



**Washington Suburban  
Sanitary Commission**

# Annual Financial Report

Year Ended June 30, 2009



www.tcba.com

**THOMPSON, COBB, BAZILIO & ASSOCIATES, PC**

*Certified Public Accountants and Management, Systems and Financial Consultants*

1101 15<sup>th</sup> Street, NW • Suite 400 • Washington, DC 20005 • (202)737-3300 • (202)737-2684 FAX

**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, 2009 and June 30, 2008 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, 2009 and June 30, 2008, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages two through nine and schedules of historical pension and other post-employment benefits information (Schedule A and Schedule B) on pages thirty-two and thirty-three 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 28, 2009

*Thompson, Cobb, Bazilio & Associates, P.C.*

## **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, 2009 and 2008. Please read it in conjunction with WSSC's financial statements, which follow this section.

### **FINANCIAL HIGHLIGHTS**

#### *Fiscal Year 2009*

- WSSC maintained AAA bond ratings from FitchRatings, Moody's Investors Service, and Standard & Poor's.
- WSSC issued \$165 million in bonds to fund new construction.
- Combined water and sewer rates increased 8.0% in fiscal 2009. However the volume of water delivered to the system declined 3.8%. Also, \$4.0 million was added to the allowance for uncollectible accounts to reflect the impact of the current economic downturn on delinquencies.
- On January 15, 2009, WSSC received a promissory note in the amount of \$10,000,000 from Montgomery County for the County's purchase of a WSSC property.
- A Consent Decree with the Environmental Protection Agency, the Department of Justice, the State of Maryland, and four environmental groups entered its fourth year. The Consent Decree formally identifies the remedial measures to eliminate and/or reduce Sanitary Sewer Overflows. Costs of these remedial measures are estimated at \$486 million and are projected to be expended over 12 years, \$417 million of which is expected to be incurred after fiscal year 2009. 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, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions (OPEB). WSSC recorded a liability of \$18.5 million and related expenses for certain postemployment benefits, \$9.0 million of which was added in fiscal 2009. In addition, WSSC contributed \$4.0 million to fund the OPEB plan in fiscal year 2009. Full disclosure of the financial impact of this pronouncement is disclosed in Note N of the financial statements.
- Operating revenues decreased \$3.0 million. The amount of water delivered to the system declined 3.8% during the fiscal year, while average rates billed to water and sewer customers increased approximately 8.0%. In addition, various fees charged by WSSC for construction of water and sewer extensions and house connections and related services have declined in response to the downturn in the economy, and the construction industry in particular.
- Operating expenses increased \$25.8 million during fiscal year 2009. Salaries and wages and related health care costs increased \$6.0 million and \$3.3 million, respectively. Other fringe benefit costs for retirement decreased significantly during the year. A final payoff of benefits in fiscal 2008 to the State of Maryland for former WSSC employees participating in the State Retirement System represents \$4.5 million of this reduction. Also, WSSC contributions to its retirement plan exceeded actuarially required costs by \$6.0 million, thereby reducing the pension liability. Outlays to perform sewer inspections, pipe cleaning and Sanitary Sewer Evaluation Surveys, which are mandated under the Consent Decree, grew \$5.7 million. Rising costs for energy and chemicals contributed another increase of \$4.6 million. Contract costs increased \$2.0 million as a result of water main breaks. Costs for biosolids management, including fuel surcharges for hauling rose \$2.4 million. Intermunicipal agency sewage disposal expenses increased \$12.8 million primarily as a result of the settlement and adjustment of WSSC's share of actual expenses in the prior fiscal year.
- Capital assets (water and sewer lines, water tanks, treatment plants, pumping stations, multi-purpose facilities and other facilities), net of accumulated depreciation, increased by \$176.9 million, while overall debt rose slightly in comparison to the previous fiscal year.
- The increase in net assets during the year included operating income, net of non-operating expenses, of \$51.7 million, and capital contributions of \$60.6 million.

### ***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 is 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, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions (OPEB). 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 N 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 in fiscal year 2008. 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.

### **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 inflows and outflows 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 statements of cash flow.

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 2009***

WSSC's net assets increased 3.4% to \$3,421.4 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 4.0% to \$4,565.8 million. Unused bond proceeds at the end of the year were \$28.3 million. Investments of unused bond proceeds are restricted and classified as non-current assets. During fiscal year 2009, developers constructed \$35.9 million of capital assets and donated them to WSSC. Additional information is presented in the Capital Asset and Debt Administration section of this discussion.

Total debt, including current maturities increased slightly to \$1,370.1 million. Capital contributions of \$60.6 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 K and L of the financial statements.

