Washington Suburban Sanitary Commission

# Annual Financial Report

## Year Ended June 30, 2008

Washington Suburban Sanitary Commission

90th Anniversary

1918-2008

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## Independent Auditor's Report

To The Commissioners
of the Washington Suburban Sanitary Commission:

We have audited the accompanying balance sheet of the Washington Suburban Sanitary Commission (WSSC) as of June 30, 2008 and June 30, 2007 and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of WSSC's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of WSSC as of June 30, 2008 and June 30, 2007, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages two through eight and schedules of historical pension and other post-employment benefits information (Schedule A and Schedule B) on pages thirty-three and thirty-four are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Washington, DC
August 29, 2008

Thompson, Cobb, Bazilio & Associates, PC

## MANAGEMENT'S DISCUSSION AND ANALYSIS
## REQUIRED SUPPLEMENTARY INFORMATION

This section of the Washington Suburban Sanitary Commission (WSSC) annual financial report presents our discussion and analysis of WSSC's financial performance during the fiscal years that ended June 30, 2008 and 2007. Please read it in conjunction with WSSC's financial statements, which follow this section.

### FINANCIAL HIGHLIGHTS

#### *Fiscal Year 2008*

- WSSC maintained AAA bond ratings from FitchRatings, Moody's Investors Service, and Standard & Poor's.
- WSSC did not issue or refund any bonds in fiscal year 2008, but did issue $130 million of variable rate Bond Anticipation Notes.
- Combined water and sewer rates increased 6.5% in fiscal 2008.
- A Consent Decree with the Environmental Protection Agency, the Department of Justice, the State of Maryland, and four environmental groups entered its third year. The Consent Decree formally identifies the remedial measures to eliminate and/or reduce Sanitary Sewer Overflows. Costs of these remedial measures are estimated at $435 million and are projected to be expended over 12 years, $400 million of which are expected to be incurred after fiscal year 2008. The costs for each fiscal year are**,** or will be included in WSSC's budget and capital improvements program.
- In June 2004, the Governmental Accounting Standards Board (GASB) issued Statement No. 45, <u>Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions (OPEB</u>). To comply with GASB No. 45, WSSC recorded a liability of $9.5 million and related expenses for certain postemployment benefits. In addition, WSSC contributed $2.0 million to commence funding of the OPEB plan in fiscal year 2008. Full disclosure of the financial impact of this pronouncement is disclosed in Note M of the financial statements.
- Operating revenues increased **$**24.3 million. The volume of water delivered to the system declined slightly during the fiscal year, and average rates billed to water and sewer customers increased approximately 6.5%.
- Operating expenses increased $33.8 million during fiscal year 2008. Changes in salaries and wages of $2.8 million and related fringe benefits of $16.7 million comprise more than half of this increase. Operating expenses of $9.3 million can be attributed to the establishment of an OPEB liability and corresponding contributions to the OPEB plan. The remaining balance of the fringe benefit cost increase is retirement costs, $5.3 million of which represents a payoff of benefits to the State of Maryland for former WSSC employees participating in the State Retirement System. Rising energy and fuel costs triggered escalations in other expenses such as chemicals and materials, the impact of which totaled $4.5 million. Outlays to perform sewer inspections, pipe cleaning and Sanitary Sewer Evaluation Surveys, which are mandated under the Consent Decree, grew $4.2 million. Contract and restoration costs increased $3.5 million as a result of water and sewer main breaks. General liability claims increased $1.6 million mostly as a result of sewer backups. IT expended an additional $2.0 million this year to maintain and operate the Commission's hardware and software. $245.6 million of capital assets were placed in service in fiscal 2007 resulting in an additional $4.5 million in depreciation this year. Intermunicipal agency sewage disposal expenses decreased $7.7 million primarily as a result of the settlement and adjustment of WSSC's share of actual expenses.
- Capital assets (water and sewer lines, water tanks, treatment plants, pumping stations, multi-purpose facilities and other facilities), net of accumulated depreciation, increased by $167.2 million, while overall debt was comparable to the previous fiscal year.
- The increase in net assets during the year included operating income, net of non-operating expenses, of $86.1 million, and capital contributions of $81.5 million.

***Fiscal Year 2007***

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

## OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

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

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

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

## FINANCIAL ANALYSIS

### Net Assets

***Fiscal Year 2008***

WSSC's net assets increased 5.3% to $3,309.1 million (See Table A-1). The majority of this increase is attributable to the change in net assets invested in capital assets, net of related debt. Capital assets, net of accumulated depreciation, increased 4.0% to $4,388.9 million. Unused bond proceeds at the end of the year were $37.5 million. Investments of unused bond proceeds are restricted and classified as non-current assets. During fiscal year 2008, developers constructed $48.1 million of capital assets and donated them to WSSC. Additional information is presented in the Capital Asset and Debt Administration section of this discussion.

Total debt, including current maturities of $1,352.6 million was comparable to the previous fiscal year. Capital contributions of $81.5 million were available to finance capital projects during the year. These funding sources reduced the amount of bonds WSSC needed to sell for construction of water and sewer projects. A more detailed description of WSSC's debt can be found in Notes I and J of the financial statements.

***Fiscal Year 2007***

WSSC's net assets increased 7.2% to $3,141.4 million (See Table A-1). The majority of this increase is attributable to the change in net assets invested in capital assets, net of related debt. Capital assets, net of accumulated depreciation, increased 4.1% to $4,221.6 million. Unused bond proceeds at the end of the year were $25.8 million. Investments of unused bond proceeds are restricted and classified as non-current assets. During fiscal year 2007, developers constructed $66.7 million of capital assets and donated them to WSSC. Additional information is presented in the Capital Asset and Debt Administration section of this discussion.

Total debt, including current maturities, decreased 5.9% to $1,359.6 million. Capital contributions of $115.2 million and operating revenues of $1.5 million were available to finance capital projects during the year. These funding sources reduced the amount of bonds WSSC needed to sell for construction of water and sewer projects. A more detailed description of WSSC's debt can be found in Notes I and J of the financial statements.

