



**Washington Suburban
Sanitary Commission**

Annual Financial Report

Year Ended June 30, 2012

Independent Auditor's Report

To The Commissioners
of the Washington Suburban Sanitary Commission:

We have audited the accompanying balance sheets of the Washington Suburban Sanitary Commission (WSSC) as of June 30, 2012 and 2011 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, 2012 and 2011, 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 other 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 31, 2012

Bazilio Cobb Associates

MANAGEMENT DISCUSSION AND ANALYSIS REQUIRED SUPPLEMENTARY INFORMATION

This section of the Washington Suburban Sanitary Commission (WSSC) annual financial report presents our discussion and analysis of WSSC's financial performance during the fiscal years that ended June 30, 2012 and 2011. WSSC identified and recorded corrections to the financial statements in the current fiscal year. Prior year balances were restated which resulted in a \$3.1 million decrease in net assets as of June 30, 2011. Consequently, some of the fiscal year 2011 highlights presented below may have changed. A summary of the transactions and the impact of the restatements are illustrated in Note P of the financial statements.

FINANCIAL HIGHLIGHTS

Fiscal Year 2012

- WSSC maintained AAA bond ratings from FitchRatings, Moody's Investors Service, and Standard & Poor's.
- In November 2011, WSSC issued \$300 million of Consolidated Public Improvement Bonds to fund new construction, focusing primarily on rehabilitation or replacement of water and sewer mains.
- A Consent Decree with the Environmental Protection Agency, the Department of Justice, the State of Maryland, and four environmental groups entered its sixth 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 \$1,413 million and are projected to be expended over 12 years, \$1,104 million of which is expected to be incurred after fiscal year 2012. The costs for each fiscal year are or will be included in WSSC's budget and capital improvements program.
- WSSC's operating revenues rose \$19.0 million in fiscal 2012. An 8.5% increase in water and sewer billing rates was offset by a 5% decrease in the amount of water delivered to the system.
- Operating expenses increased \$9.7 million, or 2.2%, during fiscal year 2012. Increases in capital assets placed in service in recent years resulted in a \$10.1 million escalation in depreciation and amortization expenses. Maintenance costs increased \$5.5 million for large diameter pipe inspections and engineering services performed to comply with Consent Decree requirements. Conversely, administrative claims for personal injury, property damage and personnel actions decreased \$3.9 million in comparison to 2011.
- Capital assets (water and sewer lines, water tanks, treatment plants, pumping stations, multi-purpose facilities and other facilities), net of accumulated depreciation, increased by \$359.8 million, while overall debt increased \$154.3 million in comparison to the previous fiscal year.
- The increase in net assets during the year included operating income, net of non-operating expenses, of \$98.0 million, and capital contributions of \$103.4 million.

Fiscal Year 2011

- WSSC maintained AAA bond ratings from FitchRatings, Moody's Investors Service, and Standard & Poor's.
- In September 2010, WSSC issued \$240 million of Consolidated Public Improvement Bonds in two series; \$120 million in Tax-Exempt Bonds, Series 2010A and \$120 million in Taxable Build America Bonds – Direct Payment to the Issuer, Series 2010B. The American Recovery and Reinvestment Act of 2009 created the Build America Bonds program. This program is intended to assist state and local municipalities in issuing debt. One provision of the program is for issuance of taxable Build America Bonds to finance capital expenditures while providing a federal subsidy of 35% of the interest payment to the issuer.
- A Consent Decree with the Environmental Protection Agency, the Department of Justice, the State of Maryland, and four environmental groups entered its fifth year. The Consent Decree formally identifies the remedial measures to eliminate and/or reduce Sanitary Sewer Overflows. Costs of these remedial measures are estimated at \$643 million and are projected to be expended over 12 years, \$526 million of which is expected to be incurred after fiscal year 2011. The costs for each fiscal year are or will be included in WSSC's budget and capital improvements program.
- Operating revenues rose \$47.3 million because of an increase in the amount of water delivered to the system and higher rates billed to water and sewer customers. A \$7.6 million allowance for uncollectible water and sewer accounts was maintained to reflect continued uncertainty on the state of the economy and its related impact on delinquencies. Revenues generated from fees for construction of water and sewer extensions, house connections and related services recovered slightly after reductions experienced in the last two years in response to the downturn in the economy.
- Operating expenses increased \$28.3 million, or 6.7%, during fiscal year 2011. Pension cost increases of \$12.1 million were actuarially determined and associated with investment losses sustained in fiscal 2009. Outlays to perform evaluations and repairs of sewer basins were \$3.2 million higher in 2011, while water main and valve repairs and related maintenance expenses increased \$1.3 million. Claims for personal injury, property damage and personnel actions exceeded 2010 costs by \$4.2 million. Increases in capital assets placed in service during the year resulted in a \$3.5 million escalation in depreciation and amortization expenses.
- Capital assets (water and sewer lines, water tanks, treatment plants, pumping stations, multi-purpose facilities and other facilities), net of accumulated depreciation, increased by \$200.7 million, while overall debt increased \$66.8 million in comparison to the previous fiscal year.
- The increase in net assets during the year included operating income, net of non-operating expenses, of \$103.5 million, and capital contributions of \$46.7 million.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

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

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

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

FINANCIAL ANALYSIS

Net Assets

Fiscal Year 2012

WSSC's net assets increased 5.5% to \$3,875.4 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 7.3% to \$5,317.6 million. Unused bond proceeds at the end of the year were \$79.1 million. Investments of unused bond proceeds are restricted and classified as non-current assets. During fiscal year 2012, developers constructed \$28.4 million of capital assets and donated them to WSSC. Additional information is presented in the Capital Asset and Debt Administration section of this discussion.

Total debt, including current maturities increased to \$1,638.3 million. Capital contributions of \$75.2 (net of donated capital assets) million were available to finance capital projects during the year. These funding sources reduced the amount of bonds WSSC needed to sell for construction of water and sewer projects. A more detailed description of WSSC's debt can be found in Notes J and K of the financial statements.

Fiscal Year 2011

WSSC's net assets increased 4.3% to \$3,674.0 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 4.2% to \$4,957.8 million. Unused bond proceeds at the end of the year were \$89.0 million. Investments of unused bond proceeds are restricted and classified as non-current assets. During fiscal year 2011, developers constructed \$25.5 million of capital assets and donated them to WSSC. Additional information is presented in the Capital Asset and Debt Administration section of this discussion.