#### ***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 K and L of the financial statements.

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

	<b>FY 2009</b>	<b>FY 2008</b>	<b>FY 2007</b>	<b>FY 2009 % Change</b>	<b>FY 2008 % Change</b>
Current and other assets	\$ 423.4	\$ 485.8	\$ 467.2	(12.8)	4.0
Capital assets, net of accumulated depreciation	4,565.8	4,388.9	4,221.6	4.0	4.0
<b>Total assets</b>	<b>4,989.2</b>	<b>4,874.7</b>	<b>4,688.8</b>	<b>2.3</b>	<b>4.0</b>
Current and other liabilities	538.3	561.3	420.1	(4.1)	33.6
Bonds and notes payable, net of current maturities	1,029.5	1,004.3	1,127.3	2.5	(10.9)
<b>Total liabilities</b>	<b>1,567.8</b>	<b>1,565.6</b>	<b>1,547.4</b>	<b>0.1</b>	<b>1.2</b>
Net assets:					
Invested in capital assets, net of related debt	3,223.9	3,067.3	2,887.8	5.1	6.2
Restricted for growth construction	127.6	135.5	124.8	(5.8)	8.6
Unrestricted	69.9	106.3	128.8	(34.2)	(17.5)
<b>Total net assets</b>	<b>\$ 3,421.4</b>	<b>\$ 3,309.1</b>	<b>\$ 3,141.4</b>	<b>3.4</b>	<b>5.3</b>

### Changes in Net Assets

#### *Fiscal Year 2009*

WSSC's operating revenues decreased \$3.0 million (See Table A-2). The amount of water delivered to the system declined 3.8% during the fiscal year, while average rates billed to water and sewer customers increased approximately 8.0%. In addition, various fees charged by WSSC for construction of water and sewer extensions and house connections and related services have declined in response to the downturn in the economy, and the construction industry in particular. Operating expenses increased 6.5% to \$422.5 million. Operating expenses increased \$25.8 million during fiscal year 2009. Salaries and wages and related health care costs increased \$6.0 million and \$3.3 million, respectively. Other fringe benefit costs for retirement decreased significantly during the year. A final payoff of benefits in fiscal 2008 to the State of Maryland for former WSSC employees participating in the State Retirement System represents \$4.5 million of this reduction. Also, WSSC contributions to its retirement plan exceeded actuarially required costs by \$6.0 million, thereby reducing the pension liability. Outlays to perform sewer inspections, pipe cleaning and Sanitary Sewer Evaluation Surveys, which are mandated under the Consent Decree, grew \$5.7 million. Rising costs for energy and chemicals contributed another increase of \$4.6 million. Contract costs increased \$2.0 million as a result of water main breaks. Costs for biosolids management, including fuel surcharges for hauling rose \$2.4 million. Intermunicipal agency sewage disposal expenses increased \$12.8 million primarily as a result of the settlement and adjustment of WSSC's share of actual expenses in the prior fiscal year.

The net changes in revenues and expenses during the year resulted in a 40.0% decline in income before contributions to \$51.7 million. Capital contributions decreased by 25.6% to \$60.6 million. A decline in new construction triggered reductions in developer fees and capital assets constructed by developers (donated 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 comprised 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).

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

	<b>FY 2009</b>	<b>FY 2008</b>	<b>FY 2007</b>	<b>FY 2009 % Change</b>	<b>FY 2008 % Change</b>
Operating revenues	\$485.7	\$488.7	\$ 464.4	(0.6)	5.2
Operating expenses	(422.5)	(396.7)	(362.9)	(6.5)	(9.3)
Non-operating revenues (expenses)	(11.5)	(5.9)	(5.9)	(94.9)	0.0
<b>Income before contributions</b>	51.7	86.1	95.6	(40.0)	(9.9)
Capital contributions	60.6	81.5	115.2	(25.6)	(29.3)
<b>Changes in net assets</b>	\$112.3	\$167.6	\$ 210.8	(33.0)	(20.4)

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

#### *Fiscal Year 2009*

As of June 30, 2009, WSSC had invested \$4,565.8 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 \$176.9 million, or 4.0%, over fiscal year 2008.

#### *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.

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

	<b>FY 2009</b>	<b>FY 2008</b>	<b>FY 2007</b>	<b>FY 2009 % Change</b>	<b>FY 2008 % Change</b>
Land and rights of way	\$ 75.7	\$ 80.4	\$ 80.9	(5.8)	(0.1)
Construction in progress	999.9	852.8	735.5	17.2	15.9
Water supply	1,012.5	993.9	994.9	1.9	0.0
Sewage disposal	1,070.1	1,077.8	1,057.6	(0.7)	1.9
General construction	1,376.4	1,360.1	1,333.1	1.2	2.0
Other	31.2	23.9	19.6	20.5	21.9
<b>Total capital assets</b>	<b>\$ 4,565.8</b>	<b>\$ 4,388.9</b>	<b>\$ 4,221.6</b>	<b>4.0</b>	<b>4.0</b>

Capital assets completed and placed in service decreased \$14.1 million or 10%, in comparison to fiscal year 2008. Major additions to capital assets being depreciated during fiscal years 2009 and 2008 are illustrated in Tables A-4 and A-5, respectively.

