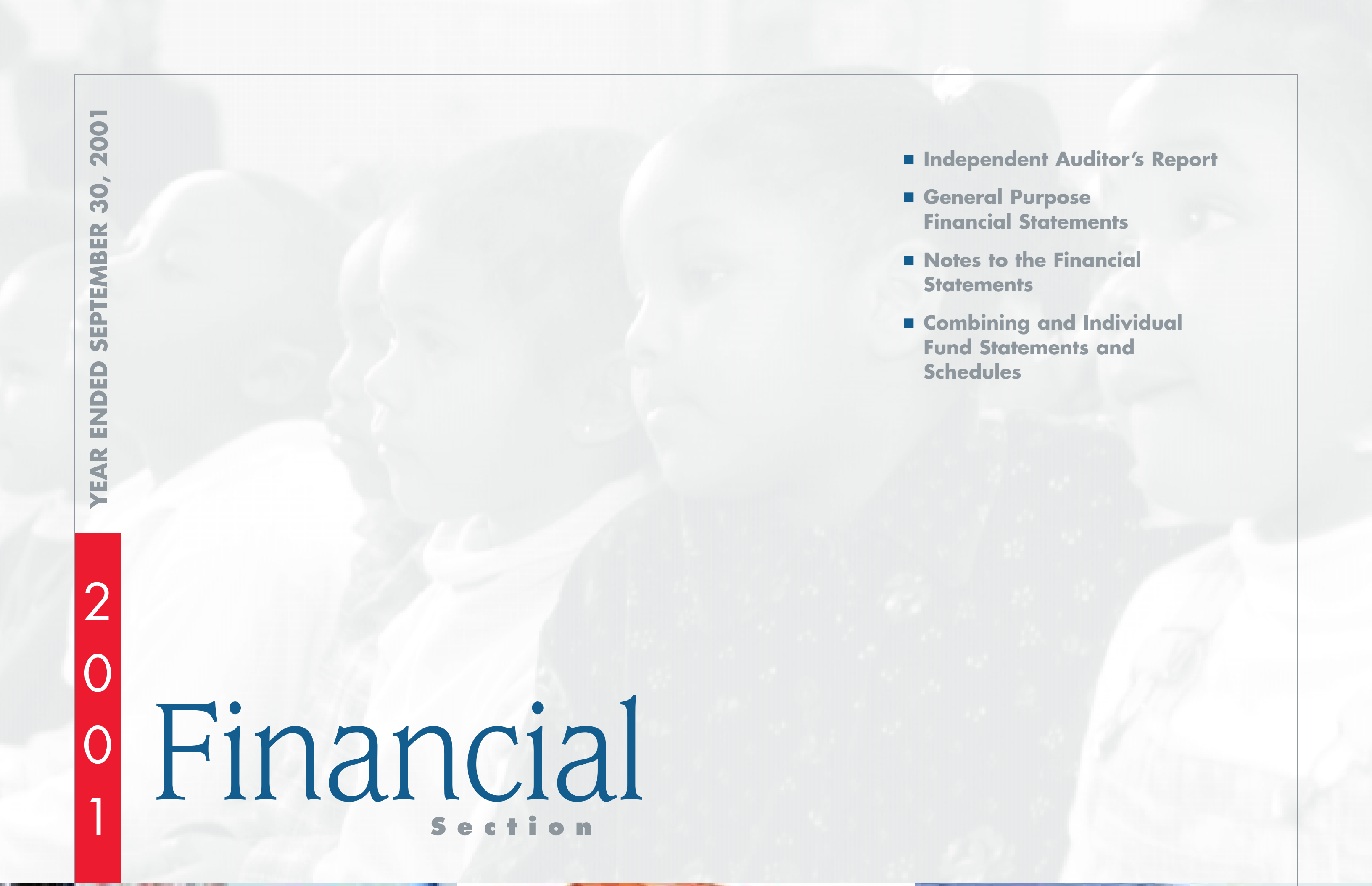

YEAR ENDED SEPTEMBER 30, 2001

2001

Financial
Section

Government of the District of Columbia

Office of the Chief Financial Officer

INDEPENDENT AUDITOR'S REPORT

KPMG

2001 M Street, N.W.
Washington, D.C. 20036

Independent Auditors' Report

To the Mayor and Council of the
Government of the District of Columbia

Inspector General of the Government
of the District of Columbia

We have audited the general purpose financial statements of the Government of the District of Columbia (District) as of and for the year ended September 30, 2001, as listed in the accompanying table of contents. These general purpose financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

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

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the District, as of September 30, 2001, and the results of its operations, changes in net assets of its pension trust funds, and the cash flows of its proprietary fund type and discretely presented component units for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the general purpose financial statements, the District adopted Governmental Accounting Standards Board Statement No. 33, "Accounting and Financial Reporting for Nonexchange Transactions", effective October 1, 2000. Also, as discussed in Notes 1 and 16, changes were made to the District's financial reporting entity during the year ended September 30, 2001.

KPMG

In accordance with *Government Auditing Standards*, we have also issued a report dated January 22, 2002, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit. That report identified noncompliance with certain provisions of laws and regulations, and reportable conditions in internal control over financial reporting that are required to be reported under *Government Auditing Standards*.

Our audit was performed for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The information in the schedules identified as Exhibits A-1 through G-6 is presented for purposes of additional analysis and is not a required part of the general purpose financial statements of the District. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general purpose financial statements taken as a whole.

We did not audit the data included in the introductory section and the statistical section listed in the accompanying table of contents, and accordingly, we express no opinion thereon.

KPMG LLP

January 22, 2002

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GENERAL PURPOSE FINANCIAL STATEMENTS

The general purpose financial statements provide a summary overview of the financial position of all fund types, account groups and component units; and of the operating results of all fund types and component units.

Exhibit 1

DISTRICT OF COLUMBIA
COMBINED BALANCE SHEET

ALL FUND TYPES, ACCOUNT GROUPS AND DISCRETELY PRESENTED COMPONENT UNITS

September 30, 2001
($000s)

	Governmental Fund Types			Proprietary Fund Type	Fiduciary Fund Type	Account Groups		
	General	Special Revenue	Capital Projects	Enterprise	Trust and Agency	General Fixed Assets	General Long Term Liabilities	Component Units
ASSETS AND OTHER DEBITS								
Cash and investments								
Restricted	$ 304,850	65,685	54,737	79,795	2,401,717	-	-	1,080,185
Unrestricted	637,016	-	165,393	9,385	-	-	-	206,753
Taxes receivable, net	210,368	-	-	-	-	-	-	-
Accounts receivable, net	102,698	-	16,162	3,930	23,365	-	-	65,505
Due from Federal government	543,259	-	45,320	-	224	-	-	37,763
Due from primary government	-	-	-	-	-	-	-	20,784
Due from component units	11,383	-	6,510	-	-	-	-	-
Interfund receivables	36,988	-	21,932	-	97	-	-	-
Inventories	12,698	-	-	557	-	-	-	8,841
Loans receivable, net	16,664	-	-	-	-	-	-	317,834
Deferred charges	-	-	-	-	-	-	-	55,749
Property and equipment, net	-	-	-	1,328	-	3,617,270	-	1,812,621
Other assets	24,672	7	-	5	31,826	-	-	7,097
Resources available in general fund	-	-	-	-	-	-	203,992	-
Resources to be provided	-	-	-	-	-	-	3,303,568	-
Total assets and other debits	$ 1,900,596	65,692	310,054	95,000	2,457,229	3,617,270	3,507,560	3,613,132