Total debt, including current maturities increased to \$1,484.0 million. Capital contributions of \$21.2 (net of donated capital assets) million were available to finance capital projects during the year. These funding sources reduced the amount of bonds WSSC needed to sell for construction of water and sewer projects. A more detailed description of WSSC's debt can be found in Notes J and K of the financial statements.

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

	FY 2012	FY 2011 As Restated (Note P)	FY 2010 As Restated (Note P)	FY 2012 % Change	FY 2011 % Change
Current and other assets	\$ 455.9	\$ 428.5	\$ 386.1	6.4	11.0
Capital assets, net of accumulated Depreciation	5,317.6	4,957.8	4,757.1	7.3	4.2
Total assets	5,773.5	5,386.3	5,143.2	7.2	4.7
Current and other liabilities	541.5	529.3	522.1	2.3	1.4
Bonds and notes payable, net of current maturities	1,356.6	1,183.0	1,097.4	14.7	7.8
Total liabilities	1,898.1	1,712.3	1,619.5	10.9	5.7
Net assets:					
Invested in capital assets, net of related debt	3,758.4	3,562.8	3,371.2	5.5	5.7
Restricted for growth construction	61.0	90.6	102.4	(32.7)	(11.5)
Unrestricted	56.0	20.6	50.1	171.8	(58.9)
Total net assets	\$ 3,875.4	\$ 3,674.0	\$ 3,523.7	5.5	4.3

Changes in Net Assets

Fiscal Year 2012

WSSC's operating revenues rose \$19.0 million (See Table A-2). An 8.5% increase in water and sewer billing rates was offset by a 5% decrease in the amount of water delivered to the system. Operating expenses increased \$9.7 million, or 2.2%, during fiscal year 2012. Increases in capital assets placed in service in recent years resulted in a \$10.1 million escalation in depreciation and amortization expenses. Maintenance costs increased \$5.5 million for large diameter pipe inspections and engineering services performed to comply with Consent Decree requirements. Conversely, administrative claims for personal injury, property damage and personnel actions decreased \$3.9 million in comparison to 2011.

The net changes in revenues and expenses during the year resulted in a 5.3% decrease in income before capital contributions to \$98.0 million. Capital contributions increased by 121.4% to \$103.4 million, which is attributable to a recovery in new construction and the addition of capital assets constructed by developers (donated assets). In addition, grant revenue increased almost \$50 million

to provide funding for Enhanced Nutrient Removal (ENR) construction at WSSC and Blue Plains wastewater facilities.

Fiscal Year 2011

WSSC’s operating revenues rose \$47.3 million (See Table A-2) because of an increase in the amount of water delivered to the system and higher rates billed to water and sewer customers. Revenues generated from fees for construction of water and sewer extensions, house connections and related services have recovered slightly after reductions experienced in the past two years in response to the downturn in the economy. Operating expenses increased \$28.3 million, or 6.7%, during fiscal year 2011. Pension cost increases of \$12.1 million were actuarially determined and associated with investment losses sustained in fiscal 2009. Outlays to perform evaluations and repairs of sewer basins were \$3.2 million higher in 2011, while water main and valve repairs and related maintenance expenses increased \$1.3 million. Claims for personal injury, property damage and personnel actions exceeded 2010 costs by \$4.2 million. Increases in capital assets placed in service during the year resulted in a \$3.5 million escalation in depreciation and amortization expenses.

The net changes in revenues and expenses during the year resulted in a 17.4% increase in income before capital contributions to \$103.5 million. Capital contributions increased by 47.8% to \$46.7 million, which is attributable to a recovery in new construction and the addition of capital assets constructed by developers (donated assets).

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

	FY 2012	FY 2011 As Restated (Note P)	FY 2010 As Restated (Note P)	FY 2012 % Change	FY 2011 % Change
Operating revenues	\$ 583.6	\$ 564.6	\$ 517.3	3.4	9.1
Operating expenses	(459.4)	(449.7)	(421.4)	(2.2)	(6.7)
Non-operating revenues (expenses)	(26.2)	(11.4)	(7.7)	(129.8)	(48.1)
Income before capital contributions	98.0	103.5	88.2	(5.3)	17.4
Capital contributions	103.4	46.7	31.6	121.4	47.8
Changes in net assets	\$ 201.4	\$ 150.2	\$ 119.8	34.1	25.4

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

Fiscal Year 2012

As of June 30, 2012, WSSC had invested \$5,317.6 million, net of accumulated depreciation, in a broad range of capital assets including water and sewer lines, water tanks, treatment plants, pumping stations, multi-purpose facilities and other facilities. This amount represents a net increase of \$359.8 million, or 7.3%, over fiscal year 2011.

Fiscal Year 2011

As of June 30, 2011, WSSC had invested \$4,957.8 million, net of accumulated depreciation, in a broad range of capital assets including water and sewer lines, water tanks, treatment plants, pumping stations, multi-purpose facilities and other facilities. This amount represents a net increase of \$200.7 million, or 4.2%, over fiscal year 2010.

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

	FY 2012	FY 2011 As Restated (Note P)	FY 2010 As Restated (Note P)	FY 2012 % Change	FY 2011 % Change
Land and rights of way	\$ 78.0	\$ 78.0	\$ 77.0	0.0	1.3
Construction in progress	1,090.9	1,137.8	1,145.6	(4.1)	(0.7)
Water supply	1,115.1	1,050.4	1,019.8	6.2	3.0
Sewage disposal	1,568.0	1,218.1	1,076.5	28.7	13.2
General construction	1,392.8	1,399.3	1,374.1	(0.5)	1.8
Intangible assets	39.9	40.1	35.5	(0.5)	13.0
Other	32.9	34.1	28.6	(3.5)	19.2
Total capital assets	\$ 5,317.6	\$ 4,957.8	\$ 4,757.1	7.3	4.2

Capital assets completed and placed in service increased \$220.6 million or 72.2%, in comparison to fiscal year 2011. This includes a 40.2% increase for the rehabilitation or replacement of water and sewer mains and related house connections, and a 65.5% increase for enhancements to the Blue Plains joint-use wastewater treatment facility in comparison to prior year additions. Major additions to capital assets being depreciated during fiscal years 2012 and 2011 are illustrated in Tables A-4 and A-5, respectively.