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

| | FY 2008 | FY 2007 | FY 2006 | FY 2008 % Change | FY 2007 % Change |
|---|---|---|---|---|---|
| Current and other assets | $ 485.8 | $ 467.2 | $ 499.6 | 4.0 | (6.5) |
| Capital assets, net of accumulated depreciation | 4,388.9 | 4,221.6 | 4,054.9 | 4.0 | 4.1 |
| **Total assets** | 4,874.7 | 4,688.8 | 4,554.5 | 4.0 | 2.9 |
| Current and other liabilities | 561.3 | 420.1 | 422.7 | 33.6 | (0.1) |
| Bonds and notes payable, net of current maturities | 1,004.3 | 1,127.3 | 1,201.2 | (10.9) | (6.2) |
| **Total liabilities** | 1,565.6 | 1,547.4 | 1,623.9 | 1.2 | (4.7) |
| Net assets: | | | | | |
| Invested in capital assets, net of related debt | 3,067.3 | 2,887.8 | 2,673.3 | 6.2 | 8.0 |
| Restricted for growth construction | 135.5 | 124.8 | 105.9 | 8.6 | 17.8 |
| Unrestricted | 106.3 | 128.8 | 151.4 | (17.5) | (14.9) |
| **Total net assets** | $ 3,309.1 | $ 3,141.4 | $ 2,930.6 | 5.3 | 7.2 |

## Changes in Net Assets

***Fiscal Year 2008***

WSSC's operating revenues increased $24.3 million (See Table A-2). The amount of water delivered to the system declined slightly during the fiscal year, and average rates billed to water and sewer customers increased approximately 6.5%. Operating expenses increased 9.3% to $396.7 million. Operating expenses increased $33.8 million during fiscal year 2008. Changes in salaries and wages of $2.8 million and related fringe benefits of $16.7 million comprise more than half of this increase. Operating expenses of $9.3 million can be attributed to the establishment of an OPEB liability and corresponding contributions to the OPEB plan. The remaining balance of the fringe benefit cost increase is retirement costs, $5.3 million of which represents a payoff of benefits to the State of Maryland for former WSSC employees participating in the State Retirement System. Rising energy and fuel costs triggered escalations in other expenses such as chemicals and materials, the impact of which totaled $4.5 million. Outlays to perform sewer inspections, pipe cleaning and Sanitary Sewer Evaluation Surveys, which are mandated under the Consent Decree, grew $4.2 million. Contract and restoration costs increased $3.5 million as a result of water and sewer main breaks. More general liability claims of $1.6 million were reported, mostly as a result of sewer backups. IT expended an additional $2.0 million this year to maintain and operate the Commission's hardware and software. $245.6 million of capital assets were placed in service in fiscal 2007 resulting in an additional $4.5 million in depreciation this year. Intermunicipal agency sewage disposal expenses decreased $7.7 million primarily as a result of the settlement and adjustment of WSSC's share of actual expenses.

The net of increases in both revenues and expenses during the year resulted in a 9.9% decline in income before contributions to $86.1 million. Capital contributions decreased by 29.3% to $81.5 million. A decline in new construction triggered reductions in developer fees and capital assets constructed by developers (donated assets).

***Fiscal Year 2007***

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

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

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

| | FY 2008 | FY 2007 | FY 2006 | FY 2008 % Change | FY 2007 % Change |
|---|---|---|---|---|---|
| Operating revenues | $488.7 | $ 464.4 | $ 458.6 | 5.2 | 1.3 |
| Operating expenses | (396.7) | (362.9) | (346.7) | (9.3) | (4.7) |
| Non-operating revenues (expenses) | (5.9) | (5.9) | (16.5) | 0.0 | 64.2 |
| **Income before contributions** | 86.1 | 95.6 | 95.4 | (9.9) | 0.2 |
| Capital contributions | 81.5 | 115.2 | 98.9 | (29.3) | 16.5 |
| **Changes in net assets** | $167.6 | $ 210.8 | $ 194.3 | (20.4) | 8.5 |

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

***Fiscal Year 2008***

As of June 30, 2008, WSSC had invested $4,388.9 million in a broad range of capital assets including water and sewer lines, water tanks, treatment plants, pumping stations, multi-purpose facilities and other facilities. This amount represents a net increase of $167.3 million, or 4.0%, over fiscal year 2007.

***Fiscal Year 2007***

As of June 30, 2007, WSSC had invested $4,221.6 million in a broad range of capital assets including water and sewer lines, water tanks, treatment plants, pumping stations, multi-purpose facilities and other facilities. This amount represents a net increase of $166.7 million, or 4.1%, over fiscal year 2006.

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

| | FY 2008 | FY 2007 | FY 2006 | FY 2008 % Change | FY 2007 % Change |
|---|---|---|---|---|---|
| Land and rights of way | $ 80.4 | $ 80.9 | $ 80.9 | (0.1) | 0.0 |
| Construction in progress | 852.8 | 735.5 | 720.2 | 15.9 | 2.1 |
| Water supply | 993.9 | 994.9 | 937.5 | 0.0 | 6.1 |
| Sewage disposal | 1,077.8 | 1,057.6 | 1,008.4 | 1.9 | 4.9 |
| General construction | 1,360.1 | 1,333.1 | 1,292.5 | 2.0 | 3.1 |
| Other | 23.9 | 19.6 | 15.4 | 21.9 | 27.3 |
| **Total capital assets** | $ 4,388.9 | $ 4,221.6 | $ 4,054.9 | 4.0 | 4.1 |

Capital assets completed and placed in service decreased $98.3 million or 40%, in comparison to fiscal year 2007. Major additions to capital assets being depreciated during fiscal years 2008 and 2007 are illustrated in Tables A-4 and A-5, respectively.

**TABLE A-4**
**WSSC's Additions to Capital Assets Being Depreciated**
**Fiscal Year 2008**
**(in millions of dollars)**

| | **Water Supply** | **Sewage Disposal** | **General Construction** |
|---|---|---|---|
| **Financed from proceeds of bonds, notes, operating revenues or capital contributions:** | | | |
| Water and sewer mains | $24.2 | $ 5.3 | $ 7.3 |
| Water meters | | | 1.5 |
| House connections | | | 11.2 |
| Water storage facilities | .4 | | |
| Water filtration facilities | 2.2 | | |
| Wastewater treatment facilities | | 18.7 | |
| Joint-use facilities | | 28.5 | |
| **Constructed and contributed by developers**: | | | |
| House connections | | | 5.9 |
| Water and sewer mains | | | 42.1 |
| **Total fiscal year 2008 additions to capital assets being depreciated** | $26.8 | $52.5 | $68.0 |

**TABLE A-5**
**WSSC's Additions to Capital Assets Being Depreciated**
**Fiscal Year 2007**
**(in millions of dollars)**

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

**Bonds and Notes Payable**

***Fiscal Year 2008***

At the end of fiscal year 2008, bonds and notes outstanding totaled $1,359.1 million, which is comparable to the previous fiscal year.

