2023

FOR THE YEAR ENDED JUNE 30

Annual Financial Report

CliftonLarsonAllen LLP
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INDEPENDENT AUDITORS' REPORT

Commissioners of the
Washington Suburban Sanitary Commission
Laurel, Maryland

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the business-type activities as of and for the years ended June 30, 2023 and 2022 and the aggregate remaining fund information as of and for the years ended December 31, 2022 and 2021 of the Washington Suburban Sanitary Commission (the Commission) and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Commission as of June 30, 2023 and June 30, 2022 and the aggregate remaining fund information as of December 31, 2022 and December 31, 2021 and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Commission and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions

Responsibilities of Management for the Financial Statements

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

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In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Commission's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Commission's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2023, on our consideration of the Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Commission's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Commission's internal control over financial reporting and compliance.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Baltimore, Maryland
October 30, 2023

WASHINGTON SUBURBAN SANITARY COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS
REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEARS ENDED JUNE 30, 2023 AND 2022
(Unaudited)

This section of the Washington Suburban Sanitary Commission (WSSC Water) annual financial report presents our discussion and analysis of WSSC Water's financial performance for the fiscal years ended June 30, 2023 and 2022.

Government Accounting Standard Board (GASB) issued Statement No. 96 in May 2020, effective for the reporting period beginning after June 15, 2022. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITA) for government end users. It defines a SBITA, establishes that a SBITA results in a right-to-use subscription assets and a corresponding subscription liability, provides the capitalization criteria for outlays other than subscription payments, and requires note disclosures regarding a SBITA. The requirements of this Statement should be applied retrospectively. WSSC Water implemented GASB Statement No. 96 in fiscal year 2023.

GASB Statement No. 99, *Omnibus 2000*, intends to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing (1) practice issues that have been identified during implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees. The requirements for potentially applicable parts of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. WSSC Water implemented the relevant portion of this GASB, along with GASB 96 implementation, in fiscal year 2023.

Government Accounting Standard Board (GASB) issued Statement No. 89 in June of 2018, effective for the reporting period beginning after December 15, 2020. This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. It requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. The requirements of this Statement should be applied prospectively. WSSC Water implemented GASB Statement No. 89 in fiscal year 2022.

In June 2017, GASB issued Statement No. 87, effective for the reporting period beginning after June 15, 2021. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this Statement should be applied retrospectively. WSSC Water has leases for which it is either the lessor or lessee. WSSC Water implemented GASB Statement No. 87 in fiscal year 2022.

FINANCIAL HIGHLIGHTS

Fiscal Year 2023

- WSSC Water maintained AAA bond ratings from Fitch Ratings, Moody's Investors Service, and S&P Global.
- In February 2023, WSSC Water issued $337.0 million of Consolidated Public Improvement Bonds to fund new construction, rehabilitation and replacement of water and sewer infrastructure. This issue includes $18.5 million in green bonds which allows investors to invest directly in environmentally beneficial projects (Green Projects). Green bonds were rated E1/80 by S&P Global.
- In fiscal year 2023, WSSC Water's operating revenues increased $51.8 million in comparison with fiscal year 2022, which consisted of $50.2 million increase in water consumption, sewer use and ready to serve fees, $3.6 million increase in miscellaneous revenues, and $2.0 million decrease in front foot benefit and house connection charges. Consumption revenue increases were largely due to the fiscal year 2023 rate increases and $3.4 million in reserve reduction.
- Operating expenses increased $28.5 million, or 4.1%, during fiscal year 2023. Details are provided in the Financial Analysis summary.
- Non-operating expenses decreased $7.8 million, or -11.2%, in comparison to fiscal year 2022. Details are provided in the Financial Analysis summary.
- The $170.1 million increase in net position during the year included net gain of $108.9 million, and capital contributions of $61.2 million.
- Of the total $162.9 million water and sewer service receivable, $118.7 million or 72.8% of which is current receivable from both billed and unbilled. $44.3 million is delinquent receivable, $35.5 million of which or 80.2% has been put under reserve. Therefore, the risk exposure from potentially uncollectable delinquent receivable is $8.7 million or 5.4%.
- In June 2023, WSSC Water received close to a $3.8 million State grant to help low-income customers with unpaid balances from January 27, 2020 through September 30, 2022. WSSC Water recorded it as grant or contributions in the fiscal year 2023 financial statements and applied the State grant to customer accounts in August 2023. Therefore, these credits are not reported or reflected as a delinquent receivable reduction in the fiscal year 2023 financial statements.

Fiscal Year 2022 (Based on Restated)

- WSSC Water maintained AAA bond ratings from Fitch Ratings, Moody's Investors Service, and S&P Global.
- In September 2021, WSSC Water issued $334.0 million of Consolidated Public Improvement Bonds to fund new construction, rehabilitation and replacement of water and sewer infrastructure. This issue includes $21.5 million in green bonds which allows investors to invest directly in environmentally beneficial projects (Green Projects). Green bonds were rated E1/80 by S&P Global.
- In May 2022, WSSC Water sold $702.5 million of refunding bonds with interest rates ranging from 2.61% to 3.31% to refund $671.5 million of outstanding callable water supply and sewage disposal bonds with interest rates ranging from 3.00% to 5.00%. The net proceeds of $701.8 million were used to purchase State and Local Government Series (SLGS) securities. Those securities were deposited with an escrow agent to provide for future debt service payments. The May 2022 refunding will reduce WSSC Water's total debt service payments over the next 22 years by $63.9 million and provide an economic gain of $62.8 million.
- In fiscal year 2022, WSSC Water's operating revenues increased $87.3 million in comparison with fiscal year 2021, which consisted of $76.6 million increase in water, sewer and ready to serve fees, $13.1 million increase in miscellaneous revenues, and $2.4 million decrease in front foot benefit and house connection charges. Consumption revenue increases were largely due to the fiscal year 2022 rate increases and $1.1 million reserve reduction as a result of the expiration of the moratorium which made the collection of unpaid bills possible.
- Operating expenses decreased $14.4 million, or -2.05%, during fiscal year 2022. Details are provided in the Financial Analysis summary.

- Non-operating expenses increased $14.6 million, or 26.5%, in comparison to fiscal year 2021. Details are provided in the Financial Analysis summary.
- The $150.8 million increase in net position during the year included net gain of $77.8 million, and capital contributions of $73.0 million.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

FINANCIAL ANALYSIS

Net Position

Fiscal Year 2023

WSSC Water's net position increased by $170.1 million or 3.3% after adjustment of the beginning balance due to lease reassessment to $5,106.9 million (See Table A-1). The increase was the sum of a $10.5 million increase in capital restricted for growth, a $66.6 million increase in the unrestricted capital and a $92.2 million increase in net investment in capital assets. A $0.8 million adjustment of the beginning net position from lease reassessment reversal is the fourth component that makes up $170.1 million net position increase. Capital assets, net of accumulated depreciation, increased 3.1% to $9,295.4 million. Current and other assets increased by $139.6 million or 23.0%, due to a $116.1 million increase in cash and investments, $13.7 million increase in accounts receivable, $6.5 million accrued interest receivable, and $3.3 million increase in other receivables and prepaid expenses. Unused bond proceeds at the end of the year were $171.2 million. During fiscal year 2023, developers constructed $18.6 million of capital assets and donated them to WSSC Water. Additional information is presented in the Capital Asset and Debt Administration section of this discussion.

Total debt excluding current maturities increased 5.8% to $4,005.4 million. Current and other liabilities increased $287.5 million or 47.7% because of increases in net pension and OPEB liabilities, and current accounts and bonds payables. Capital contributions of $42.6 (net of donated capital assets) million were available to finance capital projects during the year. These funding sources reduced the amount of bonds WSSC Water needed to sell for construction of water and sewer projects. A more detailed description of WSSC Water's debt can be found in Notes I and J of the financial statements.

Fiscal Year 2022 (Based on Restated)

WSSC Water's net position increased by $150.8 million or 3.0% after adjustment of the beginning balance due to lease reassessment to $4,956.9 million (See Table A-1). The increase was the net of a $20.9 million increase in capital restricted for growth, a $141.6 million increase in the unrestricted capital and a $12.4 million decrease in net investment in capital assets. $0.7 million adjustment of the beginning net position from lease reassessment reversal is the fourth component that makes up $150.8 million net position increase. Capital assets, net of accumulated depreciation, increased 1.9% to $9,017.7 million. Current and other assets increased by $133.4 million or 28.2%, primarily due to a $129.5 million increase in cash and investments. Unused bond proceeds at the end of the year were $139.4 million. During fiscal year 2022, developers constructed $14.1 million of capital assets and donated them to WSSC Water. Additional information is presented in the Capital Asset and Debt Administration section of this discussion.

Total debt excluding current maturities increased to $3,784.1 million or 6.6%. Current and other liabilities decreased $170.6 million or -22.1% because of decreases in net pension and OPEB liabilities, and current accounts and bonds payables. Capital contributions of $58.8 (net of donated capital assets) million were available to finance capital projects during the year. These funding sources reduced the amount of bonds WSSC Water needed to sell for construction of water and sewer projects. A more detailed description of WSSC Water's debt can be found in Notes I and J of the financial statements.

TABLE A-1
WSSC's Condensed Statement of Net Position
(in millions of dollars)

	FY 2023	FY 2022 (Restated)	FY 2021 (Restated)	FY 2023 % Change	FY 2022 % Change
Current and other assets	$ 745.8	$ 606.2	$ 472.8	23.0	28.2
Capital assets, net of accumulated depreciation	9,295.4	9,017.7	8,852.4	3.1	1.9
Total assets	10,041.2	9,623.9	9,325.2	4.3	3.2
Total deferred outflows of resources	175.4	40.7	47.7	331.0	(14.7)
Current and other liabilities	890.3	602.8	773.4	47.7	(22.1)
Bonds and notes payable, net of current maturities	4,005.4	3,784.1	3,550.9	5.8	6.6
Total liabilities	4,895.7	4,386.9	4,324.3	11.6	1.4
Total deferred inflows of resources	43.9	170.0	91.0	(74.2)	86.8
Net position:					
Net investment in capital assets	5,044.7	4,952.5	4,964.9	1.9	(0.2)
Restricted for growth construction	60.1	49.6	28.7	21.2	72.8
Unrestricted	172.2	105.6	(36.0)	(63.1)	(393.3)
Total net position	5,277.0	5,107.7	4,957.6	3.3	3.0
Beginning Net Position	5,107.7	4,957.6	4,907.7	3.0	1.0
Adjustment from Lease Reassessment Reversal	(0.8)	(0.7)			
Ending Net Position	5,277.0	5,107.7	4,957.6	3.3	3.0
Change in Net Position	$ 170.1	$ 150.8	$ 49.9	12.8	202.2

Changes in Net Position

Fiscal Year 2023

- WSSC Water's operating revenues increased $51.8 million in comparison with fiscal year 2022 (see Table A-2). $50.2 million of the total revenue increase is from water and sewer consumption and ready to serve fee revenues. Miscellaneous revenue increased by $3.6 million. Annual front foot benefit assessments and house connection charges continued to decline, by another $2.0 million. Front foot benefit extensions and related house connections have been built primarily by outside developers since 1993. Assessments for construction by WSSC Water prior to that time are collected over the remaining term of the debt utilized to finance the construction. Water, sewer and other revenues were impacted by the following:
    - Water and sewer rates were increased in fiscal year 2023.
    - Compared with fiscal year 2022, water and sewer revenue increase mostly came from $48.4 million rate increase, $9.8 million ready to serve fee increase and $3.4 million additional revenue from reserve reduction. However, overall consumption in fiscal year 2023 was the lowest in four years. The revenue decrease due to usage reduction is estimated to be $11.2 million.
    - While total water and sewer receivable balance at June 30 increased by $3.3 million, the delinquent receivable balance decreased by $1.9 million before applying the grant for delinquent receivable. Of the total $162.9 million water and sewer receivable, $52.6 is current billed receivable and $66.0 is current unbilled receivable. $44.3 million is delinquent

receivable, $35.5 million of which or 80.2% has been put under reserve. In comparison with total receivable of $162.9 million, the unreserved delinquent balance is $8.7 million or 5.4%.
    - Water consumption revenue was $0.5 million below budget and sewer use revenue was $0.9 million over budget. Ready to serve charges are $3 million over budget.
    - The $3.6 million increase in miscellaneous revenues was contributed by additional cross connection fees, antenna lease revenue, sewer grants, and collection of Rockville's share of Blue Plain payments.

- Operating expenses increased by $28.5 million, or 4.1%, in comparison with fiscal year 2022.

    - The actual fiscal year 2023 Blue Plains related costs increased by $15.1 million, which includes current year expense increase and additional expenses in prior year settlement.
    - Chemical expenses increased by $4.5 million, heat, light, and power increased by $1.5 million, both due to price inflation.
    - Salary and fringe benefits increased by $6.0 million, mainly from increases in health care costs, administrative and general expenses.
    - Amortization expenses increased by $3.0 million, from the addition of SBITA amortization.
    - $5.4 million increase was from additional capital reserve.
    - Claims and damages increased by $2.2 million.
    - Bond amortization expenses decreased by $7.9 million.
    - Professional services and information technology expenses decreased by $2.7 million.

- Non-operating expenses decreased by $7.8 million, or -11.2%, in comparison to fiscal year 2022.

    - The decrease is mainly the net of $25.1 million additional investment income offset by $17.0 million additional interest expense on bonds and notes payable.