TABLE A-4
WSSC's Additions to Capital Assets Being Depreciated
Fiscal Year 2012
(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	\$ 59.5	\$ 30.5	\$ 5.7
House connections	6.6	28.6	4.1
Water meters	.8	.7	
Water filtration plants	8.3		
Water pumping stations	5.0		
Wastewater treatment facilities		23.9	
Water storage facilities	8.7		
Wastewater pumping stations		20.7	
Joint-use facilities		285.1	
Miscellaneous assets	5.9	3.7	
Constructed and contributed by developers:			
House connections			3.7
Water and sewer mains			24.6
Total fiscal year 2012 additions to capital assets being depreciated	\$ 94.8	\$393.2	\$ 38.1

TABLE A-5
WSSC's Additions to Capital Assets Being Depreciated
Fiscal Year 2011
(in millions of dollars)

	Water Supply	Sewage Disposal	General Construction
Financed from proceeds of bonds, notes, operating revenues or capital contributions:			
Water and sewer mains	\$ 52.0	\$ 2.7	\$ 3.6
House connections			38.0
Water meters			1.6
Wastewater treatment facilities		0.2	
Water storage facilities	7.7		
Wastewater pumping stations		1.7	
Multi-use facilities			0.3
Joint-use facilities		172.3	
Constructed and contributed by developers:			
House connections			2.3
Water and sewer mains			23.1
Total fiscal year 2011 additions to capital assets being depreciated	\$ 59.7	\$176.9	\$ 68.9

Bonds and Notes Payable

Fiscal Year 2012

At the end of fiscal year 2012, bonds and notes outstanding totaled \$1,638.3 million, a \$154.3 million increase in comparison to the previous fiscal year. In November 2011, WSSC issued \$300 million of Consolidated Public Improvement Bonds to fund new construction, focusing primarily on rehabilitation and replacement of water and sewer mains.

Fiscal Year 2011

At the end of fiscal year 2011, bonds and notes outstanding totaled \$1,484.0 million, a \$66.8 million increase in comparison to the previous fiscal year.

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

	FY 2012	FY 2011 As Restated (Note P)	FY 2010 As Restated (Note P)	FY 2012 % Change	FY 2011 % Change
Water supply	\$ 613.4	\$ 569.7	\$ 515.8	7.7	10.4
Sewage disposal	676.5	536.9	456.1	26.0	17.7
General construction	348.4	377.4	445.3	(7.7)	(15.2)
Total	1,638.3	1,484.0	1,417.2	10.4	4.7
Current maturities	281.7	301.0	319.8	(6.4)	(5.9)
Long-term portion	1,356.6	1,183.0	1,097.4	14.7	7.8
Total bonds and notes payable	\$ 1,638.3	\$ 1,484.0	\$ 1,417.2	10.4	4.7

Bond Ratings

FitchRatings, Moody's Investors Service, and Standard & Poor's assigned and affirmed 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, 2012 and 2011, the calculated limits were \$8,718.4 million and \$9,275.4 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, 2012 AND 2011
(in thousands)

	<u>2012</u>	<u>2011</u> As Restated (Note P)
ASSETS		
Current assets:		
Cash (Note B)	\$ 27,097	\$ 27,854
Investments (Note B)	173,779	166,707
Receivables, net (Note C)	118,191	117,930
State grants receivable	1,402	—
Prepaid expenses	166	302
Materials and supplies, at average cost	<u>13,950</u>	<u>12,024</u>
Total current assets	<u>334,585</u>	<u>324,817</u>
Non-current assets:		
Capital assets, net of accumulated depreciation (Note E)	5,317,579	4,957,802
Investments restricted for capital construction (Note B)	79,056	89,005
Note receivable (Note F)	9,639	9,613
Federal and State grants receivable	29,956	2,574
Deferred charges and other assets (Note D)	<u>2,730</u>	<u>2,465</u>
Total non-current assets	<u>5,438,960</u>	<u>5,061,459</u>
Total assets	<u>\$5,773,545</u>	<u>\$5,386,276</u>
LIABILITIES		
Current liabilities:		
Bonds and notes payable, current maturities (Notes J and K)	\$ 281,662	\$ 300,980
Accounts payable and accrued expenses	140,196	114,023
Accrued bond and note interest payable	12,417	12,162
Deposits and deferred credits	<u>2,063</u>	<u>1,988</u>
Total current liabilities	<u>436,338</u>	<u>429,153</u>
Non-current liabilities:		
Bonds and notes payable, net of current maturities (Notes J and K)	1,356,591	1,182,982
Long-term pension liability (Note L)	39,641	37,105
Other postemployment benefits liability (Note M)	35,688	31,682
Deposits, deferred credits and other long-term liabilities (Note I)	<u>29,857</u>	<u>31,358</u>
Total non-current liabilities	<u>1,461,777</u>	<u>1,283,127</u>
Total liabilities	<u>1,898,115</u>	<u>1,712,280</u>
COMMITMENTS AND CONTINGENCIES (Note O)		
NET ASSETS		
Invested in capital assets, net of related debt	3,758,382	3,562,844
Restricted for growth construction	61,045	90,607
Unrestricted	<u>56,003</u>	<u>20,545</u>
Total net assets	<u>3,875,430</u>	<u>3,673,996</u>
Total liabilities and net assets	<u>\$5,773,545</u>	<u>\$5,386,276</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, 2012 AND 2011
(in thousands)