***Fiscal Year 2007***

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

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

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

| | **FY 2008** | **FY 2007** | **FY 2006** | **FY 2008 % Change** | **FY 2007 % Change** |
|---|---|---|---|---|---|
| Water supply | $ 410.5 | $ 382.9 | $ 375.2 | 7.2 | 2.1 |
| Sewage disposal | 405.0 | 386.7 | 414.1 | 4.7 | (6.6) |
| General construction | 542.2 | 587.9 | 652.7 | (7.8) | (9.9) |
| Storm water drainage | 1.4 | 2.1 | 2.7 | (33.3) | (22.2) |
| **Total** | 1,359.1 | 1,359.6 | 1,444.7 | (0.0) | (5.9) |
| Current maturities | 354.8 | 232.3 | 243.5 | 52.7 | ( 4.6) |
| Long-term portion | 1,004.3 | 1,127.3 | 1,201.2 | (10.9) | (6.2) |
| **Total bonds and notes payable** | $ 1,359.1 | $ 1,359.6 | $ 1,444.7 | (0.0) | (5.9) |

***Bond Ratings***

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

***Limitations on Debt***

Maryland law limits the amount of bonds and notes WSSC may have outstanding at any time. This limitation is generally based on legislated percentages of the real property assessable tax base and personal property and operating real property assessments within the Washington Suburban Sanitary District. As of June 30, 2008 and 2007, the calculated limits were $8,327.8 million and $7,339.6 million, respectively. WSSC's outstanding debt was significantly below those limits.

**BUDGET**

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

**WASHINGTON SUBURBAN SANITARY COMMISSION**
**BALANCE SHEETS**
**AS OF JUNE 30, 2008 AND 2007**
**(in thousands)**

| | 2008 | 2007 |
|---|---|---|
| **ASSETS** | | |
| Current assets: | | |
| Cash (Note B) | $ 4,278 | $ 12,608 |
| Short-term investments (Note B) | 317,139 | 297,852 |
| Receivables, net (Note C) | 108,734 | 110,985 |
| Prepaid expenses | 320 | 284 |
| Materials and supplies, at average cost | 10,828 | 9,140 |
| Total current assets | 441,299 | 430,869 |
| Non-current assets: | | |
| Capital assets, net of accumulated depreciation (Note E) | 4,388,856 | 4,221,613 |
| Long-term investments (Note B) | 37,548 | 31,786 |
| Federal and State grants receivable | 3,443 | — |
| Deferred charges and other assets (Note D) | 3,565 | 4,592 |
| Total non-current assets | 4,433,412 | 4,257,991 |
| Total assets | $4,874,711 | $ 4,688,860 |
| **LIABILITIES** | | |
| Current liabilities: | | |
| Bonds and notes payable, current maturities (Notes J and K) | $ 354,819 | $ 232,308 |
| Accounts payable and accrued expenses | 105,278 | 96,312 |
| Accrued bond and note interest payable | 12,073 | 13,292 |
| Deposits and deferred credits (Note I) | 3,121 | 3,541 |
| Total current liabilities | 475,291 | 345,453 |
| Non-current liabilities: | | |
| Bonds and notes payable, net of current maturities (Notes J and K) | 1,004,274 | 1,127,251 |
| Long-term pension liability (Note L) | 41,655 | 39,520 |
| Other postemployment benefits (OPEB) liability (Note M) | 9,504 | — |
| Deposits, deferred credits and other long-term liabilities (Note I) | 34,916 | 35,211 |
| Total non-current liabilities | 1,090,349 | 1,201,982 |
| Total liabilities | 1,565,640 | 1,547,435 |
| **COMMITMENTS AND CONTINGENCIES** (Note O) | | |
| **NET ASSETS** | | |
| Invested in capital assets, net of related debt | 3,067,311 | 2,887,840 |
| Restricted for growth construction | 135,522 | 124,784 |
| Unrestricted | 106,238 | 128,801 |
| Total net assets | 3,309,071 | 3,141,425 |
| Total liabilities and net assets | $4,874,711 | $ 4,688,860 |

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

**WASHINGTON SUBURBAN SANITARY COMMISSION**
**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**
**FOR THE YEARS ENDED JUNE 30, 2008 AND 2007**
**(in thousands)**

| | 2008 | 2007 |
|---|---|---|
| **OPERATING REVENUES:** | | |
| Water consumption, sewer use and service charges | $ 394,125 | $ 369,589 |
| Front foot benefit assessments | 60,530 | 63,792 |
| House connection charges | 12,612 | 11, 597 |
| Other | 21,435 | 19,386 |
| Total operating revenues | 488,702 | 464,364 |
| **OPERATING EXPENSES:** | | |
| Operations | 83,846 | 73,543 |
| Maintenance | 103,948 | 88,933 |
| Intermunicipal agency sewage disposal | 40,300 | 47,399 |
| Administrative and general | 66,972 | 55,888 |
| Depreciation and amortization | 101,646 | 97,152 |
| Total operating expenses | 396,712 | 362,915 |
| Net operating revenues | 91,990 | 101,449 |
| **NON-OPERATING REVENUES (EXPENSES):** | | |
| Interest on bonds and notes payable | (57,928) | (62,513) |
| Capitalized interest | 30,028 | 32,155 |
| Prince George's County storm drain debt service reimbursement, net of refund | 749 | (2,252) |
| Interest income on investments | 16,570 | 21,423 |
| Other interest income | 4,709 | 5,344 |
| Net non-operating expenses | (5,872) | (5,843) |
| Income before capital contributions | 86,118 | 95,606 |
| Capital contributions (Note G) | 81,528 | 115,173 |
| Changes in net assets | 167,646 | 210,779 |
| Net assets, beginning of year | 3,141,425 | 2,930,646 |
| Net assets, end of year | $ 3,309,071 | $ 3,141,425 |

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, 2008 AND 2007**
**(in thousands)**

| | 2008 | 2007 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES:** | | |
| Receipts from water and sewer customers | $ 393,695 | $ 362,485 |
| Receipts from front foot benefit assessments | 62,065 | 65,043 |
| Receipts from house connection charges | 12,612 | 12,825 |
| Receipts from other customers and miscellaneous | 39,587 | 38,072 |
| Payments to employees | (126,015) | (120,582) |
| Payments to District of Columbia Water & Sewer Authority | (39,960) | (41,629) |
| Payments to suppliers and others | (137,906) | (117,416) |
| Net cash provided by operating activities | 204,078 | 198,798 |
| **CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:** | | |
| Proceeds from bonds and notes | 150,550 | 152,358 |
| Capital contributions | 32,104 | 48,447 |
| Prince George's County storm drain debt service reimbursement, net of refund | 749 | (2,252) |
| Bond redemptions and note repayments | (149,757) | (235,752) |
| Interest payments, premiums and discounts on bonds and notes | (55,682) | (60,996) |
| Capital asset construction | (181,894) | (161,665) |
| Net cash used in capital and related financing activities | (203,930) | (259,860) |
| **CASH FLOWS FROM INVESTING ACTIVITIES:** | | |
| Proceeds from the sale of investments | 983,859 | 1,385,414 |
| Purchases of investments | (1,011,003) | (1,342,743) |
| Interest income received | 18,666 | 19,773 |
| Net cash (used in) provided by investing activities | (8,478) | 62,444 |
| Net (decrease) increase in cash | (8,330) | 1,382 |
| Cash, beginning of year | 12,608 | 11,226 |
| Cash, end of year | $ 4,278 | $ 12,608 |
| **CASH FLOWS FROM OPERATING ACTIVITIES:** | | |
| Net operating revenue | $ 91,990 | $ 101,449 |
| Adjustments to reconcile net operating revenue to net cash provided by operating activities: | | |
| Depreciation and amortization | 106,862 | 100,768 |
| Changes in assets and liabilities: | | |
| Decrease (increase) in receivables, net | 634 | (7,637) |
| Increase in materials and supplies | (1,688) | (310) |
| (Increase) decrease in deferred charges and other assets | (35) | 3 |
| (Decrease) increase in accounts payable and accrued liabilities | (1,911) | 2,250 |
| (Decrease) increase in deferred credits | (1,191) | 2,694 |
| Increase (decrease) in long-term pension liability | 1,727 | (419) |
| Increase in long-term OPEB liability | 7,690 | — |
| Net cash provided by operating activities | $ 204,078 | $ 198,798 |