Exhibit 1 (continued)

	Governmental Fund Types			Proprietary Fund Types	Fiduciary Fund Type	Account Groups		
	General	Special Revenue	Capital Projects	Enterprise	Trust and Agency	General Fixed Assets	General Long Term Liabilities	Component Units
LIABILITIES, EQUITY AND OTHER CREDITS								
Payables:								
Accounts	$ 358,342	-	199,271	2,816	192,829	-	-	59,612
Compensation	225,155	-	-	641	-	-	-	23,483
Due to primary government	-	-	-	-	-	-	-	17,893
Due to component units	20,784	-	-	-	-	-	-	-
Interfund	2,693	-	53,331	-	2,993	-	-	-
Accrued liabilities	399,184	-	-	7,841	-	-	-	52,463
Deferred revenue	305,592	-	54,178	113	-	-	-	124,649
Current maturities	-	-	-	-	-	-	-	131,318
Tax increment financing notes payable	-	-	-	-	-	-	6,900	-
General obligation bonds payable	-	-	-	-	-	-	2,582,017	79,058
Tobacco settlement bonds payable	-	-	-	-	-	-	521,105	-
Other bonds and loans payable	-	-	-	-	85,228	-	-	1,573,704
Other liabilities	26,601	-	6,773	80,215	-	-	397,538	403,504
Total liabilities	1,338,351	-	313,553	91,626	281,050	-	3,507,560	2,465,684
Equity (deficit) and other credits:								
Other credits:								
Investment in general fixed assets	-	-	-	-	-	3,617,270	-	58,493
Contributed capital	-	-	-	-	-	-	-	410,328
Retained earnings	-	-	-	3,374	-	-	-	678,627
Fund balances:								
Reserved	470,911	65,692	114,105	-	2,176,179	-	-	-
Unreserved	91,334	-	(117,604)	-	-	-	-	-
Total equity (deficit) and other credits	562,245	65,692	(3,499)	3,374	2,176,179	3,617,270	-	1,147,448
Total liabilities, equity and other credits	$ 1,900,596	65,692	310,054	95,000	2,457,229	3,617,270	3,507,560	3,613,132

The accompanying notes are an integral part of this statement.

Exhibit 2

DISTRICT OF COLUMBIA
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUND

Year Ended September 30, 2001
($000s)

	Governmental Fund Types			Fiduciary Fund Type
	General	Special Revenue	Capital Projects	Expendable Trust
Revenues:				
Taxes	$ 3,316,379	-	-	99,945
Licenses and permits	42,829	-	-	-
Fines and forfeits	58,223	-	-	-
Charges for services	182,473	6,500	-	-
Benefit contributions	-	-	-	13,424
Investment income	38,869	2,392	7,153	17,927
Miscellaneous	214,837	25,950	69,021	-
Federal contributions	370,061	-	183,614	-
Operating grants	1,241,644	-	-	-
Total revenues	5,465,315	34,842	259,788	131,296
Expenditures:				
Current:				
Governmental direction and support	275,739	6,257	-	-
Economic development and regulation	187,565	-	-	-
Public safety and justice	938,186	-	-	-
Public education system	1,074,437	-	-	-
Human support services	1,618,030	-	-	99,353
Public works	136,041	-	-	-
Receiverships	510,562	-	-	-
Employee benefits addition (deduction)	(20,936)	-	-	-
Capital outlay	-	6,900	845,979	-
Joint venture subsidies	138,073	-	22,180	-
Debt service:				
Principal	108,725	-	-	-
Interest and fiscal charges	149,177	7,518	-	-
Total expenditures	5,115,599	20,675	868,159	99,353
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	349,716	14,167	(608,371)	31,943
Other Financing Sources (Uses):				
Proceeds of:				
General obligation bonds	104,302	-	65,000	-
Tax increment financing notes	-	6,900	-	-
Tobacco settlement bonds	-	510,929	-	-
Payment to refunded bond escrow agent:				
Refunded debt	(584,979)	-	-	-
Other charges	(32,252)	-	-	-
Sales of fixed assets	-	-	5,613	-
Sales/purchase of Tobacco litigation revenue right	513,675	(513,675)	-	-
Operating transfers in	86,858	46,344	75,829	-
Operating transfers out	(125,030)	-	-	-
Transfers to component units	(234,670)	-	-	-
Total other financing net sources (uses)	(272,096)	50,498	146,442	-
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	**77,620**	**64,665**	**(461,929)**	**31,943**
Fund Balances at October 1, as restated	**484,625**	**1,027**	**458,430**	**271,661**
Fund Balances at September 30	**$ 562,245**	**65,692**	**(3,499)**	**303,604**

The accompanying notes are an integral part of this statement.

Exhibit 3

STATEMENT OF REVENUES, EXPENDITURES AND RECONCILIATION OF BUDGETARY BASIS WITH GAAP BASIS GENERAL FUND

Year Ended September 30, 2001
($000s)

	Budget Original	Budget Revisions	Budget Revised	Actual	Variance - Favorable (Unfavorable)
Revenues and Other Sources:					
Taxes:					
Property taxes	$ 644,360	47,073	691,433	707,423	15,990
Sales and use taxes	651,230	45,953	697,183	677,139	(20,044)
Income and franchise taxes	1,291,179	129,294	1,420,473	1,400,237	(20,236)
Other taxes	331,660	67,658	399,318	424,474	25,156
Total taxes	2,918,429	289,978	3,208,407	3,209,273	866
Licenses and permits	37,095	4,070	41,165	41,394	229
Fines and forfeits	67,716	(14,726)	52,990	57,052	4,062
Charges for services	61,528	1,547	63,075	63,938	863
Miscellaneous	220,279	(67,351)	152,928	153,589	661
Private & other	275,523	82,306	357,829	288,169	(69,660)
Federal contributions	30,111	(66)	30,045	43,295	13,250
Operating grants	1,292,668	304,957	1,597,625	1,307,991	(289,634)
General obligation bonds	-	-	-	568,776	568,776
Fund balance released from restrictions				147,714	147,714
Interfund transfer	69,000	-	69,000	86,858	17,858
Total revenues and other sources	4,972,349	600,715	5,573,064	5,968,049	394,985
Expenditures and Other Uses:					
Governmental direction and support	195,771	45,161	240,932	216,896	24,036
Economic development and regulation	205,638	111,167	316,805	189,155	127,650
Public safety and justice	762,546	73,158	835,704	800,819	34,885
Public education system	967,176	63,349	1,030,525	1,036,130	(5,605)
FY02 public school expenditure	101,426	(59,774)	41,652	41,652	-
Human support services	1,535,654	304,924	1,840,578	1,743,190	97,388
Public works	278,242	29,881	308,123	298,453	9,670
Receiverships	389,528	32,968	422,496	475,457	(52,961)
Workforce investments	-	4,813	4,813	-	4,813
Wilson Building	8,409	1,932	10,341	9,897	444
Tobacco settlement trust fund	61,406	-	61,406	-	61,406
Reserve	150,000	(104,500)	45,500	-	45,500
Financial Responsibility Authority	3,140	-	3,140	3,140	-
Repay bonds and interest	243,238	(6,900)	236,338	228,364	7,974
Refunding Bonds	-	-	-	617,230	(617,230)
Repay deficit bonds and interest	39,300	-	39,300	38,366	934
Interest on short term borrowing	1,140	-	1,140	-	1,140
Certificates of participation	7,950	-	7,950	7,929	21
Optical and dental insurance	2,675	-	2,675	-	2,675
Presidential inauguration	5,961	(13)	5,948	5,755	193
Management supervisory service	13,200	(9,784)	3,416	-	3,416
Total expenditures and other uses	4,972,400	486,382	5,458,782	5,712,433	(253,651)
Subtotal	(51)	114,333	114,282	255,616	141,334
Operational improvement savings	10,000	(2,395)	7,605	-	(7,605)
Management reform savings	37,000	(37,000)	-	-	-
Cafeteria plan savings	5,000	(252)	4,748	-	(4,748)
Subtotal	52,000	(39,647)	12,353	-	(12,353)
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES – BUDGETARY BASIS	$ 51,949	74,686	126,635	255,616	128,981
Reconcile Budgetary to GAAP Basis:					
Changes in:					
Inventory				(3,794)	
Claims and judgments accrual				15,594	
Accrued annual leave				(4,251)	
Accounts receivable allowance				(27,253)	
Grant disallowance accrual				(2,091)	
All other, net				(216)	
Operating cost from enterprise funds				(8,271)	
Fund balance released from restrictions				(147,714)	
EXCESS OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES – GAAP BASIS				$ 77,620	