**TABLE A-4**  
**WSSC's Additions to Capital Assets Being Depreciated**  
**Fiscal Year 2009**  
**(in millions of dollars)**

	<b>Water Supply</b>	<b>Sewage Disposal</b>	<b>General Construction</b>
<b>Financed from proceeds of bonds, notes, operating revenues or capital contributions:</b>			
Water and sewer mains	\$34.1	\$27.2	\$ 6.0
House connections			12.3
Water meters			1.5
Water storage facilities	3.2		
Wastewater treatment facilities		1.2	
Water pumping stations	9.3		
Wastewater pumping stations		.1	
Joint-use facilities	.2		2.3
<b>Constructed and contributed by developers:</b>			
House connections			4.0
Water and sewer mains			31.8
<b>Total fiscal year 2009 additions to capital assets being depreciated</b>	<b>\$46.8</b>	<b>\$28.5</b>	<b>\$57.9</b>



**TABLE A-5**  
**WSSC's Additions to Capital Assets Being Depreciated**  
**Fiscal Year 2008**  
**(in millions of dollars)**

	<b>Water Supply</b>	<b>Sewage Disposal</b>	<b>General Construction</b>
<b>Financed from proceeds of bonds, notes, operating revenues or capital contributions:</b>			
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	
<b>Constructed and contributed by developers:</b>			
House connections			5.9
Water and sewer mains			42.1
<b>Total fiscal year 2008 additions to capital assets being depreciated</b>	<b>\$26.8</b>	<b>\$52.5</b>	<b>\$68.0</b>

**Bonds and Notes Payable**

***Fiscal Year 2009***

At the end of fiscal year 2009, bonds and notes outstanding totaled \$1,370.1 million, a slight increase in comparison to the previous fiscal year.

***Fiscal Year 2008***

At the end of fiscal year 2008, 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 K and L of the financial statements.

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

	<b>FY 2009</b>	<b>FY 2008</b>	<b>FY 2007</b>	<b>FY 2009 % Change</b>	<b>FY 2008 % Change</b>
Water supply	\$ 458.5	\$ 410.5	\$ 382.9	11.7	7.2
Sewage disposal	420.3	405.0	386.7	3.8	4.7
General construction	490.5	542.2	587.9	(9.5)	(7.8)
Storm water drainage	0.8	1.4	2.1	(42.9)	(33.3)
<b>Total</b>	<b>1,370.1</b>	<b>1,359.1</b>	<b>1,359.6</b>	<b>0.8</b>	<b>(0.0)</b>
Current maturities	340.6	354.8	232.3	(4.0)	52.7
Long-term portion	1,029.5	1,004.3	1,127.3	2.5	(10.9)
<b>Total bonds and notes payable</b>	<b>\$ 1,370.1</b>	<b>\$ 1,359.1</b>	<b>\$ 1,359.6</b>	<b>0.8</b>	<b>(0.0)</b>

***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, 2009 and 2008, the calculated limits were \$9,152.7 million and \$8,327.8 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, 2009 AND 2008**  
(in thousands)

	<u>2009</u>	<u>2008</u>
<b>ASSETS</b>		
Current assets:		
Cash (Note B)	\$ 13,645	\$ 4,278
Short-term investments (Note B)	247,535	317,139
Receivables, net (Note C)	105,246	108,734
Prepaid expenses	417	320
Materials and supplies, at average cost	<u>13,246</u>	<u>10,828</u>
Total current assets	<u>380,089</u>	<u>441,299</u>
Non-current assets:		
Capital assets, net of accumulated depreciation (Note E)	4,565,781	4,388,856
Long-term investments (Note B)	28,275	37,548
Note receivable (Note F)	10,000	—
Federal and State grants receivable	2,275	3,443
Deferred charges and other assets (Note D)	<u>2,742</u>	<u>3,565</u>
Total non-current assets	<u>4,609,073</u>	<u>4,433,412</u>
Total assets	<u>\$4,989,162</u>	<u>\$ 4,874,711</u>
<b>LIABILITIES</b>		
Current liabilities:		
Bonds and notes payable, current maturities (Notes K and L)	\$ 340,581	\$ 354,819
Accounts payable and accrued expenses	96,459	105,278
Accrued bond and note interest payable	11,580	12,073
Deposits and deferred credits	<u>3,150</u>	<u>3,121</u>
Total current liabilities	<u>451,770</u>	<u>475,291</u>
Non-current liabilities:		
Bonds and notes payable, net of current maturities (Notes K and L)	1,029,546	1,004,274
Long-term pension liability (Note M)	36,426	41,655
Other postemployment benefits (OPEB) liability (Note N)	18,528	9,504
Deposits, deferred credits and other long-term liabilities (Note J)	<u>31,504</u>	<u>34,916</u>
Total non-current liabilities	<u>1,116,004</u>	<u>1,090,349</u>
Total liabilities	<u>1,567,774</u>	<u>1,565,640</u>
<b>COMMITMENTS AND CONTINGENCIES (Note P)</b>		
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	3,223,929	3,067,311
Restricted for growth construction	127,552	135,522
Unrestricted	<u>69,907</u>	<u>106,238</u>
Total net assets	<u>3,421,388</u>	<u>3,309,071</u>
Total liabilities and net assets	<u>\$4,989,162</u>	<u>\$4,874,711</u>

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, 2009 AND 2008**  
(in thousands)