**Noncash capital financing activities:**
Capital assets of $48,073 and $66,715 were acquired through contributions from developers in 2008 and 2007, respectively.

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

## A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

### Operating and Non-operating Revenues and Expenses

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

Water and sewer service rates are established to provide sufficient funds to recover operating costs and debt service relating to the water supply and sanitary sewer systems. Water and sewer revenues are recognized as water is delivered to the system.

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

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

Recovery of the Prince George's County portion of the cost of storm water drainage debt service is made through annual reimbursement from the County and is recorded as non-operating revenue. If necessary, ad valorem taxes may be levied to cover debt service of storm water drainage bonds and other bonds and notes. No ad valorem taxes were levied in fiscal 2008 or 2007. In 2007, excess debt service reimbursements of $3,000,000 were refunded to the County and returned to WSSC as a contribution toward the acquisition of a water and sewer system of a residential community located in Maryland.

### Capital Contributions

In July 1993, a system development charge (SDC) was established to help finance the cost of expanding water and sewage systems to accommodate growth in the Washington Suburban Sanitary District. System development charges are recorded as capital contributions when received.

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

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

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

Donated assets consist principally of capital assets constructed by developers and subsequently donated to WSSC. They are recorded at estimated fair value using developers' estimated costs to construct the assets or WSSC's estimated costs to construct similar assets. The capital assets, and related capital contributions, are recognized upon completion of construction.

A small portion of capital assets is related to donated assets acquired or constructed under a Department of Defense (DOD) contract executed during fiscal 2005 to operate and maintain the water and sewer systems at Bolling Air Force Base. Costs incurred by WSSC to acquire or enhance these systems are reimbursed by DOD and, consequently, recognized as capital assets and capital contributions.

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

### Capital Assets

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

### Depreciation and Amortization

Capital assets are depreciated using the straight-line method over the estimated service lives of the property, which averaged 49 and 50 years in fiscal 2008 and 2007, respectively.

### Inventory

Inventory is recorded at the lower of weighted average cost or market value.

### Bond Refunding Costs

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

### Annual Leave

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

### Estimates

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

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

statements and the reported amounts of revenues and expenses. Actual results may differ from these estimates.

Net Assets

GASB No. 34 establishes financial reporting standards for state and local governments regarding the required financial statements, presentation of management's discussion and analysis and classification of net assets. GASB No. 34 requires that net assets restricted for particular purposes, and net assets invested in capital assets, net of related debt, be presented separately on the balance sheets.

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

Net assets associated with unspent bond proceeds are restricted for capital projects. As of June 30, 2008, and 2007, unspent bond proceeds totaled $37,548,000, and $25,786,000, respectively. However, cash and investments net of the related debt resulted in a zero net asset balance.

Accounting Guidelines

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

Recent Accounting Pronouncements

In June 2004, the GASB issued Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions. To comply with GASB No. 45, WSSC recorded a liability of $9.5 million and related expenses for certain postemployment benefits in fiscal year 2008. In addition, WSSC contributed $2.0 million to commence funding of the OPEB plan.

The GASB recently issued Statement No. 49, Accounting and Financial Reporting for Pollution Remediation Obligations. This standard requires entities to record a liability for certain pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution. WSSC has determined that this pronouncement should have no impact on the financial statements at this time.

## B. CASH AND INVESTMENTS

At June 30, 2008 and 2007, cash per WSSC's records amounted to $4,278,000 and $12,608,000, respectively, and per reported bank balances was $10,027,000 and $13,751,000, respectively. All collected bank balance funds were secured by Federal depository insurance or by collateral held in WSSC's name by the Federal Reserve Bank.

## B. CASH AND INVESTMENTS (continued)

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

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

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

Custodial credit risk is the risk that, in the event of a failure of a financial institution, WSSC would not be able to recover deposits, the value of its investments, or collateral securities that are in the possession of an outside party. Maryland State law requires that collateral shall be maintained for all deposits and certificates of deposit with amounts in excess of Federal insurance coverage. State law also requires the securities collateralizing repurchase agreements have a market value of at least 102 percent of the principal of the investment plus accrued interest. At June 30, 2008 and 2007, all WSSC investments, or the collateral securities for such investments, were held by various Trust Companies in WSSC's name. None of these investments required securities to be held by a broker's or dealer's trust department or agent in WSSC's name.

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. As of June 30, 2008 and 2007, all of WSSC's investments had remaining maturities of 1 year or less.

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. Credit risk is measured by the assignment of a rating by a nationally recognized statistical rating organization. WSSC may invest in bankers' acceptances and commercial paper having a short-term rating of the highest letter and numerical rating issued by at least one nationally recognized statistical rating organization. WSSC does not have a formal policy for other investment types; however virtually all remaining investments are in, or collateralized by, Federal agency securities. Actual ratings as of June 30, 2008 and 2007 are presented on the following page for each investment type.

