:  |                           |                           |
| Cash (Note B)  | \$ 83,818                 | \$ 37,111                 |
| Investments (Note B)                                     | 109,165                   | 116,011                   |
| Accrued interest receivable                              | 3                         | 4                         |
| Receivables, net (Note C)                                | 124,771                   | 142,109                   |
| State grants receivable                                  | 8,307                     | 3,915                     |
| Prepaid expenses   | 1,161                     | 446                       |
| Escrow Deposit   | 0                         | 500                       |
| Materials and supplies, net                              | <u>13,527</u>             | <u>14,774</u>             |
| Total current assets                                     | <u>340,752</u>            | <u>314,870</u>            |
| Non-current assets:                                      |                           |                           |
| Capital assets, net of accumulated depreciation (Note D) | 8,851,028                 | 8,646,551                 |
| Investments restricted for capital construction (Note B) | 114,335                   | 100,405                   |
| Note receivable (Note E)                                 | <u>0</u>                  | <u>8,196</u>              |
| Total non-current assets                                 | <u>8,965,363</u>          | <u>8,755,152</u>          |
| Total assets   | <u>9,306,115</u>          | <u>9,070,022</u>          |
| <b>DEFERRED OUTFLOWS OF RESOURCES</b>                    |                           |                           |
| Deferred amount from pension (Note K)                    | 39,376                    | 16,982                    |
| Deferred amount from OPEB (Note L)                       | <u>8,330</u>              | <u>5,322</u>              |
| Total deferred outflows of resources                     | <u>47,706</u>             | <u>22,304</u>             |
| Total assets and deferred outflows of resources          | <u><u>\$9,353,821</u></u> | <u><u>\$9,092,326</u></u> |

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

**WASHINGTON SUBURBAN SANITARY COMMISSION**  
**BALANCE SHEETS**  
**AS OF JUNE 30, 2021 AND 2020**  
(in thousands)

|  | <b><u>2021</u></b> | <b><u>2020</u></b> |
|--|--------------------|--------------------|
| <b>LIABILITIES</b>   |                    |                    |
| Current liabilities:   |                    |                    |
| Bonds and notes payable, current maturities<br>(Notes I and J)         | \$ 338,236         | \$ 337,526         |
| Accounts payable and accrued liabilities                               | 185,776            | 179,485            |
| Accrued bond and note interest payable                                 | 10,662             | 11,228             |
| Deposits and unearned revenue  | 10,122             | 8,783              |
| Total current liabilities  | 544,796            | 537,022            |
| Non-current liabilities:   |                    |                    |
| Bonds and notes payable, net of current maturities<br>(Notes I and J)  | 3,550,906          | 3,332,975          |
| Net pension liability (Note K)   | 121,613            | 120,275            |
| Net OPEB liability (Note L)  | 85,245             | 104,729            |
| Deposits, unearned revenue and other long-term<br>liabilities (Note H) | 20,451             | 20,383             |
| Total non-current liabilities  | 3,778,215          | 3,578,362          |
| Total liabilities  | 4,323,011          | 4,115,384          |
| <b>DEFERRED INFLOWS OF RESOURCES</b>                                   |                    |                    |
| Deferred amount from pension (Note K)                                  | 50,921             | 56,434             |
| Deferred amount from OPEB (Note L)                                     | 19,527             | 9,059              |
| Deferred amount from debt refunding (Note A)                           | 3,497              | 3,726              |
| Total deferred inflows of resources                                    | 73,945             | 69,219             |
| Total liabilities and deferred inflows of resources                    | 4,396,956          | 4,184,603          |
| <b>NET POSITION</b>  |                    |                    |
| Net investment in capital assets                                       | 4,964,919          | 4,971,317          |
| Restricted for growth construction                                     | 28,705             | 13,731             |
| Unrestricted   | (36,759)           | (77,325)           |
| Total net position   | 4,956,865          | 4,907,723          |
| Total liabilities, deferred inflows of resources<br>and net position   | \$9,353,821        | \$9,092,326        |

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

**WASHINGTON SUBURBAN SANITARY COMMISSION**  
**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
**FOR THE YEARS ENDED JUNE 30, 2021 AND 2020**  
(in thousands)

|   | <u>2021</u>         | <u>2020</u>         |
|---|---------------------|---------------------|
| <b>OPERATING REVENUES:</b>  |                     |                     |
| Water consumption, sewer use and service charges                    | \$ 700,787          | \$ 696,861          |
| Front foot benefit assessments                                      | 7,680               | 9,825               |
| House connection charges  | 4,470               | 4,346               |
| Other   | 36,669              | 38,726              |
|   | <hr/>               | <hr/>               |
| Total operating revenues  | 749,606             | 749,758             |
|   | <hr/>               | <hr/>               |
| <b>OPERATING EXPENSES:</b>  |                     |                     |
| Operations  | 119,221             | 99,016              |
| Maintenance   | 188,407             | 204,402             |
| Intermunicipal agency sewage disposal                               | 65,084              | 66,327              |
| Administrative and general  | 116,532             | 125,897             |
| Depreciation and amortization                                       | 215,132             | 199,789             |
|   | <hr/>               | <hr/>               |
| Total operating expenses  | 704,376             | 695,431             |
|   | <hr/>               | <hr/>               |
| Net operating revenues  | 45,230              | 54,327              |
|   | <hr/>               | <hr/>               |
| <b>NON-OPERATING REVENUES (EXPENSES):</b>                           |                     |                     |
| Interest on bonds and notes payable, net of<br>capitalized interest | (75,476)            | (61,277)            |
| System development charge credit reimbursements                     | (2,538)             | (2,323)             |
| Loss on disposal of assets  | (9,685)             | (22,557)            |
| Pension   | 26,789              | (12,539)            |
| OPEB  | 4,280               | (2,205)             |
| Investment income   | 255                 | 2,500               |
| Other interest income   | 1,165               | 1,340               |
|   | <hr/>               | <hr/>               |
| Net non-operating expenses  | (55,210)            | (97,061)            |
|   | <hr/>               | <hr/>               |
| Income (loss) before capital contributions                          | (9,980)             | (42,734)            |
|   | <hr/>               | <hr/>               |
| Capital contributions (Note F)                                      | 59,122              | 66,474              |
|   | <hr/>               | <hr/>               |
| Changes in net position   | 49,142              | 23,740              |
|   | <hr/>               | <hr/>               |
| Net position, beginning of the year                                 | 4,907,723           | 4,883,983           |
|   | <hr/>               | <hr/>               |
| Net position, end of year   | <u>\$ 4,956,865</u> | <u>\$ 4,907,723</u> |

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, 2021 AND 2020**  
(in thousands)

|   | <u>2021</u>      | <u>2020</u>      |
|---|------------------|------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>  |                  |                  |
| Receipts from water and sewer customers   | \$712,878        | \$669,918        |
| Receipts from front foot benefit assessments  | 8,771            | 10,725           |
| Receipts from house connection charges  | 5,324            | 3,871            |
| Receipts from other customers and miscellaneous   | 74,294           | 73,683           |
| Payments to employees   | (119,789)        | (177,419)        |
| Payments to District of Columbia Water & Sewer Authority                                      | (60,718)         | (57,840)         |
| Payments to suppliers and others  | <u>(350,020)</u> | <u>(277,442)</u> |
| Net cash provided by operating activities   | <u>270,740</u>   | <u>245,496</u>   |
| <b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>                              |                  |                  |
| Proceeds from bonds and notes   | 376,143          | 366,899          |
| Capital contributions   | 63,067           | 67,816           |
| Bond redemptions and note repayments  | (159,731)        | (284,367)        |
| Interest payments, premiums and discounts on bonds and notes                                  | (103,980)        | (83,125)         |
| Capital asset construction  | <u>(413,180)</u> | <u>(388,562)</u> |
| Net cash used in capital and related financing activities                                     | <u>(237,680)</u> | <u>(321,339)</u> |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>  |                  |                  |
| Proceeds from the sale of investments   | 695,246          | 747,611          |
| Purchases of investments  | (702,329)        | (651,217)        |
| Pension and OPEB  | 31,069           | (14,744)         |
| Payments for security deposit   | 500              | (500)            |
| Interest income received  | 252              | 7,837            |
| Net cash from investing activities  | <u>24,738</u>    | <u>88,987</u>    |
| Net increase (decrease) in cash   | 57,798           | 13,144           |
| Cash, beginning of year   | <u>37,111</u>    | <u>23,967</u>    |
| Cash payments to pension and OPEB plans in CY2021   | (13,088)         | -                |
| Adjustments of deferred outflows and inflows for pension and OPEB                             | 1,997            | -                |
| Cash, end of year   | <u>\$ 83,818</u> | <u>\$ 37,111</u> |
| <b>Reconciliation of net operating revenues to net cash provided by operating activities:</b> |                  |                  |
| Net operating revenue   | \$ 45,230        | \$ 54,327        |
| Adjustments to reconcile net operating revenue to net cash provided by operating activities:  |                  |                  |
| Depreciation and amortization   | 230,137          | 216,197          |
| Effect of changes in assets, liabilities and deferred outflows of resources:                  |                  |                  |
| Receivables, net  | 17,339           | (17,356)         |
| Materials and supplies  | 1,247            | 59               |
| Prepaid expenses  | (715)            | 2,819            |
| Deferred outflows of resources - pension and OPEB   | (28,613)         | 79,940           |
| Accounts payable and accrued liabilities  | 461              | (26,533)         |
| Unearned revenue  | 1,267            | 4,903            |
| Deferred inflows of resources - pension and OPEB  | 19,552           | 40,522           |
| Long-term pension liability   | 1,118            | (88,699)         |
| Long-term OPEB liability  | <u>(16,283)</u>  | <u>(20,683)</u>  |
| Net cash provided by operating activities   | <u>\$270,740</u> | <u>\$245,496</u> |

**Noncash capital financing activities:**

Capital assets of \$17,367 and \$31,810 were acquired through contributions from developers in 2021 and 2020, respectively.

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

**WASHINGTON SUBURBAN SANITARY COMMISSION**  
**STATEMENTS OF FIDUCIARY NET POSITION**  
**FIDUCIARY FUND FOR PENSION AND OPEB BENEFIT TRUSTS**  
**DECEMBER 31, 2020 AND 2019**  
(in thousands)

|  | <u>2020</u>         | <u>2019</u>         |
|--|---------------------|---------------------|
| <b>ASSETS</b>  |                     |                     |
| Cash and cash equivalents (Note P)   | \$ 7,675            | \$ 3,895            |
| Collateral received under securities lending agreements (Note P)             | 52,323              | 42,673              |
| Investment at fair value (Note P):   |                     |                     |
| Mutual funds   | 682,155             | 611,082             |
| Commingled funds   | 189,242             | 175,187             |
| U.S. Government and agency bonds   | 69,553              | 67,998              |
| Corporate bonds  | 28,085              | 25,470              |
| Common stock   | 42,584              | 56,368              |
| Investment contracts with insurance company                                  | 59,067              | 71,295              |
| Limited partnership units  | 20                  | 20                  |
| Other fixed holdings   | <u>5</u>            | <u>8</u>            |
| Total Investments  | <u>1,070,711</u>    | <u>1,007,428</u>    |
| Dividends and accrued interest receivable                                    | 531                 | 681                 |
| Contributions receivable from employees                                      | <u>302</u>          | <u>302</u>          |
| Total Assets   | <u>1,131,542</u>    | <u>1,054,979</u>    |
| <b>LIABILITIES</b>   |                     |                     |
| Payable for collateral received under securities lending agreements (Note P) | 52,322              | 42,673              |
| Benefits payable and accrued expenses  | <u>1,094</u>        | <u>1,094</u>        |
| Total Liabilities  | <u>53,416</u>       | <u>43,767</u>       |
| <b>NET POSITION</b>  |                     |                     |
| Restricted for pension and OPEB  | <u>\$ 1,078,126</u> | <u>\$ 1,011,212</u> |

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

**WASHINGTON SUBURBAN SANITARY COMMISSION**  
**STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION**  
**FIDUCIARY FUND FOR PENSION AND OPEB BENEFIT TRUSTS**  
**DECEMBER 31, 2020 AND 2019**  
(in thousands)

|   | <u>2020</u>  | <u>2019</u>  |
|---|--------------|--------------|
| <b>ADDITIONS</b>                                    |              |              |
| Investment Income:                                  |              |              |
| Net appreciation (depreciation) in the fair value   |              |              |
| of plan investments                                 | \$ 80,366    | \$ 152,705   |
| Dividends and interest                              | 30,668       | 27,099       |
|   | 111,034      | 179,804      |
| Less investment expenses                            | (1,616)      | (2,706)      |
|   | 109,418      | 177,098      |
| Contributions:                                      |              |              |
| WSSC Water Contributions                            | 19,663       | 31,943       |
| Employee Contributions                              | 4,929        | 4,946        |
| WSSC Water on-behalf contributory                   | 10,180       | 11,228       |
| Retiree Contributions                               | 4,548        | 4,487        |
| Total Contributions                                 | 39,320       | 52,604       |
| Total Additions                                     | 148,738      | 229,702      |
| <b>DEDUCTIONS</b>                                   |              |              |
| Benefit payments to retirees and refund             | 81,132       | 79,448       |
| Administrative Expense                              | 692          | 439          |
| Total Deductions                                    | 81,824       | 79,887       |
| <b>INCREASE (DECREASE) IN NET POSITION</b>          | 66,914       | 149,815      |
| <b>NET POSITION RESTRICTED FOR PENSION AND OPEB</b> |              |              |
| <b>BEGINNING OF YEAR</b>                            | 1,011,212    | 861,397      |
| <b>NET POSITION RESTRICTED FOR PENSION AND OPEB</b> |              |              |
| <b>END OF YEAR</b>                                  | \$ 1,078,126 | \$ 1,011,212 |

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

**WASHINGTON SUBURBAN SANITARY COMMISSION**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED JUNE 30, 2021 AND 2020**

**A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**Operating and Non-Operating Revenues and Expenses**

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

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

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

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

Interest on bonds and notes payable is presented net of capitalized interest.

**Capital Contributions**

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

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

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

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

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

**WASHINGTON SUBURBAN SANITARY COMMISSION**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED JUNE 30, 2021 AND 2020**

**A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Cash**

Cash includes amounts in demand deposits.