The net changes in revenues and expenses during the year resulted in net gain of $108.9 million before capital contributions. Capital contributions decreased by -16.2% to $61.2 million. Grant revenue decreased by $7.5 million. System development charges and developer fees decreased by $8.7 million. Donated assets constructed and contributed by developers were up $4.5 million in comparison to the prior fiscal year.

Fiscal Year 2022 (Based on Restated)

- WSSC Water's operating revenues increased $87.3 million in comparison with fiscal year 2021 (see Table A-2). $76.6 million of the total revenue increase is from water and sewer consumption and ready to serve fee revenues. In fiscal year 2021, we increased the reserve for uncollectable and therefore decreased the revenues by $29.3 million while in fiscal year 2022 we reduced the reserve balance by $1.1 million. Miscellaneous revenue increased by $13.1 million. Annual front foot benefit assessments and house connection charges continued to decline, by another $2.4 million. Front foot benefit extensions and related house connections have been built primarily by outside developers since 1993. Assessments for construction by WSSC Water prior to that time are collected over the remaining term of the debt utilized to finance the construction. Water, sewer and other revenues were impacted by the following:

    - Water and sewer rates were increased in fiscal year 2022.
    - Compared with fiscal year 2021, water and sewer revenue increase mostly came from $43.7 million rate increase and $30.4 million less revenue reduction required for the reserve. However, consumption on commercial and governmental accounts, compared with the pre-COVID time, was still lower. The usage reduction was mostly reflected in the highest billed rate. This new consumption pattern may continue in the future due to the new normal work schedule.
    - Total water and sewer receivable balance decreased by $12.8 million, $11.8 million of which was delinquent receivable reduction.

- Water revenue was $3.6 million below budget and sewer revenue was $8.5 million below budget.
- Of the $13.1 million increase in miscellaneous revenues, $8.8 million was from the late payment charges which WSSC Water stopped assessing in fiscal year 2021 due to the moratorium on late fees and water turn off. The balance was from additional plumbing permit fees and sewer grant revenues and reduction of loss from movable asset disposal in fiscal year 2021.

- Operating expenses decreased by $14.3 million, or -2.0%, in comparison with fiscal year 2021.

  - The net of current year billing and prior year audit adjustments of intermunicipal agency sewage disposal costs related to the Blue Plains facility increased by $1.8 million in fiscal year 2022. The actual fiscal year 2022 Blue Plains related costs increased by $3.2 million.
  - Contract services and restoration work increased by $7.7 million. Majority of the increase is from paving expense increase.
  - $5.3 million increase is from heat, light, power, gas, and chemicals used in production. The increase was mainly due to higher energy prices as more U.S. natural gas was exported to Europe and less was imported from Canada.
  - Salary and fringe expenses decreased by $14.5 million, $6.6 million of which was salary reduction from retirement, employment termination, and Retirement Division salary reimbursement by the retirement plans; $2.5 million of which was from accrued leave as more leave was used in fiscal year 2022; and $4.3 million of which was from insurance benefits due to more pharmacy rebate in fiscal year 2022.
  - Professional and contractual services decreased by $9.3 million, $6.9 million of which is from information technology costs reduction. The rest is from professional services.
  - Claim expenses decreased by $4 million.
  - The additional decrease of $1.2 million is from SBITA implementation restatement.

- Non-operating expenses increased by $14.6 million, or 26.4%, in comparison to fiscal year 2021.

  - Interest expense on bond and notes payable decreased by $7.7 million. However, GASB Statement No. 89 was implemented in fiscal year 2022. This Statement requires that interest cost incurred before the end of the construction period be recognized as an expense in the period in which the cost is incurred for financial statements. Therefore, there was variance of $31.1 million capitalized interest offset in fiscal year 2021. The net interest expense increase was $23.4 million.
  - There was $9.0 million decrease in loss on assets disposal in comparison with fiscal year 2021.

The net changes in revenues and expenses during the year resulted in net gain of $77.9 million before capital contributions. Capital contributions increased by 23.5% to $73.0 million. Grant revenue increased $12.6 million. System development charges and developer fees increased by $4.7 million. Donated assets constructed and contributed by developers were down $3.5 million in comparison to the prior fiscal year 2021.

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

	FY 2023	FY 2022 (Restated)	FY 2021 (Restated)	FY 2023 % Change	FY 2022 % Change
Operating revenues	$ 889.4	$ 837.6	$ 750.3	6.2	11.6
Operating expenses	(718.5)	(690.0)	(704.3)	4.1	(2.0)
Net non-operating revenues (expenses)	(62.0)	(69.8)	(55.2)	(11.2)	26.4
Income before capital contributions	108.9	77.8	(9.2)	40.0	(945.7)
Capital contributions	61.2	73.0	59.1	(16.2)	23.5
Changes in net position	170.1	150.8	49.9	12.8	202.2
Net position beginning of the year	5,107.7	4,957.6	4,907.7	3.0	1.0
Adjustment to beginning net position due to lease reassessment	(0.8)	(0.7)			
Changes in net position	$ 5,277.0	$ 5,107.7	$ 4,957.6	3.3	3.0

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

Fiscal Year 2023

As of June 30, 2023, WSSC Water had invested $9,295.4 million, net of accumulated depreciation, in a broad range of capital assets including water and sewer lines, water tanks, treatment plants, pumping stations, multi-purpose facilities and other facilities. This amount represents a net increase of $277.7 million, or 3.1%. over fiscal year 2022.

Fiscal Year 2022

As of June 30, 2022, WSSC Water had invested $9,017.7 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 $165.3 million, or 1.9%, over fiscal year 2021.

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

	FY 2023	FY 2022 (Restated)	FY 2021 (Restated)	FY 2023 % Change	FY 2022 % Change
Land and rights of way	$ 142.2	$ 137.8	$ 135.8	3.2	1.5
Construction in progress	1,507.9	1,205.3	1,206.6	25.1	(0.1)
Water supply	2,883.4	2,839.2	2,769.0	1.6	2.5
Sewage disposal	2,259.1	2,256.7	2,117.6	0.1	6.6
General construction	1,289.9	1,320.6	1,362.8	(2.3)	(3.1)
Intangible assets	1,203.3	1,245.9	1,244.9	(3.4)	0.1
Other	9.6	12.2	15.7	(21.3)	(22.3)
Total capital assets	$ 9,295.4	$ 9,017.7	$ 8,852.4	3.1	1.9

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

Bonds and Notes Payable

Fiscal Year 2023

At the end of fiscal year 2023, bonds and notes outstanding totaled $4,328.4 million, a $225.9 million increase in comparison to the previous fiscal year.

- In February 2023, WSSC Water issued $337.0 million of Consolidated Public Improvement Bonds to fund new construction, rehabilitation and replacement of water and sewer infrastructure. This issue includes $18.5 million in green bonds which allows investors to invest directly in environmentally beneficial projects (Green Projects). Green bonds were rated E1/80 by S&P Global.

Fiscal Year 2022

At the end of fiscal year 2022, bonds and notes outstanding totaled $4,102.5 million, a $213.4 million increase in comparison to the previous fiscal year.

- In September 2021, WSSC Water issued $334 million of Consolidated Public Improvement Bonds to fund new construction, rehabilitation and replacement of water and sewer infrastructure. This issue includes $21.5 million in green bonds which allows investors to invest directly in environmentally beneficial projects (Green Projects). Green bonds were rated E1/80 by S&P Global.
- In May 2022, WSSC Water sold $702.5 million of refunding bonds with interest rates ranging from 2.61% to 3.31% to refund $652.1 million of outstanding callable water supply and sewage disposal bonds with interest rates ranging from 3.00% to 5.00%. The net proceeds of $701.8 million were used to purchase SLGS securities. Those securities were deposited with an escrow agent to provide for future debt service payments. The May 2022 refunding will reduce WSSC Water's total debt service payments over the next 22 years by $63.9 million and provide an economic gain of $62.8 million.

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

	FY 2023	FY 2022	FY 2021	FY 2023 % Change	FY 2022 % Change
Water supply	$ 1,842.2	$ 1,759.8	$ 1,745.3	4.7	0.8
Sewage disposal	2,330.9	2,191.0	1,979.4	6.4	10.7
General construction	155.3	151.7	164.4	2.4	(7.7)
Total	4,328.4	4,102.5	3,889.1	5.5	5.5
Current maturities	322.9	318.4	338.2	1.4	(5.9)
Long-term portion	4,005.5	3,784.1	3,550.9	5.9	6.6
Total bonds and notes payable	$ 4,328.4	$ 4,102.5	$ 3,889.1	5.5	5.5

Bond Ratings

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

Limitations on Debt

Maryland law limits the amount of bonds and notes WSSC Water may have outstanding at any time. This limitation is generally based on legislated percentages of the real property assessable tax base and personal property and operating real property assessments within the Washington Suburban Sanitary District. As of June 30, 2023 and 2022, the calculated limits were $13,429.5 million and $12,855.7 million, respectively. WSSC Water's outstanding debt was significantly below those limits.

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

CONTACT INFORMATION

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

WASHINGTON SUBURBAN SANITARY COMMISSION
STATEMENT OF NET POSITION
AS OF JUNE 30, 2023 AND 2022
(in thousands)

	2023	2022 (Restated)
ASSETS		
Current assets:		
Cash (Note B)	$ 35,629	$ 30,292
Investments (Note B)	346,033	267,087
Accrued interest receivable	7,345	829
Receivables, net (Note C)	134,720	120,956
Lease and lease interest receivable, ST (Notes C and N)	2,602	2,416
State grants receivable	12,969	13,215
Prepaid expenses	21,315	15,403
Total current assets	560,613	450,198
Non-current assets:		
Capital assets, net of accum. DEPR/AMORT (Note D)	9,295,438	9,017,718
Investments restricted for capital construction (Note B)	171,204	139,381
Lease and lease interest receivable, LT (Note N)	11,006	13,325
Note Receivable (E)	3,024	3,255
Total non-current assets	9,480,672	9,173,679
Total assets	10,041,285	9,623,877
DEFERRED OUTFLOWS OF RESOURCES		
Deferred amount from pension (Note K)	135,173	23,329
Deferred amount from OPEB (Note L)	40,211	17,370
Total deferred outflows of resources	175,384	40,699
Total assets and deferred outflows of resources	$10,216,669	$9,664,576

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

WASHINGTON SUBURBAN SANITARY COMMISSION
STATEMENT OF NET POSITION
AS OF JUNE 30, 2023 AND 2022
(in thousands)

	2023	**2022 (Restated)**
LIABILITIES		
Current liabilities:		
Bonds and notes payable, current maturities (Notes I and J)	$ 322,940	$ 318,427
Accounts payable and accrued liabilities	188,906	175,357
Accrued bond and note interest payable	12,869	11,687
Deposits and unearned revenue	10,879	10,119
Total current liabilities	535,594	515,590
Non-current liabilities:		
Bonds and notes payable, net of current maturities (Notes I and J)	4,005,432	3,784,141
Net pension liability (Note K)	253,600	24,681
Net OPEB liability (Note L)	79,858	37,223
Lease and SBITA payable, LT (Notes N & O)	2,003	5,160
Deposits, unearned revenue and other long-term liabilities (Note H)	19,284	20,145
Total non-current liabilities	4,360,177	3,871,350
Total liabilities	4,895,771	4,386,940
DEFERRED INFLOWS OF RESOURCES		
Deferred amount from pension (Note K)	352	95,830
Deferred amount from OPEB (Note L)	22,548	49,651
Deferred amount from debt refunding (Note A)	8,146	9,132
Deferred amount from leases (Note N)	12,838	15,353
Total deferred inflows of resources	43,884	169,966
Total liabilities and deferred inflows of resources	4,939,655	4,556,906
NET POSITION		
Net investment in capital assets	5,044,747	4,952,520
Restricted for growth construction	60,093	49,560
Unrestricted	172,174	105,590
Total net position	5,277,014	5,107,670
Total liabilities, deferred inflows of resources and net position	$10,216,669	$9,664,576

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

WASHINGTON SUBURBAN SANITARY COMMISSION
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2023 AND 2022
(in thousands)

	2023	2022 (Restated)
OPERATING REVENUES:		
Water consumption, sewer use and service charges	$ 827,593	$ 777,357
Front foot benefit assessments	3,914	5,713
House connection charges	3,839	4,061
Other	54,126	50,532
Total operating revenues	889,472	837,663
OPERATING EXPENSES:		
Operations	132,672	123,596
Maintenance	183,022	175,871
Intermunicipal agency sewage disposal	81,954	66,831
Administrative and general	115,102	109,644
Depreciation and amortization	205,761	214,026
Total operating expenses	718,511	689,968
Net operating revenues	170,961	147,695
NON-OPERATING REVENUES (EXPENSES):		
Interest on bonds and notes payable	(115,942)	(98,919)
System development charge credit reimbursements	(1,800)	(2,134)
Loss on disposal of assets	(593)	(723)
Pension	19,517	18,614
OPEB	10,521	12,110
Investment income	25,319	119
Other interest income	985	1,099
Net non-operating expenses	(61,993)	(69,834)
Income (loss) before capital contributions	108,968	77,861
Capital contributions (Note F)	61,217	72,962
Changes in net position	170,185	150,823
Net position, beginning of the year	5,107,670	4,957,585
Adjustment to prior year net position, lease reassessment	(841)	(738)
Net position, end of year	$ 5,277,014	$ 5,107,670

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, 2023 AND 2022
(in thousands)