	<u>2012</u>	<u>2011</u> As Restated (Note P)
OPERATING REVENUES:		
Water consumption, sewer use and service charges	\$ 504,514	\$ 482,836
Front foot benefit assessments	44,573	48,447
House connection charges	9,809	10,297
Other	<u>24,696</u>	<u>23,007</u>
Total operating revenues	<u>583,592</u>	<u>564,587</u>
OPERATING EXPENSES:		
Operations	89,459	90,758
Maintenance	129,438	124,573
Intermunicipal agency sewage disposal	54,445	54,994
Administrative and general	67,670	70,870
Depreciation and amortization	<u>118,413</u>	<u>108,458</u>
Total operating expenses	<u>459,425</u>	<u>449,653</u>
Net operating revenues	<u>124,167</u>	<u>114,934</u>
NON-OPERATING REVENUES (EXPENSES):		
Interest on bonds and notes payable	(53,055)	(53,057)
Capitalized interest	23,572	37,324
Interest income on investments	368	846
Other interest income	<u>2,923</u>	<u>3,424</u>
Net non-operating expenses	<u>(26,192)</u>	<u>(11,463)</u>
Income before capital contributions	97,975	103,471
Capital contributions (Note G)	<u>103,459</u>	<u>46,741</u>
Changes in net assets	<u>201,434</u>	<u>150,212</u>
Net assets, beginning of year (as originally reported)	—	3,536,942
Prior period adjustment (Note P)	—	<u>(13,158)</u>
Net assets, beginning of the year (as restated for 2011)	<u>3,673,996</u>	<u>3,523,784</u>
Net assets, end of year	<u>\$3,875,430</u>	<u>\$3,673,996</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, 2012 AND 2011
(in thousands)

	<u>2012</u>	<u>2011</u> As Restated (Note P)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from water and sewer customers	\$ 500,670	\$ 469,225
Receipts from front foot benefit assessments	47,112	50,253
Receipts from house connection charges	9,159	10,297
Receipts from other customers and miscellaneous	42,796	42,170
Payment to employees	(136,915)	(135,008)
Payment to DC Water	(45,138)	(47,520)
Payment to suppliers and others	<u>(150,026)</u>	<u>(150,145)</u>
Net cash provided by operating activities	<u>267,658</u>	<u>239,272</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Proceeds from bonds and notes	300,435	240,033
Capital contributions	73,933	46,270
Bond redemptions and note repayments	(166,044)	(185,040)
Interest payments, premiums and discounts on bonds and notes	(30,622)	(38,912)
Capital asset construction	<u>(449,362)</u>	<u>(271,344)</u>
Net cash used in capital and related financing activities	<u>(271,660)</u>	<u>(208,993)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from the sale of investments	706,760	725,608
Purchases of investments	(703,957)	(733,833)
Interest income received	<u>442</u>	<u>1,382</u>
Net cash provided by (used in) investing activities	<u>3,245</u>	<u>(6,843)</u>
Net (decrease) increase in cash	(757)	23,436
Cash beginning of year	<u>27,854</u>	<u>4,418</u>
Cash, end of year	<u>\$ 27,097</u>	<u>\$ 27,854</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net operating revenues	\$ 124,167	\$ 114,934
Adjustments to reconcile net operating revenues to net cash provided by operating activities:		
Depreciation and amortization	128,714	117,754
Changes in assets and liabilities:		
Increase in receivables, net	(261)	(11,980)
(Increase) decrease in materials and supplies	(1,926)	361
Decrease in deferred charges and other assets	135	30
Increase in accounts payable and accrued liabilities	12,366	8,424
Decrease in deferred credits	(710)	(1,898)
Increase in long-term pension liability	2,005	6,312
Increase in long-term OPEB liability	<u>3,168</u>	<u>5,335</u>
Net cash provided by operating activities	<u>\$ 267,658</u>	<u>\$ 239,272</u>

Noncash capital financing activities:

Capital assets of \$28,430 and \$25,525 were acquired through contributions from developers in 2012 and 2011, 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, 2012 AND 2011

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.

Capital Contributions

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

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

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

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

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

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

WASHINGTON SUBURBAN SANITARY COMMISSION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 48 and 49 years in fiscal 2012 and 2011, respectively.

Inventory

Inventory is recorded at weighted average cost.

Bond Refunding Costs

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

Annual Leave

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

Estimates

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

Reclassifications

The 2011 financial statements reflect certain reclassifications to conform with the 2012 presentation.

Net Assets

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

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

Net assets associated with unspent bond proceeds are restricted for capital projects. As of June 30, 2012 and 2011, unspent bond proceeds totaled \$79,056,000, and \$89,005,000, respectively. However, cash and investments, net of the related debt, resulted in a zero net asset balance.

WASHINGTON SUBURBAN SANITARY COMMISSION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Accounting Guidelines

In accordance with the provisions of Statement No. 20 of the Governmental Accounting Standards Board *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, 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.

B. CASH AND INVESTMENTS

At June 30, 2012 and 2011, cash per WSSC's records amounted to \$27,097,000 and \$27,854,000, respectively, and per reported bank balances was \$47,898,000 and \$41,089,000, 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%

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, 2012 and 2011, 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.

WASHINGTON SUBURBAN SANITARY COMMISSION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

B. CASH AND INVESTMENTS (continued)

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, 2012 and 2011, 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, 2012 and 2011 are presented below for each investment type.

Investments at June 30, 2012 (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	\$ 12,861	\$ 12,861
Federal agency securities	Aaa	1 year or less	<u>239,974</u>	<u>240,030</u>
Total investments (includes \$79,056 restricted for capital projects, classified as non-current)			<u>\$252,835</u>	<u>\$252,891</u>

Investments at June 30, 2011 (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	\$ 5,777	\$ 5,777
Federal agency securities	Aaa	1 year or less	<u>249,935</u>	<u>250,122</u>
Total investments (includes \$89,005 restricted for capital projects, classified as non-current)			<u>\$255,712</u>	<u>\$255,899</u>

On August 5, 2011, Standard & Poor's downgraded the U.S. government's credit rating to AA+ and issued a negative outlook. Moody's Investor Services and Fitch Ratings maintained their respective Aaa and AAA ratings, but changed the outlook to negative on June 2, 2011 and November 28, 2011, respectively.