**Investments**

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

**Capital Assets**

Capital assets include water and sewer lines, water filtration and distribution, wastewater collection and treatment as well as multi-purpose facilities, equipment and fleet. Capital assets are stated at historical costs, which include related payroll, payroll taxes, fringe benefits, administrative costs and interest capitalized during construction if applicable. Normal recurring maintenance and repair costs are charged to operations, whereas major repairs, improvements and replacements, which extend the useful lives of the assets, are capitalized. The threshold for capitalization is \$100,000. Costs incurred for capital construction are carried in construction in progress until completion.

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

**Depreciation and Amortization**

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

|                                |                |
|--------------------------------|----------------|
| Buildings and other structures | 40 – 50 years  |
| Pipe and pipe improvements     | 35 – 100 years |
| Equipment and vehicles         | 3 – 12 years   |
| Purchased capacity             | 50 years       |
| Software                       | 5 years        |

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

**Inventory**

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

**Bonds and Notes Payable**

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

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

**WASHINGTON SUBURBAN SANITARY COMMISSION**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED JUNE 30, 2021 AND 2020**

**A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Pension**

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

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

**Other Postemployment Benefits (OPEB)**

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

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

**Deferred Outflows and Inflows of Resources**

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

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

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

- (a) Differences between expected and actual experience in the measurement of the total pension liability
- (b) Net difference between projected and actual earnings on pension plan investments
- (c) Net difference between projected and actual earnings on OPEB plan investments

**Compensated Absences**

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

**WASHINGTON SUBURBAN SANITARY COMMISSION**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED JUNE 30, 2021 AND 2020**

**A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Estimates**

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

**Net Position**

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

Net position associated with unspent proceeds from system development charges (SDC) is restricted for growth construction.

Unrestricted net position is the residual amount not included in the other classifications. The combination of reinvesting all retained earnings in net capital assets and inclusion of pension and OPEB liabilities as well as deferred amortizations of pension and OPEB actuary estimates impact both WSSC Water's net position and, therefore, the unrestricted net position.

Below is a table of net position and unrestricted capital without pension and OPEB impact (non-GAAP):

|                                    | FY 2021          | FY 2020           | FY 2019           | FY 2020    | FY 2019    |
|------------------------------------|------------------|-------------------|-------------------|------------|------------|
|                                    |                  |                   |                   | % Change   | % Change   |
| Net position:                      |                  |                   |                   |            |            |
| Net investment in capital assets   | 4,964.9          | 4,971             | 4,942.5           | (0.1)      | 0.6        |
| Restricted for growth construction | 28.7             | 13.7              | 9.8               | 109.5      | 39.8       |
| Unrestricted                       | 205.9            | 190.9             | 210.4             | 7.9        | (9.3)      |
| <b>Total net position</b>          | <b>\$5,199.5</b> | <b>\$ 5,175.9</b> | <b>\$ 5,162.7</b> | <b>0.5</b> | <b>0.3</b> |

**Reclassifications**

Certain amounts have been reclassified from the 2020 presentation to agree to the 2021 presentation.

**Accounting Changes**

GASB Statement No. 84, *Fiduciary Activities*, establishes uniform accounting and financial reporting requirements for fiduciary activities. This Statement is effective for fiscal years beginning after December 15, 2018. The implementation date was postponed for a year due to COVID-19. However, WSSC Water implemented this in fiscal year 2020.

GASB Statement No. 87, *Leases*, establishes uniform accounting and financial reporting requirements for leases by lessees and lessors. This Statement is effective for fiscal years beginning after June 15, 2021 (after delay of 18 months due to COVID-19). WSSC Water will implement this GASB in fiscal year 2022.

GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, establishes requirements for interest cost incurred before the end of a construction period. This Statement is effective for fiscal years beginning after December 15, 2020 (after delay of one year due to COVID-19). Changes adopted to conform to the provisions of the Statement should be applied prospectively. WSSC Water will implement this GASB in fiscal year 2022.

**WASHINGTON SUBURBAN SANITARY COMMISSION**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED JUNE 30, 2021 AND 2020**

**A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

GASB Statement No. 93, *Replacement of Interbank Offered Rates*, establishes accounting and reporting requirements related to the replacement of Interbank Offered Rates such as the London Interbank Offered Rate (LIBOR). This Statement is effective for fiscal years beginning after June 15, 2021 to December 31, 2022. Management is evaluating the impact of the pronouncement on its financial statements.

GASB Statement No. 96, *Subscription-Based Informational Technology Arrangements*, provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Management is evaluating the impact of the pronouncement on its financial statements.

**B. CASH AND INVESTMENTS**

At June 30, 2021 and 2020, cash per WSSC Water’s records amounted to \$83.8 million and \$37.1 million, respectively, and reported bank balances were \$89.4 million and \$40.9 million, respectively. All collected bank balance funds were secured by Federal depository insurance or by collateral held in WSSC Water’s name under a tri-party collateral agreement with M&T and BNY Mellon.

WSSC Water’s investment policy conforms to Maryland laws on the investment of public monies. Consequently, WSSC Water 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 Water investment policy, which address interest rate risk, credit risk and concentration of credit risk.

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

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

Custodial credit risk is the risk that, in the event of a failure of a financial institution, WSSC Water would not be able to recover deposits, the value of its investments, or collateral securities that are in the possession of an outside party. Maryland State law requires that collateral shall be maintained for all deposits and certificates of deposit with amounts in excess of Federal insurance coverage. State law also requires the securities collateralizing repurchase agreements have a market value of at least 102 percent of the principal of the investment plus accrued interest. There were no repurchase agreements at June 30, 2021 and 2020.

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, 2021 and 2020, all of WSSC Water’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 Water may invest in bankers’ acceptances and commercial paper having a short-term rating

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**B. CASH AND INVESTMENTS (continued)**

of the highest letter and numerical rating issued by at least one nationally recognized statistical rating organization. WSSC Water 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, 2021 and 2020 are presented below for each investment type.

Investments at June 30, 2021 (in thousands):

| <u>Investment Type</u>   | <u>Credit Rating</u> | <u>Remaining Maturity</u> | <u>Cost</u>       | <u>Fair Value</u> |
|--|----------------------|---------------------------|-------------------|-------------------|
| Money market investments   | Aaa                  | 1 year or less            | \$ 43,522         | \$ 43,522         |
| Commercial paper   | A-1+                 | 1 year or less            | 14,996            | 14,995            |
| U. S. Government Treasury bonds  | Aaa                  | 1 year or less            | 114,989           | 114,985           |
| Federal agency securities  | Aaa                  | 1 year or less            | <u>49,989</u>     | <u>49,998</u>     |
| Total investments (includes \$28,705 restricted for capital projects and \$114,335 which is classified as non-current) |                      |                           | <u>\$ 223,496</u> | <u>\$ 223,500</u> |

Investments at June 30, 2020 (in thousands):

| <u>Investment Type</u>   | <u>Credit Rating</u> | <u>Remaining Maturity</u> | <u>Cost</u>       | <u>Fair Value</u> |
|--|----------------------|---------------------------|-------------------|-------------------|
| Repurchase agreements  | Aaa                  | 1 year or less            | \$ 86,471         | \$ 86,471         |
| U. S. Government Treasury bonds  | Aaa                  | 1 year or less            | 69,975            | 69,976            |
| Federal agency securities  | Aaa                  | 1 year or less            | <u>59,970</u>     | <u>59,969</u>     |
| Total investments (includes \$13,731 restricted for capital projects and \$100,405 which is classified as non-current) |                      |                           | <u>\$ 216,416</u> | <u>\$ 216,416</u> |

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

| <u>Issuer</u>   | <u>Investment Type</u>    | <u>2021</u> | <u>2020</u> |
|-----------------|---------------------------|-------------|-------------|
| FHLB            | Federal agency securities | \$ 49,998   | \$ 59,969   |
| U.S. Government | Treasury bonds            | 114,985     | 69,976      |

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

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**B. CASH AND INVESTMENTS (continued)**

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

Fair value measurements at June 30, 2021 (in thousands) using:

|   | Quoted Prices in<br>Active Markets<br>for Identical<br>Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) | Total             |
|---|--|---|--|-------------------|
| Investments by fair value level:                        |  |   |  |                   |
| Commercial paper  | \$ -   | \$ 14,995.00  | -  | \$ 14,995.00      |
| U. S. Government bonds                                  | -  | 114,985   | -  | 114,985           |
| Federal agency securities                               | -  | 49,998  | -  | 49,998            |
| Total investments by fair value level                   | <u>\$ -</u>  | <u>\$ 179,978</u>   | <u>\$ -</u>  | <u>179,978</u>    |
| Investments measured at cost -<br>Repurchase agreements |  |   |  | <u>43,522</u>     |
| Total investments                                       |  |   |  | <u>\$ 223,500</u> |

Fair value measurements at June 30, 2020 (in thousands) using:

|   | Quoted Prices in<br>Active Markets<br>for Identical<br>Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) | Total             |
|---|--|---|--|-------------------|
| Investments by fair value level:                        |  |   |  |                   |
| U. S. Government bonds                                  | \$ -   | \$ 69,976   | -  | \$ 69,976         |
| Federal agency securities                               | -  | 59,969  | -  | 59,969            |
| Total investments by fair value level                   | <u>\$ -</u>  | <u>\$ 129,945</u>   | <u>\$ -</u>  | <u>129,945</u>    |
| Investments measured at cost -<br>Repurchase agreements |  |   |  | <u>86,471</u>     |
| Total investments                                       |  |   |  | <u>\$ 216,416</u> |

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**C. RECEIVABLES**

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

|   | <u>2021</u>       | <u>2020</u>       |
|---|-------------------|-------------------|
| Front foot benefit assessments accrued and billed | \$ 4,792          | \$ 5,991          |
| Water and sewer services unbilled                 | 58,935            | 57,070            |
| Water and sewer services billed                   | 100,840           | 88,747            |
| Miscellaneous                                     | 6,009             | 6,881             |
|   | <u>170,576</u>    | <u>158,689</u>    |
| Less allowance for doubtful accounts              | (45,805)          | (16,580)          |
| Total receivables, net                            | <u>\$ 124,771</u> | <u>\$ 142,109</u> |

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**D. CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2021 was as follows (in thousands):

|  | Beginning<br>Balance | Increases         | Decreases           | Ending<br>Balance   |
|--|----------------------|-------------------|---------------------|---------------------|
| Capital assets not being depreciated:      |                      |                   |                     |                     |
| Land and rights of way                     | \$ 132,659           | \$ 3,103          | \$ -                | \$ 135,762          |
| Construction in progress                   | 1,372,690            | 437,562           | (603,622)           | 1,206,630           |
| Total capital assets not being depreciated | <u>1,505,349</u>     | <u>440,665</u>    | <u>(603,622)</u>    | <u>1,342,392</u>    |
| Capital assets being depreciated:          |                      |                   |                     |                     |
| Water supply                               | 3,476,472            | 230,544           | (1,894)             | 3,705,122           |
| Sewage disposal                            | 2,875,652            | 192,635           | (14,859)            | 3,053,428           |
| General construction                       | 2,742,527            | 50,136            | (5,812)             | 2,786,851           |
| Intangible assets                          | 1,587,520            | 130,597           | -                   | 1,718,117           |
| Other                                      | 176,340              | 3,753             | (70,032)            | 110,061             |
| Total capital assets being depreciated     | <u>10,858,511</u>    | <u>607,665</u>    | <u>(92,597)</u>     | <u>11,373,579</u>   |
| Less accumulated depreciation for:         |                      |                   |                     |                     |
| Water supply                               | (879,168)            | (58,893)          | 1,894               | (936,167)           |
| Sewage disposal                            | (881,703)            | (68,979)          | 14,858              | (935,824)           |
| General construction                       | (1,371,698)          | (58,175)          | 5,812               | (1,424,061)         |
| Intangible assets                          | (434,293)            | (40,223)          | -                   | (474,516)           |
| Other                                      | (150,447)            | (6,780)           | 62,852              | (94,375)            |
| Total accumulated depreciation             | <u>(3,717,309)</u>   | <u>(233,050)</u>  | <u>85,416</u>       | <u>(3,864,943)</u>  |
| Capital assets being depreciated, net      | <u>7,141,202</u>     | <u>374,615</u>    | <u>(7,181)</u>      | <u>7,508,636</u>    |
| Total capital assets, net                  | <u>\$ 8,646,551</u>  | <u>\$ 815,280</u> | <u>\$ (610,803)</u> | <u>\$ 8,851,028</u> |

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**D. CAPITAL ASSETS (continued)**

Capital asset activity for the year ended June 30, 2020 was as follows (in thousands):

|  | Beginning<br>Balance | Increases         | Decreases           | Ending<br>Balance   |
|--|----------------------|-------------------|---------------------|---------------------|
| Capital assets not being depreciated:      |                      |                   |                     |                     |
| Land and rights of way                     | \$ 129,426           | \$ 3,233          | \$ -                | \$ 132,659          |
| Construction in progress                   | 1,462,463            | 454,650           | (544,423)           | 1,372,690           |
| Total capital assets not being depreciated | <u>1,591,889</u>     | <u>457,883</u>    | <u>(544,423)</u>    | <u>1,505,349</u>    |
| Capital assets being depreciated:          |                      |                   |                     |                     |
| Water supply                               | 3,219,360            | 258,879           | (1,767)             | 3,476,472           |
| Sewage disposal                            | 2,732,949            | 154,627           | (11,924)            | 2,875,652           |
| General construction                       | 2,708,226            | 36,328            | (2,027)             | 2,742,527           |
| Intangible assets                          | 1,533,248            | 54,272            | -                   | 1,587,520           |
| Other                                      | 172,633              | 5,281             | (1,574)             | 176,340             |
| Total capital assets being depreciated     | <u>10,366,416</u>    | <u>509,387</u>    | <u>(17,292)</u>     | <u>10,858,511</u>   |
| Less accumulated depreciation for:         |                      |                   |                     |                     |
| Water supply                               | (826,037)            | (54,903)          | 1,772               | (879,168)           |
| Sewage disposal                            | (826,523)            | (67,101)          | 11,921              | (881,703)           |
| General construction                       | (1,319,705)          | (54,020)          | 2,027               | (1,371,698)         |
| Intangible assets                          | (397,896)            | (36,397)          | -                   | (434,293)           |
| Other                                      | (141,364)            | (10,622)          | 1,539               | (150,447)           |
| Total accumulated depreciation             | <u>(3,511,525)</u>   | <u>(223,043)</u>  | <u>17,259</u>       | <u>(3,717,309)</u>  |
| Capital assets being depreciated, net      | <u>6,854,891</u>     | <u>286,344</u>    | <u>(33)</u>         | <u>7,141,202</u>    |
| Total capital assets, net                  | <u>\$ 8,446,780</u>  | <u>\$ 744,227</u> | <u>\$ (544,456)</u> | <u>\$ 8,646,551</u> |

Interest costs of \$31.1 million and \$42.9 million were capitalized during fiscal years 2021 and 2020, respectively.