	2023	2022 Restated
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from water and sewer customers	$ 813,023	$ 782,587
Receipts from front foot benefit assessments	4,787	6,446
Receipts from house connection charges	3,436	4,080
Receipts from other customers and miscellaneous	91,536	87,915
Payments to employees	(197,435)	(230,181)
Payments to District of Columbia Water & Sewer Authority	(76,609)	(62,133)
Payments to suppliers and others	(260,887)	(280,968)
Net cash provided by operating activities	377,851	307,746
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Long term lease and lease interest receivable	2,319	(13,325)
Proceeds from bonds and notes	389,995	1,089,676
Capital contributions	59,042	62,416
Bond redemptions and note repayments	(168,237)	(838,121)
Interest payments, premiums and discounts on bonds and notes	(110,716)	(129,290)
Capital asset construction	(418,573)	(383,466)
Net cash used in capital and related financing activities	(246,170)	(212,110)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from the sale of investments	583,885	794,798
Purchases of investments	(750,501)	(974,999)
Pension and OPEB	30,038	30,724
Payments for security deposit	-	-
Interest income received	10,233	315
Net cash used in investing activities	(126,344)	(149,162)
Net (decrease) increase in cash	5,337	(53,526)
Cash, beginning of year	30,292	83,818
Cash, end of year	35,629	$ 30,292
Reconciliation of net operating revenues to net cash provided by operating activities:		
Net operating revenue	$ 170,961	$ 147,696
Adjustments to reconcile net operating revenue to net cash provided by operating activities:		
Depreciation	195,004	192,820
Effect of changes in assets, liabilities and deferred outflows of resources:		
Receivables, net	(13,949)	1,403
Materials and supplies	(4,789)	(1,098)
Prepaid expenses	(1,124)	385
Deferred outflows of resources - pension and OPEB	(16,670)	7,007
Accounts payable and accrued liabilities	19,223	14,163
Unearned revenue	(1,763)	15,292
Deferred inflows of resources - pension and OPEB	(240,597)	75,033
Long-term pension liability	228,919	(96,932)
Long-term OPEB liability	42,635	(48,022)
Net cash provided by operating activities	$ 377,851	$ 307,746

Noncash capital financing activities:

- Capital assets of $18,634 and $14,142 were acquired through contributions from developers in 2023 and 2022, respectively.
- In 2023, there is one additional SBITA contract.

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

WASHINGTON SUBURBAN SANITARY COMMISSION
STATEMENTS OF FIDUCIARY NET POSITION
FIDUCIARY FUND FOR PENSION AND OPEB BENEFIT TRUSTS
DECEMBER 31, 2022 AND 2021
(in thousands)

	2022	2021
ASSETS		
Cash and cash equivalents (Note P)	$ 3,195	$ 4,474
Collateral received under securities lending agreements (Note P)	57,294	62,798
Investment at fair value (Note P):		
Mutual funds	641,238	802,775
Commingled funds	150,820	166,048
U.S. Government and agency bonds	70,200	73,405
Corporate bonds	19,670	27,929
Common stock	38,634	54,562
Investment contracts with insurance company	82,531	94,293
Limited partnership units	20	20
Other fixed holdings	1	2
Total Investments	1,003,114	1,219,034
Dividends and accrued interest receivable	682	503
Contributions receivable from employees	606	268
Total Assets	1,064,891	1,287,077
LIABILITIES		
Payable for collateral received under securities lending agreements (Note P)	57,294	62,798
Benefits payable and accrued expenses	1,179	856
Total Liabilities	58,473	63,654
NET POSITION		
Restricted for pension and OPEB	$ 1,006,418	$ 1,223,423

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

WASHINGTON SUBURBAN SANITARY COMMISSION
STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUND FOR PENSION AND OPEB BENEFIT TRUSTS
DECEMBER 31, 2022 AND 2021
(in thousands)

	2022	2021
ADDITIONS		
Investment Income:		
Net appreciation (depreciation) in the fair value of plan investments	$ (202,639)	$ 138,130
Dividends and interest	25,908	27,491
	(176,731)	165,621
Less investment expenses	(2,710)	(1,944)
Net investment income	(179,441)	163,677
Contributions:		
WSSC Water Contributions	32,856	45,830
Employee Contributions	4,913	4,681
WSSC Water on-behalf contributory	11,254	11,969
Retiree Contributions	4,775	4,687
Total Contributions	53,798	67,167
Total Additions	(125,643)	230,844
DEDUCTIONS		
Benefit payments to retirees and refund	90,141	84,787
Administrative Expense	1,221	760
Total Deductions	91,362	85,547
INCREASE (DECREASE) IN NET POSITION	(217,005)	145,297
NET POSITION RESTRICTED FOR PENSION AND OPEB BEGINNING OF YEAR	1,223,423	1,078,126
NET POSITION RESTRICTED FOR PENSION AND OPEB END OF YEAR	$ 1,006,418	$ 1,223,423

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

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Operating and Non-Operating Revenues and Expenses

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

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

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

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

GASB 89 was implemented in fiscal year 2022 and interest incurred during construction is no longer capitalized.

Capital Contributions

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

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

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

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

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

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash

Cash includes amounts in demand deposits.

Investments

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

Capital Assets

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

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

Depreciation and Amortization

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

Buildings and other structures	40 – 50 years
Pipe and pipe improvements	35 – 100 years
Equipment and vehicles	3 – 12 years
Purchased capacity	50 years
Software	5 years
Leases	1.5 – 30 years

Depreciation is appropriately adjusted at substantial completion.

Inventory

Materials and supplies inventory is recorded utilizing a perpetual (moving average) cost methodology and is reduced for estimated losses due to obsolescence. They are presented as prepaid in the statement of net position.

Bonds and Notes Payable

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

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

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Pension

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

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

Other Postemployment Benefits (OPEB)

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

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

Deferred Outflows and Inflows of Resources

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

(a) Net difference between projected and actual earnings on pension plan investments
(b) Results of changes in pension assumptions
(c) Contributions to the OPEB Plan subsequent to the measurement date of the net OPEB liability and before the end of WSSC Water's reporting period
(d) Differences between expected and actual experience in the measurement of the total OPEB liability

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

(a) Deferred gain on bond refundings resulting from the difference between the carrying value of the refunded debt and its reacquisition price
(b) Differences between expected and actual experience in the measurement of the total pension liability
(c) Net difference between projected and actual earnings on pension plan investments
(d) Net difference between projected and actual earnings on OPEB plan investments
(e) Value of lease receivable plus payments received at commencement of the lease term that relate to future periods

Leases

A lease is defined as a contract that conveys control of the right to use another entity's nonfinancial asset (the underlying asset) as specified in the contract for a period of time in an exchange or exchange-like transaction.

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

GASB Statement No. 87 states that a lessor should recognize a lease receivable and a deferred inflow of resources at the commencement of the lease term, with certain exceptions for leases of assets held as investments, certain regulated leases, short-term leases, and leases that transfer ownership of the underlying asset. A lessor should not derecognize the asset underlying the lease. The lease receivable should be measured at the present value of lease payments expected to be received during the lease term. The deferred inflow of resources should be measured at the value of the lease receivable plus any payments received at or before the commencement of the lease term that relate to future periods. A lessor should recognize interest revenue on the lease receivable and an inflow of resources (for example, revenue) from the deferred inflows of resources in a systematic and rational manner over the term of the lease.

GASB Statement No. 87 states that a lessee should recognize a lease liability and a right-to-use intangible lease asset at the commencement of the lease term, unless the lease is a short-term lease or it transfers ownership of the underlying asset. The lease liability should be measured at the present value of payments expected to be made during the lease term (less any lease incentives). The lease asset should be measured at the amount of the initial measurement of the lease liability, plus any payments made to the lessor at or before the commencement of the lease term and certain direct costs.

Based on GASB Statement No. 87, a long-term lease is a lease that, at the commencement of the lease term, has a maximum possible term under the lease contract of over 12 months, including any options to extend, regardless of their probability of being exercised. A long-term lease is required by GASB Statement No. 87 to be capitalized and reported in the financial statements as lease and interest receivables and deferred inflow of resources or a lease liability and a right-to-use intangible lease asset.

Lease term determination is different from determination of a long vs. short-term lease. Paragraph 12 of Statement No. 87 states that “periods for which both the lessee and the lessor have an option to terminate the lease without permission from the other party . . . are cancelable [cancellable] periods and are excluded from the lease term.” The effect of excluding those cancellable periods from the lease term is the same as if it were reasonably certain that a lessee or lessor option to cancel would be exercised. Lease term to be used for capitalization and amortization is defined as the maximum non-cancellable period by both parties. Therefore, a long-term lease with options to renew could have a very short lease term for capitalization and amortization.

SBITA

A SBITA is defined as a contract that conveys control of the right to use another party’s (a SBITA vendor’s) information technology (IT) software, alone or in combination with tangible capital assets (the underlying IT assets), as specified in the contract for a period of time in exchange or exchange-like transaction.

Under GASB Statement No. 96, a government generally should recognize a right-to-use subscription asset – an intangible asset – and corresponding subscription liability. The subscription liability should be initially measured at the present value of subscription payments expected to be made during the subscription term. The subscription term includes the period during which a government has a noncancellable right to use the underlying IT assets over 12 months. It includes any options to extend, regardless of their probability of being exercised.

To the extent relevant, the standards for SBITA are based on the standards established in Statement No. 87, Leases, as amended. The major difference between a lease and SBITA is the implementation costs of a SBITA.

Compensated Absences

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

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Estimates

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

Net Position

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

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

Unrestricted net position is the residual amount not included in the other classifications.

Reclassifications

Certain amounts have been reclassified from the 2022 presentation to agree to the 2023 presentation.

Accounting Changes

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

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

GASB Statement No. 96, *Subscription-Based Informational Technology Arrangements*, provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. WSSC has implemented this GASB statement in fiscal year 2023 and restated financial statements for fiscal year 2022.

GASB Statement No. 99, *Omnibus 2000*, intends to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing (1) practice issues that have been identified during implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees. The requirements for potentially applicable parts of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. WSSC has implemented the relevant portion of this GASB, along with GASB 96 implementation, in fiscal year 2023.

GASB Statement No. 100, *Accounting Changes and Error Corrections – an Amendment of GASB Statement No. 62,* intends to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. This Statement defines *accounting changes* as changes in accounting principles, changes in accounting estimates, and changes to or within the financial reporting entity and describes the transactions or other events that constitute those changes. This Statement also addresses corrections of errors in previously issued financial statements. The requirements of this Statement are effective for fiscal years beginning after June 15, 2023, and all reporting periods thereafter. Management is evaluating the impact of the pronouncement on its financial statements.

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

GASB Statement No. 101, *Compensated Absences*, is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. This Statement requires that liabilities for compensated absences be recognized for (1) leave that has not been used and (2) leave that has been used but not yet paid in cash or settled through noncash means. The requirements of this Statement are effective for fiscal years beginning after December 15, 2023, and all reporting periods thereafter. Management is evaluating the impact of the pronouncement on its financial statements.

B. CASH AND INVESTMENTS

At June 30, 2023 and 2022, cash per WSSC Water's records amounted to $35.6 million and $30.3 million, respectively, and reported bank balances were $34.6 million and $32.5 million, respectively. All collected bank balance funds were secured by Federal depository insurance or by collateral held in WSSC Water's name under a tri-party collateral agreement with M&T and BNY Mellon.

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

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

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

Custodial credit risk is the risk that, in the event of a failure of a financial institution, WSSC Water would not be able to recover deposits, the value of its investments, or collateral securities that are in the possession of an outside party. Maryland State law requires that collateral shall be maintained for all deposits and certificates of deposit with amounts in excess of Federal insurance coverage. State law also requires the securities collateralizing repurchase agreements have a market value of at least 102 percent of the principal of the investment plus accrued interest. There were no repurchase agreements at June 30, 2023 and 2022.

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, 2023 and 2022, all of WSSC Water's investments had remaining maturities of 1 year or less.

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. Credit risk is measured by the assignment of a rating by a nationally recognized statistical rating organization. WSSC Water may invest in bankers' acceptances and commercial paper having a short-term rating of the highest letter and numerical rating issued by at least one nationally recognized statistical rating organization. WSSC Water does not have a formal policy for other investment types; however virtually all remaining investments are in, or collateralized by, Federal agency securities. Actual ratings as of June 30, 2023 and 2022 are presented below for each investment type.