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

WASHINGTON SUBURBAN SANITARY COMMISSION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

B. CASH AND INVESTMENTS (continued)

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>	Reported Amount at June 30, 2012 (in thousands)
FNMA	Federal agency securities	\$ 89,999
FHLB	Federal agency securities	84,983
FHLMC	Federal agency securities	64,992

<u>Issuer</u>	<u>Investment Type</u>	Reported Amount at June 30, 2011 (in thousands)
FNMA	Federal agency securities	\$129,961
FHLB	Federal agency securities	34,998
FHLMC	Federal agency securities	84,976

C. RECEIVABLES

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

	<u>2012</u>	<u>2011</u>
Front foot benefit assessments accrued and billed	\$ 25,810	\$ 28,908
Water and sewer services unbilled	48,945	45,567
Water and sewer services billed	42,540	43,263
Services billed to others and miscellaneous	<u>9,120</u>	<u>10,233</u>
	126,415	127,971
Less allowance for doubtful accounts	<u>(8,224)</u>	<u>(10,041)</u>
Total receivables, net	<u>\$118,191</u>	<u>\$117,930</u>

WASHINGTON SUBURBAN SANITARY COMMISSION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

D. DEFERRED CHARGES AND OTHER ASSETS

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

	<u>2012</u>	<u>2011</u>
Unamortized bond issuance costs	\$ <u>2,730</u>	\$ <u>2,465</u>
Total	\$ <u>2,730</u>	\$ <u>2,465</u>

E. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2012 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	\$ 78,013	\$ —	\$ —	\$ 78,013
Construction in progress	<u>1,137,750</u>	<u>426,814</u>	<u>(473,705)</u>	<u>1,090,859</u>
Total capital assets not being depreciated	<u>1,215,763</u>	<u>426,814</u>	<u>(473,705)</u>	<u>1,168,872</u>
Capital assets being depreciated:				
Water supply	1,554,810	94,763	(89)	1,649,484
Sewage disposal	1,904,861	393,206	(59)	2,298,008
General construction	2,342,756	38,071	(1,060)	2,379,767
Intangible assets	49,433	742	—	50,175
Other	<u>113,827</u>	<u>8,538</u>	<u>(6,610)</u>	<u>115,755</u>
Total capital assets being depreciated	<u>5,965,687</u>	<u>535,320</u>	<u>(7,818)</u>	<u>6,493,189</u>
Less accumulated depreciation for:				
Water supply	(504,374)	(30,003)	40	(534,337)
Sewage disposal	(686,743)	(43,289)	6	(730,026)
General construction	(943,421)	(44,174)	586	(987,009)
Intangible assets	(9,361)	(907)	—	(10,268)
Other	<u>(79,749)</u>	<u>(9,703)</u>	<u>6,610</u>	<u>(82,842)</u>
Total accumulated depreciation	<u>(2,223,648)</u>	<u>(128,076)</u>	<u>7,242</u>	<u>(2,344,482)</u>
Capital assets being depreciated, net	<u>3,742,039</u>	<u>407,244</u>	<u>(576)</u>	<u>4,148,707</u>
Total capital assets, net	<u>\$4,957,802</u>	<u>\$ 834,058</u>	<u>\$(474,281)</u>	<u>\$5,317,579</u>

WASHINGTON SUBURBAN SANITARY COMMISSION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

E. CAPITAL ASSETS (continued)

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

	<u>Beginning</u> <u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending</u> <u>Balance</u>
Capital assets not being depreciated:				
Land and rights of way	\$ 77,024	\$ 1,006	\$ (17)	\$ 78,013
Construction in progress	<u>1,145,616</u>	<u>248,073</u>	<u>(255,939)</u>	<u>1,137,750</u>
Total capital assets not being depreciated	<u>1,222,640</u>	<u>249,079</u>	<u>(255,956)</u>	<u>1,215,763</u>
Capital assets being depreciated:				
Water supply	1,495,281	59,737	(208)	1,554,810
Sewage disposal	1,728,021	176,919	(79)	1,904,861
General construction	2,274,582	68,966	(792)	2,342,756
Intangible assets	44,237	5,196	—	49,433
Other	<u>101,789</u>	<u>14,672</u>	<u>(2,634)</u>	<u>113,827</u>
Total capital assets being depreciated	<u>5,643,910</u>	<u>325,490</u>	<u>(3,713)</u>	<u>5,965,687</u>
Less accumulated depreciation for:				
Water supply	(475,527)	(28,850)	3	(504,374)
Sewage disposal	(651,543)	(35,542)	342	(686,743)
General construction	(900,473)	(43,532)	584	(943,421)
Intangible assets	(8,719)	(642)	—	(9,361)
Other	<u>(73,140)</u>	<u>(8,923)</u>	<u>2,314</u>	<u>(79,749)</u>
Total accumulated depreciation	<u>(2,109,402)</u>	<u>(117,489)</u>	<u>3,243</u>	<u>(2,223,648)</u>
Capital assets being depreciated, net	<u>3,534,508</u>	<u>208,001</u>	<u>(470)</u>	<u>3,742,039</u>
Total capital assets, net	<u>\$4,757,148</u>	<u>\$ 457,080</u>	<u>\$(256,426)</u>	<u>\$4,957,802</u>

Purchased software and related development stage costs of \$0.5 million and \$0.9 million were capitalized in accordance with GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets* in fiscal years 2012 and 2011, respectively. Costs of \$1.0 million are included in the Construction in Progress balance above and will commence amortization upon implementation of the software. Intangible assets include the balance of costs placed in service, net of accumulated amortization, of \$1.7 million and \$1.4 million in fiscal 2012 and 2011, respectively.

An intangible asset for purchased capacity has been established for WSSC's share of capital costs in the Jennings Randolph Reservoir (Bloomington Dam). The Reservoir provides backup and peak-day water supply to WSSC and is operated by the U.S. Army Corps of Engineers, Baltimore District. WSSC funds 50% of the capital costs and intangible asset balances of \$28.6 million and \$28.8 million, respectively, for fiscal years 2012 and 2011 are included above.

In addition, WSSC participates in the funding of capital costs for the Mattawoman and Poolesville Wastewater Treatment Plants through agreements with Charles County and the Town of Poolesville, respectively. In exchange for this participation, WSSC obtains the right to discharge wastewater from the Washington Suburban Sanitary District into said facilities. Asset balances, net of accumulated amortization, totaling \$9.6 million and \$9.9 million, respectively, for fiscal years 2012 and 2011, are included in Intangible assets above.

WASHINGTON SUBURBAN SANITARY COMMISSION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

F. NOTE RECEIVABLE

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

Interest accrues at a rate of 4.43%, commencing six months after the execution of the promissory note. Under the provisions of the promissory note, the minimum annual payment by Montgomery County is \$400,000 and is due on July 15, 2009 and annually thereafter. Payments shall be allocated first to interest, then to principal. At June 30, 2012 and 2011, the balance of this Note Receivable was \$9.6 million.