**Purchased Software**

Purchased software and related development stage costs of \$0.5 million and \$32.3 million were capitalized in accordance with GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets* in fiscal years 2021 and 2020, respectively. Costs of \$0.7 million are included in the Construction in Progress balance as of June 30, 2021 and will commence amortization upon implementation of the software. Intangible assets include the balance of costs placed in service, net of accumulated amortization, of \$24.5 million and \$32.0 million in fiscal 2021 and 2020, respectively.

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**D. CAPITAL ASSETS (continued)**

**Purchased Capacity**

***Jennings Randolph***

An intangible asset for purchased capacity has been established for WSSC Water's share of capital costs in the Jennings Randolph Reservoir (Bloomington Dam). The Reservoir provides backup and peak-day water supply to WSSC Water and is operated by the U.S. Army Corps of Engineers, Baltimore District. WSSC Water funds 50% of the capital costs, and intangible asset balances, net of accumulated amortization, of \$26.6 million and \$26.8 million, for fiscal years 2021 and 2020, respectively, are included above.

***Mattawoman and Poolesville***

WSSC Water participates in the funding of capital costs for the Mattawoman and Poolesville Wastewater Treatment Plants through agreements with Charles County and the Town of Poolesville, respectively. In exchange for this participation, WSSC Water obtains the right to discharge wastewater from the Washington Suburban Sanitary District into said facilities. Costs of \$4.2 million are included in the Construction in Progress balance as of June 30, 2021 and will commence amortization when placed in service. Asset balances, net of accumulated amortization, totaling \$10.3 million and \$8.1 million, for fiscal years 2021 and 2020, respectively, are included in intangible assets above.

***Blue Plains***

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

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

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

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

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**D. CAPITAL ASSETS (continued)**

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

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

The Commission's capital investment in Blue Plains, under the 2012 IMA, is accounted for as an intangible asset and is amortized over the estimated useful lives of the underlying assets. Costs of \$380.3 million are included in the Construction in Progress balance as of June 30, 2021 and will commence amortization when assets are placed in service. Asset balances, net of accumulated amortization, totaling \$1,182.2 million and \$1,086.3 million, for fiscal years 2021 and 2020, respectively, are included in intangible assets above.

The amount shown in the statements of revenues, expenses and changes in net assets for depreciation and amortization does not include depreciation of vehicles and equipment. Depreciation of these assets, \$6.8 million in fiscal 2021 and \$10.7 million in fiscal 2020, is classified with other related operating and maintenance costs.

**Consent Decrees**

A Consent Decree with the Environmental Protection Agency, the Department of Justice, the State of Maryland, and four environmental groups entered its fifteenth year. The Consent Decree formally identifies the remedial measures to eliminate and/or reduce sanitary sewer overflows. In fiscal year 2016, the U.S. District Court approved a six-year extension to the original term of the Consent Decree. The costs for each fiscal year are or will be included in WSSC Water's budget and six-year capital improvements program.

- Costs of the remedial measures are estimated at \$1,633.7 million and are to be expended over at least 19 years, \$108.8 million of which is expected to be incurred after fiscal year 2021.
- Costs of the remedial measures are estimated at \$1,700.0 million and are to be expended over at least 19 years, \$209.4 million of which is expected to be incurred after fiscal year 2020.

Under a Consent Decree executed by the District Court of Maryland on April 15, 2016, the Commission is required to undertake short-term operational changes and capital improvements at the Potomac Water Filtration Plant that will enable WSSC Water to reduce solids discharged to the river, and to plan, design and implement upgrades or new construction to achieve requirements established by MDE and incorporated in a new discharge permit. An Audit Report and Long-Term Upgrade Plan were submitted by WSSC Water for consideration by MDE on December 26, 2016. WSSC Water and its consultant prepared an Amended Long-Term Upgrade Plan to address deficiencies in the 2016 Plan and issues raised by MDE and Potomac Riverkeepers, Inc. in response to the Plan, which was submitted in September 2018. In April 2019, MDE responded by approving the proposed option which best satisfies the requirement of the Consent Decree. The work required to implement the Long-Term Capital Improvement Project(s) shall be fully implemented in accordance with the schedule in the Long-Term Upgrade Plan. The Commission shall be subject to lump-sum stipulated penalties for failure to implement Long-Term Capital Improvement Project(s) by January 1, 2026. The costs are included in WSSC Water's budget and capital improvements program.

- Costs for implementation of improvements are estimated at \$182 million, \$152 million of which is expected to be incurred after fiscal year 2021.
- Costs for implementation of improvements are estimated at \$203 million, \$185 million of which is expected to be incurred after fiscal year 2020.

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**E. NOTE RECEIVABLE**

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

Interest accrues at a rate of 4.43%, which commenced six months after the execution of the promissory note. Under the provisions of the promissory note, the minimum annual payment by Montgomery County is \$400,000 and is due on July 15, 2009 and annually thereafter. Payments shall be allocated first to interest, then to principal.

The promissory note was amended and restated in 2017, to change the repayment schedule and extend the maturity date from January 15, 2024 to July 15, 2027. Under the amended Promissory Note, the County agrees to make a minimum payment of \$1,238,855, at the interest rate of 4.43%, commencing July 15, 2018 and annually thereafter until the principal and all accrued and unpaid interest and other charges are paid.

On January 13, 2021, Montgomery County paid off the note balance and accrued interest of \$7.3 million. At June 30, 2020, the balance of this Note Receivable was \$8.2 million.

**F. CAPITAL CONTRIBUTIONS**

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

|                             | <u>2021</u>      | <u>2020</u>      |
|-----------------------------|------------------|------------------|
| System development charges  | \$ 31,665        | \$ 26,792        |
| Developer fees              | 5,449            | 6,283            |
| Federal and State grants    | 4,641            | 1,589            |
| House connections           | 3,545            | 8,545            |
| Land and rights of way      | 1,006            | 2,346            |
| Other construction projects | 12,816           | 20,919           |
| Total                       | <u>\$ 59,122</u> | <u>\$ 66,474</u> |

**G. COMPENSATED ABSENCE LIABILITY**

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

|   | <u>2021</u>      | <u>2020</u>      |
|---|------------------|------------------|
| Compensated absence liability – beginning of year | \$ 15,591        | \$ 13,144        |
| Increases (incurred)                              | 10,392           | 11,804           |
| Decreases   | (8,382)          | (9,357)          |
| Compensated absence liability – end of year       | <u>\$ 17,601</u> | <u>\$ 15,591</u> |

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

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**H. DEPOSITS, UNEARNED REVENUE AND OTHER LONG-TERM LIABILITIES**

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

|  | <u>2021</u>      | <u>2020</u>      |
|--|------------------|------------------|
| Unearned revenue for house connections | \$ 10,955        | \$ 12,006        |
| Unearned front foot benefit revenue    | 265              | 371              |
| Construction deposits                  | 1,323            | 1,323            |
| House connection deposits              | 3,927            | 2,506            |
| Other                                  | 3,981            | 4,177            |
| Total                                  | <u>\$ 20,451</u> | <u>\$ 20,383</u> |

**I. BONDS AND NOTES PAYABLE**

Bonds and notes payable activity for the year ended June 30, 2021 was as follows (in thousands):

|   | <u>Beginning</u>    |                   |                     | <u>Ending</u>       | <u>Current</u>    |
|---|---------------------|-------------------|---------------------|---------------------|-------------------|
|   | <u>Balance</u>      | <u>Increases</u>  | <u>Decreases</u>    | <u>Balance</u>      | <u>Maturities</u> |
| Bonds and notes payable:                |                     |                   |                     |                     |                   |
| Water supply - other                    | \$ 1,493,270        | \$ 196,685        | \$ (56,790)         | \$ 1,633,165        | \$ 160,387        |
| Water supply - direct placement         | 1,012               | -                 | (1,012)             | -                   | -                 |
| Sewage disposal - other                 | 1,534,986           | 115,235           | (64,563)            | 1,585,658           | 116,469           |
| Sewage disposal - direct placement      | 254,084             | 50,248            | (18,279)            | 286,053             | 18,172            |
| General construction - other            | 158,574             | 13,975            | (18,473)            | 154,076             | 43,203            |
| General construction - direct placement | 767                 | -                 | (613)               | 154                 | 5                 |
|   | <u>3,442,693</u>    | <u>376,143</u>    | <u>(159,730)</u>    | <u>3,659,106</u>    | <u>338,236</u>    |
| Plus unamortized premium/discount       | 227,807             | 26,119            | (23,890)            | 230,036             | -                 |
| Total bonds and notes payable           | <u>\$ 3,670,500</u> | <u>\$ 402,262</u> | <u>\$ (183,620)</u> | <u>\$ 3,889,142</u> | <u>\$ 338,236</u> |

Bonds and notes payable activity for the year ended June 30, 2020 was as follows (in thousands):

|   | <u>Beginning</u>    |                   |                     | <u>Ending</u>       | <u>Current</u>    |
|---|---------------------|-------------------|---------------------|---------------------|-------------------|
|   | <u>Balance</u>      | <u>Increases</u>  | <u>Decreases</u>    | <u>Balance</u>      | <u>Maturities</u> |
| Bonds and notes payable:                |                     |                   |                     |                     |                   |
| Water supply - other                    | \$ 1,348,237        | \$ 256,440        | \$ (111,407)        | \$ 1,493,270        | \$ 156,690        |
| Water supply - direct placement         | 2,024               | -                 | (1,012)             | 1,012               | 1,012             |
| Sewage disposal - other                 | 1,609,589           | 49,605            | (124,208)           | 1,534,986           | 114,763           |
| Sewage disposal - direct placement      | 236,788             | 34,124            | (16,828)            | 254,084             | 18,279            |
| General construction - other            | 162,142             | 26,730            | (30,298)            | 158,574             | 46,168            |
| General construction - direct placement | 1,380               | -                 | (613)               | 767                 | 614               |
|   | <u>3,360,160</u>    | <u>366,899</u>    | <u>(284,366)</u>    | <u>3,442,693</u>    | <u>337,526</u>    |
| Plus unamortized premium/discount       | 209,896             | 40,446            | (22,535)            | 227,807             | -                 |
| Total bonds and notes payable           | <u>\$ 3,570,056</u> | <u>\$ 407,345</u> | <u>\$ (306,901)</u> | <u>\$ 3,670,500</u> | <u>\$ 337,526</u> |

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

**WASHINGTON SUBURBAN SANITARY COMMISSION**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED JUNE 30, 2021 AND 2020**

**I. BONDS AND NOTES PAYABLE (continued)**

Bonds payable accrue interest at rates ranging from 0.4% to 5.0%, with an effective interest rate of 3.78% at June 30, 2021. All bonds payable at June 30, 2021, exclusive of refunded bonds, are due serially through the year 2049. Generally, the bonds are callable at a premium after a specified number of years.

In September 2020, WSSC Water issued \$325.9 million of Consolidated Public Improvement Bonds to fund new construction, rehabilitation and replacement of general and water infrastructure. Included in the issue was \$47.5 million of Consolidated Public Improvement Bonds (second Green Bond Series) to allow investors to invest directly in bonds which finance environmentally beneficial projects (Green Projects).

In December 2019, WSSC Water issued \$233.6 million of Consolidated Public Improvement Bonds to fund new construction, rehabilitation and replacement of general and water infrastructure. Included in the issue was \$53.9 million of Consolidated Public Improvement Bonds (first Green Bond Series) to allow investors to invest directly in bonds which finance environmentally beneficial projects (Green Projects).