B. CASH AND INVESTMENTS (continued)

Investments at June 30, 2023 (in thousands):

Investment Type	Credit Rating	Remaining Maturity	Cost	Fair Value
Certificates of deposit	FDIC Insured	1 year or less	$ 12,106	$ 12,360
Money market investments	Aaa	1 year or less	40,387	40,387
Commercial paper	A1+P1	1 year or less	24,344	24,603
U. S. Government treasury bonds and notes	Aaa	1 year or less	430,847	437,887
Insured demand deposit			2,000	2,000
Total investments (includes $60,093 restricted for capital projects and $171,204 which is classified as non-current)			$ 509,684	$ 517,237

Investments at June 30, 2022 (in thousands):

Investment Type	Credit Rating	Remaining Maturity	Cost	Fair Value
Certificates of deposit	Aaa	1 year or less	$ 12,000	$ 12,008
Money market investments	Aaa	1 year or less	90,832	90,832
Commercial paper	A-1+	1 year or less	9,921	9,894
U. S. Government treasury bonds and notes	Aaa	1 year or less	148,630	148,260
Federal agency securities	Aaa	1 year or less	144,102	143,474
Insured demand deposit			2,000	2,000
Total investments (includes $49,560 restricted for capital projects and $139,381 which is classified as non-current)			$ 407,485	$ 406,468

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

Issuer	Investment Type	2023	2022
FHLB	Federal agency securities	$ 437,887	$ 143,474
Nothern Trust	Money Market Investments	40,387	90,784

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

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

B. CASH AND INVESTMENTS (continued)

Fair value measurements at June 30, 2023 (in thousands) using:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Investments by fair value level:				
Certificate of deposit	$ 12,360	$ -	$ -	$ 12,360
Commercial paper	-	24,603	-	24,603
Federal agency securities	-	437,887	-	437,887
Total investments by fair value level	$ -	$ 462,490	$ -	474,850
Investments measured at cost -				
Repurchase agreements				40,387
Insured demand deposit				2,000
Total investments				$ 517,237

Fair value measurements at June 30, 2022 (in thousands) using:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Investments by fair value level:				
Certificate of deposit	$ 12,008	$ -	$ -	$ 12,008
Insured demand deposit	-	2,000	-	2,000
Commercial paper	-	9,894	-	9,894
U. S. Government bonds and notes	-	148,260	-	148,260
Federal agency securities	-	143,474	-	143,474
Total investments by fair value level	$ -	$ 301,628	$ -	315,636
Investments measured at cost -				
Repurchase agreements				90,832
Insured demand deposit				2,000
Total investments				$ 408,468

C. RECEIVABLES

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

	2023	2022
Front foot benefit assessments accrued and billed	$ 3,058	$ 3,968
Water and sewer services unbilled	66,024	62,156
Water and sewer services billed	96,916	91,856
Miscellaneous	7,172	7,355
	173,170	165,335
Less allowance for doubtful accounts	(38,450)	(44,379)
Total receivables, net	$ 134,720	$ 120,956

D. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2023 was as follows (in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land and rights of way	$ 137,756	$ 4,445	$ -	$ 142,201
Construction in progress	1,205,324	492,212	(189,544)	1,507,992
Total capital assets not being depreciated	1,343,080	496,657	(189,544)	1,650,193
Capital assets being depreciated:				
Water supply	3,830,320	98,619	(10)	3,928,929
Sewage disposal	3,260,086	63,212	(891)	3,322,407
General construction	2,799,782	26,527	(2,573)	2,823,736
Intangible assets	1,766,215	2,413	-	1,768,628
Other	111,483	801	(2,096)	110,188
Total capital assets being depreciated	11,767,886	191,572	(5,570)	11,953,888
Less accumulated depreciation for:				
Water supply	(991,140)	(54,416)	10	(1,045,546)
Sewage disposal	(1,003,434)	(60,819)	891	(1,063,362)
General construction	(1,479,150)	(56,834)	2,156	(1,533,828)
Intangible assets	(520,232)	(45,128)	-	(565,360)
Other	(99,292)	(2,684)	1,429	(100,547)
Total accumulated depreciation	(4,093,248)	(219,881)	4,486	(4,308,643)
Capital assets being depreciated, net	7,674,638	(28,309)	(1,084)	7,645,245
Total capital assets, net	$ 9,017,718	$ 468,348	$ (190,628)	$ 9,295,438

D. CAPITAL ASSETS (continued)

Details of intangible capital asset activity for the year ended June 30, 2023 was as follows (in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance
Intangible capital assets being amortized:				
Computer software	$ 51,253	$ 179	$ -	$ 51,432
Right to use assets (LEASE)	1,781	-	(5)	1,776
Right to use assets (SBITA)	12,505	140	-	12,645
Jennings Randolph purchased capacity	33,106	-	-	33,106
Blue Plains purchased capacity	1,718,342	2,104	-	1,720,446
Rockville contra purchased capacity	(71,435)	(116)	-	(71,551)
Mattawoman purchased capacity	18,659	111	-	18,770
Poolsville purchased capacity	2,004	-	-	2,004
Total intagible capital assets being amortized	1,766,215	2,418	(5)	1,768,628
Less accumulated amortization for:				
Computer software	(33,468)	(7,154)	-	(40,622)
Right to use assets (LEASE)	(1,064)	(375)	-	(1,439)
Right to use assets (SBITA)	(3,139)	(3,355)	-	(6,494)
Jennings Randolph purchased capacity	(6,713)	(220)	-	(6,933)
Blue Plains purchased capacity	(478,200)	(35,040)	-	(513,240)
Rockville contra purchased capacity	10,880	1,444	-	12,324
Mattawoman purchased capacity	(7,227)	(387)	-	(7,614)
Poolsville purchased capacity	(1,301)	(41)	-	(1,342)
Total accumulated amortization	(520,232)	(45,128)	-	(565,360)
Intangible capital assets being amortized, net	1,245,983	(42,710)	(5)	1,203,268

D. CAPITAL ASSETS (continued)

Restated capital asset activity for the year ended June 30, 2022 was as follows (in thousands):

	Beginning Balance	Increases (Restated)	Decreases	Ending Balance
Capital assets not being depreciated:				
Land and rights of way	$ 135,762	$ 1,994	$ -	$ 137,756
Construction in progress	1,206,629	399,104	(400,409)	1,205,324
Total capital assets not being depreciated	1,342,391	401,098	(400,409)	1,343,080
Capital assets being depreciated:				
Water supply	3,705,122	125,587	(389)	3,830,320
Sewage disposal	3,053,428	207,235	(577)	3,260,086
General construction	2,786,851	15,017	(2,086)	2,799,782
Intangible assets	1,719,898	46,317	-	1,766,215
Other	110,061	2,285	(863)	111,483
Total capital assets being depreciated	11,375,360	396,441	(3,915)	11,767,886
Less accumulated depreciation for:				
Water supply	(936,166)	(55,363)	389	(991,140)
Sewage disposal	(935,824)	(68,187)	577	(1,003,434)
General construction	(1,424,060)	(56,679)	1,589	(1,479,150)
Intangible assets	(474,968)	(45,264)	-	(520,232)
Other	(94,375)	(5,600)	683	(99,292)
Total accumulated depreciation	(3,865,393)	(231,093)	3,238	(4,093,248)
Capital assets being depreciated, net	7,509,967	165,348	(677)	7,674,638
Total capital assets, net	$ 8,852,358	$ 566,446	$ (401,086)	$ 9,017,718

D. CAPITAL ASSETS (continued)

Details of restated intangible capital asset activity for the year ended June 30, 2022 was as follows (in thousands):

	Beginning Balance	Increases (Restated)	Decreases	Ending Balance
Intangible capital assets being amortized:				
Computer software	$ 50,397	$ 856	$ -	$ 51,253
Right to use assets (LEASE)	1,781	-	-	1,781
Right to use assets (SBITA)	-	12,505	-	12,505
Jennings Randolph purchased capacity	33,106	-	-	33,106
Blue Plains purchased capacity	1,685,873	32,469	-	1,718,342
Rockville contra purchased capacity	(69,653)	(1,782)	-	(71,435)
Mattawoman purchased capacity	16,390	2,269	-	18,659
Poolsville purchased capacity	2,004	-	-	2,004
Total intagible capital assets being amortized	1,719,898	46,317	-	1,766,215
Less accumulated amortization for:				
Computer software	(25,848)	(7,620)	-	(33,468)
Right to use assets (LEASE)	(452)	(612)	-	(1,064)
Right to use assets (SBITA)	-	(3,139)	-	(3,139)
Jennings Randolph purchased capacity	(6,492)	(221)	-	(6,713)
Blue Plains purchased capacity	(443,506)	(34,694)	-	(478,200)
Rockville contra purchased capacity	9,454	1,426	-	10,880
Mattawoman purchased capacity	(6,864)	(363)	-	(7,227)
Poolsville purchased capacity	(1,260)	(41)	-	(1,301)
Total accumulated amortization	(474,968)	(45,264)	-	(520,232)
Intangible capital assets being amortized, net	1,244,930	1,053	-	1,245,983

D. CAPITAL ASSETS (continued)

Purchased Software

Purchased software and related development stage costs of $0.2 million and $0.9 million were capitalized in accordance with GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets* in fiscal years 2023 and 2022, respectively. Costs of $0.3 million are included in the Construction in Progress balance as of June 30, 2023 and will commence amortization upon implementation of the software. Intangible assets include the balance of costs placed in service, net of accumulated amortization, of $10.8 million and $17.8 million in fiscal 2023 and 2022, respectively.

Leased Assets

Leased assets of $1.8 million were capitalized in both fiscal years 2023 and 2022 through fiscal year 2022 GASB Statement No. 87 implementation. Leased assets, net of accumulated amortization, were $0.3 million and $0.7 million in fiscal 2023 and 2022, respectively. For details, please see the section on Lessee Leases for WSSC Water in Note N.

SBITA Assets

SBITA assets of $12.5 million were capitalized retrospectively for fiscal year 2022 through GASB Statement No. 96 implementation in fiscal year 2023. For fiscal year 2023, the capitalized SBITA assets increased to $12.6 million. SBITA assets, net of accumulated amortization, were $6.2 million and $9.4 million in fiscal 2023 and 2022, respectively. For details, please refer to Note O.

Purchased Capacity

Jennings Randolph

An intangible asset for purchased capacity has been established for WSSC Water's share of capital costs in the Jennings Randolph Reservoir (Bloomington Dam). The Reservoir provides backup and peak-day water supply to WSSC Water and is operated by the U.S. Army Corps of Engineers, Baltimore District. WSSC Water funds 50% of the capital costs, and intangible asset balances, net of accumulated amortization, of $26.2 million and $26.4 million, for fiscal years 2023 and 2022, respectively, are included above.

Mattawoman and Poolesville

WSSC Water participates in the funding of capital costs for the Mattawoman and Poolesville Wastewater Treatment Plants through agreements with Charles County and the Town of Poolesville, respectively. In exchange for this participation, WSSC Water obtains the right to discharge wastewater from the Washington Suburban Sanitary District into said facilities. Costs of $6.6 million are included in the Construction in Progress balance as of June 30, 2023 and will commence amortization when placed in service. Asset balances, net of accumulated amortization, totaling $11.8 million and $12.1 million, for fiscal years 2023 and 2022, respectively, are included in intangible assets above.

Blue Plains

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

D. CAPITAL ASSETS (continued)

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

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

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

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

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

The Commission's capital investment in Blue Plains, under the 2012 IMA, is accounted for as an intangible asset and is amortized over the estimated useful lives of the underlying assets. Costs of $262.9 million are included in the Construction in Progress balance as of June 30, 2023 and will commence amortization when assets are placed in service. Asset balances, net of accumulated amortization, totaling $1,148.0 million and $1,179.6 million, for fiscal years 2023 and 2022, respectively, are included in intangible assets above.

The amount shown in the statements of revenues, expenses and changes in net assets for depreciation and amortization does not include depreciation of vehicles and equipment. Depreciation of these assets, $4.7 million in fiscal 2023 and $5.6 million in fiscal 2022, is classified with other related operating and maintenance costs.

Consent Decrees

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

- Costs of the remedial measures are estimated at $1,660.8 million and are to be expended over at least 22 years, $73.1 million of which is expected to be incurred after fiscal year 2023.

- Costs of the remedial measures are estimated at $1,624.7 million and are to be expended over at least 22 years, $64.7 million of which is expected to be incurred after fiscal year 2022.

D. CAPITAL ASSETS (continued)

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

- Costs for implementation of improvements are estimated at $206 million, $145 million of which is expected to be incurred after fiscal year 2023.
- Costs for implementation of improvements are estimated at $195 million, $160 million of which is expected to be incurred after fiscal year 2022.

E. NOTE RECEIVABLE

On June 7, 2022, WSSC Water executed Addendum No. 1 to the 1987 Water Supply Agreement with the Commissioners of Charles County Maryland. This addendum added a second water interconnection between WSSC Water to the County and increased the daily supply from WSSC Water to Charles County.

The additional supply through the new interconnection will be available after WSSC Water completes Phase IV of the Clinton Zone Water Transmission Main Improvement Project. Per the Addendum, the County is required to reimburse WSSC Water for a share of the improvement project (Phases I, III and IV) to cover the cost of upsizing mains to convey the increased water demand for the County.

For the completed Phases I and III, the County had the option to reimburse WSSC Water $3,254,781 if paid in full by July 1, 2022, or in twenty annual installments commencing thereafter. For the installment payments, interest accrues at a rate of 3.49% with an annual payment of $230,422. Charles County has chosen the installment payment option.