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

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

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

G. CAPITAL CONTRIBUTIONS

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

	<u>2012</u>	<u>2011</u> As Restated
System development charges	\$ 21,049	\$ 15,475
Developer fees	3,289	2,480
Federal and State grants	50,691	3,261
House connections	3,668	2,301
Other construction projects	<u>24,762</u>	<u>23,224</u>
Total	<u>\$ 103,459</u>	<u>\$ 46,741</u>

H. COMPENSATED ABSENCE LIABILITY

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

	<u>2012</u>	<u>2011</u>
Compensated absence liability – beginning of year	\$ 10,812	\$ 10,812
Increases (incurred)	7,357	7,826
Decreases	<u>(7,352)</u>	<u>(7,826)</u>
Compensated absence liability – end of year	<u>\$ 10,817</u>	<u>\$ 10,812</u>

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

WASHINGTON SUBURBAN SANITARY COMMISSION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

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):

	<u>2012</u>	<u>2011</u>
Deferred revenue for house connections	\$ 20,294	\$ 21,042
Deferred front foot benefit revenue	1,829	2,187
Construction deposits	1,881	2,597
House connection deposits	3,971	3,880
Other	<u>1,882</u>	<u>1,652</u>
Total	<u>\$ 29,857</u>	<u>\$ 31,358</u>

J. BONDS AND NOTES PAYABLE

Bonds and notes payable activity for the year ended June 30, 2012 was as follows (in thousands):

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Current Maturities</u>
Bonds and notes payable:					
Water supply	\$ 554,676	\$ 95,000	\$ (56,992)	\$ 592,684	\$ 104,701
Sewage disposal	521,696	185,435	(58,530)	648,601	109,710
General construction	<u>375,233</u>	<u>20,000</u>	<u>(50,520)</u>	<u>344,713</u>	<u>67,251</u>
	1,451,605	300,435	(166,042)	1,585,998	281,662
Plus deferred amount	<u>32,357</u>	<u>25,231</u>	<u>(5,333)</u>	<u>52,255</u>	<u>—</u>
Total bonds and notes payable	<u>\$1,483,962</u>	<u>\$325,666</u>	<u>\$(171,375)</u>	<u>\$1,638,253</u>	<u>\$ 281,662</u>

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Current Maturities</u>
Bonds and notes payable:					
Water supply	\$ 505,366	\$100,000	\$ (50,690)	\$ 554,676	\$ 112,543
Sewage disposal	446,787	120,033	(45,124)	521,696	116,416
General construction	<u>444,443</u>	<u>20,000</u>	<u>(89,210)</u>	<u>375,233</u>	<u>72,021</u>
	1,396,596	240,033	(185,024)	1,451,605	300,980
Plus deferred amount	<u>20,622</u>	<u>15,175</u>	<u>(3,440)</u>	<u>32,357</u>	<u>—</u>
Total bonds and notes payable	<u>\$1,417,218</u>	<u>\$255,208</u>	<u>\$(188,464)</u>	<u>\$1,483,962</u>	<u>\$ 300,980</u>

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

Bonds payable accrue interest at rates ranging from 0.8% to 6.0%, with an effective interest rate of 4.20% at June 30, 2012. All bonds payable at June 30, 2012, exclusive of refunded bonds, are due serially through the year 2036. Generally, the bonds are callable at a premium after a specified number of years.

In November 2011, WSSC issued \$300 million of Consolidated Public Improvement Bonds to fund new construction on rehabilitation and replacement of water and sewer mains.

WASHINGTON SUBURBAN SANITARY COMMISSION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

J. BONDS AND NOTES PAYABLE (continued)

In September 2010, WSSC issued \$240 million of Consolidated Public Improvement Bonds in two series; \$120 million in Tax-Exempt Bonds, Series 2010A and \$120 million in Taxable Build America Bonds - Direct Payment to the Issuer, Series 2010B. The American Recovery and Reinvestment Act of 2009 created the Build America Bonds program. This program is intended to assist state and local municipalities in issuing debt. One provision of the program is for issuance of taxable Build America Bonds to finance capital expenditures while providing a federal subsidy of 35% of the interest payment to the issuer. The subsidy is payable over the life of the issue, details of which are illustrated below.

Bond and note maturities and interest thereon, including Taxable Build America Bond subsidies, 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>	<u>Build America</u> <u>Bond Subsidies</u>
2013	\$281,662	\$ 61,849	\$ (3,279)
2014	125,050	55,650	(3,279)
2015	110,166	49,861	(3,279)
2016	100,441	46,859	(3,279)
2017	96,888	41,830	(3,279)

Bond and note maturities and interest thereon, including Taxable Build America Bond subsidies, in five-year increments for fiscal years after 2017 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>	<u>Build America</u> <u>Bond Subsidies</u>
2018-2022	\$424,034	\$141,509	\$(15,835)
2023-2027	305,813	61,492	(9,611)
2028-2032	131,719	11,869	(1,684)
2033-2037	5,154	1,315	
2038-2042	5,071	505	

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 0.11% to 0.34% during fiscal 2012, and from 0.13% to 0.33% during fiscal 2011. Any or all buyers of the Notes may demand payment from WSSC's remarketing agent upon seven days notice. WSSC's remarketing agent is prepared to remarket the Notes in such eventuality. The Notes were sold under a bank line of credit agreement which acts as a guarantee of liquidity for the Notes in the event that the Notes cannot be remarketed. WSSC did not issue any Bond Anticipation Notes in 2012. 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, 2012 and 2011, \$149.5 million and \$173.4 million respectively, of the Notes were outstanding. WSSC expects to redeem these Notes with proceeds of future bond issues or annual amortization. The Commission redeemed \$23.9 million in Notes on June 1, 2012 as part of the water, sewer and general debt service amortization. The Notes are treated as bonds, and as such, are expected to be amortized over a 20-year term. However, because these Notes are callable, the entire \$149.5 million has been included in current maturities (fiscal 2013 principal maturities), and an estimated \$5.2 million has been included in the fiscal 2013 interest requirements. Additional estimated interest requirements at prevailing rates through 2028 on these Notes, assuming future redemption from proceeds of bonds, would total \$44.4 million.