	<u>2009</u>	<u>2008</u>
<b>OPERATING REVENUES:</b>		
Water consumption, sewer use and service charges	\$ 400,180	\$ 394,125
Front foot benefit assessments	56,196	60,530
House connection charges	9,643	12,612
Other	<u>19,650</u>	<u>21,435</u>
Total operating revenues	<u>485,669</u>	<u>488,702</u>
<b>OPERATING EXPENSES:</b>		
Operations	87,065	83,602
Maintenance	115,150	104,192
Intermunicipal agency sewage disposal	53,691	40,300
Administrative and general	64,201	66,972
Depreciation and amortization	<u>102,393</u>	<u>101,646</u>
Total operating expenses	<u>422,500</u>	<u>396,712</u>
Net operating revenues	<u>63,169</u>	<u>91,990</u>
<b>NON-OPERATING REVENUES (EXPENSES):</b>		
Interest on bonds and notes payable	(53,047)	(57,928)
Capitalized interest	31,276	30,028
Prince George's County storm drain debt service reimbursement, net of refund	754	749
Interest income on investments	5,424	16,570
Other interest income	<u>4,089</u>	<u>4,709</u>
Net non-operating expenses	<u>(11,504)</u>	<u>(5,872)</u>
Income before capital contributions	51,665	86,118
Capital contributions (Note H)	<u>60,652</u>	<u>81,528</u>
Changes in net assets	112,317	167,646
Net assets, beginning of year	<u>3,309,071</u>	<u>3,141,425</u>
Net assets, end of year	<u>\$3,421,388</u>	<u>\$ 3,309,071</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, 2009 AND 2008**  
(in thousands)

	<u>2009</u>	<u>2008</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Receipts from water and sewer customers	\$ 401,902	\$ 393,695
Receipts from front foot benefit assessments	58,945	62,065
Receipts from house connection charges	9,643	12,612
Receipts from other customers and miscellaneous	36,935	39,587
Payments to employees	(126,887)	(126,015)
Payments to District of Columbia Water & Sewer Authority	(46,104)	(39,960)
Payments to suppliers and others	<u>(156,848)</u>	<u>(137,906)</u>
Net cash provided by operating activities	<u>177,586</u>	<u>204,078</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Proceeds from bonds and notes	169,731	150,550
Capital contributions	22,530	32,104
Prince George's County storm drain debt service reimbursement, net of refund	754	749
Bond redemptions and note repayments	(165,979)	(149,757)
Interest payments, premiums and discounts on bonds and notes	(42,368)	(55,682)
Capital asset construction	<u>(237,188)</u>	<u>(181,894)</u>
Net cash used in capital and related financing activities	<u>(252,520)</u>	<u>(203,930)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Proceeds from the sale of investments	813,967	983,859
Purchases of investments	(736,306)	(1,011,003)
Interest income received	<u>6,640</u>	<u>18,666</u>
Net cash provided by (used in) investing activities	<u>84,301</u>	<u>(8,478)</u>
Net increase (decrease) in cash	9,367	(8,330)
Cash, beginning of year	<u>4,278</u>	<u>12,608</u>
Cash, end of year	<u>\$ 13,645</u>	<u>\$ 4,278</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net operating revenue	\$ 63,169	\$ 91,990
Adjustments to reconcile net operating revenue to net cash provided by operating activities:		
Depreciation and amortization	108,557	106,862
Changes in assets and liabilities:		
Decrease in receivables, net	2,737	634
Increase in materials and supplies	(2,418)	(1,688)
Increase in deferred charges and other assets	(97)	(35)
Increase (decrease) in accounts payable and accrued liabilities	1,762	(1,911)
Increase (decrease) in deferred credits	763	(1,191)
(Decrease) increase in long-term pension liability	(4,289)	1,727
Increase in long-term OPEB liability	<u>7,402</u>	<u>7,690</u>
Net cash provided by operating activities	<u>\$ 177,586</u>	<u>\$ 204,078</u>

**Noncash capital financing activities:**

Capital assets of \$35,895 and \$48,073 were acquired through contributions from developers in 2009 and 2008, respectively.

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, 2009 AND 2008**

**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 2009 or 2008.

**Capital Contributions**

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

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

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

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

A 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.

**WASHINGTON SUBURBAN SANITARY COMMISSION**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED JUNE 30, 2009 AND 2008**

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

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

Capital Assets

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

Depreciation and Amortization

Capital assets are depreciated using the straight-line method over the estimated service lives of the property, which averaged 49 years in fiscal 2009 and 2008.

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 L).

Annual Leave

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

Estimates

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

Reclassifications

The 2008 financial statements reflect certain reclassifications to conform with the 2009 presentation.

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.

**WASHINGTON SUBURBAN SANITARY COMMISSION**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED JUNE 30, 2009 AND 2008**

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

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, 2009, and 2008, unspent bond proceeds totaled \$28,275,000, and \$37,548,000, 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 \$18.5 million and \$9.5 million and related expenses for Other Postemployment Benefits (OPEB) in fiscal years 2009 and 2008, respectively. In addition, WSSC contributed \$4.0 million and \$2.0 million to fund the OPEB plan in fiscal 2009 and 2008, respectively.

In November 2006, the GASB 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, 2009 and 2008, cash per WSSC's records amounted to \$13,645,000 and \$4,278,000, respectively, and per reported bank balances was \$20,322,000 and \$10,027,000, respectively. All collected bank balance funds were secured by Federal depository insurance or by collateral held in WSSC's name by the Federal Reserve Bank.

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

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage Of Portfolio</u>	<u>Maximum Investment 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%



**WASHINGTON SUBURBAN SANITARY COMMISSION**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED JUNE 30, 2009 AND 2008**

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

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

Custodial credit risk is the risk that, in the event of a failure of a financial institution, WSSC would not be able to recover deposits, the value of its investments, or collateral securities that are in the possession of an outside party. Maryland State law requires that collateral shall be maintained for all deposits and certificates of deposit with amounts in excess of Federal insurance coverage. State law also requires the securities collateralizing repurchase agreements have a market value of at least 102 percent of the principal of the investment plus accrued interest. At June 30, 2009 and 2008, 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, 2009 and 2008, 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, 2009 and 2008 are presented below for each investment type.