F. CAPITAL CONTRIBUTIONS

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

	2023	2022
System development charges	$ 26,607	$ 32,080
Developer fees	6,523	9,766
Federal and State grants	9,453	16,974
House connections	4,538	2,442
Land and rights of way	1,327	1,938
Other construction projects	12,769	9,762
Total	$ 61,217	$ 72,962

G. COMPENSATED ABSENCE LIABILITY

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

	2023	2022
Compensated absence liability – beginning of year	$ 16,612	$ 17,601
Increases (incurred)	11,550	10,113
Decreases	(11,174)	(11,102)
Compensated absence liability – end of year	$ 16,988	$ 16,612

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

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

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

	2023	2022
Unearned revenue for house connections	$ 9,468	$ 10,046
Unearned front foot benefit revenue	141	179
Construction deposits	1,501	1,501
House connection deposits	4,591	4,635
Other	3,583	3,784
Total	$ 19,284	$ 20,145

I. BONDS AND NOTES PAYABLE

Bonds and notes payable activity for the year ended June 30, 2023 was as follows (in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance	Current Maturities
Bonds and notes payable:					
Water supply - other	$ 1,668,115	$ 144,000	$ (63,144)	$ 1,748,971	$ 148,916
Sewage disposal - other	1,781,964	173,320	(65,810)	1,889,474	112,606
Sewage disposal - direct placement	317,425	53,000	(23,450)	346,975	25,636
General construction - other	143,038	19,675	(15,798)	146,915	35,777
General construction - direct placement	119	-	(35)	84	5
	3,910,661	389,995	(168,237)	4,132,419	322,940
Plus unamortized premium/discount	191,907	24,801	(20,755)	195,953	-
Total bonds and notes payable	$ 4,102,568	$ 414,796	$ (188,992)	$ 4,328,372	$ 322,940

I. BONDS AND NOTES PAYABLE (continued)

Bonds and notes payable activity for the year ended June 30, 2022 was as follows (in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance	Current Maturities
Bonds and notes payable:					
Water supply - other	$ 1,633,165	$ 377,322	$ (342,372)	$ 1,668,115	$ 148,545
Sewage disposal - other	1,585,658	652,365	(456,059)	1,781,964	107,710
Sewage disposal - direct placement	286,053	53,229	(21,857)	317,425	23,006
General construction - other	154,076	6,760	(17,798)	143,038	39,133
General construction - direct placement	154	-	(35)	119	35
	3,659,106	1,089,676	(838,121)	3,910,661	318,429
Plus unamortized premium/discount	230,036	(13,357)	(24,772)	191,907	-
Total bonds and notes payable	$ 3,889,142	$ 1,076,319	$ (862,893)	$ 4,102,568	$ 318,429

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

Bonds payable accrue interest at rates ranging from 0.464% to 5.0%, with an effective interest rate of 3.78% at June 30, 2023. All bonds payable at June 30, 2023, exclusive of refunded bonds, are due serially through the year 2054. Generally, the bonds are callable at a premium after a specified number of years.

In February 2023, WSSC Water issued $337 million of Consolidated Public Improvement Bonds to fund new construction, rehabilitation and replacement of general, water, and sewer infrastructure. Included in the issue was $18.5 million of Consolidated Public Improvement Bonds to allow investors to invest directly in bonds which finance environmentally beneficial projects (Green Projects).

In September 2021, WSSC Water issued $334 million of Consolidated Public Improvement Bonds to fund new construction, rehabilitation and replacement of general and water infrastructure. Included in the issue was $21.5 million of Consolidated Public Improvement Bonds to allow investors to invest directly in bonds which finance environmentally beneficial projects (Green Projects).

Bonds and Notes payable by issue date, amount, maturity range, interest range, and balance as of June 30, 2023 and 2022 are detailed in the next two pages:

BONDS AND NOTES PAYABLE
AS OF JUNE 30, 2023
(in thousands)

Consolidated Public Improvement Bonds	ISSUE DATE	AMOUNT ISSUED	MATURITY RANGE	INTEREST RATE RANGE	BALANCE JUNE 30, 2022
2012 Issue	11/15/2012	$ 250,000	2024-2032	3.000	112,500
2013 Refunding	4/23/2013	53,585	2024-2026	2.000-2.250	14,670
2015 Refunding	11/24/2015	145,325	2024-2028	2.650-5.000	62,270
2016 Refunding	5/26/2016	23,835	2024-2025	4.000	7,230
2016 Issue	5/26/2016	145,000	2024-2046	3.000-5.000	124,105
2016 Issue (2nd Series)	12/1/2016	381,810	2024-2046	3.000-5.000	332,130
2017 Refunding	11/9/2017	220,180	2024-2032	3.000-5.000	187,210
2017 Issue	11/9/2017	459,250	2024-2047	3.000-5.000	410,085
2017 Refunding (2nd Series), (2019 CO)	12/13/2017	79,075	2024-2029	5.000	48,730
2018 Issue	12/20/2018	390,000	2024-2048	4.000-5.000	355,135
2019 Refunding	3/27/2019	39,340	2024-2029	2.000-5.000	11,870
2019 Issue	12/23/2019	233,565	2024-2049	3.000-5.000	212,225
2020 Refunding	3/11/2020	99,210	2024-2030	5.000	71,115
2020 Issue	9/23/2020	278,350	2024-2049	2.000-5.000	312,965
2021 Issue	10/13/2021	333,980	2024-2051	2.000-5.000	318,090
2022 Convertible Refunding (Series 2022A)	5/4/2022	120,487	2024-2044	2.450-3.000	118,937
2022 Convertible Refunding (Series 2022B)	5/4/2022	220,747	2024-2044	2.520-3.190	220,747
2022 Convertible Refunding (Series 2022C)	5/4/2022	249,999	2024-2045	2.700-3.430	249,999
2022 Convertible Refunding (Series 2022D)	5/4/2022	111,234	2024-2045	2.900-3.850	110,345
2023 Isssue	2/28/2023	336,995	2024-2052	4.000-5.000	334,235
Total Public Improvement Bonds					**3,614,592**
Maryland Water Quality Bonds					
BP WWTP ACS	4/15/2003	41,098	2024-2025	1.100	3,965
Piscataway WWTP SD Upgrade	4/15/2003	9,200	2024	1.100	460
WB WWTP Filter Upgrade	1/15/2009	4,957	2024-2028	1.000	1,397
WB & Seneca WWTP ENR & Facility Upgrade	2/24/2012	49,706	2024-2034	0.800	28,315
BP WWTP ENR Upgrade (Tunnel) & NDF	6/19/2012	125,000	2024-2034	0.800	74,664
BP WWTP NDF - CHP	2/27/2013	15,000	2024-2035	0.800	9,285
Potomac Vista Water System	4/29/2013	135	2024-2040	1.000	84
BP WWTP NDF - CHP (2nd Loan)	5/30/2014	15,000	2024-2035	1.000	9,356
BP WWTP NDF - CHP (3rd Loan)	4/14/2016	7,547	2024-2035	0.700	4,817
BP WWTP ENR Upgrade - ECF & TDPS	4/14/2016	53,824	2024-2037	1.400	40,427
Piscataway WWTP BE	6/13/2019	43,960	2024-2048	0.700	35,706
WSSC Sewer Basin Reconstruction Program - Loan 1 (Interim)	11/25/2020	150,175	2024-2027	0.400	16,526
Piscataway WWTP Bio Energy Project - Loan 2	4/23/2021	85,002	2024-2053	0.400	85,002
Piscataway WWTP Bio Energy Project - Loan 3	7/29/2022	15,000	2024-2052	0.080	14,556
Piscataway WWTP Bio Energy Project - Loan 4	5/26/2023	22,500	2024-2054	0.080	22,500
Total Maryland Water Quality Bonds					**347,059**
Jennings Randolph (Water Operating)	7/1/1982	5,739	1982-2031	3.253	**1,745**
Jennings Randolph (Water Operating)	7/1/1992	27,367	1992-2041	3.253	**15,623**
Total Bonds Outstanding					**$ 3,979,019**
Notes					
General					23,500
Water					86,500
Sewer					43,400
Total Notes Outstanding					**153,400**
Premium/Discount					**195,953**
Grand Total					**4,328,372**

BONDS AND NOTES PAYABLE
AS OF JUNE 30, 2022
(in thousands)

Consolidated Public Improvement Bonds	ISSUE DATE	AMOUNT ISSUED	MATURITY RANGE	INTEREST RATE RANGE	BALANCE JUNE 30, 2022
2012 Issue	11/15/2012	$ 250,000	2023-2032	3.000	125,000
2013 Issue	4/23/2013	150,000	2023	4.000	7,500
2013 Refunding	4/23/2013	53,585	2023-2026	2.000-2.250	19,770
2015 Refunding	11/24/2015	145,325	2023-2028	2.650-5.000	78,370
2016 Refunding	5/26/2016	23,835	2023-2025	4.000-5.000	10,615
2016 Issue	5/26/2016	145,000	2023-2046	3.000-5.000	127,530
2016 Issue (2nd Series)	12/1/2016	381,810	2023-2046	3.000-5.000	340,245
2017 Refunding	11/9/2017	220,180	2023-2032	3.000-5.000	201,970
2017 Issue	11/9/2017	459,250	2023-2047	3.000-5.000	419,670
2017 Refunding (2nd Series), (2019 CO)	12/13/2017	79,075	2023-2029	5.000	56,480
2018 Issue	12/20/2018	390,000	2023-2048	4.000-5.000	362,620
2019 Refunding	3/27/2019	39,340	2023-2029	2.000-5.000	15,830
2019 Issue	12/23/2019	233,565	2023-2049	3.000-5.000	216,740
2020 Refunding	3/11/2020	99,210	2023-2030	5.000	80,650
2020 Issue	9/23/2020	278,350	2022-2049	2.000-5.000	319,590
2021 Issue	10/13/2021	333,980	2023-2051	2.000-5.000	324,350
2022 Convertible Refunding (Series 2022A)	5/4/2022	120,487	2023-2044	2.450-3.000	120,487
2022 Convertible Refunding (Series 2022B)	5/4/2022	220,747	2023-2044	2.520-3.190	220,747
2022 Convertible Refunding (Series 2022C)	5/4/2022	249,999	2023-2045	2.700-3.430	249,999
2022 Convertible Refunding (Series 2022D)	5/4/2022	111,234	2023-2045	2.900-3.850	111,234
Total Public Improvement Bonds					**3,409,397**
Maryland Water Quality Bonds					
BP WWTP ACS	4/15/2003	41,098	2023-2025	1.100	6,149
Piscataway WWTP SD Upgrade	4/15/2003	9,200	2023-2024	1.100	920
Energy Performance Projects	4/15/2003	11,272	2023	1.100	675
WB WWTP Filter Upgrade	1/15/2009	4,957	2023-2028	1.000	1,668
WB & Seneca WWTP ENR & Facility Upgrade	2/24/2012	49,706	2023-2034	0.800	30,769
BP WWTP ENR Upgrade (Tunnel) & NDF	6/19/2012	125,000	2023-2034	0.800	81,133
BP WWTP NDF - CHP	2/27/2013	15,000	2023-2035	0.800	10,020
Potomac Vista Water System	4/29/2013	135	2023-2040	1.000	89
BP WWTP NDF - CHP (2nd Loan)	5/30/2014	15,000	2023-2035	1.000	10,086
BP WWTP NDF - CHP (3rd Loan)	4/14/2016	7,547	2023-2035	0.700	5,215
BP WWTP ENR Upgrade - ECF & TDPS	4/14/2016	53,824	2023-2037	1.400	43,025
Piscataway WWTP BE	6/13/2019	43,960	2023-2048	0.700	37,047
WSSC Sewer Basin Reconstruction Program - Loan 1 (Interim)	11/25/2020	150,175	2023-2024	0.400	5,748
Piscataway WWTP Bio Energy Project - Loan 2 (Interim)	4/23/2021	85,002	2024-2053	0.400	85,002
Total Maryland Water Quality Bonds					**317,544**
Jennings Randolph (Water Operating)	7/1/1982	5,739	1982-2031	3.253	**1,909**
Jennings Randolph (Water Operating)	7/1/1992	27,367	1992-2041	3.253	**16,211**
Total Bonds Outstanding					**$ 3,745,061**
Notes					
General					25,600
Water					93,200
Sewer					46,800
Total Notes Outstanding					**165,600**
Premium/Discount					**191,907**
Grand Total					**4,102,568**

I. BONDS AND NOTES PAYABLE (continued)

Bond and note maturities and interest thereon for the next five years and then in five-year increments after fiscal year 2028 are as follows (in thousands):

Year ended June 30	Principal Other Maturities	Principal Direct Placement Maturities	Interest Other Requirements	Interest Direct Placement Requirements
2024	$ 297,299	$ 25,641	$ 138,542	$ 2,524
2025	163,283	25,614	126,973	2,326
2026	160,016	24,011	119,960	2,137
2027	158,700	21,641	115,611	1,961
2028	158,878	19,553	108,606	1,794
2029-2033	688,811	98,769	444,279	6,529
2034-2038	633,444	53,508	314,802	3,037
2039-2043	740,023	28,258	200,771	1,798
2044-2048	621,521	28,033	79,429	982
2049-2053	163,384	21,197	10,539	310
2054	-	840	-	4
Total	3,785,359	347,065	1,659,512	23,402

The Commission established a short-term Multi-Modal Bond Anticipation Note (BANs) Program in August 2003 for a period of 20 years. Over the years, there have been CUSIPs issued in a single series with two remarketing agents and one (1) liquidity facility as well as CUSIPs issued in two (2) series with two (2) remarketing agents and a liquidity facility for each.

As of fiscal year 2023, the BANs program was due to fully mature in August 2023 and the CUSIPs were due to mature on June 1, 2023. As such, on May 24, 2023, the Commission executed a one-year maturity extension to extend the program through June 1, 2024. On May 24, 2023, the Commission completed a partial redemption of $12,200,000 as part of our normal annual amortization taking the aggregate balance from $165,600,000 to $153,400,000. Once the partial redemption was completed, the Commission fully redeemed the remaining Series “A” BANs, which consisted of three (3) CUSIPs in the aggregate principal amount of $75,200,000, and issued a new Series “A”, single CUSIP in the same amount. The Series “A” CUSIP will still be remarketed by Barclays Capital, be backed by TD Bank as the liquidity provider, and will mature on June 1, 2024. The Commission also fully redeemed the remaining Series “B” BANs, which consisted of two (2) CUSIPs in the aggregate principal amount of $78,200,000, and issued a new Series “B”, single CUSIP in the same amount. The Series “B” CUSIP will still be remarketed by Loop Capital, be backed by State Street Bank as the liquidity provider, and will mature on June 1, 2024.