Bonds and Notes payable by issue date, amount, maturity range, interest range, and balance as of June 30, 2021 and 2020 are detailed in the next two pages:

**WASHINGTON SUBURBAN SANITARY COMMISSION**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED JUNE 30, 2021 AND 2020**

**BONDS AND NOTES PAYABLE**  
**AS OF JUNE 30, 2021**  
**(in thousands)**

| <b>Consolidated Public Improvement Bonds</b>               | <b>ISSUE DATE</b> | <b>AMOUNT ISSUED</b> | <b>MATURITY RANGE</b> | <b>INTEREST RATE RANGE</b> | <b>BALANCE JUNE 30, 2021</b> |
|--|-------------------|----------------------|-----------------------|----------------------------|------------------------------|
| 2012 Issue   | 11/15/2012        | \$ 250,000           | 2022-2032             | 3.000                      | 137,500                      |
| 2013 Issue   | 4/23/2013         | 150,000              | 2022-2023             | 4.000-5.000                | 15,000                       |
| 2013 Refunding   | 4/23/2013         | 53,585               | 2022-2026             | 2.000-4.000                | 24,870                       |
| 2014 Refunding   | 4/29/2014         | 37,810               | 2022                  | 5.000                      | 1,990                        |
| 2014 Issue   | 4/29/2014         | 150,000              | 2022-2044             | 4.000-5.000                | 115,000                      |
| 2014 Issue (2nd Series)                                    | 12/2/2014         | 250,000              | 2022-2044             | 4.000-5.000                | 210,640                      |
| 2015 Issue   | 10/28/2015        | 390,000              | 2022-2045             | 3.000-5.000                | 345,860                      |
| 2015 Refunding   | 11/24/2015        | 145,325              | 2022-2028             | 2.650-5.000                | 94,245                       |
| 2016 Refunding   | 5/26/2016         | 23,835               | 2022-2025             | 4.000-5.000                | 13,850                       |
| 2016 Issue   | 5/26/2016         | 145,000              | 2022-2046             | 3.000-5.000                | 130,795                      |
| 2016 Issue (2nd Series)                                    | 12/1/2016         | 381,810              | 2022-2046             | 3.000-5.000                | 347,975                      |
| 2017 Refunding   | 11/9/2017         | 220,180              | 2022-2032             | 3.000-5.000                | 216,455                      |
| 2017 Issue   | 11/9/2017         | 459,250              | 2022-2047             | 3.000-5.000                | 428,795                      |
| 2017 Refunding (2nd Series), (2019 CO)                     | 12/13/2017        | 79,075               | 2022-2029             | 5.000                      | 64,120                       |
| 2018 Issue   | 12/20/2018        | 390,000              | 2022-2048             | 4.000-5.000                | 369,745                      |
| 2019 Refunding   | 3/27/2019         | 39,340               | 2022-2029             | 2.000-5.000                | 22,460                       |
| 2019 Issue   | 12/23/2019        | 233,565              | 2022-2049             | 3.000-5.000                | 221,040                      |
| 2020 Refunding   | 3/11/2020         | 99,210               | 2022-2030             | 5.000                      | 90,015                       |
| 2020 Issue   | 9/23/2020         | 325,895              | 2021-2049             | 2.000-5.000                | 325,895                      |
| <b>Total Public Improvement Bonds</b>                      |                   |                      |                       |                            | <b>3,176,250</b>             |
| <b>Maryland Water Quality Bonds</b>                        |                   |                      |                       |                            |                              |
| BP WWTP ACS  | 4/15/2003         | 41,098               | 2022-2025             | 1.100                      | 8,333                        |
| Piscataway WWTP SD Upgrade                                 | 4/15/2003         | 9,200                | 2020-2024             | 1.100                      | 1,380                        |
| Energy Performance Projects                                | 4/15/2003         | 11,272               | 2022-2023             | 1.100                      | 1,342                        |
| WB WWTP Filter Upgrade                                     | 1/15/2009         | 4,957                | 2022-2028             | 1.000                      | 1,936                        |
| WB & Seneca WWTP ENR & Facility Upgrade                    | 2/24/2012         | 49,706               | 2022-2034             | 0.800                      | 33,202                       |
| BP WWTP ENR Upgrade (Tunnel) & NDF                         | 6/19/2012         | 125,000              | 2022-2034             | 0.800                      | 87,550                       |
| BP WWTP NDF - CHP  | 2/27/2013         | 15,000               | 2022-2035             | 0.800                      | 10,748                       |
| Potomac Vista Water System                                 | 4/29/2013         | 135                  | 2022-2040             | 1.000                      | 96                           |
| BP WWTP NDF - CHP (2nd Loan)                               | 5/30/2014         | 15,000               | 2022-2035             | 1.000                      | 10,809                       |
| BP WWTP NDF - CHP (3rd Loan)                               | 4/14/2016         | 7,547                | 2022-2035             | 0.700                      | 5,610                        |
| BP WWTP ENR Upgrade - ECF & TDPS                           | 4/14/2016         | 53,824               | 2022-2037             | 1.400                      | 45,588                       |
| Piscataway WWTP BE   | 6/13/2019         | 43,960               | 2022-2047             | 0.700                      | 36,872                       |
| WSSC Sewer Basin Reconstruction Program - Loan 1 (Interim) | 11/25/2020        | 150,175              | 2023                  | 0.400                      | 3,178                        |
| Piscataway WWTP Bio Energy Project - Loan 2 (Interim)      | 4/23/2021         | 85,002               | 2024-2038             | 0.400                      | 39,563                       |
| <b>Total Maryland Water Quality Bonds</b>                  |                   |                      |                       |                            | <b>286,208</b>               |
| <b>Jennings Randolph (Water Operating)</b>                 | 7/1/1982          | 5,739                | 1982-2031             | 3.253                      | <b>2,068</b>                 |
| <b>Jennings Randolph (Water Operating)</b>                 | 7/1/1992          | 27,367               | 1992-2041             | 3.253                      | <b>16,780</b>                |
| <b>Total Bonds Outstanding</b>                             |                   |                      |                       |                            | <b>\$ 3,481,307</b>          |
| <b>Notes</b>   |                   |                      |                       |                            |                              |
| General  |                   |                      |                       |                            | 27,700                       |
| Water  |                   |                      |                       |                            | 99,900                       |
| Sewer  |                   |                      |                       |                            | 50,200                       |
| <b>Total Notes Outstanding</b>                             |                   |                      |                       |                            | <b>177,800</b>               |
| <b>Premium/Discount</b>                                    |                   |                      |                       |                            | <b>230,036</b>               |
| <b>Grant Total</b>   |                   |                      |                       |                            | <b>3,889,142</b>             |

**WASHINGTON SUBURBAN SANITARY COMMISSION**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED JUNE 30, 2021 AND 2020**

**BONDS AND NOTES PAYABLE**  
**AS OF JUNE 30, 2020**

|  | (in thousands) |               |              |                   |                      |
|--|----------------|---------------|--------------|-------------------|----------------------|
|  | ISSUE          | AMOUNT        | MATURITY     | INTEREST          | BALANCE              |
| <b>Consolidated Public Improvement Bonds</b> | <b>DATE</b>    | <b>ISSUED</b> | <b>RANGE</b> | <b>RATE RANGE</b> | <b>JUNE 30, 2020</b> |
| 2011 Issue                                   | 11/16/2011     | \$ 300,000    | 2021         | 3.000             | \$ 15,000            |
| 2012 Issue                                   | 11/15/2012     | 250,000       | 2021-2032    | 3.000-5.000       | 150,000              |
| 2013 Issue                                   | 4/23/2013      | 150,000       | 2021-2023    | 4.000-5.000       | 22,500               |
| 2013 Refunding                               | 4/23/2013      | 53,585        | 2021-2026    | 2.000-4.000       | 29,970               |
| 201414 Refunding                             | 4/29/2014      | 37,810        | 2021-2022    | 5.000             | 6,970                |
| 2014 Issue                                   | 4/29/2014      | 150,000       | 2021-2044    | 4.000-5.000       | 120,000              |
| 2014 Issue (2nd Series)                      | 12/2/2014      | 250,000       | 2021-2044    | 4.000-5.000       | 216,170              |
| 2015 Issue                                   | 10/28/2015     | 390,000       | 2021-2045    | 3.000-5.000       | 354,060              |
| 2015 Refunding                               | 11/24/2015     | 145,325       | 2021-2028    | 2.650-5.000       | 109,905              |
| 2016 Refunding                               | 5/26/2016      | 23,835        | 2021-2025    | 4.000-5.000       | 16,930               |
| 2016 Issue                                   | 5/26/2016      | 145,000       | 2021-2046    | 3.000-5.000       | 133,905              |
| 2016 Issue (2nd Series)                      | 12/1/2016      | 381,810       | 2021-2046    | 3.000-5.000       | 355,335              |
| 2017 Refunding                               | 11/9/2017      | 220,180       | 2021-2032    | 3.000-5.000       | 216,650              |
| 2017 Issue                                   | 11/9/2017      | 459,250       | 2021-2047    | 3.000-5.000       | 437,485              |
| 2017 Refunding (2nd Series), (2019 CO)       | 12/13/2017     | 79,075        | 2021-2029    | 5.000             | 71,650               |
| 2018 Issue                                   | 12/20/2018     | 390,000       | 2021-2048    | 4.000-5.000       | 376,535              |
| 2019 Refunding                               | 3/27/2019      | 39,340        | 2021-2029    | 2.000-5.000       | 32,065               |
| 2019 Issue                                   | 12/23/2019     | 233,565       | 2021-2049    | 3.000-5.000       | 225,135              |
| 2020 Refunding                               | 3/11/2020      | 99,210        | 2021-2030    | 5.000             | 99,210               |
| <b>Total Public Improvement Bonds</b>        |                |               |              |                   | <b>2,989,475</b>     |
| <b>Maryland Water Quality Bonds</b>          |                |               |              |                   |                      |
| Consolidated Lab Facility(General)           | 9/29/2000      | \$ 11,394     | 2021         | 2.400             | \$ 579               |
| Potomac WFP Solids Handling(Water)           | 9/29/2000      | 20,433        | 2021         | 2.400             | 1,012                |
| Piscataway WWTP BNR                          | 9/29/2000      | 5,530         | 2021         | 2.400             | 277                  |
| BP WWTP ACS                                  | 4/15/2003      | 41,098        | 2021-2025    | 1.100             | 10,518               |
| Piscataway WWTP SD Upgrade                   | 4/15/2003      | 9,200         | 2021-2024    | 1.100             | 1,840                |
| Energy Performance Projects                  | 4/15/2003      | 11,272        | 2021-2023    | 1.100             | 2,003                |
| WB WWTP Filter Upgrade                       | 1/15/2009      | 4,957         | 2021-2028    | 1.000             | 2,202                |
| WB & Seneca WWTP ENR & Facility Upgrade      | 2/24/2012      | 49,706        | 2021-2034    | 0.800             | 35,617               |
| BP WWTP ENR Upgrade (Tunnel) & NDF           | 6/19/2012      | 125,000       | 2021-2034    | 0.800             | 93,917               |
| BP WWTP NDF - CHP                            | 2/27/2013      | 15,000        | 2021-2035    | 0.800             | 11,471               |
| Potomac Vista Water System                   | 4/29/2013      | 135           | 2021-2040    | 1.000             | 101                  |
| BP WWTP NDF - CHP (2nd Loan)                 | 5/30/2014      | 15,000        | 2021-2035    | 1.000             | 11,525               |
| BP WWTP NDF - CHP (3rd Loan)                 | 4/14/2016      | 8,169         | 2021-2035    | 0.700             | 5,956                |
| BP WWTP ENR Upgrade - ECF & TDPS             | 4/14/2016      | 53,824        | 2021-2037    | 1.400             | 48,115               |
| Piscataway WWTP BE                           | 6/13/2019      | 43,960        | 2021-2042    | 0.700             | 30,733               |
| <b>Total Maryland Water Quality Bonds</b>    |                |               |              |                   | <b>255,864</b>       |
| <b>Jennings Randolph (Water Operating)</b>   | 7/1/1982       | 5,739         | 1982-2031    | 3.253             | <b>2,223</b>         |
| <b>Jennings Randolph (Water Operating)</b>   | 7/1/1992       | 27,367        | 1992-2041    | 3.253             | <b>17,332</b>        |
| <b>Total Bonds Outstanding</b>               |                |               |              |                   | <b>\$ 3,264,894</b>  |
| <b>Notes</b>                                 |                |               |              |                   |                      |
| General                                      |                |               |              |                   | 27,700               |
| Water  |                |               |              |                   | 99,900               |
| Sewer  |                |               |              |                   | 50,200               |
| <b>Total Notes Outstanding</b>               |                |               |              |                   | <b>177,800</b>       |
| <b>Premium/Discount</b>                      |                |               |              |                   | <b>227,807</b>       |
| <b>Grant Total</b>                           |                |               |              |                   | <b>3,670,501</b>     |

**WASHINGTON SUBURBAN SANITARY COMMISSION**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED JUNE 30, 2021 AND 2020**

**I. BONDS AND NOTES PAYABLE (continued)**

Bond and note maturities and interest thereon for the next five years and then in five-year increments after fiscal year 2026 are as follows (in thousands):

| Year ended<br>June 30 | Principal<br>Other<br>Maturities | Principal<br>Direct Placement<br>Maturities | Interest<br>Other<br>Requirements | Interest<br>Direct Placement<br>Requirements |
|-----------------------|----------------------------------|---|-----------------------------------|--|
| 2022                  | \$320,059                        | \$18,177                                    | \$130,507                         | \$ 2,290                                     |
| 2023                  | 141,108                          | 21,497                                      | 122,640                           | 2,161  |
| 2024                  | 142,737                          | 20,453                                      | 115,641                           | 1,979  |
| 2025                  | 144,982                          | 19,737                                      | 111,453                           | 1,805  |
| 2026                  | 141,143                          | 18,106                                      | 104,764                           | 1,644  |
| 2027-2031             | 656,469                          | 91,944                                      | 430,120                           | 5,936  |
| 2032-2036             | 494,104                          | 73,268                                      | 298,240                           | 2,197  |
| 2037-2041             | 563,931                          | 14,631                                      | 195,992                           | 470  |
| 2042-2046             | 604,666                          | 7,760                                       | 86,454                            | 163  |
| 2047-2050             | 163,700                          | 640   | 8,084                             | 3  |
| Total                 | <u>3,372,899</u>                 | <u>286,213</u>                              | <u>1,603,895</u>                  | <u>18,648</u>                                |

Bond Anticipation Notes (the Notes) are remarketed weekly by WSSC Water’s remarketing agent at prevailing weekly tax-exempt interest rates. Interest rates on the Notes ranged from 0.02% to 0.23% during fiscal year 2021 and from 0.13% to 6.25% during fiscal year 2020. Any or all buyers of the Notes may demand payment from WSSC Water’s remarketing agent upon seven days’ notice. WSSC Water’s remarketing agents are prepared to remarket the Notes in such eventuality. The Notes were sold under a bank line of credit agreement which acts as a guarantee of liquidity for the Notes in the event that the Notes cannot be remarketed. On August 28, 2013, the Commission replaced the series “A” notes with two separate series (A&B), each backed by their own line of credit. On July 26, 2019, the Commission extended the current line of credit agreements with both TD Bank and State Street Bank & Trust through August 28, 2023. The maximum amount available under each line of credit, subject to certain conditions, is \$107.5 million. In aggregate, the total line of credit is \$215.0 million.

At both June 30, 2021 and 2020, \$177.8 million of the Notes were outstanding. WSSC Water expects to redeem these Notes with proceeds of future bond issues or annual amortization. WSSC Water did not issue any notes since fiscal year 2016. In accordance with the Commission’s COVID-19 Savings Plan, in FY21 and FY20, the Commission did not partially redeem BANs as part of the water, sewer, and general debt service amortization. The Notes are treated as bonds, and as such, are expected to be amortized over a 20-year term. However, because these Notes are callable, the entire \$177.8 million has been included in current maturities (fiscal 2021 principal maturities), and an estimated \$6.2 million has been included in the fiscal 2022 interest requirements. Additional estimated interest requirements at prevailing rates through 2036 on these Notes, assuming future redemption from proceeds of bonds, would total \$57.1 million.