WASHINGTON SUBURBAN SANITARY COMMISSION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

J. 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, 2012, WSSC borrowed \$148.8 million from the program. The total principal balance outstanding as of June 30, 2012 and 2011 was \$64.2 million and \$71.0 million, respectively.

Proceeds of notes payable to the Federal government were used to make improvements to the Jennings Randolph Reservoir for backup and peak-day water supply. The note payable accrues interest at 3.25% and balances outstanding at June 30, 2012 and 2011 were \$24.5 million and \$25.0 million, respectively.

WSSC is in compliance with all terms of its debt agreements at June 30, 2012 and 2011.

K. BOND REFUNDINGS

No bonds were refunded in fiscal years 2012 or 2011.

In prior years, WSSC sold refunding bonds totalling \$3,222,625,000 for the purpose of refunding and defeasing \$3,094,205,000 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 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 2030 using the proportionate-to-stated interest method. Amortization totaling \$3,502,000 and \$4,374,000, in fiscal 2012 and 2011, 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, 2012 AND 2011

K. BOND REFUNDINGS (continued)

Details of the current and prior years' refunding are shown in the table below (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>
11-25-09	\$ 79,730	20 years	\$83,965	\$ 5,622	\$ -	\$ 4,467
10-15-06	80,360	19 years	82,285	5,544	-	1,989
03-15-04	63,980	20 years	62,510	731	-	2,880
02-01-04	271,815	19 years	266,395	10,059	-	14,941
10-28-03	14,500	11 years	15,780	3,107	-	1,103
09-15-03	70,485	11 years	70,590	5,435	-	2,352
03-01-03	454,905	17 years	428,945	22,269	-	23,612
04-15-02	43,610	10 years	43,705	4,483	-	904
12-01-01	100,150	14 years	100,095	9,672	-	(110)
15-15-97	42,400	14 years	45,265	4,967	-	2,712
01-01-97	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, 2012 and 2011, which amounted to \$79,730,000 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.

WASHINGTON SUBURBAN SANITARY COMMISSION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

L. RETIREMENT PLAN (continued)

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

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

Actuarial Assumptions

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Significant actuarial assumptions used in the most recent valuation, as of June 30, 2012 are as follows:

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

Actuarially Determined Contribution Requirements
And Contribution Made

WSSC's retirement plan funding policy provides for actuarially determined yearly contributions calculated on a level percentage of payroll costs basis. The covered payroll used by the actuary in determining the contribution was \$110,955,000, and the total actual payroll was \$110,671,000. 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, 2012 AND 2011

L. RETIREMENT PLAN (continued)

WSSC's annual pension cost and long-term pension liability for fiscal years 2012 and 2011 were (in thousands):

	<u>2012</u>	<u>2011</u>
Annual required contribution	\$17,820	\$21,771
Interest on long-term pension liability	<u>2,937</u>	<u>2,749</u>
Annual pension cost	20,757	24,520
Contributions made	<u>(18,221)</u>	<u>(16,756)</u>
Increase in long-term pension liability	2,536	7,764
Long-term pension liability – beginning of year	<u>37,105</u>	<u>29,341</u>
Long-term pension liability – end of year	<u>\$39,641</u>	<u>\$37,105</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, 2011 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 2012 and 2011, the Restoration Plan paid benefits totaling \$61,000 and \$49,000, respectively.

M. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Plan Description

WSSC provides healthcare, prescription drug, dental and life insurance benefits to retirees and their dependents, and pays a portion of the related costs. All full time active employees who retire or are disabled directly from WSSC and meet the eligibility criteria can participate. The Washington Suburban Sanitary Commission Other Postemployment Benefits Trust (the "Trust") is a single-employer contributory fund established in 2007 to provide life insurance and medical benefits for the Retiree Plan participants and beneficiaries of WSSC under conditions set forth by the Trust Agreement. The provision of postemployment benefits is determined under a set of personnel policies (herein referred to, collectively, as the "Plan").

Eligibility for post retirement health care benefits requires a minimum of two years participation in a WSSC sponsored plan immediately prior to retirement. At the end of fiscal 2012, 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, 2012 AND 2011

M. OTHER POSTEMPLOYMENT BENEFITS (OPEB) (continued)

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

Funding Policy

The required contribution is based on projected pay-as-you-go obligations, with an additional amount to prefund benefits as determined annually by WSSC. For fiscal year 2012, WSSC contributed \$16.0 million to the Trust, including \$9.0 million for current claims and/or premiums (approximately 56 percent of total claims and/or premiums) and an additional \$7.0 million to fund benefits. Retirees receiving benefits contributed \$3.3 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 thirty years, beginning with the year that the phase-in funding ends.

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

WSSC's annual OPEB cost and long-term liability for fiscal years 2012 and 2011 were (in thousands):

	<u>2012</u>	<u>2011</u>
Annual required contribution	\$17,820	\$19,413
Interest on long-term OPEB liability	2,361	1,884
Adjustment to annual required contribution	<u>(197)</u>	<u>—</u>
Annual OPEB cost	19,984	21,297
Phase-in funding	(7,000)	(6,000)
Benefits paid	<u>(8,978)</u>	<u>(8,735)</u>
Increase in long-term OPEB liability	4,006	6,562
Long-term OPEB liability – beginning of year	<u>31,682</u>	<u>25,120</u>
Long-term OPEB liability – end of year	<u>\$35,688</u>	<u>\$31,682</u>

WSSC's annual OPEB cost, the percentage of annual OPEB cost contributed and the long-term OPEB liability for fiscal years 2012 and 2011 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>Long-term</u> <u>OPEB Liability</u>
6/30/2012	\$19,984	80.0%	\$35,688
6/30/2011	21,297	69.2%	31,682

Funded Status and Funding Progress

As of June 30, 2012, the most recent actuarial valuation date, the plan was 10.3% funded. The actuarial accrued liability for benefits at June 30, 2011 was \$205.9 million, and with assets of \$21.3 million, the resulting unfunded actuarial liability (UAAL) was \$184.6 million. The covered payroll (annual payroll of active employees covered by the OPEB Plan) was \$113.6 million, and the ratio of the UAAL to the covered payroll was 162.5%.