In addition to executing the one-year maturity extension, the Commission also changed the interest rate mode of reset from weekly to daily. Barclays and Loop remarket the BANs daily and provide a daily email no later than 11:00AM. The Commission still pays the interest monthly.

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 $153.4 million has been included in current maturities (fiscal 2023 principal maturities), and an estimated $5.4 million has been included in the fiscal 2024 interest requirements. Additional estimated interest requirements at prevailing rates through 2036 on these Notes, assuming future redemption from proceeds of bonds, would total $40.6 million.

Since November 1989, WSSC Water has participated in a loan program established by the State of Maryland to loan money to Maryland municipalities for local water and sewer projects. The program, known

I. BONDS AND NOTES PAYABLE (continued)

as the Maryland Water Quality Revolving Loan Fund, is designed to offer these municipalities loans at reduced interest rates. According to GASB Statement No. 88, the Maryland Water Quality Revolving Loan Fund is a direct placement bond. As of June 30, 2023, WSSC Water borrowed $598.7 million from the program. The total principal balance outstanding as of June 30, 2023 and 2022 was $347.1 million and $317.5 million, respectively. WSSC Water does not have assets that are pledged as collateral for the loan, however, WSSC Water has authority to assess an ad valorem tax to pay debt service if necessary. There has not been any event of default or termination on the Maryland Water Quality Revolving Loan.

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, 2023 and 2022 were $17.4 million and $18.1 million, respectively.

WSSC Water is in compliance with all terms of its debt agreements at June 30, 2023 and 2022.

J. BOND REFUNDINGS

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

The refunded bonds continue to be general obligations of WSSC Water until redeemed or called. However, the net proceeds of the refunding bonds are applied toward the purchase of U.S. Government obligations (held in escrow) with maturities and interest sufficient to meet debt service and call premiums, if any, on the refunded bonds. The holders of the refunded bonds have first lien on all assets held in escrow. Refunded bonds outstanding at June 30, 2023 and 2022, which amounted to $632.1 million and $652.1 million respectively, are considered to be defeased and are not reflected in the accompanying financial statements.

WSSC Water did not sell refunding bonds in FY23.

In May 2022, WSSC Water sold $702.5 million of refunding bonds with interest rates ranging from 2.61% to 3.31% to refund $671.5 million of outstanding callable water supply and sewage disposal bonds with interest rates ranging from 3.00% to 5.00%. The net proceeds of $701.8 million were used to purchase SLGS securities. Those securities were deposited with an escrow agent to provide for future debt service payments. The May 2022 refunding will reduce WSSC Water's total debt service payments over the next 22 years by $63.9 million and provide an economic gain of $62.8 million.

Refunded bonds are considered to be defeased and the liability is not reflected in the financial statements. The total amount of defeased and not redeemed bonds as of June 30, 2023 is $632.1 million.

Effective July 1, 1993, WSSC Water adopted GASB Statement No. 23, *Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities*. GASB No. 23 requires deferral of the difference between the reacquisition price and the carrying amount of the old debt. The difference is reported in the accompanying financial statements as a deferred outflow of resources and is being amortized to interest on bonds and notes through the year 2045 using the proportionate-to-stated interest method. Amortization totaling (-$1) million and (-$0.4) million in fiscal 2023 and 2022, respectively, was recorded as an interest adjustment on bonds and notes payable in the accompanying statements of revenues, expenses and changes in net position.

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

K. RETIREMENT PLAN

Plan Description

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

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

As of December 31, 2022, and 2021, there were 1,589 and 1,670 employees, respectively, participating in the Open Version of the Plan, and 3 and 4 employees, respectively, participating in the Closed Version of the Plan, a total of 1,592 and 1,674 employee participants, respectively.

As of December 31, 2022, and 2021, there were 1,693 and 1,706 retirees and/or beneficiaries, respectively, receiving benefits from the Plan, and there were 149 and 124 terminated vested employees, respectively, not yet receiving benefits. Eleven and twenty-five employees retired in fiscal years 2022 and 2021, respectively, and began receiving benefits in subsequent fiscal years.

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

Contributions

WSSC Water funds annual pension plan costs based upon a level percentage of payroll costs. WSSC Water's contribution, which was paid in lump sum at the beginning of July 2023 and 2022, amounted to $27.4 million and $38.2 million ($10.9 million of which was contribution made in fiscal year 2021), respectively.

Pension Benefits

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

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

1. 2.1% of final average monthly compensation multiplied by the Closed Version credited service, plus

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

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

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

K. RETIREMENT PLAN (continued)

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of June 30, 2022, using the following actuarial assumptions, applied to all periods included in the measurement:

	2022	2021
Inflation/Cost of Living Increase	2.50%	2.50%
Salary Increase	2.75% to 7.50%, including inflation	2.75% to 7.50%, including inflation
Investment Return	7.00%, net of investment expense and including inflation	7.00%, net of investment expense and including inflation

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

The actuarial assumptions used in the June 30, 2022 valuation were based on the results of an actuarial experience analysis covering 2015 through 2020.

Further details on all assumptions are provided in the 2022 valuation report and 2015-2020 experience study report.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. This is then modified through a Monte-Carlo simulation process, by which a (downward) risk adjustment is applied to the baseline expected return. Best estimates of real rates of return for each major asset class included in the pension plan's target asset allocation as of December 31, 2022, and the final investment return assumption, are summarized in the following table:

	Approximate Portfolio Allocation	Long Term Expected Real Rate of Return
Asset class:		
US Equity	42.00%	5.90%
Non-U.S. Equity	19.00%	6.50%
U.S. Fixed Income	32.00%	2.00%
Real Estate	7.00%	4.50%
Total Weighted Average Real Return	100.00%	4.67%
Plus Inflation		2.50%
Total Return without Adjustment		7.17%
Risk Adjustment		-0.17%
Total Expected Return		7.00%

K. RETIREMENT PLAN (continued)

Discount Rate

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

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

Other Key Actuarial Assumptions

The other key actuarial assumptions that determined the total pension liability as of December 31, 2022 and 2021 included:

Valuation date	June 30, 2022	June 30, 2021
Measurement date	December 31, 2022	December 31, 2021
Inflation	2.50%	2.50%
Salary increased including inflation	2.75% to 7.50%	2.75% to 7.50%

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

The following presents the net pension liability of the Plan, calculated using the discount rate of 7.00% for each of 2022 and 2021, as well as what the Plan's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate (in thousands).

	1% Decrease 6.00%	Current Discount Rate 7.00%	1% Increase 8.00%
Net Pension Liability - 2022	$ 370,891	$ 253,600	$ 103,127
Net Pension Liability - 2021	$ 136,984	$ 24,681	$ (77,320)

K. RETIREMENT PLAN (continued)

Changes in the Net Pension Liability

Changes in the Net Pension Liability for the year ended December 31, 2022 were as follows (in thousands):

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a) – (b)
Balances at 12/31/21	$ 1,036,773	$ 1,012,092	$ 24,681
Changes for the year:			
Service cost	11,802	-	11,802
Interest	70,850	-	70,850
Differences between expected and actual experience	36,882	-	36,882
Changes in assumptions	-	-	-
Contributions – employer	-	27,437	(27,437)
Contributions – employee	-	4,913	(4,913)
Net investment income	-	(140,514)	140,514
Benefit payments, including refunds of employee contributions	(74,112)	(74,112)	-
Administrative expense*	-	(1,221)	1,221
Net change	45,422	(183,497)	228,919
Balances at 12/31/22	$ 1,082,195	$ 828,595	$ 253,600
Plan's fiduciary net position as a percentage of the total pension liability	76.57%		

K. RETIREMENT PLAN (continued)

Changes in the Net Pension Liability for the year ended December 31, 2021 were as follows (in thousands):

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) – (b)
Balances at 12/31/20	$ 1,019,218	$ 897,605	$ 121,613
Changes for the year:			
Service cost	12,356	-	12,356
Interest	69,866	-	69,866
Differences between expected and actual experience	3,463	-	3,463
Changes in assumptions	-	-	-
Contributions – employer	-	38,243	(38,243)
Contributions – employee	-	4,681	(4,681)
Net investment income	-	140,453	(140,453)
Benefit payments, including refunds of employee contributions	(68,130)	(68,130)	-
Administrative expense*	-	(760)	760
Net change	17,555	114,487	(96,932)
Balances at 12/31/21	$ 1,036,773	$ 1,012,092	$ 24,681
Plan's fiduciary net position as a percentage of the total pension liability	97.62%		

* Employer contribution represents entire contribution for fiscal year 2022 and 40% of fiscal year 2021 contribution.

Pension Expense

For the years ended June 30, 2023 and 2022, WSSC Water recognized pension expense as follows (in thousands):

	2023	2022
Pension cost distributions:		
Operating	$ 22,510	$ 31,394
Non-operating	(19,517)	(29,535)
Capital	46,041	(10,511)
Total pension expense	$ 49,034	$ (8,652)

K. RETIREMENT PLAN (continued)

Deferred Outflows (Inflows) of Resources

Deferred outflows of resources and deferred inflows of resources related to pensions were reported for the years ended June 30, 2023 and 2022 from the following sources (in thousands):

Deferred Outflows	2023	2022
Changes in assumptions	$ 11,236	$ 14,981
Differences between expected and actual experience	33,009	8,348
Net difference between projected and actual earnings on pension plan investments	90,928	-
Deferred Outflows	$ 135,173	$ 23,329
Deferred Inflows		
Differences between expected and actual experience	$ (352)	$ (1,667)
Net difference between projected and actual earnings on pension plan investments	-	(94,163)
Deferred Inflows	$ (352)	$ (95,830)

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

Year ended June 30	Amortization
2024	$12,993
2025	33,555
2026	38,349
2027	49,924
2028	0
After 2028	0

Historical trend information showing the Plan's progress is presented in the Plan's December 31, 2022 comprehensive annual financial report, which can be requested from WSSC Water's offices.

Retirement Restoration Plan

Effective July 1, 1995, WSSC Water established the Washington Suburban Sanitary Commission Employees' Retirement Restoration Plan (the Restoration Plan), a non-qualified plan. The purpose of the Restoration Plan is to restore most of the benefits foregone by participants in the WSSC Water Employees' Retirement Plan when such benefits are limited by the maximum benefit provisions of Section 415 of the Internal Revenue Code. During fiscal years 2023 and 2022, the Restoration Plan paid benefits totaling $38,000 and $39,000, respectively.

L. OTHER POST EMPLOYMENT BENEFITS (OPEB)

Plan Description

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

As of December 31, 2022, and 2021, there were 1,592 and 1,674 active employees and 1,693 and 1,706 retirees, respectively. WSSC Water has the right to amend the Trust Fund Agreement.

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

Member and Employer Contributions

WSSC Water contributes to the OPEB Plan as it deems appropriate. WSSC Water initially elected to phase-in payments to the Trust over a five-year period, such that 20% of the difference between the annual required contribution and total cash expenses (funded on a “Pay-as-you-go” basis) would be funded in fiscal year 2007 and 40% of this difference would be funded in fiscal year 2008. During the third year (2009) of the phase in, WSSC Water elected to phase-in this difference over an eight- year period, which ended in 2014. WSSC Water made cash contributions of $5.4 and $7.6 million for the years ending December 31, 2022 and 2021, respectively.

The OPEB Plan recognizes revenues and expenditures for third-party payments made by WSSC Water related to benefits payments and administrative expenses. Accordingly, the OPEB Plan has included "on behalf” payments made by WSSC Water during the years 2022 and 2021 of $16.0 million and $16.7 million, respectively.

“On-behalf” payments by Water WSSC Water made subsequent to the measurement dates of December 31, 2022 and 2021 are reported as deferred outflows of contributions at June 30, 2022 and 2021 totaling $9.4 million and $12.7 million, respectively.

OPEB Benefits

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

OPEB Plan Termination

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

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

Actuarial Assumptions

The total OPEB liability was determined by an actuarial valuation as of July 1, 2021, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

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

Mortality rates were based on the Pub-2010G (below median) headcount-weighted Mortality Tables, for Males and Females, projected generationally using Scale SSA. The Pub-2010G Disabled tables were used for the valuation of disabled lives, projected generationally using Scale SSA. A 109% factor is applied to female rates. The actuarial assumptions used in the July 1, 2021 valuation were based on the results of an actuarial experience analysis in 2021, covering 2015 through 2020.

There were several changes in actuarial assumptions during fiscal year 2021, including rates of mortality, retirement, and termination. There were no changes in actuarial assumptions during fiscal year 2022.

Further details on assumptions are provided in the valuation report.