Investments at June 30, 2009 (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	\$ 11,205	\$ 11,205
Federal agency securities	Aaa	1 year or less	<u>264,605</u>	<u>265,460</u>
Total investments (includes \$28,275 restricted for capital projects, classified as non-current)			<u>\$275,810</u>	<u>\$276,665</u>

Investments at June 30, 2008 (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	\$ 56,713	\$ 56,713
Federal agency securities	Aaa	1 year or less	<u>297,974</u>	<u>299,213</u>
Total investments (includes \$37,548 restricted for capital projects, classified as non-current)			<u>\$354,687</u>	<u>\$355,926</u>

**WASHINGTON SUBURBAN SANITARY COMMISSION**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED JUNE 30, 2009 AND 2008**

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

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:

<u>Issuer</u>	<u>Investment Type</u>	<u>Reported Amount at June 30, 2009 (in thousands)</u>
FHLB	Federal agency securities	\$ 109,909
FHLMC	Federal agency securities	89,835
FNMA	Federal agency securities	64,861

<u>Issuer</u>	<u>Investment Type</u>	<u>Reported Amount at June 30, 2008 (in thousands)</u>
FHLB	Federal agency securities	\$ 69,721
FHLMC	Federal agency securities	34,846
FNMA	Federal agency securities	188,407
FNMA	Collateral securities for repurchase agreements	22,000
FHLMC	Collateral securities for repurchase agreements	13,000

**C. RECEIVABLES**

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

	<u>2009</u>	<u>2008</u>
Front foot benefit assessments accrued and billed	\$ 33,638	\$ 36,550
Water and sewer services unbilled	38,711	38,197
Water and sewer services billed	32,294	30,385
Services billed to others and miscellaneous	<u>9,845</u>	<u>8,454</u>
	114,488	113,586
Less allowance for doubtful accounts	<u>(9,242)</u>	<u>(4,852)</u>
Total receivables, net	<u>\$105,246</u>	<u>\$108,734</u>

**WASHINGTON SUBURBAN SANITARY COMMISSION**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED JUNE 30, 2009 AND 2008**

**D. DEFERRED CHARGES AND OTHER ASSETS**

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

	<u>2009</u>	<u>2008</u>
Net deferred cost of storm water drainage property transferred to Prince George's County	\$ 720	\$ 1,405
Unamortized issuance cost of refunding bonds	<u>2,022</u>	<u>2,160</u>
Total	<u>\$ 2,742</u>	<u>\$ 3,565</u>

**E. CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2009 was as follows (in thousands):

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land and rights of way	\$ 80,420	\$ 1,021	\$ (5,763)	\$ 75,678
Construction in progress	<u>852,758</u>	<u>217,908</u>	<u>(70,703)</u>	<u>999,963</u>
Total capital assets not being depreciated	<u>933,178</u>	<u>218,929</u>	<u>(76,466)</u>	<u>1,075,641</u>
Capital assets being depreciated:				
Water supply	1,413,348	46,849	(456)	1,459,741
Sewage disposal	1,726,981	28,468	(62,893)	1,692,556
General construction	2,177,921	57,924	(594)	2,235,251
Other	<u>88,307</u>	<u>13,444</u>	<u>(2,549)</u>	<u>99,202</u>
Total capital assets being depreciated	<u>5,406,557</u>	<u>146,685</u>	<u>(66,492)</u>	<u>5,486,750</u>
Less accumulated depreciation for:				
Water supply	(419,423)	(27,902)	75	(447,250)
Sewage disposal	(611,711)	(33,037)	22,290	(622,458)
General construction	(817,885)	(41,453)	466	(858,872)
Other	<u>(64,388)</u>	<u>(6,164)</u>	<u>2,522</u>	<u>(68,030)</u>
Total accumulated depreciation	<u>(1,913,407)</u>	<u>(108,556)</u>	<u>25,353</u>	<u>(1,996,610)</u>
Capital assets being depreciated, net	<u>3,493,150</u>	<u>38,129</u>	<u>(41,139)</u>	<u>3,490,140</u>
Reserve for impairment in value	<u>(37,472)</u>	-	<u>37,472</u>	-
Total capital assets, net	<u>\$4,388,856</u>	<u>\$257,058</u>	<u>\$(80,133)</u>	<u>\$4,565,781</u>

**WASHINGTON SUBURBAN SANITARY COMMISSION**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED JUNE 30, 2009 AND 2008**