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

Investments at June 30, 2008 (in thousands):

| Investment Type | Credit Rating | Remaining Maturity | Cost | Fair Value |
|---|---|---|---|---|
| Repurchase Agreements | Aaa | 1 year or less | $ 56,713 | $ 56,375 |
| Federal agency securities | Aaa | 1 year or less | 297,974 | 297,717 |
| Total investments (includes $37,548 restricted for capital projects, classified as non-current) | | | $354,687 | $354,092 |

Investments at June 30, 2007 (in thousands):

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

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

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

| Issuer | Investment Type | Reported Amount at June 30, 2008 (in thousands) |
|---|---|---|
| FHLB | Federal agency securities | $ 69,350 |
| FHLMC | Federal agency securities | 34,588 |
| FNMA | Federal agency securities | 187,566 |
| FNMA | Collateral securities for repurchase agreements | 22,000 |
| FHLMC | Collateral securities for repurchase agreements | 13,000 |

## B. CASH AND INVESTMENTS (continued)

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

## C. RECEIVABLES

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

| | 2008 | 2007 |
|---|---|---|
| Front foot benefit assessments accrued and billed | $ 36,550 | $ 38,511 |
| Water and sewer services unbilled | 38,197 | 36,452 |
| Water and sewer services billed | 30,385 | 30,521 |
| Services billed to others and miscellaneous | 8,454 | 9,550 |
| | 113,586 | 115,034 |
| Less allowance for doubtful accounts | (4,852) | (4,049) |
| Total receivables, net | $108,734 | $110,985 |

## D. DEFERRED CHARGES AND OTHER ASSETS

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

| | 2008 | 2007 |
|---|---|---|
| Net deferred cost of storm water drainage property transferred to Prince George's County | $ 1,405 | $ 2,053 |
| Unamortized issuance cost of refunding bonds | 2,160 | 2,539 |
| Total | $ 3,565 | $ 4,592 |

## E. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2008 was as follows (in thousands):

| | Beginning Balance | Increases | Decreases | Ending Balance |
|---|---|---|---|---|
| Capital assets not being depreciated: | | | | |
| Land and rights of way | $ 80,900 | $ – | $ (480) | $ 80,420 |
| Construction in progress | 735,507 | 195,088 | (77,837) | 852,758 |
| Total capital assets not being depreciated | 816,407 | 195,088 | (78,317) | 933,178 |
| Capital assets being depreciated: | | | | |
| Water supply | 1,386,945 | 26,794 | (391) | 1,413,348 |
| Sewage disposal | 1,674,507 | 52,535 | (61) | 1,726,981 |
| General construction | 2,110,621 | 68,013 | (713) | 2,177,921 |
| Other | 82,246 | 9,669 | (3,608) | 88,307 |
| Total capital assets being depreciated | 5,254,319 | 157,011 | (4,773) | 5,406,557 |
| Less accumulated depreciation for: | | | | |
| Water supply | (392,023) | (27,401) | 1 | (419,423) |
| Sewage disposal | (579,461) | (32,259) | 9 | (611,711) |
| General construction | (777,489) | (41,857) | 1,461 | (817,885) |
| Other | (62,668) | (5,216) | 3,496 | (64,388) |
| Total accumulated depreciation | (1,811,641) | (106,733) | 4,967 | (1,913,407) |
| Capital assets being depreciated, net | 3,442,678 | 50,278 | 194 | 3,493,150 |
| Reserve for impairment in value | (37,472) | – | – | (37,472) |
| Total capital assets, net | $4,221,613 | $245,366 | $(78,123) | $4,388,856 |

**E. CAPITAL ASSETS (continued)**

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

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

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

The amount shown in the statements of revenues, expenses and changes in net assets for depreciation and amortization does not include depreciation of vehicles and equipment. Depreciation of these assets, $5,216,000 in fiscal 2008 and $3,615,000 in fiscal 2007, is classified with other related operating and maintenance costs.

## F. ACCOUNTING FOR TERMINATION BENEFITS

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

On March 2, 2006, WSSC announced its plan to restructure the Information Technology (IT) team by abolishing all merit positions and creating new non-merit, or contractual, positions with comparable benefits. Employees holding merit jobs at the time of this announcement were provided an opportunity to compete for the new contractual positions. As of the end of July 2006, the IT restructure was substantially complete and 30 employees were involuntary terminated with a severance package. Severance pay is based on the employee's gross salary and is calculated at the rate of two weeks pay for each completed year and portion of a year of creditable service. Eligibility for life insurance, health care, and Employee Assistance Program benefits continue throughout the severance period. Estimated costs of these termination benefits are based on unadjusted premiums or expenses, net of any payments by the employee. Contributions to the WSSC Employees' Retirement Plan are deducted, and credited service continues for purposes of the WSSC Employees' Retirement Plan until the end of the severance period. Total costs of this IT restructure, which were accrued at June 30, 2006, were to be disbursed over 70 weeks beginning in August 2006, and were projected to be $2,665,000. Of this amount, $2,345,000 was paid in fiscal 2007 and the remainder was paid in fiscal 2008.

On July 18, 2007, WSSC announced its plan to restructure the Human Resources (HR) team. Most HR positions were revised and new classifications and job descriptions were established**;** however, all positions except the Director of Human Resources remained in the merit system. An outside expert was contracted to provide a comparative analysis of the new and existing job descriptions. Based on the results, all but three HR employees were mapped to new positions. In April 2008, these three employees were involuntarily terminated with a severance package, the terms of which are identical to those detailed above for IT personnel. Total costs for this HR restructure were $150,000 which were accrued at June 30, 2008.

## G. CAPITAL CONTRIBUTIONS

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

| | 2008 | 2007 |
|---|---|---|
| System development charges | $23,892 | $ 36,523 |
| Developer fees | 4,648 | 6,451 |
| Federal and State water pollution control grants | 4,915 | (516) |
| County contributions toward the acquisition and enhancement of water and sewer systems | — | 6,000 |
| Donated assets: | | |
| House connections | 5,866 | 9,024 |
| Other construction projects | 42,207 | 57,691 |
| Total | $81,528 | $115,173 |

## H. COMPENSATED ABSENCE LIABILITY

Compensated absence liability activity consisted of the following at June 30 (in thousands):

| | 2008 | 2007 |
|---|---|---|
| Compensated absence liability - beginning of year | $ 9,322 | $ 9,270 |
| Increases (incurred) | 8,613 | 7,357 |
| Decreases | (7,933) | (7,305) |
| Compensated absence liability - end of year | $ 10,022 | $ 9,322 |

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

## I. DEPOSITS, DEFERRED CREDITS AND OTHER LONG-TERM LIABILITIES

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

| | 2008 | 2007 |
|---|---|---|
| Deferred revenue for house connections | $ 21,612 | $ 22,577 |
| Deferred front foot benefit revenue | 3,491 | 3,873 |
| Construction deposits | 5,647 | 5,171 |
| House connection deposits | 3,203 | 2,858 |
| Other | 963 | 732 |
| Total | $ 34,916 | $ 35,211 |

## J. BONDS AND NOTES PAYABLE

Bonds and notes payable activity for the year ended June 30, 2008 was as follows (in thousands):

| | Beginning Balance | Increases | Decreases | Ending Balance | Current Maturities |
|---|---|---|---|---|---|
| Bonds and notes payable: | | | | | |
| Water supply | $ 376,648 | $ 73,184 | $ (44,589) | $ 405,243 | $125,109 |
| Sewage disposal | 379,429 | 60,170 | (40,798) | 398,801 | 135,166 |
| General construction | 589,039 | 20,689 | (67,229) | 542,499 | 93,869 |
| Storm water drainage | 2,055 | — | (635) | 1,420 | 675 |
| | 1,347,171 | 154,043 | (153,251) | 1,347,963 | 354,819 |
| Plus deferred amount | 12,388 | — | (1,258) | 11,130 | — |
| Total bonds and notes payable | $1,359,559 | $154,043 | $(154,509) | $1,359,093 | $354,819 |

## J. BONDS AND NOTES PAYABLE (continued)

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

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

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

Bonds payable accrue interest at rates ranging from 1.1% to 6.0%, with an effective interest rate of 4.40% at June 30, 2008. All bonds payable at June 30, 2008, exclusive of refunded bonds, are due serially through the year 2028. Generally, the bonds are callable at a premium after a specified number of years.