WASHINGTON SUBURBAN SANITARY COMMISSION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

M. OTHER POSTEMPLOYMENT BENEFITS (OPEB) (continued)

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

Actuarial Methods and Assumptions

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

As of the last valuation, WSSC had 1,358 retired employees and 1,506 active employees who participated in health plans, excluding spouses and dependents. Life insurance plan participation is 1,200 and 1,506, respectively for retirees and active employees. The average age is 67.51 and 47.04, respectively for retirees and active employees.

Actuarial assumptions used in the most recent valuation, as of June 30, 2012, are as follows:

Actuarial cost method	Projected unit credit cost method.
Discount rate	7.5%
Yearly increase in medical/prescription costs	Medical claims and retiree premiums will increase at an annual trend rate of 9.0% pre-65 and 7.0% post-65 for 2012, grading down to an ultimate rate of 5.5% in 2019 for pre-65 and 5.5% in 2016 for post-65.
Mortality rates after retirement	Retirement Plan–2000 Combined Health Mortality Table for non-disability retirees; 1983 Group Annuity Mortality Table (Corrected) set forward 10 years for Males/Females for disability retirees.
Retirement age assumptions	Ranging from 50 to 69
Coverage	100% of current retirees are covered and 100% of current active employees will elect coverage at least two years prior to retirement age under the medical and life insurance plans.
Amortization method	30 year amortization of the unfunded Actuarial Accrued Liability as a level dollar.

WASHINGTON SUBURBAN SANITARY COMMISSION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

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 2013 are not expected to exceed \$797 million, a portion of which will be funded by capital contributions. Commitments in connection with this construction program approximated \$257 million at June 30, 2012.

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

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

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 \$1,413 million and are to be expended over 12 years, \$1,104 million of which is expected to be incurred after fiscal year 2012. The costs are included in WSSC's budget and capital improvements program. WSSC also agreed to pay civil penalties totaling \$1.1 million. These costs were accrued in fiscal 2005, and paid in fiscal 2006.

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

WASHINGTON SUBURBAN SANITARY COMMISSION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

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):

	<u>2012</u>	<u>2011</u>
Claim liability - beginning of year	\$18,516	\$12,224
Current year claims and changes in estimates	5,157	10,122
Claim payments	<u>(4,709)</u>	<u>(3,830)</u>
Claim liability - end of year	<u>\$18,964</u>	<u>\$18,516</u>

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

During fiscal 2012 and 2011, WSSC leased a variety of equipment with annual rental payments of approximately \$ 538,000 and \$382,000, respectively. There are no annual commitments under long-term non-cancelable operating leases as of June 30, 2012.

WASHINGTON SUBURBAN SANITARY COMMISSION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

P. RESTATEMENT

WSSC identified and recorded corrections to the financial statements in the current fiscal year. Prior year balances were restated which resulted in a net \$3.1 million decrease in net assets as of June 30, 2011. A summary of the transactions and the impact of the restatements are illustrated below:

- (1) WSSC participates in a long-term agreement to share operating and construction costs of the Jennings Randolph Reservoir (Bloomington Dam), which provides backup and peak-day water supply to the Commission. Historically, payments have been recorded as operating expenses, a portion of which should have been a reduction in debt.
- (2) A unit cost component utilized in the valuation of developer-donated pipe was corrected.
- (3) WSSC pays for its equitable share, based on wastewater treatment capacity, of capital costs under the Blue Plains Intermunicipal Agreement of 1985. In turn, the City of Rockville purchases a portion of WSSC's capacity under separate agreements. Upon review, WSSC elected to apply an accounting treatment that is consistent with the City of Rockville's handling of this transaction.

	Fiscal 2011 as previously reported	As of July 1, 2010	As of June 30, 2011	Fiscal 2011 Restated
Current and other assets	\$ 428,474			\$ 428,474
Capital assets, net of accumulated depreciation	4,936,438	\$ 11,829	\$ 9,535	4,957,802
Total assets	<u>5,364,912</u>	<u>11,829</u>	<u>9,535</u>	<u>5,386,276</u>
Current and other liabilities	529,297	—	—	529,297
Bonds and notes payable, net of current maturities	1,158,526	24,986	(530)	1,182,982
Total liabilities	<u>1,687,823</u>	<u>24,986</u>	<u>(530)</u>	<u>1,712,280</u>
Net assets				
Invested in capital assets, net of related debt	3,566,466	(13,670)	10,048	3,562,844
Restricted for growth construction	90,607	—	—	90,607
Unrestricted	20,016	512	17	20,545
Total liabilities and net assets	<u>\$3,677,089</u>	<u>\$(13,158)</u>	<u>\$10,065</u>	<u>\$3,673,996</u>
Operating revenues	\$ 564,587		\$ —	\$ 564,587
Operating expenses	(450,651)		998	(449,653)
Non-operating revenues (expenses)	(10,650)		(813)	(11,463)
Income before capital contributions	103,286		185	103,471
Capital contributions	36,861		9,880	46,741
Change in net assets	<u>\$ 140,147</u>		<u>\$10,065</u>	<u>\$ 150,212</u>

**WASHINGTON SUBURBAN SANITARY COMMISSION
REQUIRED SUPPLEMENTAL INFORMATION
SCHEDULE OF HISTORICAL OTHER PENSION INFORMATION**

SCHEDULE A

**Unaudited
(In thousands)**

Actuarial Valuation Date <u>June 30</u>	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
2009	\$619,402	\$655,825	\$36,423	94.4%	\$108,583	33.5%
2010	672,657	701,999	29,342	95.8	110,029	26.7
2011	673,242	710,347	37,104	94.8	110,955	33.4

Fiscal Year Ended <u>June 30</u>	Annual Pension Cost (APC)	Percentage of APC Contributed	Long-Term Pension Liability
2010	\$8,931	179%	\$29,341
2011	24,520	68	37,105
2012	20,757	88	39,641

See independent auditors' 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
2009	\$ 5,071	\$208,729	\$203,658	2.43%	\$109,377	186.2%
2010	11,308	213,159	201,851	5.31	111,929	180.3
2011	21,296	205,941	184,645	10.34	113,634	162.5

Fiscal Year Ended <u>June 30</u>	Annual OPEB Cost	Percentage of OPEB Contributed	Long-term OPEB Liability
2010	\$21,267	69.3%	\$25,120
2011	21,297	69.2	36,182
2012	19,983	80.0	35,687

See independent auditors' report.