**E. CAPITAL ASSETS (continued)**

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land and rights of way	\$ 80,900	\$ -	\$ (480)	\$ 80,420
Construction in progress	<u>735,507</u>	<u>195,088</u>	<u>(77,837)</u>	<u>852,758</u>
Total capital assets not being depreciated	<u>816,407</u>	<u>195,088</u>	<u>(78,317)</u>	<u>933,178</u>
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	<u>82,246</u>	<u>9,669</u>	<u>(3,608)</u>	<u>88,307</u>
Total capital assets being depreciated	<u>5,254,319</u>	<u>157,011</u>	<u>(4,773)</u>	<u>5,406,557</u>
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	<u>(62,668)</u>	<u>(5,216)</u>	<u>3,496</u>	<u>(64,388)</u>
Total accumulated depreciation	<u>(1,811,641)</u>	<u>(106,733)</u>	<u>4,967</u>	<u>(1,913,407)</u>
Capital assets being depreciated, net	<u>3,442,678</u>	<u>50,278</u>	<u>194</u>	<u>3,493,150</u>
Reserve for impairment in value	<u>(37,472)</u>	<u>-</u>	<u>-</u>	<u>(37,472)</u>
Total capital assets, net	<u>\$4,221,613</u>	<u>\$245,366</u>	<u>\$(78,123)</u>	<u>\$4,388,856</u>

A reserve for impairment in value was established in 2005 for a biosolids composting facility which was placed in service in 1983. This reserve was eliminated in fiscal 2009 upon the sale of the facility and associated property.

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, \$6,164,000 in fiscal 2009 and \$5,216,000 in fiscal 2008, is classified with other related operating and maintenance costs.

**F. NOTE RECEIVABLE**

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

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

**WASHINGTON SUBURBAN SANITARY COMMISSION**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED JUNE 30, 2009 AND 2008**

**F. NOTE RECEIVABLE (continued)**

As Montgomery County develops the property, additional payments become due when a 'Payment Event' occurs. A 'Payment Event' is defined as a sale or ground lease of a parcel or the commencement of initial construction on a parcel. The additional payment shall be applied to the minimum annual payment amount. Montgomery County is obligated to pay additional payments for amounts in excess of the minimum annual payment.

The principal portion of additional payments shall be at least determined based upon the ratio of the developable square feet (DSF) of the sold or developed parcel to the sum of the DSF of the sold or developed parcel plus the total DSF of the unsold parcels. Interest shall be the outstanding unpaid interest accrued as of the date of the applicable payment event.

The promissory note matures upon the earlier of January 15, 2024, (fifteenth anniversary of the date of the note) or the date for the Payment Event for the last parcel for which an additional payment is due.

**G. 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 involuntarily 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 and paid in fiscal 2009.

**WASHINGTON SUBURBAN SANITARY COMMISSION**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED JUNE 30, 2009 AND 2008**

**H. CAPITAL CONTRIBUTIONS**

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

	<u>2009</u>	<u>2008</u>
System development charges	\$15,654	\$23,892
Developer fees	8,904	4,648
Federal and State water pollution control grants	199	4,915
House connections	4,033	5,866
Other construction projects	<u>31,862</u>	<u>42,207</u>
Total	<u>\$60,652</u>	<u>\$81,528</u>

**I. COMPENSATED ABSENCE LIABILITY**

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

	<u>2009</u>	<u>2008</u>
Compensated absence liability - beginning of year	\$10,002	\$ 9,322
Increases (incurred)	8,232	8,613
Decreases	<u>(7,734)</u>	<u>(7,933)</u>
Compensated absence liability - end of year	<u>\$10,500</u>	<u>\$10,002</u>

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

**J. 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):

	<u>2009</u>	<u>2008</u>
Deferred revenue for house connections	\$22,691	\$21,612
Deferred front foot benefit revenue	3,280	3,491
Construction deposits	1,501	5,647
House connection deposits	2,840	3,203
Other	<u>1,192</u>	<u>963</u>
Total	<u>\$31,504</u>	<u>\$34,916</u>

**WASHINGTON SUBURBAN SANITARY COMMISSION**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED JUNE 30, 2009 AND 2008**

**K. BONDS AND NOTES PAYABLE**

Bonds and notes payable activity for the year ended June 30, 2009 was as follows (in thousands):

	<u>Beginning</u> <u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending</u> <u>Balance</u>	<u>Current</u> <u>Maturities</u>
Bonds and notes payable:					
Water supply	\$ 405,243	\$ 95,000	\$ (51,159)	\$ 449,084	\$120,606
Sewage disposal	398,801	59,731	(46,413)	412,119	128,504
General construction	542,499	15,000	(67,730)	489,769	90,726
Storm water drainage	<u>1,420</u>	<u>—</u>	<u>(675)</u>	<u>745</u>	<u>745</u>
	1,347,963	169,731	(165,977)	1,351,717	340,581
Plus deferred amount	<u>11,130</u>	<u>8,936</u>	<u>(1,656)</u>	<u>18,410</u>	<u>—</u>
Total bonds and notes payable	<u>\$1,359,093</u>	<u>\$178,667</u>	<u>\$(167,633)</u>	<u>\$1,370,127</u>	<u>\$340,581</u>

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

	<u>Beginning</u> <u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending</u> <u>Balance</u>	<u>Current</u> <u>Maturities</u>
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	<u>2,055</u>	<u>—</u>	<u>(635)</u>	<u>1,420</u>	<u>675</u>
	1,347,171	154,043	(153,251)	1,347,963	354,819
Plus deferred amount	<u>12,388</u>	<u>—</u>	<u>(1,258)</u>	<u>11,130</u>	<u>—</u>
Total bonds and notes payable	<u>\$1,359,559</u>	<u>\$154,043</u>	<u>\$(154,509)</u>	<u>\$1,359,093</u>	<u>\$354,819</u>

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

Bonds payable accrue interest at rates ranging from 1.0% to 6.0%, with an effective interest rate of 4.33% at June 30, 2009. All bonds payable at June 30, 2009, 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.