Since November 1989, WSSC Water 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. According to GASB Statement No. 88, the Maryland Water Quality Revolving Loan Fund is a direct placement bond. As of June 30, 2021, WSSC Water borrowed \$492.5 million from the program. The total principal balance outstanding as of June 30, 2021 and 2020 was \$286.2 million and \$255.9 million, respectively. WSSC Water does not have assets that are pledged as collateral for the loan, however, WSSC Water has authority to assess an ad valorem tax to pay debt service if necessary. There has not been any event of default or termination on the Maryland Water Quality Revolving Loan.

**WASHINGTON SUBURBAN SANITARY COMMISSION**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED JUNE 30, 2021 AND 2020**

**I. BONDS AND NOTES PAYABLE (continued)**

Proceeds of notes payable to the Federal government were used to make improvements to the Jennings Randolph Reservoir for backup and peak-day water supply. The note payable accrues interest at 3.25% and balances outstanding at June 30, 2021 and 2020 were \$18.8 million and \$19.6 million, respectively.

On May 15, 2020, the Commission opened a Line of Credit with M&T Bank (the "LOC"). For this LOC, the Commission had the right to draw funds from time to time up to a maximum of \$100,000,000. It served as liquidity if needed for operating expenditures in the event that the Commission experienced significant unanticipated revenue shortfalls due to the COVID-19 emergency. The Commission's obligation to repay any amounts drawn under the Loan Documents and interest thereon was a general obligation of the Commission for the payment of which the Commission pledged its revenues and, if such revenues were insufficient, the Commission would cause the County Council of Montgomery County and the County Council of Prince George's County to impose ad valorem taxes against all assessable property within the District in an amount sufficient to pay amounts owing under the Loan Agreement. The Commission did not draw on the LOC and closed it on May 15, 2021.

WSSC Water is in compliance with all terms of its debt agreements at June 30, 2021 and 2020.

**J. BOND REFUNDINGS**

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

The refunded bonds continue to be general obligations of WSSC Water until redeemed or called. However, the net proceeds of the refunding bonds are applied toward the purchase of U.S. Government obligations (held in escrow) with maturities and interest sufficient to meet debt service and call premiums, if any, on the refunded bonds. The holders of the refunded bonds have first lien on all assets held in escrow. Refunded bonds outstanding at June 30, 2021 and 2020, which amounted to \$67.5 million and \$217.5 million respectively, are considered to be defeased and are not reflected in the accompanying financial statements.

WSSC Water did not sell refunding bonds in FY21.

In February 2020, WSSC Water sold \$99.2 million of refunding bonds with interest rate of 5.00% to refund \$120.0 million of outstanding callable water supply, sewage disposal and general construction bonds with interest rates ranging from 3.55% to 4.85%. The net proceeds of \$122.1 million (including a premium of \$23.2 million) were used to purchase SLGS 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 February 2020 refunding will reduce WSSC Water's total debt service payments over the next 11 years by \$13.4 million and provide an economic gain of \$12.7 million.

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

Effective July 1, 1993, WSSC Water adopted GASB Statement No. 23, *Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities*. GASB No. 23 requires deferral of the difference between the reacquisition price and the carrying amount of the old debt. The difference is reported in the accompanying financial statements as a deferred outflow of resources and is being amortized to interest on bonds and notes through the year 2032 using the proportionate-to-stated interest method. Amortization totaling (-\$0.2) million and \$0.09 million in fiscal 2021 and 2020, respectively, was recorded as an interest adjustment on bonds and notes payable in the accompanying statements of revenues, expenses and changes in net position.

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

**WASHINGTON SUBURBAN SANITARY COMMISSION**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED JUNE 30, 2021 AND 2020**

**K. RETIREMENT PLAN**

**Plan Description**

The Washington Suburban Sanitary Commission Employees' Retirement Plan (the Plan), a single employer contributory defined benefit retirement plan, was established in 1967 to provide retirement and death benefits for the employees of the Washington Suburban Sanitary Commission (WSSC Water) under conditions set forth in the Plan Document based on an employee's age, length of service, and compensation. The Retirement Plan Document is amended from time to time, with the Plan last amended on April 17, 2019. The Plan may be amended by Commission resolution or by the Executive Director on behalf of the Commission.

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

As of December 31, 2020, and 2019, there were 1,682 and 1,662 employees, respectively, participating in the Open Version of the Plan, and 4 and 5 employees, respectively, participating in the Closed Version of the Plan, a total of 1,686 and 1,667 employee participants, respectively.

As of December 31, 2020, and 2019, there were 1,681 and 1,662 retirees and/or beneficiaries, respectively, receiving benefits from the Plan, and there were 121 and 116 terminated vested employees, respectively, not yet receiving benefits. Nine and sixteen employees retired in fiscal years 2020 and 2019, respectively, and began receiving benefits in subsequent fiscal years.

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

**Contributions**

WSSC Water funds annual pension plan costs based upon a level percentage of payroll costs. For fiscal year 2020, WSSC Water made contributions to the pension plan over 10 months. As of December 31, 2020, WSSC's contribution amount to \$16.4 million, about 60% of the annual contribution. For fiscal year 2019, WSSC Water's contribution was paid in a lump sum on July 1 2019, which amounted to \$26.5 million.

**Pension Benefits**

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

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

1. 2.1% of final average monthly compensation multiplied by the Closed Version credited service, plus
2. 1.4% of final average monthly compensation multiplied by the Open Version credited service where the sum of Closed Version credited service and Open Version credited service, exclusive of accumulated sick leave service is subject to a maximum of 36 years.

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

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

**WASHINGTON SUBURBAN SANITARY COMMISSION**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED JUNE 30, 2021 AND 2020**

**K. RETIREMENT PLAN (continued)**

**Actuarial Assumptions**

The total pension liability was determined by an actuarial valuation as of June 30, 2020, using the following actuarial assumptions, applied to all periods included in the measurement:

|                                   | <u>2020</u> | <u>2019</u> |
|-----------------------------------|-------------|-------------|
| Inflation/Cost of Living Increase | 2.50%       | 2.50%       |
| Salary increases                  |             |             |
| Up to 4 years of Service          | 7.50%       | 7.50%       |
| 5+ years of service               | 2.75%       | 2.75%       |
| Investment rate of return         | 7.00%       | 7.00%       |

The mortality rates were based on the Pub-2010G(B) Mortality Tables for Males and Females, projected on a generational using Scale SSA. A 109% adjustment factor is applied to female mortality rates.

The actuarial assumptions used in the June 30, 2020 valuation were based on the results of an actuarial experience analysis covering 2015 through 2020.

Further details on all assumptions are provided in the 2020 valuation report and 2015-2020 experience study report.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. This is then modified through a Monte-Carlo simulation process, by which a (downward) risk adjustment is applied to the baseline expected return. Best estimates of real rates of return for each major asset class included in the pension plan's target asset allocation as of December 31, 2020, and the final investment return assumption, are summarized in the following table:

| <b>Asset class:</b>                | <u>Target<br/>Allocation</u> | <u>Long Term<br/>Expected Real<br/>Rate of Return</u> |
|------------------------------------|------------------------------|---|
| Domestic Equity                    | 42.00%                       | 6.10%   |
| Non-U.S. Equity                    | 19.00%                       | 6.50%   |
| U.S. Fixed Income                  | 32.00%                       | 1.40%   |
| Real Estate                        | 7.00%                        | 4.15%   |
| Total Weighted Average Real Return | <u>100.00%</u>               | <u>4.54%</u>  |
| Plus Inflation                     |                              | <u>2.50%</u>  |
| Total Return without Adjustment    |                              | <u>7.04%</u>  |
| Risk Adjustment                    |                              | <u>-0.04%</u>   |
| Total Expected Return              |                              | <u>7.00%</u>  |

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**K. RETIREMENT PLAN (continued)**

**Discount Rate**

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

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

**Other Key Actuarial Assumptions**

The other key actuarial assumptions that determined the total pension liability as of December 31, 2020 and 2019 included:

|                                      |                   |                   |
|--------------------------------------|-------------------|-------------------|
| Valuation date                       | June 30, 2020     | June 30, 2019     |
| Measurement date                     | December 31, 2020 | December 31, 2019 |
| Inflation                            | 2.50%             | 2.50%             |
| Salary increased including inflation | 2.75% to 7.50%    | 2.75% to 7.50%    |

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

The following presents the net pension liability of the Plan, calculated using the discount rate of 7.00% for each of 2020 and 2019, as well as what the Plan's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate (in thousands).

|                              | 1% Decrease<br>6.00% | Current<br>Discount Rate<br>7.00% | 1% Increase<br>8.00% |
|------------------------------|----------------------|-----------------------------------|----------------------|
| Net Pension Liability - 2020 | <u>\$ 237,916</u>    | <u>\$ 121,613</u>                 | <u>\$ 23,764</u>     |
| Net Pension Liability - 2019 | <u>\$ 230,368</u>    | <u>\$ 120,275</u>                 | <u>\$ 27,148</u>     |

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**K. RETIREMENT PLAN (continued)**

**Changes in the Net Pension Liability**

Changes in the Net Pension Liability for the year ended December 31, 2020 were as follows (in thousands):

|  | Increase (Decrease)        |                                   |                          |
|--|----------------------------|-----------------------------------|--------------------------|
|  | Total Pension<br>Liability | Plan<br>Fiduciary Net<br>Position | Net Pension<br>Liability |
|  | (a)                        | (b)                               | (a) – (b)                |
| Balances at 12/31/19   | \$ 980,963                 | \$ 860,688                        | \$ 120,275               |
| Changes for the year:  |                            |                                   |                          |
| Service cost   | 12,537                     | -                                 | 12,537                   |
| Interest   | 67,260                     | -                                 | 67,260                   |
| Differences between expected and actual<br>experience            | 2,390                      | -                                 | 2,390                    |
| Changes in assumptions   | 22,472                     | -                                 | 22,472                   |
| Contributions – employer*  | -                          | 16,412                            | (16,412)                 |
| Contributions – employee   | -                          | 4,929                             | (4,929)                  |
| Net investment income  | -                          | 82,672                            | (82,672)                 |
| Benefit payments, including refunds of<br>employee contributions | (66,404)                   | (66,404)                          | -                        |
| Administrative expense   | -                          | (692)                             | 692                      |
| Net change   | 38,255                     | 36,917                            | 1,338                    |
| Balances at 12/31/20   | \$ 1,019,218               | \$ 897,605                        | \$ 121,613               |

Plan's fiduciary net position as a percentage of  
the total pension liability 88.07%

\* Employer contribution only represents 60% the fiscal year contribution which is to be made over 10 months.

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**K. RETIREMENT PLAN (continued)**

Changes in the Net Pension Liability for the year ended December 31, 2019 were as follows (in thousands):

|  | Increase (Decrease)        |                           |                          |
|--|----------------------------|---------------------------|--------------------------|
|  | Total Pension<br>Liability | Plan                      |                          |
|  |                            | Fiduciary Net<br>Position | Net Pension<br>Liability |
|  | (a)                        | (b)                       | (a) – (b)                |
| Balances at 12/31/18   | \$ 968,213                 | \$ 741,585                | \$ 226,628               |
| Changes for the year:  |                            |                           |                          |
| Service cost   | 11,958                     | -                         | 11,958                   |
| Interest   | 66,287                     | -                         | 66,287                   |
| Differences between expected and actual<br>experience            | (1,762)                    | -                         | (1,762)                  |
| Changes in assumptions   | -                          | -                         | -                        |
| Contributions – employer   | -                          | 26,524                    | (26,524)                 |
| Contributions – employee   | -                          | 4,946                     | (4,946)                  |
| Net investment income  | -                          | 151,805                   | (151,805)                |
| Benefit payments, including refunds of<br>employee contributions | (63,733)                   | (63,733)                  | -                        |
| Administrative expense   | -                          | (439)                     | 439                      |
| Net change   | 12,750                     | 119,103                   | (106,353)                |
| Balances at 12/31/19   | \$ 980,963                 | \$ 860,688                | \$ 120,275               |

Plan's fiduciary net position as a percentage of  
the total pension liability 87.74%

**Pension Expense**

For the years ended June 30, 2021 and 2020, WSSC Water recognized pension expense as follows (in thousands):

|                             | 2021      | 2020      |
|-----------------------------|-----------|-----------|
| Pension cost distributions: |           |           |
| Operating                   | \$ 13,716 | \$ 22,530 |
| Non-operating               | (15,868)  | 12,539    |
| Capital                     | 2,916     | (13,170)  |
| Total pension expense       | \$ 764    | \$ 21,899 |

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**K. RETIREMENT PLAN (continued)**

**Deferred Outflows (Inflows) of Resources**

Deferred outflows of resources and deferred inflows of resources related to pensions were reported for the years ended June 30, 2021 and 2020 from the following sources (in thousands):

| <b>Deferred Outflows</b>   | <u>2020</u>        | <u>2020</u>        |
|--|--------------------|--------------------|
| Contributions made subsequent to measurement date                                | \$ 10,921          | \$ -               |
| Changes in assumptions   | 18,727             | 5,376              |
| Differences between expected and actual experience                               | <u>9,728</u>       | <u>11,606</u>      |
| Deferred Outflows  | <u>\$ 39,376</u>   | <u>\$ 16,982</u>   |
| <br>   |                    |                    |
| <b>Deferred Inflows</b>  |                    |                    |
| Differences between expected and actual experience                               | \$ (4,723)         | \$ (16,677)        |
| Net difference between projected and actual earnings on pension plan investments | <u>(46,198)</u>    | <u>(39,757)</u>    |
| Deferred Inflows   | <u>\$ (50,921)</u> | <u>\$ (56,434)</u> |

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

| <u>Year ended</u><br><u>June 30</u> | <u>Amortization</u> |
|-------------------------------------|---------------------|
| 2022                                | (\$9,956)           |
| 2023                                | 5,209               |
| 2024                                | (21,212)            |
| 2025                                | (650)               |
| 2026                                | 4,144               |

Historical trend information showing the Plan's progress is presented in the Plan's December 31, 2020 comprehensive annual financial report, which can be requested from WSSC Water's offices.