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimates of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. This is then modified through a Monte-Carlo simulation process, by which a (downward) risk adjustment is applied to the baseline expected return. Best estimates of real rates of return for each major asset class included in the OPEB plan's target asset allocation as of December 31, 2022, and the final investment return assumption, are summarized in the following tables:

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

	Portfolio Allocation	Long Term Expected Real Rate of Return
Asset class:		
Domestic Equity	38%	5.95%
Non-U.S. Equity	24%	6.25%
Real Estate	5%	4.55%
U.S. Fixed Income - Investment	33%	1.75%
Total Weighted Average Real Return	100.00%	4.57%
Plus Inflation		2.50%
Total Return without Adjustment		7.07%
Risk Adjustment		-0.07%
Total Expected Return		7.00%

Discount Rate

The discount rate used to measure the total OPEB liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made equal to the pay-as-you-go cost, plus $5 million into the OPEB Trust or the full Actuarially Determined Employer Contribution, once benefits are paid from the trust. Based on those assumptions, the OPEB Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

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

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

	1% Decrease 6.00%	Current Discount Rate 7.00%	1% Increase 8.00%
Net OPEB Liability - 2022	$ 110,984	$ 79,858	$ 54,038
Net OPEB Liability - 2021	$ 67,246	$ 37,223	$ 12,318

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

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

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

	1% Decrease 3.0% - 3.5%	Current Trend 4.0% - 4.5%	1% Increase 5.0% - 5.5%
Net OPEB Liability - 2022	$ 53,921	$ 79,858	$ 111,434
Net OPEB Liability - 2021	$ 12,205	$ 37,223	$ 67,680

Other Key Actuarial Assumptions

The other key actuarial assumptions that determined the total OPEB liability as of December 31, 2022 and 2021 included:

Valuation date	July 1, 2021	July 1, 2021
Measurement date	December 31, 2022	December 31, 2021
Inflation	2.50%	2.50%

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

Changes in the Net OPEB Liability

Changes in the Net OPEB Liability for the year ended December 31, 2022 were as follows (in thousands):

	Increase (Decrease)		
	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
	(a)	(b)	(a) – (b)
Balances at 12/31/21	$ 248,556	$ 211,333	$ 37,223
Changes for the year:			
Service cost	3,148	-	3,148
Interest	17,232	-	17,232
Contributions – employer, including benefits paid	-	16,673	(16,673)
Contributions – retiree	-	4,775	(4,775)
Net investment income	-	(38,928)	38,928
Benefit payments, including refunds of employee contributions	(11,254)	(16,030)	4,776
Net change	9,126	(33,510)	42,636
Balances at 12/31/22	$ 257,682	$ 177,823	$ 79,859
Plan's fiduciary net position as a percentage of the total pension liability	69.01%		

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

Changes in the Net OPEB Liability for the year ended December 31, 2021 were as follows (in thousands):

	Increase (Decrease)		
	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
	(a)	(b)	(a) – (b)
Balances at 12/31/20	$ 265,766	$ 180,521	$ 85,245
Changes for the year:			
Service cost	3,057	-	3,057
Interest	18,406	-	18,406
Contributions – employer, including benefits paid	-	19,556	(19,556)
Contributions – retiree	-	4,687	(4,687)
Diff between expected and actual benefit return	(32,317)		(32,317)
Changes in assumption	5,613		5,613
Net investment income	-	23,225	(23,225)
Benefit payments, including refunds of employee contributions	(11,969)	(16,656)	4,687
Net change	(17,210)	30,812	(48,022)
Balances at 12/31/21	$ 248,556	$ 211,333	$ 37,223
Plan's fiduciary net position as a percentage of the total pension liability	85.02%		

OPEB Expense

For the years ended June 30, 2023 and 2022, WSSC Water recognized OPEB expense as follows (in thousands):

	2023	2022
OPEB cost distributions:		
Operating	$ 9,362	$ 9,936
Non-operating	(13,832)	(6,761)
Capital	10,680	(5,074)
Total OPEB expense	$ 6,210	$ (1,899)

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

Deferred Outflows (Inflows) of Resources

Deferred outflows of resources and deferred inflows of resources related to OPEB were reported for the years ended June 30, 2023 and 2022 from the following sources (in thousands):

Deferred Outflows	2023	2022
Contributions made subsequent to the measurement date	$ 9,382	$ 12,692
Changes in actuarial assumptions	3,742	4,678
Net difference between projected and actual earnings on plan investments	27,087	-
Deferred Outflows	$ 40,211	$ 17,370
Deferred Inflows		
Net difference between expected and actual experience	$ (22,548)	$ (28,436)
Net difference between projected and actual earnings on plan investments	-	(21,215)
Deferred Inflows	$ (22,548)	$ (49,651)

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

Year ended June 30	Amortization
2024	($2,829)
2025	530
2026	4,254
2027	6,326
2028	-
After 2028	-

Historical trend information showing the Plan's progress is presented in the Plan's December 31, 2022 comprehensive annual financial report, which can be requested from WSSC Water's offices.

M. DEFERRED COMPENSATION PLAN

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

N. LEASES

Determination of Discount Rate – Incremental Borrowing Rate

GASB Statement No. 87 requires that the future lease payments be discounted. If there is no stated rate (or if the stated rate is not the rate the lessor charges the lessee) and the implicit rate cannot be determined, the lessor may presume (unless there is persuasive evidence to the contrary) that it is recovering its cost associated with interest cost and use the lessor's own incremental borrowing rate as the discount rate. WSSC Water uses the most recent five-year average of the general obligation bond yields, adjusted from triple A rating to double A rating to reflect the rate for commercial borrowing.

Lease Term Reassessment

Per GASB Statement No. 87, paragraph 15b, lessees and lessors should reassess the lease term if the lessee or lessor elects not to exercise an option even though it was previously determined that it was reasonably certain that the lessee or lessor would exercise that option. Therefore, the lessees or lessors should reassess the lease term at the end of the first reporting period and subsequent reporting periods, as applicable. WSSC Water reassesses lessor leases when they have reached the end of the maximum non-cancellable periods and neither the lessor (WSSC Water) nor the lessee has given notice to exercise the cancellation option. Leases with 18 months maximum non-cancellable term are reassessed at the beginning of each fiscal year. Lease and lease interest receivables, deferred inflow of resources, and the prior year unearned lease revenues are adjusted accordingly in the reassessment.

Lease Capitalization Threshold

In paragraph B99 of GASB Statement No. 87, GASB views capitalization policies as methods to operationalize materiality; that is, those policies allow governments to specify amounts that they consider to be significant, individually or in the aggregate. GASB believes that a policy similar to those that establish capitalization thresholds could be used for leases. WSSC Water's capitalization threshold for leases in the aggregate, by lease terms or underlying assets, is $100,000, the same threshold for other fixed capital assets.

Lessor Leases for WSSC Water

WSSC Water has 64 and 63 long-term lessor leases for the year ended June 30, 2023 and June 30, 2022, respectively. They are contracts that convey the control of the right to use WSSC Water's properties (mostly water towers) to telecommunication companies to set up the antennas for a period of more than one year. The maximum possible contracts (terms) of the leases range from 20 to 30 years, with options to renew every five years. The lease terms (maximum non-cancellable periods) for lease capitalization and amortization range from 18 months to 30 years. Most of the lessor leases are paid annually and the lease years generally are not in sync with fiscal years. Therefore, annual lease payments are prorated for the lease terms and unearned revenues need to be accounted for.

Lessee Leases for WSSC Water

WSSC Water has four lessee leases, three property or equipment lease contracts and one service contract embedded with equipment (printer) lease, for the year ended June 30, 2023 and 2022. Subsequent lease payable for the years ended June 30, 2024 and 2025 are $275,000 and $73,000, respectively.

O. SUBSCRIPTION-BASED INFORMATION TECHNOLOGY ARRANGMENTS (SBITA)

Determination of Discount Rate – Incremental Borrowing Rate

WSSC Water uses the same discount rate for SBITA as for leases, i.e. the most recent five-year average of the general obligation bond yields, adjusted from triple A rating to double A rating to reflect the rate for commercial borrowing.

O. SUBSCRIPTION-BASED INFORMATION TECHNOLOGY ARRANGMENTS (SBITA) (continued)

SBITA Capitalization Threshold

WSSC Water's capitalization threshold for SBITA is $100,000 in the aggregate, by subscription term, the same threshold for leases and other fixed capital assets.

SBITA for WSSC Water

WSSC Water has 24 and 23 capitalizable SBITA contracts for the years ended June 30, 2023 and 2022, respectively. Subsequent SBITA payable for the years ended June 30, 2024 and 2025 are $3.0 million and $1.9 million, respectively.

Fiscal Year 2022 Restatement

Paragraph 63 of GASB Statement No. 96 requires that changes adopted to conform to the provisions of this Statement be applied retroactively by restating financial statements, if practicable, for all prior periods presented. To comply with GASB Statement No. 96, fiscal year 2022 ending balances were restated resulting in $1.2 million increase in net position as of June 30, 2022. For practical reason, WSSC Water did not restate the fiscal year 2022 beginning balance. Details of Restated Statement of Net Position and Restated Statement of Revenues, Expenses, and Changes in Net Position are presented below (in thousands):

Restated Statement of Net Position

		As Previously Reported	Restatement as of 6/30/22	FY22 Restated
Assets	Cash	$ (4,390)		$ (4,390)
	Right-to-use assets		12,505	12,505
	Accumulated amortization		(3,139)	(3,139)
Liabilities	SBITA payable, ST		(3,349)	(3,349)
	SBITA payable, LT		(4,810)	(4,810)
	SBITA interest payable		(35)	(35)
Net position		$ (4,390)	$ 1,172	$ (3,218)

Restated Statement of Revenues, Expenses, and Changes in Net Position

	SBITA amortization expense		$ (3,139)	$ (3,139)
	SBITA interest expense		(79)	(79)
	Reverse SBITA rental expense	(4,390)	4,390	-
Change in net position		$ (4,390)	$ 1,172	$ (3,218)

P. COMMITMENTS AND CONTINGENCIES

Construction expenditures for fiscal 2024 are not expected to exceed $683 million, after excluding the portion that will be funded by capital contributions. Commitments in connection with this construction program approximated $388 million at June 30, 2023.

P. COMMITMENTS AND CONTINGENCIES (continued)

For fiscal years 2023 and 2022, the Commission paid $34.6 million and $39.6 million, respectively, to fund its share of construction costs under the regional Blue Plains Intermunicipal Agreement of 2012. The Commission estimates its share of the construction costs over the next six years to be $557.6 million, of which $71.0 million is expected to be incurred in fiscal year 2024 and the balance over fiscal years 2025 to 2029. In addition, for fiscal years 2023 and 2022, the Commission made total payments of $71.3 million and $58.1 million, respectively, to DC Water for its share of operating and maintenance costs.

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

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

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

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

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

	2023	2022
Claim liability - beginning of year	$ 8,345	$ 9,688
Claims estimate adjustments	(794)	(1,343)
Claim liability - end of year	$ 7,551	$ 8,345

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

Q. NOTES TO PENSION & OPEB STATEMENT OF FIDUCARY NET POSITION

Cash and Cash Equivalents (in thousands)

Both Pension and OPEB plans consider all cash and highly liquid investments with an original maturity of three months or less to be cash and cash equivalents. Cash and cash equivalents for the Pension Plan consisted of short-term investments funds of $3,153 and $4,407 as of December 31, 2022 and 2021 respectively. The cash and cash equivalents for the OPEB Plan were $42 and $67 as if December 31, 2022 and 2021 respectively.

Q. NOTES TO PENSION & OPEB STATEMENT OF FIDUCARY NET POSITION (continued)

Security Lending (in thousands)

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

As of December 31, 2022, and 2021, the fair value of securities on loan was $55,949 and $61,127, respectively. Cash received as collateral and the related liability of $57,294 and $62,798 as of December 31, 2022 and 2021 are shown on the Statements of Plan Net Position. Securities received as collateral are not reported as assets since the Plan does not have the ability to pledge or sell the collateral securities.

Securities lending revenues and expenses amounting to $994 and $898, respectively, for December 31, 2022 and $115 and $48, respectively, for December 31, 2021, have been classified with investment income and investment expenses, respectively, in the accompanying financial statements.

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

	2022		2021	
	Fair Value of Underlying Securities	Cash Collateral Investment Value	Fair Value of Underlying Securities	Cash Collateral Investment Value
Securities Loaned for Cash Collateral				
Corporate Bonds	$ 6,501	$ 6,670	$ 10,290	$ 10,561
Common Stock	5,304	5,446	3,955	4,068
U. S. Government & Agency Bonds	44,144	45,178	46,882	48,169
Total	$ 55,949	$ 57,294	$ 61,127	$ 62,798

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

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Plan will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. At December 31, 2022 and 2021, there were no funds held by a counterparty that was acting as the Plan's agent in securities lending transactions.

Q. NOTES TO PENSION & OPEB STATEMENT OF FIDUCARY NET POSITION (continued)

Investments

The Plans categorize fair value measurements within the fair value hierarchy established by GASB Statement No. 72, *Fair Value Measurement and Application*. The valuation technique uses a three-level hierarchy of inputs to measure the fair value of the asset and gives the highest priority to unadjusted quoted prices in active markets (Level1 measurements) and the lowest priority to unobservable inputs (level 3 measurements).