The accompanying notes are an integral part of this statement.

Exhibit 4

COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS

PROPRIETARY FUND TYPE AND DISCRETELY PRESENTED COMPONENT UNITS

Year Ended September 30, 2001
($000s)

		Proprietary Fund Type Enterprise	Component Units
Operating Revenues:			
Charges for services	$	224,884	362,031
Miscellaneous		-	50,179
Total operating revenues		224,884	412,210
Operating Expenses:			
Lottery prize expense		117,231	-
Personal services		5,660	152,609
Contractual services		15,799	101,158
Supplies		70	22,572
Occupancy		2,415	30,861
Depreciation		226	35,732
Miscellaneous		863	59,288
Total operating expenses		142,264	402,220
OPERATING INCOME		82,620	9,990
Nonoperating Revenues (Expenses):			
Federal government support		-	44,582
Interest revenue		1,479	26,580
Interest and fiscal charges		-	(59,113)
Miscellaneous		-	42,239
Total nonoperating revenues		1,479	54,288
INCOME BEFORE TRANSFERS		84,099	64,278
Transfers:			
Operating transfers out		(84,000)	-
Transfers in from primary government		-	187,737
Total transfers in (out)		(84,000)	187,737
NET INCOME		**99**	**252,015**
Depreciation closed to Contributed Capital		-	4,570
INCREASE IN RETAINED EARNINGS		**99**	**256,585**
Retained Earnings at October 1, as restated		**3,275**	**408,804**
Retained Earnings at September 30	**$**	**3,374**	**665,389**

The accompanying notes are an integral part of this statement.

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Exhibit 5

COMBINED STATEMENT OF CASH FLOWS

PROPRIETARY FUND TYPE AND DISCRETELY PRESENTED COMPONENT UNITS

Year Ended September 30, 2001
($000s)

	Proprietary Fund Type Enterprise Fund	Component Units
Operating Activities:		
Cash receipts from customers	$ 224,885	245,018
Cash receipts from loans and interest	-	53,149
Other cash receipts	-	10,578
Cash payments to vendors	(18,029)	(158,065)
Cash payments to employees	(5,602)	(72,489)
Other cash payments, including prizes	(117,120)	(98)
Net cash provided	84,134	78,093
Capital and Related Financing Activities:		
Acquisitions of fixed assets	(1,075)	(266,419)
Proceeds of long term bonds	-	44,617
Payments of long term debt	-	(20,386)
Payments of interest and charges	-	(20,007)
Contributions of capital	-	4,580
Net cash used	(1,075)	(257,615)
Noncapital Financing Activities:		
Operating grant receipts	-	33,290
Operating transfers to General Fund	(84,000)	-
Transfers from General Fund	-	55,851
Proceeds of loans payable	-	169,044
Payments of interest and charges	-	(48,415)
Mortgages and construction loans	-	(18,009)
Receipts from other funds	-	8,981
Net cash provided (used)	(84,000)	200,742
Investing Activities:		
Receipts of interest and dividends	1,479	27,629
Sales/maturities of investments, net	2,918	-
Repayments of loans	-	(77,437)
Net cash provided (used)	4,397	(49,808)
INCREASE (DECREASE) IN CASH	**3,456**	**(28,588)**
Cash and Investments at October 1	**85,724**	**1,282,488**
Cash and Investments at September 30	**$ 89,180**	**1,253,900**

Exhibit 5

	Proprietary Fund Type	
	Enterprise Fund	**Component Units**
Reconciliation of Operating Income to Net Cash Provided by Operating Activities (continued):		
Operating income	$ 82,620	16,839
Depreciation	226	35,499
Miscellaneous nonoperating revenues	-	13,206
Bad debt expense	-	93
Gain on disposition of fixed assets	-	(14,905)
Decrease (increase) in assets:		
Receivables	21	(3,106)
Inventories	(1)	1,263
Other current assets	1	4,976
Increase (decrease) in liabilities:		
Payables	1,080	13,431
Accrued liabilities	111	(2,026)
Deferred revenue	(20)	5,285
Other current liabilities	96	7,538
Net Cash Provided	$ 84,134	78,093
Noncash contributions of capital	$ -	-

The accompanying notes are an integral part of this statement.

Exhibit 6

COMPONENT UNIT - UNIVERSITY FUND TYPE
STATEMENT OF CHANGES IN FUND BALANCE
UNIVERSITY OF THE DISTRICT OF COLUMBIA
September 30, 2001
($000s)

		Current Funds					
		Unrestricted	Restricted	Loan Fund	Endowment Fund	Plant Funds	Total
REVENUES AND OTHER ADDITIONS							
Education and general	$	65,854	-	-	-	-	65,854
Auxiliary enterprises		925	-	-	-	-	925
Intra-District charges		817	7,029	-	-	-	7,846
Federal grants and contracts		332	10,588	-	-	-	10,920
Private grants and contracts		26	755	-	-	-	781
Interest on loans and other additions		-	-	7	137	-	144
Expended for plant facilities							
Contribution from District of Columbia		-	-	-	-	2,453	2,453
Current fund expenditures		-	-	-	-	2,549	2,549
Total revenues and other additions		67,954	18,372	7	137	5,002	91,472
EXPENDITURES AND OTHER DEDUCTIONS							
Educational and general	$	64,910	18,350	-	-	-	83,260
Auxiliary enterprises		839	-	-	-	-	839
Provision for doubtful accounts		810	-	68	-	-	878
Disposal of plant facilities		-	-	-	-	11,316	11,316
Provision for depreciation and amortization		-	-	-	-	4,745	4,745
Total expenditures and other deductions		66,559	18,350	68	-	16,061	101,038
Total increase (decrease) for the year:		1,395	22	(61)	137	(11,059)	(9,566)
Fund balance at the beginning of the year:		1,643	274	803	9,025	69,552	81,297
Fund balance at the end of the year	$	3,038	296	742	9,162	58,493	71,731

The accompanying notes are an integral part of this statement.