**Retirement Restoration Plan**

Effective July 1, 1995, WSSC Water 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 Water Employees' Retirement Plan when such benefits are limited by the maximum benefit provisions of Section 415 of the Internal Revenue Code. During fiscal years 2021 and 2020, the Restoration Plan paid benefits totaling \$20,000 and \$19,000, respectively.

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**L. OTHER POST EMPLOYMENT BENEFITS (OPEB)**

**Plan Description**

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

As of December 31, 2020, and 2019, there were 1,686 and 1,667 active employees and 1,681 and 1,662 retirees, respectively. WSSC Water has the right to amend the Trust Fund Agreement.

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

**Member and Employer Contributions**

WSSC Water contributes to the OPEB Plan as it deems appropriate. WSSC Water initially elected to phase-in payments to the Trust over a five-year period, such that 20% of the difference between the annual required contribution and total cash expenses (funded on a “Pay-as-you-go” basis) would be funded in fiscal year 2007 and 40% of this difference would be funded in fiscal year 2008. During the third year (2009) of the phase in, WSSC Water elected to phase-in this difference over an eight-year period, which ended in 2014. WSSC Water made cash contributions of \$3.3 and \$5.4 million for the years ending December 31, 2020 and 2019, respectively.

The OPEB Plan recognizes revenues and expenditures for third-party payments made by WSSC Water related to benefits payments and administrative expenses. Accordingly, the OPEB Plan has included “on behalf” payments made by WSSC Water during the years 2020 and 2019 of \$14.7 million and \$15.7 million, respectively.

“On-behalf” payments by Water WSSC Water made subsequent to the measurement dates of December 31, 2020 and 2019 are reported as deferred outflows of contributions at June 30, 2021 and 2020 totaling \$5.2 million and \$3.4 million, respectively.

**OPEB Benefits**

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

**OPEB Plan Termination**

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

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**L. OTHER POST EMPLOYMENT BENEFITS (OPEB) (continued)**

**Actuarial Assumptions**

The total OPEB liability was determined by an actuarial valuation as of July 1, 2019, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

|                        |       |                             |                         |                             |
|------------------------|-------|-----------------------------|-------------------------|-----------------------------|
| Inflation              | 2.50% |                             |                         |                             |
| Salary Increase        | 3.00% | (for Entry Age cost method) |                         |                             |
| Investment Return      | 7.00% |                             |                         |                             |
| Healthcare cost trends |       | UHC POS<br>(Pre-65)         | UHC EPO/HMP<br>(Pre-65) | Medicare<br>Plus/Supplement |
| 2019                   |       | 6.50%                       | 7.00%                   | 4.50%                       |
| 2020                   |       | 6.25%                       | 6.75%                   | 4.25%                       |
| 2021                   |       | 6.00%                       | 6.50%                   | 4.00%                       |
| 2022                   |       | 5.75%                       | 6.25%                   | 4.00%                       |
| 2023                   |       | 5.50%                       | 6.00%                   | 4.00%                       |
| 2024                   |       | 5.25%                       | 5.75%                   | 4.00%                       |
| 2025                   |       | 5.00%                       | 5.50%                   | 4.00%                       |
| 2026                   |       | 4.75%                       | 5.25%                   | 4.00%                       |
| 2027                   |       | 4.50%                       | 5.00%                   | 4.00%                       |
| 2028                   |       | 4.25%                       | 4.75%                   | 4.00%                       |
| 2029+                  |       | 4.25%                       | 4.50%                   | 4.00%                       |

The mortality rates were based on the RP-2000 Blue Collar Healthy Annuitant Mortality Table, for Males and Females, with one year set forward, and projected to 2025 using Scale BB. The RP2000 Disabled tables were used for the valuation of disabled lives. The actuarial assumptions used in the July 1, 2019 valuation were based on the results of an actuarial experience analysis in 2016, covering 2011 through 2015.

There were no changes in actuarial assumptions during fiscal year 2021.

Further details on assumptions are provided in the valuation report.

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimates of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. This is then modified through a Monte-Carlo simulation process, by which a (downward) risk adjustment is applied to the baseline expected return. Best estimates of real rates of return for each major asset class included in the OPEB plan's target asset allocation as of December 31, 2020, and the final investment return assumption, are summarized in the following tables:

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**L. OTHER POST EMPLOYMENT BENEFITS (OPEB) (continued)**

|                                    | Portfolio<br>Allocation | Long Term<br>Expected Real<br>Rate of Return |
|------------------------------------|-------------------------|--|
| <b>Asset class:</b>                |                         |  |
| Domestic Equity                    | 40%                     | 6.10%  |
| Non-U.S. Equity                    | 25%                     | 6.50%  |
| U.S. Fixed Income - Investment     | 35%                     | 1.40%  |
| Total Weighted Average Real Return | 100.00%                 | 4.56%  |
| Plus Inflation                     |                         | 2.50%  |
| Total Return without Adjustment    |                         | 7.06%  |
| Risk Adjustment                    |                         | -0.06%                                       |
| Total Expected Return              |                         | 7.00%  |

**Discount Rate**

The discount rate used to measure the total OPEB liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made equal to the pay-as-you-go cost, plus \$5 million into the OPEB Trust. These amounts are more than enough to satisfy the Actuarially Determined Contributions going forward. Based on those assumptions, the OPEB Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

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

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

|                           | 1% Decrease<br>6.00% | Current<br>Discount Rate<br>7.00% | 1% Increase<br>8.00% |
|---------------------------|----------------------|-----------------------------------|----------------------|
| Net OPEB Liability - 2020 | \$ 116,787           | \$ 85,245                         | \$ 58,976            |
| Net OPEB Liability - 2019 | \$ 134,555           | \$ 104,729                        | \$ 79,943            |

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

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

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**L. OTHER POST EMPLOYMENT BENEFITS (OPEB) (continued)**

|                           | <u>1% Decrease</u><br><u>3.0% - 3.5%</u> | <u>Current Trend</u><br><u>4.0% - 4.5%</u> | <u>1% Increase</u><br><u>5.0% - 5.5%</u> |
|---------------------------|--|--|--|
| Net OPEB Liability - 2020 | <u>\$ 58,938</u>                         | <u>\$ 85,245</u>                           | <u>\$ 117,061</u>                        |
| Net OPEB Liability - 2019 | <u>\$ 78,950</u>                         | <u>\$ 104,729</u>                          | <u>\$ 135,950</u>                        |

**Other Key Actuarial Assumptions**

The other key actuarial assumptions that determined the total OPEB liability as of December 31, 2020 and 2019 included:

|                  |                   |                   |
|------------------|-------------------|-------------------|
| Valuation date   | July 1, 2019      | July 1, 2019      |
| Measurement date | December 31, 2020 | December 31, 2019 |
| Inflation        | 2.50%             | 2.50%             |

**Changes in the Net OPEB Liability**

Changes in the Net OPEB Liability for the year ended December 31, 2020 were as follows (in thousands):

|   | <u>Increase (Decrease)</u>                          |  |   |
|---|---|--|---|
|   | <u>Total OPEB</u><br><u>Liability</u><br><u>(a)</u> | <u>Plan</u><br><u>Fiduciary Net</u><br><u>Position</u><br><u>(b)</u> | <u>Net OPEB</u><br><u>Liability</u><br><u>(a) - (b)</u> |
| Balances at 12/31/19  | <u>\$ 255,253</u>                                   | <u>\$ 150,524</u>  | <u>\$ 104,729</u>                                       |
| Changes for the year:   |   |  |   |
| Service cost  | 2,968   | -  | 2,968   |
| Interest  | 17,725  | -  | 17,725  |
| Contributions – employer, including benefits paid             | -   | 13,431   | (13,431)  |
| Contributions – retiree                                       | -   | 4,548  | (4,548)   |
| Net investment income   | -   | 26,746   | (26,746)  |
| Benefit payments, including refunds of employee contributions | (10,180)  | (14,728)   | 4,548   |
| Net change  | <u>10,513</u>                                       | <u>29,997</u>  | <u>(19,484)</u>   |
| Balances at 12/31/20  | <u>\$ 265,766</u>                                   | <u>\$ 180,521</u>  | <u>\$ 85,245</u>  |

|  |        |
|--|--------|
| Plan's fiduciary net position as a percentage of the total pension liability | 67.92% |
|--|--------|

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**L. OTHER POST EMPLOYMENT BENEFITS (OPEB) (continued)**

Changes in the Net OPEB Liability for the year ended December 31, 2019 were as follows (in thousands):

|  | Increase (Decrease) |               |            |
|--|---------------------|---------------|------------|
|  | Total OPEB          | Plan          | Net OPEB   |
|  | Liability           | Fiduciary Net | Liability  |
|  | (a)                 | Position      | (a) – (b)  |
|  |                     | (b)           |            |
| Balances at 12/31/18   | \$ 249,341          | \$ 119,812    | \$ 129,529 |
| Changes for the year:  |                     |               |            |
| Service cost   | 2,881               | -             | 2,881      |
| Interest   | 17,269              | -             | 17,269     |
| Differences between expected and actual experience                           | (3,010)             |               | (3,010)    |
| Contributions – employer, including benefits paid                            | -                   | 16,647        | (16,647)   |
| Contributions – retiree  | -                   | 4,487         | (4,487)    |
| Net investment income  | -                   | 25,344        | (25,344)   |
| Benefit payments, including refunds of employee contributions                | (11,228)            | (15,716)      | 4,488      |
| Administrative expense*  | -                   | (50)          | 50         |
| Net change   | 5,912               | 30,712        | (24,800)   |
| Balances at 12/31/19   | \$ 255,253          | \$ 150,524    | \$ 104,729 |
| Plan’s fiduciary net position as a percentage of the total pension liability | 58.97%              |               |            |

**OPEB Expense**

For the years ended June 30, 2020 and 2019, WSSC Water recognized OPEB expense as follows (in thousands):

|                          | 2021     | 2020      |
|--------------------------|----------|-----------|
| OPEB cost distributions: |          |           |
| Operating                | \$ 8,609 | \$ 9,479  |
| Non-operating            | (2,112)  | 2,155     |
| Capital                  | (968)    | (1,265)   |
| Total OPEB expense       | \$ 5,529 | \$ 10,369 |

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**L. OTHER POST EMPLOYMENT BENEFITS (OPEB) (continued)**

**Deferred Outflows (Inflows) of Resources**

Deferred outflows of resources and deferred inflows of resources related to pensions were reported for the years ended June 30, 2021 and 2020 from the following sources (in thousands):

| <b>Deferred Outflows</b>   | <u>2021</u>        | <u>2020</u>       |
|--|--------------------|-------------------|
| Contributions made subsequent to the measurement date                    | \$ 7,344           | \$ 3,351          |
| Net difference between expected and actual experience                    | <u>986</u>         | <u>1,971</u>      |
| Deferred Outflows  | <u>\$ 8,330</u>    | <u>\$ 5,322</u>   |
| <br>   |                    |                   |
| <b>Deferred Inflows</b>  |                    |                   |
| Net difference between expected and actual experience                    | \$ (2,006)         | \$ (2,508)        |
| Net difference between projected and actual earnings on plan investments | <u>(17,521)</u>    | <u>(6,551)</u>    |
| Deferred Inflows   | <u>\$ (19,527)</u> | <u>\$ (9,059)</u> |

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

| <u>Year ended</u><br><u>June 30</u> | <u>Amortization</u> |
|-------------------------------------|---------------------|
| 2022                                | (\$4,109)           |
| 2023                                | (3,625)             |
| 2024                                | (7,083)             |
| 2025                                | (3,724)             |
| 2026                                | 0                   |

Historical trend information showing the Plan's progress is presented in the Plan's December 31, 2020 comprehensive annual financial report, which can be requested from WSSC Water's offices.

**M. DEFERRED COMPENSATION PLAN**

WSSC Water 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.

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**N. COMMITMENTS AND CONTINGENCIES**

Construction expenditures for fiscal 2022 are not expected to exceed \$704 million, after excluding the portion that will be funded by capital contributions. Commitments in connection with this construction program approximated \$327 million at June 30, 2021.

For fiscal years 2021 and 2020, the Commission paid \$53.8 million and \$33.7 million, respectively, to fund its share of construction costs under the regional Blue Plains Intermunicipal Agreement of 2012. The Commission estimates its share of the construction costs over the next six years to be \$392.1 million, of which \$54.6 million is expected to be incurred in fiscal year 2022 and the balance over fiscal years 2023 to 2027. In addition, for fiscal years 2021 and 2020, the Commission made total payments of \$55.1 million and \$59.7 million, respectively, to DC Water for its share of operating and maintenance costs.

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

The United States Department of Justice, the United States Environmental Protection Agency and the Maryland Department of the Environment (collectively, "the Regulators") alleged, in previous years, that sanitary sewer overflows ("SSOs") from WSSC Water'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 Water 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 Water, the Regulators and four environmental groups in which WSSC Water agreed to undertake certain remedial measures to eliminate and/or reduce SSO occurrences. The proposed Consent Decree was approved by the U.S. District Court with an official start date of December 7, 2005. In fiscal 2016, the U.S. District Court approved a six-year extension to the original term of the Consent Decree. Costs of these remedial measures are estimated at \$1,633.7 million and are to be expended over at least 19 years, \$108.8 million of which is expected to be incurred after fiscal year 2021. The costs are included in WSSC Water's budget and capital improvements program. WSSC Water also paid civil penalties totaling \$1.1 million. These costs were accrued in fiscal 2005, and paid in fiscal 2006.