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

| Year ended June 30 | Principal Maturities | Interest Requirements |
|---|---|---|
| 2009 | $ 354,819 | $ 58,744 |
| 2010 | 135,143 | 51,508 |
| 2011 | 116,535 | 44,662 |
| 2012 | 102,342 | 42,192 |
| 2013 | 92,015 | 37,013 |

Bond and note maturities and interest thereon in five-year increments for fiscal years after 2013 are as follows (in thousands):

| Year ended June 30 | Principal Maturities | Interest Requirements |
|---|---|---|
| 2014 - 2018 | $ 317,557 | $ 123,636 |
| 2019 - 2023 | 170,168 | 52,304 |
| 2024 - 2028 | 56,291 | 11,076 |
| 2029 - 2033 | 2,686 | 502 |
| 2034 - 2035 | 407 | 16 |

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

Bond Anticipation Notes (the Notes) are remarketed weekly by WSSC's remarketing agent at prevailing weekly tax-exempt interest rates. Interest rates on the Notes ranged from 1.00% to 4.05% during fiscal 2008, and from 3.25% to 3.92% during fiscal 2007. Any or all buyers of the Notes may demand payment from WSSC's remarketing agent upon seven days notice. WSSC's remarketing agent is prepared to remarket the Notes in such eventuality. The Notes were originally sold in two separate Series (A and B) under bank line of credit agreements which act as guarantees of liquidity for the Notes in the event that the Notes cannot be remarketed. In June 2006, Series B Notes were replaced with Series A Notes in the Amount of $59.9 million and the contract with the liquidity provider for Series B Notes was terminated. In 2008, WSSC issued $130 million in Bond Anticipation Notes. The maximum amount available under the line of credit, which expires in June 2015, and is subject to certain conditions, is $215 million.

At June 30, 2008 and 2007, $209.1 million and $89.5 million respectively, of the Notes were outstanding. WSSC expects to redeem these Notes with proceeds of future bond issues or annual amortization. The Notes are treated as bonds, and as such, are expected to be amortized over a 20-year term. However, because these Notes are callable, the entire $209.1 million has been included in current maturities (fiscal 2008 principal maturities), and an estimated $9.4 million has been included in the fiscal 2009 interest requirements. Additional estimated interest requirements at prevailing rates through 2026 on these Notes, assuming future redemption from proceeds of bonds, would total $106.7 million.

During fiscal 2007, WSSC issued $70.0 million of bonds to fund new construction. No bonds were issued in fiscal 2008.

On July 15, 2005, WSSC commenced work on a utility service contract with the U.S. Department of Defense to operate and maintain the Bolling Air Force Base water distribution and wastewater collection systems. Under the terms of this contract, WSSC acquired the existing water and sewer systems for $1.0 million and $4.3 million, respectively. Corresponding notes payable accrue interest at 7.0% over a 30-year term.

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

During fiscal 2000, WSSC entered into a Master Loan Agreement with the State of Maryland Water Quality Revolving Loan Program to borrow $107.5 million. This loan is to be used to fund the construction of a consolidated laboratory facility, a water filtration plant solids handling facility, certain sewage treatment facilities and other sewage and energy performance projects. As of June 30, 2008, WSSC had borrowed $89.8 million from the program.

When WSSC created its Employees' Retirement Plan in 1967, some employees remained in the State of Maryland Retirement System. For the period from this separation to 1983, the State utilized a pay-as-you-go approach. In 1984, their funding method changed to an actuarial basis, which resulted in an unfunded liability of approximately $5.2 million. The State developed a payment schedule over a 35 year period, with the initial payment equal to 47% of the outstanding balance. Subsequent annual payments would increase by 57% until the balance was paid in full. The outstanding balance at June 30, 2008 of $6.5 million was paid in July 2008, and is included in current maturities.

WSSC is in compliance with all terms of its debt agreements at June 30, 2008.

## K. BOND REFUNDINGS

In October 2006, WSSC sold $82,285,000 of refunding bonds with interest rates ranging from 4.00% to 4.25% to advance refund $80,360,000 of outstanding callable water supply, sewage disposal and general construction bonds with interest rates ranging from 4.25% to 5.00%. The net proceeds of $83,006,000 (including a premium of $1,078,000 and after payment of $170,000 of issuance costs) were used to purchase U.S. Government securities. Those securities were deposited with an escrow agent to provide for all future debt service payments and the early redemption of callable bonds. The October 2006 refunding reduced WSSC's total debt service payments over the next 19 years by $3,619,000 and provided an economic gain of 3,733,000. No refunding bonds were sold in fiscal year 2008.

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

In prior years, WSSC sold refunding bonds totalling $3,138,660,000 for the purpose of refunding and defeasing $3,014,475,000 of outstanding bonds. The purpose of these refundings was to reduce total debt service payments over the remaining life of the refunded bonds and to obtain an economic gain (difference between the present value of the old and new debt service payments) from the transactions.

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

Effective July 1, 1993, WSSC adopted GASB Statement No. 23, Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities (GASB No. 23). GASB No. 23 requires deferral of the difference between the reacquisition price and the carrying amount of the old debt. The difference is reported in the accompanying financial statements as a deduction from bonds payable and is being amortized to interest on bonds and notes through the year 2025 using the proportionate-to-stated interest method. Amortization totaling $7,423,000 and $8,970,000, in fiscal 2008 and 2007, respectively, was recorded as interest on bonds and notes payable in the accompanying statements of revenues, expenses and changes in net assets.