Exhibit 7

COMPONENT UNIT - UNIVERSITY FUND TYPE
STATEMENT OF CURRENT FUND REVENUES, EXPENDITURES AND OTHER CHANGES
UNIVERSITY OF THE DISTRICT OF COLUMBIA
September 30, 2001
($000s)

	Unrestricted				Total
	Appropriated	**Non-Appropriated**	**Total**	**Restricted**	**Total Current Funds**
Revenues					
Tuition	$ -	13,530	13,530	-	13,530
District of Columbia appropriation	46,933	-	46,933	-	46,933
Intra-District charges	-	817	817	7,029	7,846
Federal grants and contracts	-	332	332	10,588	10,920
Private grants and contracts	-	26	26	755	781
Land-grant endowment income	-	1,534	1,534	-	1,534
Auxiliary enterprises	-	925	925	-	925
Investment income	-	1,387	1,387	-	1,387
Miscellaneous fees and other sources	-	2,470	2,470	-	2,470
Total revenues	46,933	21,021	67,954	18,372	86,326
Expenditures					
Educational and general:					
Instruction	24,061	3,574	27,635	7,512	35,147
Research	368	306	675	1,953	2,628
Public service	962	1,227	2,189	2,681	4,870
Academic support	5,032	2,486	7,518	-	7,518
Student services	2,072	4,544	6,616	1,599	8,215
Institutional support	9,378	3,630	13,008	1,096	14,104
Operations and maintenance of plant	5,060	2,977	8,036	22	8,058
Scholarships and fellowships	-	43	43	3,509	3,552
Total educational and general expenditures	46,933	18,787	65,720	18,372	84,092
Auxiliary enterprises expenditures	-	839	839	-	839
Total expenditures	46,933	19,626	66,559	18,372	84,931
Other transfers and additions (deductions):					
Excess of restricted recipts over transfers to revenue	-	-	-	22	22
Net increase in fund balances	$ -	1,395	1,395	22	1,417

Exhibit 8

PENSION TRUST FUNDS

COMBINING STATEMENT OF NET ASSETS

September 30, 2001

($000s)

	Fund		
	Police and Fire	Teachers	Totals
ASSETS			
Assets:			
Cash and investments	$ 1,159,327	825,606	1,984,933
Receivables (net of allowances for uncollectibles):			
Accounts	6,016	4,930	10,946
Interfund	2	95	97
Total assets	**1,165,345**	**830,631**	**1,995,976**
Liabilities:			
Payables:			
Securities lending	67,777	48,036	115,813
Accounts	2,802	3,171	5,973
Interfund	945	670	1,615
Total liabilities	**71,524**	**51,877**	**123,401**
Net Assets:			
Held in trust for pension benefits	**$ 1,093,821**	**778,754**	**1,872,575**

The accompanying notes are an integral part of this statement.

Exhibit 9

PENSION TRUST FUNDS

COMBINING STATEMENT OF CHANGES IN NET ASSETS

Year Ended September 30, 2001

($000s)

	Fund		
	Police and Fire	Teachers	Totals
Additions:			
Benefit contributions:			
Employer	$ 49,000	200	49,200
Employees	16,832	24,047	40,879
Investment income:			
Interest and dividends	44,214	31,112	75,326
Net appreciation in fair value of investments	(182,947)	(129,875)	(312,822)
Less - investment expenses	(8,293)	(5,773)	(14,066)
Total additions	(81,194)	(80,289)	(161,483)
Deductions:			
Administrative expenses	1,161	822	1,983
Benefit payments:			
Benefits	2,835	2,600	5,435
Total deductions	3,996	3,422	7,418
NET DECREASE	**(85,190)**	**(83,711)**	**(168,901)**
Net Assets held in trust for pension benefits:			
October 1	**1,179,011**	**862,465**	**2,041,476**
September 30	**$ 1,093,821**	**778,754**	**1,872,575**

The accompanying notes are an integral part of this statement.

INDEX TO THE NOTES TO THE FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2001

(Amounts expressed in thousands)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. BACKGROUND AND HISTORY OF GOVERNMENTAL UNIT

General Operations

The District of Columbia (District) was created on March 30, 1791 and became the nation's capital on December 1, 1800, in accordance with Article 1, section 8, clause 17 of the United States Constitution. This portion of the Constitution empowered Congress with the authority to establish the seat of government for the United States. Congress granted the District a Charter, which became effective on January 2, 1975 through the enactment of the District of Columbia Self-Government and Governmental Reorganization Act, Public Law 93-198.

The District is a municipal corporation, which operates under an elected Mayor-Council form of government. Accordingly, an Act of the Council, other than a budget request act, becomes a law unless Congress and the President disapprove it after it has been adopted. Citizens of the District have the right to vote for the President and Vice-President of the United States but not for members of Congress. The District does, however, have an elected nonvoting delegate to the United States House of Representatives.

Due to its unique organizational structure (i.e., not a part of any other state government), the District provides a broad range of services to its residents, including those normally provided by a state governmental entity. These services include public safety and protection, fire and emergency medical services, human support and welfare services, public education and many others.

Financial Responsibility and Management Assistance Authority Oversight

The District of Columbia Financial Responsibility and Management Assistance Authority (Financial Responsibility Authority) was created in 1995 with the enactment of Public Law 104-8 to review and approve the budget, legislation, contracts (including collective bargaining agreements) and borrowing activities of the District.

The Financial Responsibility Authority suspended all activities on September 30, 2001 as it satisfied all the conditions for suspension in PL 104-8.

B. FINANCIAL REPORTING ENTITY

A financial reporting entity consists of a primary government and its component units. The primary government is the District of Columbia, including all of the organizations that make up its legal entity. Criteria to be considered in determining organizations to be included as component units within the District's reporting entity are as follows:

- The District holds the corporate powers of the organization.
- The District appoints a voting majority of the organization's board.
- The District is able to impose its will on the organization.
- The organization has the potential to impose a financial benefit/burden on the District.
- There is a fiscal dependency by the organization on the District.
- It would be misleading to exclude the organization from the District's financial report.

Based on the aforementioned criteria, the District's financial statements include six discretely presented component units, which include the Water and Sewer Authority, Convention Center, Sports and Entertainment Commission, Housing Finance Agency, the Public Benefit Corporation and the University of the District of Columbia. These organizations are presented in a separate column to emphasize that they are legally separate from the District.

The Mayor, with the consent of the Council, appoints the governing bodies of all component units. The District has an obligation to provide financial support to the Housing Finance Agency and the University of the District of Columbia. In addition, the District must approve certain transactions of the Convention Center and the Sports and Entertainment Commission, and certain tax revenues are dedicated to these organizations. The Water and Sewer Authority is responsible for the payment of certain District long-term debt issued before that entity's creation

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

to finance capital improvements for its predecessor agency. For that reason, in conjunction with the fact that the Water and Sewer Authority is an independent authority under its enabling legislation, this entity is included as a component unit of the District of Columbia. Condensed financial statements for each of the discretely presented component units and information on how to obtain a complete set of financial statements for each are presented in Note 10.

Although the Financial Responsibility Authority and the Tobacco Settlement Financing Corporation are also separate legal entities, in substance, they are part of the primary government's operations. The Financial Responsibility Authority has a federally appointed board and was created to provide temporary financial management oversight in response to the District's prior years' fiscal distress. The District is neither financially accountable, nor does it exercise control over, the Financial Responsibility Authority. Because the Financial Responsibility Authority benefits the primary government almost exclusively, it is presented as a blended component unit (special revenue fund) of the primary government. Separate audited financial statements can be requested from the District of Columbia, Office of the Chief Financial Officer, 1350 Pennsylvania Avenue, N.W., Suite 209, Washington, D. C., 20004.