**WASHINGTON SUBURBAN SANITARY COMMISSION**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED JUNE 30, 2009 AND 2008**

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

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

<u>Year ended</u> <u>June 30</u>	<u>Principal</u> <u>Maturities</u>	<u>Interest</u> <u>Requirements</u>
2010	\$ 340,581	\$ 57,352
2011	124,795	50,244
2012	110,625	44,042
2013	100,325	42,060
2014	93,456	37,051

Bond and note maturities and interest thereon in five-year increments for fiscal years after 2014 are as follows (in thousands):

<u>Year ended</u> <u>June 30</u>	<u>Principal</u> <u>Maturities</u>	<u>Interest</u> <u>Requirements</u>
2015 - 2019	\$ 317,663	\$ 124,741
2020 - 2024	190,771	53,033
2025 - 2029	71,719	10,285
2030 - 2034	1,782	335

Bond Anticipation Notes (the Notes) are remarketed weekly by WSSC's remarketing agent at prevailing weekly tax-exempt interest rates. Interest rates on the Notes ranged from 0.25% to 7.75% during fiscal 2009, and from 1.00% to 4.05% during fiscal 2008. 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. WSSC did not issue any Bond Anticipation Notes in 2009. 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, 2009 and 2008, \$197.2 million and \$209.1 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 \$197.2 million has been included in current maturities (fiscal 2009 principal maturities), and an estimated \$7.9 million has been included in the fiscal 2010 interest requirements. Additional estimated interest requirements at prevailing rates through 2028 on these Notes, assuming future redemption from proceeds of bonds, would total \$86.5 million.

During fiscal 2009, WSSC issued \$165 million of bonds to fund new construction. No bonds were issued in fiscal 2008.



**WASHINGTON SUBURBAN SANITARY COMMISSION**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED JUNE 30, 2009 AND 2008**

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

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

Since November 1989, WSSC has participated in a loan program established by the State of Maryland to loan money to Maryland municipalities for local water and sewer projects. The program, known as the Maryland Water Quality Revolving Loan Fund, is designed to offer these municipalities loans at reduced interest rates. As of June 30, 2009 and 2008, WSSC borrowed \$148.2 million and \$143.4 million, respectively, from the program. The total principal balance outstanding as of June 30, 2009 and 2008 was \$86.5 million and \$89.8 million respectively.

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 total remaining outstanding balance at June 30, 2008 of \$6.5 million was paid in July 2008, and is included in current maturities in fiscal 2008.

WSSC is in compliance with all terms of its debt agreements at June 30, 2009.

**L. BOND REFUNDINGS**

No bonds were refunded in fiscal years 2009 and 2008.

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 \$6,154,000 and \$7,423,000, in fiscal 2009 and 2008, respectively, was recorded as interest on bonds and notes payable in the accompanying statements of revenues, expenses and changes in net assets.

**WASHINGTON SUBURBAN SANITARY COMMISSION**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED JUNE 30, 2009 AND 2008**

**L. BOND REFUNDINGS (continued)**

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

<u>Date of Refunding</u>	<u>Amount of Refunded Bonds</u>	<u>Remaining Term at Refunding Date</u>	<u>Amount of Refunding Bonds</u>	<u>Estimated Interest Savings</u>	<u>Extraordinary Loss Previously Recognized</u>	<u>Deferred Loss</u>
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, 2009 and 2008, which amounted to \$95,230,000 and \$116,890,000, respectively, are considered to be defeased and are not reflected in the accompanying financial statements.

**M. 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.

**WASHINGTON SUBURBAN SANITARY COMMISSION**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED JUNE 30, 2009 AND 2008**

**M. RETIREMENT PLAN (continued)**

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

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

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 \$873,000.

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, 2008 are as follows:

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

Actuarially Determined Contribution Requirements  
And Contribution Made

WSSC's retirement plan funding policy provides for actuarially determined yearly contributions calculated on a level percentage of payroll costs basis. The covered payroll used by the actuary in determining the contribution was \$102,652,120, and the total actual payroll was \$107,548,000. The significant actuarial assumptions used to compute the actuarially determined contribution requirement are the same as those previously described.

**WASHINGTON SUBURBAN SANITARY COMMISSION**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED JUNE 30, 2009 AND 2008**

**M. RETIREMENT PLAN (continued)**

WSSC's annual pension cost and long-term pension liability for fiscal 2009 and fiscal 2008 were (in thousands):

	<u>2009</u>	<u>2008</u>
Annual required contribution	\$ 7,814	\$14,798
Interest on long-term pension liability	<u>2,698</u>	<u>3,085</u>
Annual pension cost	10,512	17,883
Contributions made	<u>(15,741)</u>	<u>(15,748)</u>
(Decrease) increase in long-term pension liability	(5,229)	2,135
Long-term pension liability – beginning of year	<u>41,655</u>	<u>39,520</u>
Long-term pension liability – end of year	<u>\$36,426</u>	<u>\$41,655</u>

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, 2008 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 2009 and 2008, the Restoration Plan paid benefits totaling \$68,000 and \$61,000, respectively.