In February 2014, the Potomac Riverkeeper, Inc. ("PR") and the Chesapeake Bay Foundation, Inc. ("CBF") filed a complaint for injunctive relief and penalties in U.S. District Court in Maryland alleging violations of the Clean Water Act ("CWA") by the Commission (the "Issuer"). Under a Consent Decree executed by the District Court of Maryland on April 15, 2016, the Commission is required to undertake short-term operational changes and capital improvements at the Potomac Water Filtration Plant that will enable WSSC Water to reduce solids discharged to the river, and to plan, design and implement upgrades or new construction to achieve requirements established by MDE and incorporated in a new discharge permit. An Audit report and Long-Term Upgrade Plan were submitted by WSSC Water for consideration by MDE on December 26, 2016. WSSC Water and its consultant prepared an Amended Long-Term Upgrade Plan to address deficiencies in the 2016 Plan and issues raised by MDE and PR in response to the Plan. The work required to implement the Long-Term Capital Improvement Project(s) shall be fully implemented in accordance with the schedule in the Long-Term Upgrade Plan. The Commission shall be subject to lump-sum stipulated penalties for failure to implement Long-Term Capital Improvement Project(s) by January 1, 2026. Costs for implementation of improvements are estimated at \$182.3 million, \$152.3 million of which is expected to be incurred after fiscal year 2021. The costs are included in WSSC Water's budget and capital improvements program.

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

**WASHINGTON SUBURBAN SANITARY COMMISSION**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED JUNE 30, 2021 AND 2020**

**N. COMMITMENTS AND CONTINGENCIES (continued)**

WSSC Water 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 Water 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 Water also maintains crime and terrorism insurance and fiduciary liability policies having various self-insured retention levels. Claims have not exceeded policy limits in the past three years. WSSC Water also carries insurance for other risks of loss.

WSSC Water 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):

|                                     | <u>2021</u>     | <u>2020</u>     |
|-------------------------------------|-----------------|-----------------|
| Claim liability - beginning of year | \$ 9,210        | \$ 8,645        |
| Claims estimate adjustments         | 478             | 565             |
| Claim liability - end of year       | <u>\$ 9,688</u> | <u>\$ 9,210</u> |

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

**O. NOTES TO PENSION & OPEB STATEMENT OF FIDUCIARY NET POSITION**

**Cash and Cash Equivalents (in thousands)**

Both Pension and OPEB plans consider all cash and highly liquid investments with an original maturity of three months or less to be cash and cash equivalents. Cash and cash equivalents for the Pension Plan consisted of short-term investments funds of \$7,570 and \$3,781 as of December 31, 2020 and 2019 respectively. The cash and cash equivalents for the OPEB Plan were \$105 and \$114 as of December 31, 2020 and 2019 respectively.

**Security Lending (in thousands)**

The Board of Trustees permits the (Pension) Plan to lend its securities to broker-dealers and other entities (the "Borrowers") for collateral that will be returned for the same securities in the future. The Plan's custodian is the agent in lending the Plan's securities for collateral of 102 percent for domestic securities and 105 percent for international securities. The custodian receives cash, securities or irrevocable bank letters of credit as collateral. All securities loans can be terminated on demand by either the Plan or the Borrowers. Cash collateral received from the Borrowers is invested by the lending agent, as an agent for the Plan, in a short-term investment pool in the name of the Plan, with guidelines approved by the Board. Such investments are considered a collateralized investment pool. The relationship between the maturities of the investment pool and the Plan's loans is affected by the maturities of securities made by other plan entities that invest cash collateral in the investment pool, and which the Plan cannot determine. The Plan records a liability for the return of the cash collateral shown as collateral held for securities lending in the Statements of Plan Net Position. The Board does not restrict the amount of loans the lending agent may make on its behalf. The agent indemnifies the Plan by agreeing to purchase replacement securities, or return the cash collateral thereof, in the event a Borrower fails to return loaned securities or pay distributions thereon.

**WASHINGTON SUBURBAN SANITARY COMMISSION**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED JUNE 30, 2021 AND 2020**

**O. NOTES TO PENSION & OPEB STATEMENT OF FIDUCIARY NET POSITION (continued)**

As of December 31, 2020, and 2019, the fair value of securities on loan was \$50,926 and \$41,516, respectively. Cash received as collateral and the related liability of \$52,323 and \$42,674 as of December 31, 2020 and 2019 are shown on the Statements of Plan Net Position. Securities received as collateral are not reported as assets since the Plan does not have the ability to pledge or sell the collateral securities.

Securities lending revenues and expenses amounting to \$315 and \$205, respectively, for December 31, 2020 and \$997 and \$921, respectively, for December 31, 2019, have been classified with investment income and investment expenses, respectively, in the accompanying financial statements.

The following represents the balances relating to the securities lending transactions as of December 31:

|                                       | 2020                                      |   | 2019                                      |   |
|---------------------------------------|---|---|---|---|
|                                       | Fair Value of<br>Underlying<br>Securities | Cash<br>Collateral<br>Investment<br>Value | Fair Value of<br>Underlying<br>Securities | Cash<br>Collateral<br>Investment<br>Value |
| Securities Loaned for Cash Collateral |   |   |   |   |
| Corporate Bonds                       | \$ 5,051                                  | \$ 5,162                                  | \$ 4,123                                  | \$ 4,227                                  |
| Common Stock                          | 5,620                                     | 5,801                                     | 9,831                                     | 10,054                                    |
| U. S. Government & Agency Bonds       | 40,255                                    | 41,360                                    | 27,562                                    | 28,393                                    |
| Total                                 | <u>\$ 50,926</u>                          | <u>\$ 52,323</u>                          | <u>\$ 41,516</u>                          | <u>\$ 42,674</u>                          |

The plan is fully indemnified by its custodial bank against any losses incurred as a result of Borrower default.

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Plan will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. At December 31, 2020 and 2019, there were no funds held by a counterparty that was acting as the Plan's agent in securities lending transactions.

**Investments**

The Plans categorize fair value measurements within the fair value hierarchy established by GASB Statement No. 72, *Fair Value Measurement and Application*. The valuation technique uses a three-level hierarchy of inputs to measure the fair value of the asset and gives the highest priority to unadjusted quoted prices in active markets (Level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements).

These classifications are summarized as follows:

- *Level 1 Inputs:* Quoted prices (unadjusted) for identical assets or liabilities in active markets that a reporting entity can access at the measurement date.
- *Level 2 Inputs:* Inputs other than quoted prices included within Level 1 that are observable for an asset or liability, either directly or indirectly.
- *Level 3 Inputs:* Unobservable inputs for an asset or liability.

**WASHINGTON SUBURBAN SANITARY COMMISSION**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED JUNE 30, 2021 AND 2020**

**O. NOTES TO PENSION & OPEB STATEMENT OF FIDUCIARY NET POSITION (continued)**

The (Pension) Plan holds investment contracts with Prudential Financial. The fair value of these contracts is determined based on the fair value of the underlying pooled assets and is an estimate only and not the result of a precise calculation which would be done at contract discontinuance or to measure the impact of excess withdrawals in any calendar year. It does not constitute an offer by Prudential Financial or a final experience adjustment.

For the OPEB Plan, in the event that inputs used to measure the fair value of an asset or liability fall into different levels in the fair value hierarchy, the overall level of the fair value hierarchy in its entirety is determined based on the lowest level input that is significant to the entire valuation. These levels are not necessarily an indication of risk but are based upon the pricing transparency of the investment.

Fair value of certain investments that do not have a readily determinable fair value is established using net assets value (or its equivalent) as a practical expedient. These investments are not categorized according to the fair value hierarchy.

Net appreciation (depreciation) in the fair value of investments reflected in the Statement of Changes in Fiduciary Net Position includes realized gains and losses on investments that were sold during the year and unrealized appreciation (depreciation) in the fair value of investments.

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date.

**WASHINGTON SUBURBAN SANITARY COMMISSION**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED JUNE 30, 2021 AND 2020**

**O. NOTES TO PENSION & OPEB STATEMENT OF FIDUCIARY NET POSITION (continued)**

The Plans have the following fair value measurements as of December 31, 2020 and 2019 (in thousands):

|   | Quoted Price in<br>Active Markets for<br>Identical Assets<br>Level 1 | Significant<br>Other<br>Observable<br>Inputs | Significant<br>Unobservable<br>Inputs<br>Level 3 | Balance as of<br>December 31,<br>2020 |
|---|--|--|--|---------------------------------------|
| Investments by fair value level:                  |  |  |  |                                       |
| Fixed Income Securities:                          |  |  |  |                                       |
| Government and Agency Bonds                       |  |  |  |                                       |
| Domestic Bonds                                    | \$ -   | \$ 69,553                                    | \$ -   | \$ 69,553                             |
| Corporate Bonds and Securities                    |  |  |  |                                       |
| Domestic Bonds and Securities                     | -  | 23,938                                       | -  | 23,938                                |
| International Bonds and Securities                | -  | 4,147  | -  | 4,147                                 |
| US Common Stock:                                  |  |  |  |                                       |
| U.S. Stock  | 40,343   | -  | -  | 40,343                                |
| International Stock                               | -  | 2,241  | -  | 2,241                                 |
| Mutual Funds:                                     |  |  |  |                                       |
| U.S. Equity Funds                                 | 589,509  | -  | -  | 589,509                               |
| Non-U.S. Equity Funds                             | -  | 92,646                                       | -  | 92,646                                |
| Unlimited partnership units                       | -  | 20   | -  | 20                                    |
| Other fixed holdings                              | -  | 5  | -  | 5                                     |
|   | <u>\$ 629,852</u>  | <u>\$ 192,550</u>                            | <u>\$ -</u>                                      | <u>822,402</u>                        |
| Investments carried at the net asset value (NAV): |  |  |  |                                       |
| Commingled funds                                  |  |  |  | 189,242                               |
| Stable Value funds                                |  |  |  | 59,067                                |
|   |  |  |  | <u>\$ 1,070,711</u>                   |

**WASHINGTON SUBURBAN SANITARY COMMISSION**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED JUNE 30, 2021 AND 2020**

**O. NOTES TO PENSION & OPEB STATEMENT OF FIDUCIARY NET POSITION (continued)**

|   | Quoted Price in<br>Active Markets for<br>Identical Assets<br>Level 1 | Significant<br>Other<br>Observable<br>Inputs | Significant<br>Unobservable<br>Inputs<br>Level 3 | Balance as of<br>December 31,<br>2020 |
|---|--|--|--|---------------------------------------|
| Investments by fair value level:                  |  |  |  |                                       |
| Fixed Income Securities:                          |  |  |  |                                       |
| Government and Agency Bonds                       |  |  |  |                                       |
| Domestic Bonds                                    | \$ -   | \$ 67,998                                    | \$ -   | \$ 67,998                             |
| Corporate Bonds and Securities                    |  |  |  |                                       |
| Domestic Bonds and Securities                     | -  | 12,116                                       | -  | 12,116                                |
| International Bonds and Securities                | -  | 13,354                                       | -  | 13,354                                |
| US Common Stock:                                  |  |  |  |                                       |
| U.S. Stock  | 53,309   | -  | -  | 53,309                                |
| International Stock                               | -  | 3,059  | -  | 3,059                                 |
| Mutual Funds:                                     |  |  |  |                                       |
| U.S. Equity Funds                                 | 518,265  | -  | -  | 518,265                               |
| Non-U.S. Equity Funds                             | -  | 92,817                                       | -  | 92,817                                |
| Unlimited partnership units                       | -  | 20   | -  | 20                                    |
| Other fixed holdings                              | -  | 8  | -  | 8                                     |
|   | <u>\$ 571,574</u>  | <u>\$ 189,372</u>                            | <u>\$ -</u>                                      | <u>760,946</u>                        |
| Investments carried at the net asset value (NAV): |  |  |  |                                       |
| Commingled funds                                  |  |  |  | 175,187                               |
| Stable Value funds                                |  |  |  | 71,295                                |
|   |  |  |  | <u>\$ 1,007,428</u>                   |

**Expenses**

WSSC Water pays the administrative expenses of the pension Plan, other than investment management and consulting fees. WSSC Water is reimbursed by the Plan for the paid administrative expenses. As of December 31, 2020, and 2019, the Plan reimbursed WSSC Water \$692 and \$439, respectively, for paid administrative expenses.

**Financial Statements**

The financial statements for pension and OPEB plans are issued separately.

**P. SUBSEQUENT EVENTS**

The WSSC Water has evaluated events subsequent to September 11, 2021 and through the date the financial statements were available to be issued and determined there have not been any events that have occurred that would require adjustments to the financial statements.

**WASHINGTON SUBURBAN SANITARY COMMISSION**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED JUNE 30, 2021 AND 2020**

**P. SUBSEQUENT EVENTS (continued)**

In March 2020, the World Health Organization declared the spread of Coronavirus Disease (COVID-19) a worldwide pandemic. The COVID-19 pandemic is having significant effects on global markets, supply chains, businesses, and communities including WSSC Water. COVID-19 has impacted WSSC Water fiscal years 2021 and 2020 operations and financial results including, but not limited to, decreased commercial and governmental consumption billing, increased accounts receivable balance, decreased investment market values, and lost investment earnings revenue. To the extent possible, WSSC Water management has taken actions to mitigate the negative impact. However, the full impact of COVID-19 is unknown and cannot be reasonably estimated as the events are still developing.