Pursuant to the Tobacco Settlement Trust Fund Emergency Establishment Act of 1999, as amended by the Tobacco Settlement Financing Act of 2000 (collectively, the "Tobacco Act"), the District established the District of Columbia Tobacco Settlement Financing Corporation (the "Tobacco Corporation") as a special purpose, independent instrumentality of the District government. The Tobacco Corporation is a blended component unit because it provides services exclusively for the District and its five-member board includes the Mayor, the Chairman of the Council and the CFO. The Mayor and Council appoint the remaining two members of the board. Separate audited financial statements for the Tobacco Corporation are available from the Office of the Chief Financial Officer.

C. RELATED ORGANIZATIONS

A related organization is one for which the primary government is accountable but not *financially accountable*. The District of Columbia Housing Authority, the National Capital Revitalization Corporation, and the District of Columbia Courts are related organizations because the District is not financially accountable for them despite the fact the Mayor appoints a voting majority of their governing boards, except the Courts. The District does not appoint the members of the Joint Committee on Judicial Administration.

D. JOINT VENTURE

The District is a participant with other local jurisdictions in a joint venture to plan, construct, finance and operate a public transit system serving the Metropolitan Washington Area Transit Zone, which includes the District of Columbia; cities of Alexandria, Falls Church, Fairfax, Manassas and Manassas Park and the counties of Arlington, Fairfax, Loudoun and Prince William in Virginia and Montgomery, Anne Arundel and Prince George's in Maryland. The Washington Metropolitan Area Transit Authority (WMATA) was created in February 1967 for that purpose. WMATA is governed by a six member Board and six alternates, composed of two Directors and two alternates from Maryland, Virginia and the District of Columbia. The Directors and alternates for Virginia are appointed by the Northern Virginia Transportation Commission from among its members; for the District of Columbia, by the Council from its members and mayoral nominees; and for Maryland, by the Washington Suburban Transit Commission from among its members. Further information regarding this joint venture is discussed in Note 11.

E. BASIS OF PRESENTATION

The District uses funds and account groups to report on its financial position and the results of its operations. Each fund or account group is considered to be a separate accounting entity and the transactions in each are summarized by providing a separate set of self-balancing accounts which include its assets, liabilities, fund equity, revenues and expenses/expenditures. Fund accounting is used to demonstrate legal compliance and to aid financial management by segregating transactions related to certain District functions or activities.

Transactions are classified and recorded into three major fund types: governmental, proprietary and fiduciary. Each fund type is further divided into separate and distinct funds. The funds and account groups used by the District are described in this section.

Governmental fund types are used to account for all of the District's general activities. The acquisition, use and balances of the District's expendable financial resources and the related liabilities (except those accounted for in the Proprietary Fund and the discretely presented component units) are accounted for in the Governmental Funds. The District's governmental funds include:

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- *General Fund*, used to account for all financial resources not accounted for in other funds

- *Special Revenue Funds,* used to account for the proceeds of specific revenue sources (other than for major capital projects) that are legally restricted to expenditure for specified purposes.

- *Capital Projects Funds*, used to account for the purchase or construction of fixed assets financed by operating transfers, capital grants or general long-term debt.

The **proprietary fund** type is used to account for activities similar to those found in the private sector where the determination of net income is necessary or useful to sound financial administration. These funds are accounted for on a flow of economic resources measurement focus. The District has one proprietary fund, which is discussed below:

- *Enterprise Fund*, used to account for the operations of the Lottery and Charitable Games Board

Fiduciary fund types are used to account for assets held by the District in a trustee capacity or as an agent for individuals, private organizations, other governments and/or other District funds. Expendable trust funds are accounted for in essentially the same manner as Governmental Funds. The term "expendable" refers to the fact that the District is not under an obligation to maintain the trust principal. Pension trust funds are accounted for in essentially the same manners as proprietary funds since capital maintenance is critical. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's fiduciary funds include:

- *Unemployment Compensation Trust Fund,* an expendable trust fund, established to account for funds used to pay benefits to unemployed former employees of the District, Federal government and private employers within the District.

- *Pension Trust Funds*, used to account for resources used for retirement annuity payments at appropriate amounts and times for police officers, firefighters, and public school teachers.

- *Agency Funds,* used to account for resources held by the District in a purely custodial capacity (assets equal liabilities).

University Funds account for the operations of the University of the District of Columbia (the University). The accounts of the University Funds are derived from its annual financial statements for the fiscal year ended September 30. 2001. Transactions reported by the University are presented in the University Funds described below.

Current funds include those assets, which can be expended for any purpose in performing the primary objectives of the University. Resources restricted by donors or other outside agencies for specific operating purposes are accounted for as restricted current funds. Loan funds include grants, which are limited by the terms of the donors for the purpose of making loans to students. Endowments and similar funds are subject to the restrictions of gift instruments, requiring in perpetuity that the principal be invested and the income only be utilized. Plant funds include resources that have been or are to be invested in fixed assets and funds reserved to retire debt incurred to finance facilities.

Account Groups

The *General Fixed Assets Account Group* is used to account for all fixed assets of the District other than those accounted for in the Proprietary Fund.

The *General Long-Term Liabilities Account Group* is used to account for all long-term debt and vacation, sick and other leave benefits of the District other than those accounted for in the Proprietary Fund.

F. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures/expenses are recognized in the accounts and reported in the financial statements. Thus, the accounting and financial reporting treatment applied to a fund is determined by its measurement focus.

Measurement Focus

All governmental funds and the expendable trust fund are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

The proprietary fund, pension trust funds, and discretely presented component units, other than the University funds are accounted for on a flow of economic resources

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds and discretely presented component units are included on the balance sheet. Fund equity of the proprietary fund type and the discretely presented component units is segregated into contributed capital and retained earnings components. The related operating statements present increases (revenues) and decreases (expenses) in retained earnings. Operating statements of pension trust funds present additions and deductions in plan net assets.

The financial statements of the University are prepared on the accrual basis of accounting and presented in accordance with generally accepted accounting principles (GAAP) applicable to the governmental colleges and universities model as defined in the American Institute of Certified Public Accountants (AICPA) Audit Guide, *Audits of Colleges and Universities,* and as modified by all applicable Governmental Accounting Standards Board (GASB) pronouncements.

Basis of Accounting

All governmental funds, the expendable trust fund and agency funds use the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (that is when they become both measurable and available.) "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Property taxes are considered available if they are collected within 60 days after year-end. A one-year availability period is used for revenue recognition for all other governmental fund and expendable trust fund revenues. Expenditures are recorded when the related fund liability is incurred. Principal and interest on general long-term debt are recorded as expenditures when they become due and payable.

Those revenues susceptible to accrual are taxes, federal contributions and grants, and investment income. Property taxes are recognized as revenue in the tax year for which they are levied, provided they are available. Real property taxes are levied as of October 1 on property values assessed as of the preceding January 1. The tax levy is due and collectible in two equal installments on March 31 and September 15. On these dates, the bill becomes delinquent and the District may assess penalties and interest. Real property taxes attach as an enforceable lien on property as of October 1 of the year after levy. Sales and use taxes are recognized as revenue when the sales or uses take place. Interest on investments is recognized when earned.

In the District, the personal property tax is self-assessed. The District requires a personal property tax return for the tax year beginning July 1 - June 30 each year to be filed on or before July 31 of that tax year. The return should report the remaining cost (current value) of all tangible personal property that has taxable situs in the District of Columbia as of July 1. The property taxes become levied once the returns are filed. However, the District does not have a legal claim to a provider’s resources that is enforceable through the eventual seizure of the property until after July 31 if the taxpayer fails to pay the property tax when due. The revenue budget for the Personal Property Tax is formulated with the understanding that 25% of collections are to be allocated to the current fiscal year, while the remaining 75% are to be allocated to the immediate subsequent fiscal year.