**N. 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 2009, 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.

**WASHINGTON SUBURBAN SANITARY COMMISSION**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED JUNE 30, 2009 AND 2008**

**N. OTHER POSTEMPLOYMENT BENEFITS (OPEB) (continued)**

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

**Funding Policy**

The required contribution is based on projected pay-as-you-go obligations, with an additional amount to prefund benefits as determined annually by WSSC. For fiscal year 2009, WSSC contributed \$13.8 million to the OPEB Plan, including \$9.8 million for current claims and/or premiums (approximately 76 percent of total claims and/or premiums) and an additional \$4.0 million to fund benefits. OPEB Plan members receiving benefits contributed \$3.0 million or approximately 24% of the total claims and/or premiums, through their required contributions.

**Annual OPEB Cost and Net OPEB Obligation**

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

The 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.

The following table shows the components of the WSSC's annual OPEB cost for fiscal 2009 and 2008 amounts actually contributed to the OPEB Plan, and changes in the net OPEB obligation to WSSC (in thousands):

	<u>2009</u>	<u>2008</u>
Annual required contribution	\$22,944	\$22,467
Interest on net OPEB obligation	722	—
Adjustment to annual required contribution	<u>(813)</u>	<u>—</u>
Annual OPEB cost	22,853	\$22,467
Phase-in funding	(4,000)	(2,000)
Benefits paid	<u>(9,829)</u>	<u>(10,963)</u>
Increase in net OPEB obligation	9,024	9,504
Net OPEB obligation – beginning of year	<u>9,504</u>	<u>—</u>
Net OPEB obligation – end of year	<u>\$18,528</u>	<u>\$ 9,504</u>

WSSC's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan and the net OPEB obligation for 2009 and 2008 were (in thousands):

<u>Fiscal Year</u> <u>Ended</u>	<u>Annual OPEB</u> <u>Cost</u>	<u>Percentage of Annual OPEB</u> <u>Cost Contributed</u>	<u>Net OPEB</u> <u>Obligation</u>
6/30/2009	\$22,853	60.5%	\$18,528
6/30/2008	22,467	57.7	9,504

**WASHINGTON SUBURBAN SANITARY COMMISSION**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED JUNE 30, 2009 AND 2008**

**N. OTHER POSTEMPLOYMENT BENEFITS (OPEB) (continued)**

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 at June 30, 2009 was \$237.7 million, and with assets of \$1.9 million, the resulting unfunded actuarial liability (UAAL) was \$235.8 million. The covered payroll (annual payroll of active employees covered by the OPEB Plan) was \$103.2 million, and the ratio of the UAAL to the covered payroll was 229%.

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.

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 2014 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.

**WASHINGTON SUBURBAN SANITARY COMMISSION**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED JUNE 30, 2009 AND 2008**

**N. OTHER POSTEMPLOYMENT BENEFITS (OPEB) (continued)**

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.

**O. 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.

**P. COMMITMENTS AND CONTINGENCIES**

Construction expenditures for fiscal 2010 are not expected to exceed \$341 million, a portion of which will be funded by capital contributions. Commitments in connection with this construction program approximated \$53 million at June 30, 2009.

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 \$486 million and are to be expended over 12 years, \$417 million of which is expected to be incurred after fiscal year 2009. 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.

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.

**WASHINGTON SUBURBAN SANITARY COMMISSION**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED JUNE 30, 2009 AND 2008**

**P. 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):

	<u>2009</u>	<u>2008</u>
Claim liability - beginning of year	\$13,346	\$12,956
Current year claims and changes in estimates	3,187	3,653
Claim payments	<u>(2,515)</u>	<u>(3,263)</u>
Claim liability - end of year	<u>\$14,018</u>	<u>\$13,346</u>

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

During fiscal 2009 and 2008, WSSC leased a variety of equipment with annual rental payments of approximately \$373,000 and \$405,000, respectively. There are no annual commitments under long term non-cancelable operating leases as of June 30, 2009.



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

**SCHEDULE A**

Actuarial Valuation Date <u>June 30</u>	Actuarial Value of <u>Assets</u>	Actuarial Accrued <u>Liability</u>	Unfunded Actuarial Accrued <u>Liability (UAAL)</u>	Funded <u>Ratio</u>	Covered <u>Payroll</u>	UAAL as a Percentage of <u>Covered Payroll</u>
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
2008	727,310	769,488	42,178	94.5	102,652	41.1

  

Fiscal Year Ended <u>June 30</u>	Annual Pension <u>Cost (APC)</u>	Percentage of <u>APC Contributed</u>	Long-Term Pension <u>Liability</u>
2007	\$15,214	103%	\$39,520
2008	17,883	88	41,655
2009	10,512	150	36,426

See independent auditor's report.

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

**SCHEDULE B**

Actuarial Valuation Date <u>June 30</u>	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	0.00%	\$97,977	237.0%
2008*	1,861	237,715	235,854	0.78	\$103,152	228.6

Fiscal Year Ended <u>June 30</u>	Annual OPEB Cost	Percentage of APC Contributed	Net OPEB Obligation
2008	\$22,467	57.7%	\$ 9,504
2009	22,853	60.5	18,528

See independent auditor's report.

\*Estimates rolled forward from the 2007 actuarial study.