These classifications are summarized as follows:

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

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

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

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

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

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

Q. NOTES TO PENSION & OPEB STATEMENT OF FIDUCARY NET POSITION (continued)

The Plans have the following fair value measurements as of December 31, 2022 and 2021 (in thousands):

	Quoated Price in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	Balance as of December 31, 2022
Investments by fair value level:				
Fixed Income Securities:				
Government and Agency Bonds				
Domestic Bonds	$ -	$ 70,200	$ -	$ 70,200
Corporate Bonds and Securities				
Domestic Bonds and Securities	-	16,010	-	16,010
International Bonds and Securities	-	3,660	-	3,660
US Common Stock:				
U.S. Stock	37,607	-	-	37,607
International Stock	-	1,027	-	1,027
Mutual Funds:				
U.S. Equity Funds	515,884	-	-	515,884
Non-U.S. Equity Funds	-	125,355	-	125,355
Unlimited partnership units	-	20	-	20
Other fixed holdings	-	1	-	1
	$ 553,491	$ 216,273	$ -	769,764
Investments carried at the net asset value (NAV):				
Commingled funds				150,819
Stable Value funds				82,531
				$ 1,003,114

Q. NOTES TO PENSION & OPEB STATEMENT OF FIDUCARY NET POSITION (continued)

	Quoted Price in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	Balance as of December 31, 2021
Investments by fair value level:				
Fixed Income Securities:				
Government and Agency Bonds				
Domestic Bonds	$ -	$ 73,405	$ -	$ 73,405
Corporate Bonds and Securities				
Domestic Bonds and Securities	-	21,726	-	21,726
International Bonds and Securities	-	6,203	-	6,203
US Common Stock:				
U.S. Stock	53,161	-	-	53,161
International Stock	-	1,401	-	1,401
Mutual Funds:				
U.S. Equity Funds	657,722	-	-	657,722
Non-U.S. Equity Funds	-	145,053	-	145,053
Unlimited partnership units	-	20	-	20
Other fixed holdings	-	2	-	2
	$ 710,883	$ 247,810	$ -	958,693
Investments carried at the net asset value (NAV):				
Commingled funds				166,048
Stable Value funds				94,293
				$ 1,219,034

Q. NOTES TO PENSION & OPEB STATEMENT OF FIDUCARY NET POSITION (continued)

Expenses

WSSC Water pays the administrative expenses of the pension Plan, other than investment management and consulting fees. WSSC Water is reimbursed by the Plan for the paid administrative expenses. As of December 31, 2022, and 2021, the Plan reimbursed WSSC Water $1,221 and $760, respectively, for paid administrative expenses.

Financial Statements

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

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

	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013
Total Pension Liability										
Service cost	$ 11,802,308	$ 12,356,027	$ 12,537,197	$ 11,958,124	$ 11,557,550	$ 10,744,773	$ 10,576,413	$ 9,828,010	$ 11,098,519	$ 10,541,264
Interest on total pension liability	70,850,182	69,865,901	67,260,129	66,286,257	65,379,327	63,199,825	61,935,402	61,611,259	67,317,785	66,214,298
Effect of plan changes	-	-	-	-	-	-	-	-	-	-
Effect of assumption changes or inputs	-	-	22,472,183	-	-	-	-	32,257,956	-	-
Differences between expected and actual experience	36,881,868	3,463,213	2,389,307	(1,762,139)	16,447,791	3,474,382	(10,448,960)	(53,390,196)	(8,657,936)	-
Benefit payments, including refunds	(74,111,603)	(68,130,068)	(66,403,809)	(63,732,796)	(61,533,446)	(58,642,039)	(57,554,539)	(56,672,851)	(54,934,361)	(53,545,268)
Net change in total pension liability	45,422,755	17,555,073	38,255,007	12,749,446	31,851,222	18,776,941	4,508,316	(6,365,822)	14,824,007	23,210,294
Total pension liability, beginning of the year	1,036,772,230	1,019,217,157	980,962,150	968,212,704	936,361,482	917,584,541	913,076,225	919,442,047	904,618,040	881,407,746
Total pension liability, end of the year	1,082,194,985	1,036,772,230	1,019,217,157	980,962,150	968,212,704	936,361,482	917,584,541	913,076,225	919,442,047	904,618,040
Plan Fiduciary Net Pension										
Employer contributions*	27,437,417	38,242,914	16,412,238	26,524,110	25,479,895	24,193,214	22,606,529	22,346,849	20,965,016	20,498,919
Member contributions	4,913,386	4,680,969	4,928,727	4,945,638	4,150,303	5,290,757	4,213,793	3,930,364	3,823,065	3,652,732
Investment income, net of investment expenses	(140,513,619)	140,452,522	82,671,915	151,804,808	(60,337,268)	118,185,475	61,852,141	(10,371,883)	37,575,770	110,734,486
Benefit payments, including refunds	(74,111,603)	(68,130,068)	(66,403,809)	(63,732,796)	(61,533,446)	(58,642,039)	(57,554,539)	(56,672,851)	(54,934,361)	(53,545,268)
Administrative expenses	(1,221,424)	(759,672)	(692,384)	(438,993)	-	-	-	-	-	-
Net change in plan fiduciary net position	(183,495,843)	114,486,665	36,916,687	119,102,767	(92,240,516)	89,027,407	31,117,924	(40,767,521)	7,429,490	81,340,869
Plan fiduciary net position, beginning of year	1,012,090,961	897,604,296	860,687,609	741,584,842	833,825,358	744,797,951	713,680,027	754,447,548	747,018,058	665,677,189
Plan fiduciary net position, end of year	828,595,118	1,012,090,961	897,604,296	860,687,609	741,584,842	833,825,358	744,797,951	713,680,027	754,447,548	747,018,058
Net pension liability, beginning of year	$ 24,681,269	$ 121,612,861	$ 120,274,541	226,627,862	102,536,124	172,786,590	199,396,198	164,994,499	157,599,982	215,730,557
Net pension liability, end of year	$ 253,599,867	$ 24,681,269	$ 121,612,861	$ 120,274,541	$ 226,627,862	$ 102,536,124	$ 172,786,590	$ 199,396,198	$ 164,994,499	$ 157,599,982
Plan fiduciary net position as a percentage of total pension liability	76.6%	97.6%	88.1%	87.7%	76.6%	89.0%	81.2%	78.2%	82.1%	82.6%
Covered payroll	$ 162,351,580	$ 157,298,504	$ 156,959,534	$ 156,947,396	$ 150,768,609	$ 143,155,101	$ 133,766,444	$ 132,229,882	$ 124,053,349	$ 121,295,379
Plan's net pension liability as a percentage of covered payroll	156.2%	15.7%	77.5%	76.6%	150.3%	71.6%	129.2%	150.8%	133.0%	129.9%

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

*CY2020 Employer contribution only represents 60% the fiscal year contribution which is to be made over 10 months.
*CY2021 Employer contribution represents 40% the FY21 fiscal year contribution and 100% of FY22 fiscal year contribution.
Notes to Schedule of Changes in Net Pension Liability and Related Ratios:

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

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

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

Year Ended December 31,	Actuarially Determined Contribution	Actual Employer Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a % of Covered Payroll
2013	22,739,819	20,498,919	2,240,900	121,295,379	16.9%
2014	25,745,448	20,965,016	4,780,432	124,053,349	16.9%
2015	20,100,358	22,346,849	(2,246,491)	132,229,876	16.9%
2016	18,393,733	22,606,529	(4,212,796)	133,766,444	16.9%
2017	18,591,764	24,193,214	(5,601,450)	143,155,112	16.9%
2018	18,232,265	25,479,895	(7,247,630)	150,768,609	16.9%
2019	21,183,914	26,524,110	(5,340,196)	156,947,396	16.9%
2020*	21,718,200	16,412,238	5,305,962	156,959,534	10.5%
2021*	26,140,256	38,242,914	(12,102,658)	157,298,504	24.3%
2022*	23,112,103	27,437,417	(4,325,314)	162,351,580	16.9%

Notes to Schedule of Contributions:

Valuation date:

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

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal (funding valuation uses a fixed rate of contribution)
Inflation/Cost of Living Increase	2.50%
Salary increases	2.75 to 7.50 % including inflation
Investment rate of return	7.0% net of pension plan investment expenses, including inflation
Retirement age	Table of rates by age and eligibility
Mortality	Mortality rates were based on the Pub-2010(B) Mortality for Males or Females, projected on a generational basis using Scale SSA. A 109% adjustment factor is applied to female mortality rates. The actuarial assumptions used in the June 30, 2022 valuation were based on the results of the actuarial experience analysis covering 2015 through 2020.

*CY2020 Employer contribution only represents 60% the fiscal year contribution which is to be made over 10 months.
*CY 2021 Actual Contribution includes $10,920,960 CY2020 remaining amount.

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

	2022	2021	2020	2019	2018	2017	2016
Total OPEB Liability							
Service cost	$ 3,148,448	$ 3,056,746	$ 2,967,715	$ 2,881,277	$ 2,797,356	$ 2,715,880	$ 2,852,227
Interest on total OPEB liability	17,232,009	18,405,760	17,725,182	17,269,181	16,658,625	16,104,693	15,302,770
Effect of plan changes	-	-	-	-	-	-	-
Effect of assumption changes or inputs	-	5,613,063	-	-	-	-	-
Differences between expected and actual experience	-	(32,317,251)	-	(3,009,670)	-	4,927,026	-
Benefit payments, including refunds	(11,254,342)	(11,969,356)	(10,179,669)	(11,228,441)	(10,420,568)	(11,586,194)	(11,348,096)
Net change in total OPEB liability	9,126,115	(17,211,038)	10,513,228	5,912,347	9,035,413	12,161,405	6,806,901
Total OPEB liability, beginning of the year	248,555,107	265,766,145	255,252,917	249,340,570	240,305,157	228,143,752	221,336,851
Total OPEB liability, end of the year	257,681,222	248,555,107	265,766,145	255,252,917	249,340,570	240,305,157	228,143,752
Plan Fiduciary Net Pension							
Employer contributions, including benefits paid	16,673,142	19,555,681	13,430,956	16,647,253	20,420,568	21,586,194	21,348,096
Member contributions	4,775,444	4,687,415	4,547,856	4,487,388	4,339,559	4,168,418	3,967,312
Investment income, net of investment expenses	(38,927,858)	23,224,511	26,745,868	25,343,322	(8,690,017)	14,247,468	8,362,666
Benefit payments, including refunds	(16,029,786)	(16,656,771)	(14,727,525)	(15,715,829)	(14,760,127)	(15,754,612)	(15,315,408)
Administrative expenses	-	-	-	(50,000)	(43,750)	(20,000)	-
Net change in plan fiduciary net position	(33,509,058)	30,810,836	29,997,155	30,712,134	1,266,233	24,227,468	18,362,666
Plan fiduciary net position, beginning of year	211,332,062	180,521,226	150,524,071	119,811,937	118,545,704	94,318,236	75,955,570
Plan fiduciary net position, end of year	177,823,004	211,332,062	180,521,226	150,524,071	119,811,937	118,545,704	94,318,236
Net OPEB liability, beginning of year	37,223,045	85,244,919	104,728,846	129,528,633	121,759,453	133,825,516	145,381,281
Net OPEB liability, end of year	$ 79,858,218	$ 37,223,045	$ 85,244,919	$ 104,728,846	$ 129,528,633	$ 121,759,453	$ 133,825,516
Plan fiduciary net position as a percentage of total OPEB liability	69.0%	85.0%	67.9%	59.0%	48.1%	49.3%	41.3%
Covered employee payroll	118,239,104	132,434,758	135,906,251	138,548,098	$ 132,955,474	$ 124,331,306	$ 122,144,339
Net OPEB liability as a percentage of covered employee payroll	67.5%	28.1%	62.7%	75.6%	97.4%	97.9%	109.6%

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

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

Year Ended December 31,	Actuarially Determined Contribution	Actual Employer Contribution	Contribution Deficiency (Excess)	Covered Employee Payroll	Contributions as a % of Covered Employee Payroll
2013	20,128,000	19,060,000	1,068,000	109,165,841	17.5%
2014	16,752,000	20,437,000	(3,685,000)	111,648,014	18.3%
2015	16,766,000	22,379,000	(5,613,000)	119,006,893	18.8%
2016	14,960,787	21,348,096	(6,387,309)	122,144,339	17.5%
2017	14,960,787	21,586,194	(6,625,407)	124,331,306	17.4%
2018	14,004,405	20,420,568	(6,416,163)	132,955,474	15.4%
2019	14,094,584	16,647,253	(2,552,669)	138,548,098	12.0%
2020	13,157,686	13,430,956	(273,270)	135,906,251	9.9%
2021	13,150,740	19,555,681	(6,404,941)	132,434,758	14.8%
2022	7,567,555	16,673,142	(9,105,587)	118,239,104	14.1%

Notes to Schedule of Contributions:

Valuation date:

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

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal
Inflation	2.50%
Salary Increase	3.00%
Investment rate of return	7.00%
Asset valuations methodology	Assets are based on market value
Retirement age	Table of rates by age and eligibility
Mortality	Mortality rates were based on the Pub2010G (below median) headcount-weighted Mortality Table for Males or Females, projected generationally using Scale SSA. The Pub2010G Disabled tables were used for the valuation of disabled lives, projected generationally using Scale SSA. A109% is applied to female rates. The actuarial assumptions used in the July 1, 2021 valuation were based on the results of the actuarial experience analysis in 2021, covering 2015 through 2020. There were several changes in actuarial assumptions during fiscal year 2022, including rates of mortality, retirement and termination.

Healthcare cost trend rates	UHC POS (Pre-65)	UHC EPO/HMO (Pre-65)	Medicare Plus/Supplement
2021	6.00%	6.50%	4.00%
2022	5.75%	6.25%	4.00%
2023	5.50%	6.00%	4.00%
2024	5.25%	5.75%	4.00%
2025	5.00%	5.50%	4.00%
2026	4.75%	5.25%	4.00%
2027	4.50%	5.00%	4.00%
2028	4.25%	4.75%	4.00%
2029+	4.25%	4.50%	4.00%

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

Year Ended December 31	Net Money-Weighted Rate of Return (%)
2013	17.3
2014	5.2
2015	(1.4)
2016	9.5
2017	16.2
2018	(7.4)
2019	20.9
2020	9.9
2021	15.9
2022	(14.2)

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

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

	2022	2021	2020	2019	2018	2017	2016
Annual money-weighted rate of return, net of investment expense	-18.20%	12.60%	17.60%	20.8%	-7.1%	14.5%	10.7%