Intergovernmental revenues are amounts derived through agreements with other governments. In general, these revenues are comprised of contributions and grants made by the Federal government to the District. Contributions are recognized as revenue when received. Generally, entitlements and shared revenues are recognized as revenue when received or earlier, if measurable and available. Resources arising from grants are usually subject to restrictions; therefore, most grant revenues are recognized as revenue only when the conditions of the grant are met. Grant funds received before eligible costs are incurred are recorded as deferred revenue. Eligible grant-related expenditures or expenses incurred in advance of cash receipts are recorded as receivables and related revenue.

Licenses and permits, fines and forfeits and charges for services are not considered susceptible to accrual because they are not both measurable and available to finance expenditures of the current period. Licenses and permits and fines and forfeits are recorded as revenue when received in cash because they are generally not measurable until received. Charges for services are recorded as revenues as services are provided.

The proprietary fund, discretely presented component units and pension trust funds use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time the liabilities are incurred. The pension trust funds recognize additions to net assets from participants’ contributions when due; from District contributions when due and a formal commitment has been made, net investment income as earned, and expenditures for benefits and refunds when due and payable. The proprietary fund and discretely presented component units do not apply Financial Accounting Standards Board statements and interpretations issued after November 30, 1989.

(Dollars in Thousands) Notes to the Financial Statements

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

GASB 33-Accounting And Financial Reporting For Nonexchange Transactions

During the fiscal year ended September 30, 2001, the District implemented GASB Statement No. 33 "Accounting and Financial Reporting for Nonexchange Transactions." This statement provides reporting standards for the timing of recognition of assets and revenue from nonexchange transactions. Hence, the District recognized the following types of nonexchange transactions in accordance with the requirements of the GASB Statement:

- Derived tax revenues
- Imposed nonexchange revenues
- Government-mandated nonexchange transactions
- Voluntary nonexchange transactions

As a result, the October 1, 2000 general fund balance has been restated as follows:

October 1, 2000, as previously reported	$	464,937
Increase due to adoption of GASB Statement No. 33		19,688
October 1, 2000, as Restated	**$**	**484,625**

G. BASIS OF BUDGETING AND BUDGETARY CONTROL POLICIES

Process

For 2001, the last control period, the budgetary process was as follows: the Mayor submitted an operating budget, a financial plan for each project for the Capital Projects Funds and a financial plan for the following three years to the Financial Responsibility Authority for its approval. The Financial Responsibility Authority had thirty (30) days within which to review, approve and/or reject the proposed budget and financial plans. To the extent rejected, the Mayor was to submit within fifteen (15) days, a revised package to the Financial Responsibility Authority. The Financial Responsibility Authority then had fifteen (15) days within which to review, approve or reject the revised submissions. After the budget and financial plans were approved, they were submitted to the Council for a 30-day review period. The Council's financial plan and budget act was also submitted to the Financial Responsibility Authority for a 15-day review and approval period. By June 15, the Mayor submitted the approved financial plan and budget request act and the Financial Responsibility Authority submitted a recommended financial plan and budget to the President of the United States for review, submission to Congress and enactment.

Appropriation Act

The legally adopted budget is the annual appropriation public law (Appropriation Act) enacted by Congress and signed by the President. The Appropriation Act authorizes expenditures at the function level or by functional category, such as Public Safety and Justice, Human Support Services or Public Education. Congress must enact a revision that alters the total expenditures of any function unless otherwise authorized by an act of Congress.

The District may request a revision to the appropriated expenditure amounts in the Appropriation Act by submitting to the President and Congress a request for a supplemental appropriation. During a control period, the Mayor may submit proposed revisions to the financial plan and budget during the year by following the same procedures as for the initial budget submission, except that the initial review period by the Financial Responsibility Authority is twenty (20) days instead of thirty (30) days and that a revision that does not increase the amount of spending with respect to any function is effective unless rejected by the Financial Responsibility Authority or Congress.

Pursuant to the Reprogramming Policy Act (D. C. Code 47-361), the District may reallocate budget amounts within functions. The appropriated budget amounts in the budgetary statement (Exhibit 3) include all approved reallocations. Exhibit 3 reflects budget to actual comparisons at the function level (or appropriation title). Appropriated actual expenditures and uses may not legally exceed appropriated budgeted expenditures and uses at the function level as shown on this budgetary statement. An unfavorable expenditure variance in the budgetary statement for a function is a violation of the Anti-Deficiency Act (31 U.S.C. 1341). Also, a violation of the Anti-Deficiency Act exists if there is an unfavorable expenditure variance for a particular purpose or object of expenditure within an appropriation.

The Appropriation Act specifies expenditures and net surplus or deficit of revenues. The Appropriation Act does not specify revenue amounts. The legally adopted revenue budget is based primarily on the revenue estimates submitted to the President and Congress as modified through legislation. The budgetary statement (Exhibit 3) shows Revenues and Other Sources as presented in the Conference Report (H.R. 106-479) and Expenditures and Other Uses as contained in the

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Appropriation Act (PL 106-113.)

The budgetary general fund differs from the GAAP- basis general fund by including the Financial Responsibility Authority special revenue fund and the University discretely presented component unit and by excluding the Retirement Board and the Correctional Industries Division. The annual appropriated budget is enacted on a basis that is not consistent with GAAP because of differences that result from budgeting inventory, Medicaid, certain pension and other employee benefits, and other expenditures on a cash basis, and budgeting dedicated tax revenues to the benefiting fund rather than to the fund with the authority to levy and collect the tax.

Adjustments necessary to reconcile the excess (deficiency) of revenues and other financing sources over expenditures and other financing uses from budget basis to GAAP basis are shown in Exhibit 3, Statement of Revenues, Expenditures and Reconciliation of Budgetary Basis With GAAP Basis – General Fund. This statement also reflects revisions to the original budget as authorized by the Financial Responsibility Authority, pursuant to Public Laws 104-8 and 106-113.

Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of funds are recorded in order to reserve that portion of the appropriation, is employed in the governmental fund types. Encumbrances outstanding at year-end do not constitute expenditures or liabilities for GAAP or budgetary statement basis financial statements. The fund balance is "reserved for encumbrances" to indicate the portion that is available for expenditure upon vendor performance.

H. CASH AND INVESTMENTS

Cash

Cash from the general and capital projects funds and certain component units is pooled unless prohibited by law. The cash management pool is considered to be cash because it is used as a demand deposit account by each participating fund and component unit. If a fund overdraws its share of the pooled cash, that fund reports a liability to the General Fund, which is deemed to have loaned the cash to the overdrawn fund. The General Fund reports a receivable from the overdrawn fund.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and mature in such a short period of time that their values are effectively immune from changes in interest rates. The District's cash management pool is considered a cash equivalent. For an investment to be considered a cash equivalent, it must mature no more than three months after the date it is purchased.

Investments

Any cash that is not needed for immediate disbursement is used to purchase investments. The District purchases legally authorized investments consistent with the provisions of the "Financial Institutions Deposit and Investment Amendment Act of 1997" (D.C. Law 12-56), which became effective March 18, 1998. At September 30, 2001, the District has invested primarily in investments backed by U. S. government agencies' securities, with the implicit guarantee of the federal government. Such investments are considered to be the equivalents of cash. The Pension Trust Funds are also authorized to invest in fixed income, equity securities and other types of investments.