**K. BOND REFUNDINGS (continued)**

Details of the current year and prior years' refundings are as follows (in thousands):

| Date of Refunding | Amount of Refunded Bonds | Remaining Term at Refunding Date | Amount of Refunding Bonds | Estimated Interest Savings | Extraordinary Loss Previously Recognized | Deferred Loss |
|---|---|---|---|---|---|---|
| 10-15-06 | $ 80,360 | 19 years | $ 82,285 | $ 5,544 | | $ 1,989 |
| 03-15-05 | 63,980 | 20 years | 62,510 | 731 | | 2,880 |
| 02-01-04 | 271,815 | 19 years | 266,395 | 10,059 | | 14,941 |
| 10-28-03 | 14,500 | 11 years | 15,780 | 3,107 | | 1,103 |
| 09-15-03 | 70,485 | 11 years | 70,590 | 5,435 | | 2,352 |
| 03-01-03 | 454,905 | 17 years | 428,945 | 22,269 | | 23,612 |
| 04-15-02 | 43,610 | 10 years | 43,705 | 4,483 | | 904 |
| 12-01-01 | 100,150 | 14 years | 100,095 | 9,672 | | (110) |
| 11-15-97 | 42,400 | 14 years | 45,265 | 4,967 | | 2,712 |
| 01-01-97 | 74,375 | 23 years | 79,600 | 7,467 | | 4,595 |
| 01-15-94 | 437,695 | 22 years | 435,675 | 84,556 | | 42,761 |
| 11-01-93 | 243,835 | 22 years | 278,730 | 38,845 | | 28,155 |
| 03-01-93 | 127,975 | 21 years | 139,705 | 12,908 | $ 7,730 | — |
| 06-01-92 | 50,475 | 20 years | 54,775 | 4,896 | 4,200 | — |
| 11-15-91 | 88,355 | 24 years | 95,435 | 8,083 | 5,580 | — |
| 05-15-91 | 229,775 | 23 years | 248,865 | 22,276 | 10,944 | — |
| 03-01-90 | 48,395 | 21 years | 53,885 | 6,700 | 4,216 | — |
| 10-15-86 | 64,160 | 22 years | 74,680 | 15,000 | 9,182 | — |
| 05-15-86 | 149,055 | 29 years | 172,490 | 27,000 | 18,542 | — |
| 07-15-85 | 111,750 | 23 years | 118,015 | 18,000 | 11,002 | — |
| 04-01-84 | 24,765 | 23 years | 29,210 | 8,000 | 3,797 | — |
| 09-01-77 | 221,660 | 23 years | 242,025 | 69,000 | 14,533 | — |

The refunded bonds continue to be general obligations of WSSC until redeemed or called. However, the net proceeds of the refunding bonds were applied toward the purchase of U.S. Government obligations (held in escrow) with maturities and interest sufficient to meet debt service and call premiums, if any, on the refunded bonds. The holders of the refunded bonds have first lien on all assets held in escrow. Refunded bonds outstanding at June 30, 2008 and 2007, which amounted to $116,890,000 and $144,340,000, respectively, are considered to be defeased and are not reflected in the accompanying financial statements.

## L. RETIREMENT PLAN

Plan Description

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

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

The Plan provides for 100% vesting of retirement benefits after five years of credited service. Generally, the normal retirement benefits payable to an eligible participant are equal to the sum of 2.1% of the participant's final average monthly compensation times Closed Version credited service, if applicable, plus 1.4% of final average monthly compensation, as defined, times Open Version credited service.

GASB Statement No. 47, Accounting for Termination Benefits, requires disclosure of changes in the actuarial accrued liability for the Plan attributable to termination benefits. The increased present value liability for excess benefits related to involuntary terminations is estimated at $547,000.

Actuarial Assumptions

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Significant actuarial assumptions used in the most recent valuation, as of June 30, 2007 are as follows:

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

## L. RETIREMENT PLAN (continued)

Actuarially Determined Contribution Requirements
And Contribution Made

WSSC's retirement plan funding policy provides for actuarially determined yearly contributions calculated on a level percentage of payroll costs basis. The covered payroll used by the actuary in determining the contribution was $89,509,798, and the total actual payroll was $101,363,000. The significant actuarial assumptions used to compute the actuarially determined contribution requirement are the same as those previously described.

WSSC's annual pension cost and long-term pension liability for fiscal 2008 and fiscal 2007 are (in thousands):

| | 2008 | 2007 |
|---|---|---|
| Annual required contribution | $14,798 | $12,287 |
| Interest on long-term pension liability | 3,085 | 2,927 |
| Annual pension cost | 17,883 | 15,214 |
| Contributions made | (15,748) | (15,727) |
| Increase (decrease) in long-term pension liability | 2,135 | (513) |
| Long-term pension liability – beginning of year | 39,520 | 40,033 |
| Long-term pension liability – end of year | $41,655 | $39,520 |

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

Historical Trend Information

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

Six-year historical trend information showing the Plan's progress is presented in the Plan's December 31, 2007 comprehensive annual financial report, which can be requested from WSSC's offices.

Retirement Restoration Plan

Effective July 1, 1995, WSSC established the Washington Suburban Sanitary Commission Employees' Retirement Restoration Plan (the Restoration Plan), a non-qualified plan. The purpose of the Restoration Plan is to restore most of the benefits foregone by participants in the WSSC Employees' Retirement Plan when such benefits are limited by the maximum benefit provisions of Section 415 of the Internal Revenue Code. During fiscal years 2008 and 2007, the Restoration Plan paid benefits totaling $61,000 and $52,000**,** respectively.

## M. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

### Plan Description

WSSC provides healthcare, prescription drug, dental and life insurance benefits to retirees and their dependents, and pays a portion of the related costs. All full time active employees who retire or are disabled directly from WSSC and meet the eligibility criteria can participate. Retiree medical benefit and life insurance plans are collectively referred to as the Washington Suburban Sanitary Commission Other Postemployment Benefits (OPEB) Plan. The OPEB Plan is a single-employer plan administered by WSSC. The Commission has been designated as the OPEB Plan sponsor and amendments to the OPEB Plan must be approved by the Commission.

Eligibility for post retirement health care benefits requires a minimum of two years participation in a WSSC sponsored plan immediately prior to retirement. At the end of fiscal 2008, substantially all of WSSC's retired employees (or beneficiaries) are eligible for those benefits. WSSC contributes up to 80% of the amount of health care insurance costs for eligible retired employees and their families.

Employees who retired in 1982 and after are eligible for post retirement life insurance benefits. The amount of retiree life insurance begins at 85% of the employee's salary as of the day immediately prior to retirement, and decreases over a four-year period, until coverage equals either 25% of that salary or $5,000, whichever is greater.

### Funding Policy

The required contribution is based on projected pay-as-you-go obligations, with an additional amount to prefund benefits as determined annually by WSSC. For fiscal year 2008, WSSC contributed $12.9 million to the OPEB Plan, including $10.9 million for current claims and/or premiums (approximately 79 percent of total claims and/or premiums) and an additional $2.0 million to fund benefits. OPEB Plan members receiving benefits contributed $2.9 million or approximately 21% of the total claims and/or premiums, through their required contributions.

### Annual OPEB Cost and Net OPEB Obligation

WSSC's annual OPEB cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years.