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

|  | <u>2020</u>           | <u>2019</u>           | <u>2018</u>           | <u>2017</u>           | <u>2016</u>           | <u>2015</u>           | <u>2014</u>           | <u>2013</u>           |
|--|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| <b>Total Pension Liability</b>   |                       |                       |                       |                       |                       |                       |                       |                       |
| Service cost   | \$ 12,537,197         | \$ 11,958,124         | \$ 11,557,550         | \$ 10,744,773         | \$ 10,576,413         | \$ 9,828,010          | \$ 11,098,519         | \$ 10,541,264         |
| Interest on total pension liability                                    | 67,260,129            | 66,286,257            | 65,379,327            | 63,199,825            | 61,935,402            | 61,611,259            | 67,317,785            | 66,214,298            |
| Effect of plan changes   | -                     | -                     | -                     | -                     | -                     | -                     | -                     | -                     |
| Effect of assumption changes or inputs                                 | 22,472,183            | -                     | -                     | -                     | -                     | 32,257,956            | -                     | -                     |
| Differences between expected and actual experience                     | 2,389,307             | (1,762,139)           | 16,447,791            | 3,474,382             | (10,448,960)          | (53,390,196)          | (8,657,936)           | -                     |
| Benefit payments, including refunds                                    | (66,403,809)          | (63,732,796)          | (61,533,446)          | (58,642,039)          | (57,554,539)          | (56,672,851)          | (54,934,361)          | (53,545,268)          |
| Net change in total pension liability                                  | 38,255,007            | 12,749,446            | 31,851,222            | 18,776,941            | 4,508,316             | (6,365,822)           | 14,824,007            | 23,210,294            |
| Total pension liability, beginning of the year                         | 980,962,150           | 968,212,704           | 936,361,482           | 917,584,541           | 913,076,225           | 919,442,047           | 904,618,040           | 881,407,746           |
| Total pension liability, end of the year                               | <u>1,019,217,157</u>  | <u>980,962,150</u>    | <u>968,212,704</u>    | <u>936,361,482</u>    | <u>917,584,541</u>    | <u>913,076,225</u>    | <u>919,442,047</u>    | <u>904,618,040</u>    |
| <b>Plan Fiduciary Net Pension</b>                                      |                       |                       |                       |                       |                       |                       |                       |                       |
| Employer contributions*  | 16,412,238            | 26,524,110            | 25,479,895            | 24,193,214            | 22,606,529            | 22,346,849            | 20,965,016            | 20,498,919            |
| Member contributions   | 4,928,727             | 4,945,638             | 4,150,303             | 5,290,757             | 4,213,793             | 3,930,364             | 3,823,065             | 3,652,732             |
| Investment income, net of investment expenses                          | 82,671,915            | 151,804,808           | (60,337,268)          | 118,185,475           | 61,852,141            | (10,371,883)          | 37,575,770            | 110,734,486           |
| Benefit payments, including refunds                                    | (66,403,809)          | (63,732,796)          | (61,533,446)          | (58,642,039)          | (57,554,539)          | (56,672,851)          | (54,934,361)          | (53,545,268)          |
| Administrative expenses  | (692,384)             | (438,993)             | -                     | -                     | -                     | -                     | -                     | -                     |
| Net change in plan fiduciary net position                              | 36,916,687            | 119,102,767           | (92,240,516)          | 89,027,407            | 31,117,924            | (40,767,521)          | 7,429,490             | 81,340,869            |
| Plan fiduciary net position, beginning of year                         | 860,687,609           | 741,584,842           | 833,825,358           | 744,797,951           | 713,680,027           | 754,447,548           | 747,018,058           | 665,677,189           |
| Plan fiduciary net position, end of year                               | 897,604,296           | 860,687,609           | 741,584,842           | 833,825,358           | 744,797,951           | 713,680,027           | 754,447,548           | 747,018,058           |
| Net pension liability, beginning of year                               | \$ 120,274,541        | 226,627,862           | 102,536,124           | 172,786,590           | 199,396,198           | 164,994,499           | 157,599,982           | 215,730,557           |
| Net pension liability, end of year                                     | <u>\$ 121,612,861</u> | <u>\$ 120,274,541</u> | <u>\$ 226,627,862</u> | <u>\$ 102,536,124</u> | <u>\$ 172,786,590</u> | <u>\$ 199,396,198</u> | <u>\$ 164,994,499</u> | <u>\$ 157,599,982</u> |
| Plan fiduciary net position as a percentage of total pension liability | 88.1%                 | 87.7%                 | 76.6%                 | 89.0%                 | 81.2%                 | 78.2%                 | 82.1%                 | 82.6%                 |
| Covered payroll  | \$ 156,959,534        | \$ 156,947,396        | \$ 150,768,609        | \$ 143,155,101        | \$ 133,766,444        | \$ 132,229,882        | \$ 124,053,349        | \$ 121,295,379        |
| Plan's net pension liability as a percentage of covered payroll        | 77.5%                 | 76.6%                 | 150.3%                | 71.6%                 | 129.2%                | 150.8%                | 133.0%                | 129.9%                |

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

\*CY2020 Employer contribution only represents 60% the fiscal year contribution which is to be made over 10 months.

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

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

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

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

| Year Ended<br>December 31, | Actuarially<br>Determined<br>Contribution | Actual Employer<br>Contribution | Contribution<br>Deficiency<br>(Excess) | Covered Payroll | Contributions as a<br>% of Covered<br>Payroll |
|----------------------------|---|---------------------------------|--|-----------------|---|
| 2011                       | 26,295,382                                | 18,686,402                      | 7,608,980                              | 110,570,426     | 16.9%   |
| 2012                       | 22,757,807                                | 19,038,875                      | 3,718,932                              | 112,656,065     | 16.9%   |
| 2013                       | 22,739,819                                | 20,498,919                      | 2,240,900                              | 121,295,379     | 16.9%   |
| 2014                       | 25,745,448                                | 20,965,016                      | 4,780,432                              | 124,053,349     | 16.9%   |
| 2015                       | 20,100,358                                | 22,346,849                      | (2,246,491)                            | 132,229,876     | 16.9%   |
| 2016                       | 18,393,733                                | 22,606,529                      | (4,212,796)                            | 133,766,444     | 16.9%   |
| 2017                       | 18,591,764                                | 24,193,214                      | (5,601,450)                            | 143,155,112     | 16.9%   |
| 2018                       | 18,232,265                                | 25,479,895                      | (7,247,630)                            | 150,768,609     | 16.9%   |
| 2019                       | 21,183,914                                | 26,524,110                      | (5,340,196)                            | 156,947,396     | 16.9%   |
| 2020                       | 21,178,200                                | 16,412,238                      | 4,765,962                              | 156,959,534     | 10.5%   |

**Notes to Schedule of Contributions:**

**Valuation date:**

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

**Methods and assumptions used to determine contribution rates:**

|                                   |   |
|-----------------------------------|---|
| Actuarial cost method             | Entry age normal (funding valuation uses a fixed rate of contribution)  |
| Inflation/Cost of Living Increase | 2.50%   |
| Salary increases                  | 2.75 to 7.50 % including inflation  |
| Investment rate of return         | 7.0% net of pension plan investment expenses, including inflation   |
| Retirement age                    | Table of rates by age and eligibility   |
| Mortality                         | Mortality rates were based on the Pub-2010(B) Mortality Tables for Males or Females, projected on a generational basis using SSA. A 109% adjustment factor is applied to female mortality rates. The actuarial assumptions used in the June 30, 2020 valuation were based on the results of the actuarial experience analysis covering 2015 through 2020. |

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

|   | <u>2020</u>   | <u>2019</u>    | <u>2018</u>    | <u>2017</u>    | <u>2016</u>    |
|---|---------------|----------------|----------------|----------------|----------------|
| <b>Total OPEB Liability</b>   |               |                |                |                |                |
| Service cost  | \$ 2,967,715  | \$ 2,881,277   | \$ 2,797,356   | \$ 2,715,880   | \$ 2,852,227   |
| Interest on total OPEB liability                                    | 17,725,182    | 17,269,181     | 16,658,625     | 16,104,693     | 15,302,770     |
| Effect of plan changes  |               |                | -              | -              | -              |
| Effect of assumption changes or inputs                              |               |                | -              | -              | -              |
| Differences between expected and actual experience                  | -             | (3,009,670)    | -              | 4,927,026      | -              |
| Benefit payments, including refunds                                 | (10,179,669)  | (11,228,441)   | (10,420,568)   | (11,586,194)   | (11,348,096)   |
| Net change in total OPEB liability                                  | 10,513,228    | 5,912,347      | 9,035,413      | 12,161,405     | 6,806,901      |
| Total OPEB liability, beginning of the year                         | 255,252,917   | 249,340,570    | 240,305,157    | 228,143,752    | 221,336,851    |
| Total OPEB liability, end of the year                               | 265,766,145   | 255,252,917    | 249,340,570    | 240,305,157    | 228,143,752    |
| <b>Plan Fiduciary Net Pension</b>                                   |               |                |                |                |                |
| Employer contributions, including benefits paid                     | 13,430,956    | 16,647,253     | 20,420,568     | 21,586,194     | 21,348,096     |
| Member contributions  | 4,547,856     | 4,487,388      | 4,339,559      | 4,168,418      | 3,967,312      |
| Investment income, net of investment expenses                       | 26,745,868    | 25,343,322     | (8,690,017)    | 14,247,468     | 8,362,666      |
| Benefit payments, including refunds                                 | (14,727,525)  | (15,715,829)   | (14,760,127)   | (15,754,612)   | (15,315,408)   |
| Administrative expenses   |               | (50,000)       | (43,750)       | (20,000)       | -              |
| Net change in plan fiduciary net position                           | 29,997,155    | 30,712,134     | 1,266,233      | 24,227,468     | 18,362,666     |
| Plan fiduciary net position, beginning of year                      | 150,524,071   | 119,811,937    | 118,545,704    | 94,318,236     | 75,955,570     |
| Plan fiduciary net position, end of year                            | 180,521,226   | 150,524,071    | 119,811,937    | 118,545,704    | 94,318,236     |
| Net OPEB liability, beginning of year                               | 104,728,846   | 129,528,633    | 121,759,453    | 133,825,516    | 145,381,281    |
| Net OPEB liability, end of year                                     | \$ 85,244,919 | \$ 104,728,846 | \$ 129,528,633 | \$ 121,759,453 | \$ 133,825,516 |
| Plan fiduciary net position as a percentage of total OPEB liability | 67.9%         | 59.0%          | 48.1%          | 49.3%          | 41.3%          |
| Covered employee payroll  | 135,906,251   | 138,548,098    | \$ 132,955,474 | \$ 124,331,306 | \$ 122,144,339 |
| Net OPEB liability as a percentage of covered employee payroll      | 62.7%         | 75.6%          | 97.4%          | 97.9%          | 109.6%         |

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

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

| Year Ended<br>December 31, | Actuarially<br>Determined<br>Contribution | Actual Employer<br>Contribution | Contribution<br>Deficiency<br>(Excess) | Covered Employee<br>Payroll | Contributions as a<br>% of Covered<br>Employee Payroll |
|----------------------------|---|---------------------------------|--|-----------------------------|--|
| 2011                       | 21,298,235                                | 14,735,000                      | 6,563,235                              | 99,513,383                  | 14.8%  |
| 2012                       | 20,180,734                                | 17,539,809                      | 2,640,925                              | 101,390,459                 | 17.3%  |
| 2013                       | 20,128,000                                | 19,060,000                      | 1,068,000                              | 109,165,841                 | 17.5%  |
| 2014                       | 16,752,000                                | 20,437,000                      | (3,685,000)                            | 111,648,014                 | 18.3%  |
| 2015                       | 16,766,000                                | 22,379,000                      | (5,613,000)                            | 119,006,893                 | 18.8%  |
| 2016                       | 14,960,787                                | 21,348,096                      | (6,387,309)                            | 122,144,339                 | 17.5%  |
| 2017                       | 14,960,787                                | 21,586,194                      | (6,625,407)                            | 124,331,306                 | 17.4%  |
| 2018                       | 14,004,405                                | 20,420,568                      | (6,416,163)                            | 132,955,474                 | 15.4%  |
| 2019                       | 14,094,584                                | 16,647,253                      | (2,552,669)                            | 138,548,098                 | 12.0%  |
| 2020                       | 13,157,686                                | 13,430,956                      | (273,270)                              | 135,906,251                 | 9.9%   |

**Notes to Schedule of Contributions:**

**Valuation date:**

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

**Methods and assumptions used to determine contribution rates:**

|                              |   |
|------------------------------|---|
| Actuarial cost method        | Entry age normal  |
| Inflation                    | 2.50%   |
| Salary Increase              | 3.00%   |
| Investment rate of return    | 7.00%   |
| Asset valuations methodology | Assets are based on market value  |
| Retirement age               | Table of rates by age and eligibility   |
| Mortality                    | Mortality rates were based on the RP-2000 Blue Collar Healthy Annuitant Mortality Table for Males or Females, with one year set forward, and projected to 2025 using Scale BB. The RP2000 Disabled tables were used for the valuation of disabled lives. The actuarial assumptions used in the July 1, 2019 valuation were based on the results of the actuarial experience analysis in 2016, covering 2011 through 2015. |

| Healthcare cost trend rates | UHC POS (Pre-65) | UHC EPO/HMP<br>(Pre-65) | Medicare<br>Plus/Supplement |
|-----------------------------|------------------|-------------------------|-----------------------------|
| 2019                        | 6.50%            | 7.00%                   | 4.50%                       |
| 2020                        | 6.25%            | 6.75%                   | 4.25%                       |
| 2021                        | 6.00%            | 6.50%                   | 4.00%                       |
| 2022                        | 5.75%            | 6.25%                   | 4.00%                       |
| 2023                        | 5.50%            | 6.00%                   | 4.00%                       |
| 2024                        | 5.25%            | 5.75%                   | 4.00%                       |
| 2025                        | 5.00%            | 5.50%                   | 4.00%                       |
| 2026                        | 4.75%            | 5.25%                   | 4.00%                       |
| 2027                        | 4.50%            | 5.00%                   | 4.00%                       |
| 2028                        | 4.25%            | 4.75%                   | 4.00%                       |
| 2029+                       | 4.25%            | 4.50%                   | 4.00%                       |

WASHINGTON SUBURBAN SANITARY COMMISSION  
REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)  
SCHEDULE OF INVESTMENT RETURNS - PENSION  
SCHEDULE A-5

| <b>Year Ended December 31</b> | <b>Net Money-Weighted<br/>Rate of Return (%)</b> |
|-------------------------------|--|
| 2011                          | (2.5)  |
| 2012                          | 14.1   |
| 2013                          | 17.3   |
| 2014                          | 5.2  |
| 2015                          | (1.4)  |
| 2016                          | 9.5  |
| 2017                          | 16.2   |
| 2018                          | (7.4)  |
| 2019                          | 20.9   |
| 2020                          | 9.9  |

*This schedule is presented to illustrate the requirement to show information for 10 years.*

**WASHINGTON SUBURBAN SANITARY COMMISSION  
 REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)  
 SCHEDULE OF INVESTMENT RETURNS - OPEB  
 SCHEDULE A-6**

|   | <u>2020</u> | <u>2019</u> | <u>2018</u> | <u>2017</u> | <u>2016</u> |
|---|-------------|-------------|-------------|-------------|-------------|
| Annual money-weighted rate of return, net of investment expense | 17.60%      | 20.8%       | -7.1%       | 14.5%       | 10.7%       |