Money market investments that have a remaining maturity at the time of purchase of one year or less are reported at amortized cost, which approximates fair value. Other investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Asset-backed securities are valued on the basis of future principal and interest payments and are discounted at prevailing interest rates for similar investments. Investment purchases and sales are recorded as of the trade date. These transactions are not finalized until the settlement date. Cash received as collateral on securities lending transactions and investments made with such are reported as assets and as related liabilities for collateral received.

I. RESTRICTED ASSETS

Certain general fund, component unit, enterprise fund and all fiduciary fund assets are restricted as to use by legal or contractual requirements. In addition, certain taxes that have been designated for certain highway projects are legally restricted and are included as restricted assets in the Capital Projects Funds. Any excess of restricted assets over liabilities payable from restricted assets is reported as part of the reserved fund balance in the appropriate fund to indicate that portion of the fund balance that is available for restricted purposes only. Governmental funds report restricted assets for cash deposited in bank accounts legally restricted for certain purposes such as the payment of bond principal and interest or the payment of fiscal fees on long-term debt.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

J. PREPAID ITEMS AND DEFERRED CHARGES

Prepaid items are for payments made by the District in the current year for services to be received in the subsequent fiscal year. Such advance payments are recorded as prepaid charges at the time of prepayment and recognized as expenditures/expenses when the related services are received.

In governmental fund types, bond discounts (premiums) and issuance costs are recognized in the current period as interest and fiscal charges, respectively. In the proprietary fund and discretely presented component units, bond discounts (premiums) and issuance costs are capitalized as deferred charges and amortized as fiscal charges over the term of the bonds.

K. INVENTORIES

Inventories in the General Fund consist of expendable supplies and materials held for consumption. Inventories on hand at year-end are stated at cost (generally using the weighted-average method.) The District utilizes the consumption method to account for inventory whereby materials and supplies are recorded as inventory when purchased and as expenditures/expenses when they are consumed.

The inventories in the proprietary fund and discretely presented component units also consist of materials and supplies and are recorded at the lower of weighted average cost or market.

L. RECEIVABLES AND PAYABLES

Taxes receivable are taxes levied by the District, including interest and penalties on delinquent taxes, which have not been collected, canceled or abated, less the portion of the receivables estimated not to be collectible. Accounts receivable are amounts owed by customers for goods or services sold. Intergovernmental receivables are amounts owed by other governments to the District.

Accounts payable are amounts owed to vendors for goods or services purchased and received. Intergovernmental payables are amounts owed to other governments.

Short-term amounts owed between funds are classified as "Due to/from other funds" in the balance sheet. Short-term amounts owed between the primary government and a discretely presented component unit are classified as “Due to/from primary government” and “Due to/from component unit” in the balance sheet.

M. TRANSFERS AND OTHER TRANSACTIONS BETWEEN FUNDS

Interfund transactions are categorized as (a) revenues and expense/expenditure transactions consisting of temporary interfund transactions which include reimbursements and quasi-external transactions or (b) reallocation of resources transactions including temporary interfund loans or advances, permanent residual equity transfers or operating transfers.

Legally authorized interfund transfers, other than those that are nonrecurring or non-routine transfers of equity, are considered operating transfers. Reimbursements between funds occur when expenditures/expenses made from one fund are properly applicable to another fund.
Operating transfers are included in the results of operations of both the governmental and proprietary fund types. Accordingly, operating transfers are reported in the "Other Financing Sources (Uses)" section of the statement of revenues, expenditures, and changes in fund balance (governmental funds) and in the "Operating Transfers" section in the statement of revenues, expenses, and changes in retained earnings (proprietary funds).

N. FIXED ASSETS

General Fixed Assets Account Group

Fixed assets used in Governmental Fund type operations are accounted for in the General Fixed Assets Account Group, rather than in Governmental Funds. All purchased fixed assets are stated at cost when historical records are available and at estimated historical cost when no historical records exist. Assets acquired through capital leases are stated at the lesser of the present value of the lease payments or the fair value of the asset at the date of lease inception. Donated fixed assets are stated at their estimated fair market value on the date received. The cost of maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized. Betterments are capitalized over the remaining useful lives of the related fixed assets. Public domain (infrastructure) improvements, such as bridges, curbs, gutters, lights, sidewalks, streets, and similar assets that are immovable and of value only to the District, are capitalized as improvements.

Proprietary Fund Type and Discretely Presented Component Units

Fixed assets used by the proprietary fund and the

Notes to the Financial Statements (Dollars in Thousands)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

discretely presented component units are capitalized in the funds that utilize the assets. Such assets are recorded at cost, or if contributed property, at their fair market value at the time of contribution. Repairs and maintenance are recorded as expenses; renewals and betterments are capitalized. Interest is capitalized in the proprietary fund on assets constructed with long-term debt. The amount of interest to be capitalized is calculated by offsetting interest expense incurred on tax-exempt debt from the date of borrowing until completion of the project with interest earned on invested proceeds over the same period.

Capitalization and Depreciation Policies

Assets capitalized have an original cost of $5,000 or more per unit. Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives for fixed assets are shown in **Table 1** by category.

Table 1 – Estimated Useful Lives (by Asset Category)

	Useful Life
Sewer lines	60 years
Buildings	30-50 years
Equipment	3-15 years
Vehicles	5-10 years
Infrastructure	30 years

Depreciation of general fixed assets is accumulated in the General Fixed Assets Account Group. No expenditure is reported for this amount in the governmental fund types. Depreciation of proprietary fixed assets and that of discretely presented component units is reported as an operating expense in the funds that utilize the assets.

O. CAPITAL LEASES

Capital lease obligations for the governmental fund types are reported in the General Long-Term Liabilities Account Group and the related assets are reported in the General Fixed Assets Account Group. Capital lease obligations for the proprietary fund and discretely presented component units are reported in those funds as long-term obligations, along with the related assets and depreciation.

P. COMPENSATED ABSENCES

Benefit Accumulation Policies

The District's policy allows employees to accumulate unused sick leave, with no maximum limitation. Vacation (annual) leave may be accumulated up to 240 hours, depending on the employee's length of service.

Accrual

The District records accumulated annual leave in its governmental funds in an amount that is expected to be used by the end of the current calendar year as an expenditure and liability. Accumulated annual leave that will not be used by the end of the current calendar year is reported in the General Long-Term Liabilities Account Group. Accumulated annual leave of the proprietary fund and discretely presented component units is recorded as an expense and liability of those funds as the benefits accrue to employees.

The District does not record a liability for non-vesting accumulating rights to receive sick pay benefits. At the time of retirement, unused sick leave is credited at the rate of 22 days for each month of service and is added to the retirees' years of service in the Civil Service Retirement System and in the District Retirement Program.

An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments at time of retirement rather than be taken as absences due to illness or other contingencies. The District estimates the sick leave liability based on the sick leave accumulated at the balance sheet date by employees who are currently eligible for retirement and to receive sick leave payments upon separation, or who are expected to become eligible in the future to receive such payments. Accumulated compensatory leave in lieu of paid overtime is reported in the General Long-Term Liabilities Account Group for governmental funds or in the proprietary fund or discretely presented component units.

Q. LONG-TERM LIABILITIES

Under the District of Columbia Home Rule Act, as amended, no long-term general obligation debt (other than refunding debt) may be issued during any fiscal year in an amount which would cause the amount of the principal and interest paid in any fiscal year on all general obligation debt to exceed 17% of the total local revenues of the then-current fiscal year in which the debt is issued. The legal debt limitation is calculated annually by dividing maximum annual principal and interest by current-year total local-source revenues (excluding revenue and debt of the Water and Sewer Authority, pursuant to the Home Rule Act.)