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

## M. OTHER POSTEMPLOYMENT BENEFITS (OPEB) (continued)

The following table shows the components of the WSSC's annual OPEB cost for the year, the amount actually contributed to the OPEB Plan, and changes in the net OPEB obligation to WSSC (in thousands):

| | 2008 |
|---|---|
| Annual required contribution | $22,467 |
| Interest on net OPEB obligation | – |
| Adjustment to annual required contribution | – |
| Annual OPEB cost | 22,467 |
| Phase-in funding | (2,000) |
| Benefits paid | (10,963) |
| Increase in net OPEB obligation | 9,504 |
| Net OPEB obligation – beginning of year | – |
| Net OPEB obligation – end of year | $ 9,504 |

WSSC's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan and the net OPEB obligation for 2008 were (in thousands):

| Fiscal Year Ended | Annual OPEB Cost | Percentage of Annual OPEB Cost Contributed | Net OPEB Obligation |
|---|---|---|---|
| 6/30/2008 | $22,466 | 57.7% | $ 9,504 |

Funded Status and Funding Progress

As of June 30, 2007, the most recent actuarial valuation date, the plan was 0% funded. The actuarial accrued liability for benefits was $232.3 million, and with no assets as of this initial valuation, the resulting unfunded actuarial liability (UAAL) was $232.3 million. The covered payroll (annual payroll of active employees covered by the OPEB Plan) was $97.3 million, and the ratio of the UAAL to the covered payroll was 239%.

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

## M. OTHER POSTEMPLOYMENT BENEFITS (OPEB) (continued)

Actuarial Methods and Assumptions

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

As of the last valuation, the company had 1,354 retired employees and 1,363 active employees who participated in health plans, excluding spouses and dependents. Life insurance plan participation is 1,396 and 1,363 for retirees and active employees, respectively. The average age is 67.63 and 47.52 for retirees and active employees, respectively.

Actuarial assumptions used in the most recent valuation, as of June 30, 2007 are as follows:

| | |
|---|---|
| Actuarial cost method | Projected unit credit cost method. |
| Rate of return on investments | 7.5% assumes WSSC phases into fully funding the ARC over 5 years. The first year pre-funding amount is the pay-as-you-go amount plus 20% of the difference between that amount and the ARC. The pre-funding will decrease 20% for each of the following 4 years. |
| Yearly increase in medical/prescription costs | Commences at 11% in fiscal year 2008 and declines annually to 5.5% in 2013 and later. |
| Mortality rates after retirement | 1983 Group Annuity Mortality Tables set forward 1 year for non-disability retirees and 10 years for disability retirees. |
| Retirement age assumptions | Ranging from 45 to 69. |
| Coverage | 100% of current retirees are covered and 100% of current active employees will elect coverage at least two years prior to retirement age under the medical and life insurance plans. |
| Amortization method | 30 years amortization of the unfunded Actuarial Accrued Liability as a level dollar. |

## N. DEFERRED COMPENSATION PLAN

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

## O. COMMITMENTS AND CONTINGENCIES

Construction expenditures for fiscal 2009 are not expected to exceed $361 million, a portion of which will be funded by capital contributions. Commitments in connection with this construction program approximated $143 million at June 30, 2008.

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

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

The United States Department of Justice, the United States Environmental Protection Agency and the Maryland Department of the Environment (collectively "the Regulators") alleged, in previous years, that sanitary sewer overflows ("SSOs") from WSSC's sanitary sewer collection system were violations of the Federal Clean Water Act and analogous State law. Federal agencies have pursued similar enforcement actions nationally against public wastewater treatment system owners. WSSC contested this action and the initial remedial measures proposed by the Regulators. Negotiations to resolve the enforcement action through the entry of a mutually agreeable Consent Decree began in March 2002. In July 2005, a proposed Consent Decree was executed between WSSC, the Regulators and four environmental groups in which WSSC agreed to undertake certain remedial measures to eliminate and/or reduce SSO occurrences. The proposed Consent Decree was approved by the U.S. District Court with an official start date of December 7, 2005. Costs of these remedial measures are estimated at $435 million and are to be expended over 12 years, $400 million of which are expected to be incurred after fiscal year 2008. The costs are included in WSSC's budget and capital improvements program. WSSC also agreed to pay civil penalties totaling $1.1 million and these costs were accrued in fiscal 2005, and paid in fiscal 2006.

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

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

## O. COMMITMENTS AND CONTINGENCIES (continued)

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

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

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

| | 2008 | 2007 |
|---|---|---|
| Claim liability - beginning of year | $12,956 | $12,090 |
| Current year claims and changes in estimates | 3,653 | 3,608 |
| Claim payments | (3,263) | (2,742) |
| Claim liability - end of year | $13,346 | $12,956 |

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

During fiscal 2008 and 2007, WSSC leased a variety of equipment with annual rental payments of approximately $405,000 and $418,000 respectively. There are no annual commitments under long term non-cancelable operating leases as of June 30, 2008.

**SCHEDULE A**

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

| Actuarial Valuation Date June 30 | Actuarial Value of Assets | Actuarial Accrued Liability | Unfunded Actuarial Accrued Liability (UAAL) | Funded Ratio | Covered Payroll | UAAL as a Percentage of Covered Payroll |
|---|---|---|---|---|---|---|
| 2005 | $572,870 | $616,371 | $43,501 | 92.9% | $88,934 | 48.9% |
| 2006 | 601,159 | 642,652 | 41,493 | 93.5 | 89,510 | 46.4 |
| 2007 | 689,681 | 730,211 | 40,530 | 94.4 | 97,977 | 41.4 |

| Fiscal Year Ended June 30 | Annual Pension Cost (APC) | Percentage of APC Contributed | Long-Term Pension Liability |
|---|---|---|---|
| 2006 | $14,136 | 111% | $40,033 |
| 2007 | 15,214 | 103 | 39,520 |
| 2008 | 17,883 | 88 | 41,655 |

**WASHINGTON SUBURBAN SANITARY COMMISSION** **SCHEDULE B**

**REQUIRED SUPPLEMENTAL INFORMATION**

**SCHEDULE OF HISTORICAL OTHER POSTEMPLOYMENT BENEFITS (OPEB) INFORMATION**

**Unaudited**

**(In thousands)**

| Actuarial Valuation Date June 30 | Actuarial Value of Assets | Actuarial Accrued Liability (AAL) | Unfunded AAL (UAAL) | Funded Ratio | Covered Payroll | UAAL as a Percentage of Covered Payroll |
|---|---|---|---|---|---|---|
| 2007 | – | $232,274 | $232,274 | 0% | $97,977 | 239% |

| Fiscal Year Ended June 30 | Annual OPEB Cost | Percentage of APC Contributed | Net OPEB Obligation |
|---|---|---|---|
| 2008 | $22,467 | 57.7% | $9,504 |