General obligation bonds, revenue bonds and other long-

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

term liabilities directly related to and intended to be paid from proprietary funds or discretely presented component units are included in the accounts of such funds. All other long-term indebtedness of the District, such as disability compensation, compensated absences, employee separation incentives and accreted interest liabilities, which have been incurred but not financed, are reported in the General Long-Term Liabilities Account Group. Such obligations are to be paid through the District's General Fund.

Capital appreciation bonds are issued with a stated interest rate of zero percent. The associated interest is not paid until the bonds mature. Accreted interest is calculated throughout the maturity periods of the bonds and is recorded in the General Long-Term Liabilities Account Group. The accreted value of such bonds is the current value, taking into account the interest that has been accumulating and automatically reinvested in the bonds.

R. NATURE AND PURPOSE OF FUND BALANCE RESERVATIONS AND DESIGNATIONS

The amount of fund balance that is available for future operations is presented as "unreserved." Reservations of fund balance represent amounts that are legally or statutorily identified for specific purposes or portions that are not appropriable for expenditure. Designations of fund balance represent management's intent to fund future projects, but do not represent a legal or statutory requirement to do so.

As of September 30, 2001, the District had established the following reservations (see **Table 24**):

Reserve for debt service–bond escrow – This portion of fund balance represents that portion of investments held in escrow that are available for future debt service obligations or requirements.

Reserve for Emergency Cash Reserve Fund – This portion of fund balance represents amounts that, in accordance with legislative mandate, are held in an emergency reserve fund, to be used for unanticipated and non-recurring, extraordinary needs of an emergency nature.

Reserve for long-term assets - This portion of fund balance represents those long-term assets that are not available for appropriation and expenditure at September 30, 2001.

Reserve for other assets – This portion of fund balance represents that portion of other assets that is not available for appropriation and expenditure at September 30, 2001.

Reserve for inventories – This portion of fund balance represents that portion of inventories that is not available for appropriation and expenditure at September 30, 2001.

Reserve for grants restricted as to purpose - This portion of fund balance represents grants received by the District that must be used in accordance with grant-imposed restrictions.

Reserve for encumbrances - This portion of fund balance represents the portion of the fund balance that has been segregated for expenditure on vendor performance.

Reserve for joint venture capital subsidies – This portion of fund balance represents amounts that have been placed in escrow for transfer to the Washington Metropolitan Area Transit Authority, in the form of capital subsidies.

Reserve for capital project expenditures - This portion of fund balance represents resources of the District that are available at September 30, 2001 for expenditure relating to capital projects.

Reserve for future benefits - This portion of fund balance represents the portion of resources that is available for benefit payments from the Unemployment Compensation and the Pension Trust Funds at September 30, 2001.

S. POST-EMPLOYMENT BENEFITS

In addition to the pension benefits described in Note 8, employees may receive post-retirement health care and life insurance benefits. In fiscal year 2001, there were 8,417 pre-87 (Civil Service) and 8,849 post-87 (DC Defined Contribution) employees, which totaled 17,266 employees who are eligible for such benefits. The cost of providing such benefits to employees hired prior to October 1, 1987 is borne by the federal government and the District has no liability for this cost. Employees hired after September 30, 1987, pursuant to the D.C. Code 1-622, who subsequently retire may be eligible to continue their health care benefits. Furthermore, in accordance with D.C. Code 1-623, these employees may convert their group life insurance to individual life insurance. The District therefore bears responsibility for the cost relating to employees hired after September 30, 1987. The District does not record a liability for its portion of the cost of post-retirement benefits but rather records such cost as expenditures when premiums are paid. The District has recognized $241 as expenditures for post-retirement health and life insurance premiums paid during

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

fiscal year 2001. As of September 30, 2001, there were 13,260 annuitants that received these benefits.

T. USE OF ESTIMATES

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

NOTE 2. CASH AND INVESTMENTS

A. CASH

The District of Columbia follows the practice of pooling cash and cash equivalents for some of its governmental funds and component units in order to provide better physical custody and control of cash, to enhance operating efficiency and to maximize investment opportunities. Of $1,750,780 within the custody of the District, in accordance with District policies, substantially all deposits as of September 30, 2001 were insured or collateralized with securities held by the District or by its agent in the District's name. At September 30, 2001, the carrying amount of cash (deposits) for the primary government was $1,684,122 and the bank balance was $1,543,944. The carrying amount of cash (deposits) for the component units was $66,659 and the bank balance was $53,545.

B. INVESTMENTS

Investments held by the District at September 30, 2001 have been categorized according to the level of custodial credit risk associated with its custodial arrangements at the end of the period.

Custodial Credit Risk Categorization

Custodial credit risk refers to the risk that the District may not be able to obtain possession of its investments in the event of default by a counter party. The three types of custodial credit risk are:

- Category 1, which includes investments that are insured or registered or for which securities are held by the District or its agent in the District's name;
- Category 2, which includes uninsured and unregistered investments for which securities are held by the counter party's trust department or agent in the District's name; and
- Category 3, which includes uninsured and unregistered investments for which securities are held by the counter party, or by its trust department or agent, but not in the District's name.

Investments not evidenced by securities that exist in physical or book entry form are not categorized. Investments by type and category at September 30, 2001 are shown in **Table 2** on the following page.

Derivative Investments

In accordance with the policies of the Retirement Board and pursuant to D. C. Code Section 1-741(a)(2)(C), during 2001, the Pension Trust Funds (the Funds) held certain derivative investments to increase potential earnings or to hedge against potential losses. Derivative investments are defined as financial instruments, the values of which depend on or are derived from the value of an underlying asset, reference rate, or index. Derivative investments often contain exposure to market risk resulting from fluctuations in interest and currency exchange rates or changes in the price or principal value of a security. The investment credit risk results from the creditworthiness of the counter parties to the contracts and, for asset backed securities and collateralized mortgage obligations, the creditworthiness of the related consumers and mortgages. The Retirement Board maintains that all contracts are legally permissible in accordance with its policy.

For 2001, derivative investments included foreign currency forward contracts, mortgage-backed security pools, collateralized mortgage obligations, asset backed securities and floating rate notes, interest only treasury securities, bond options and futures, and equity index futures.

These derivative investments are included in the Category 1 investments shown in **Table 2**.

NOTE 2. CASH AND INVESTMENTS

Table 2 – Investments by Type and Category ($000s)

	Category 1	Category 2	Category 3	Total Carrying Value
Primary Government:				
Investments:				
U. S. government securities	$ 363	$ 19	$ -	$ 382
Repurchase agreements	207,224	-	-	207,224
Corporate securities	5,000	14,317	-	19,317
Pension trust funds investments:				
Equity securities (net of securities transaction payable of $422,100)	641,541	-	-	641,541
Fixed income securities	645,862	-	-	645,862
	1,499,990	14,336	-	1,514,326
Not Categorized:				
Mutual funds				286,445
Pension trust funds investments:	-	-	-	
Real estate	-	-	-	4,877
Equity securities	-	-	-	38,235
Fixed income securities	-	-	-	74,785
Securities lending collective investment pool	-	-	-	115,813
Total investments (excluding certifcates of deposit (primary government))	-	-	-	2,034,481
Component Units:				
U. S. government securities	52,631	327,594	-	380,225
Repurchase agreements	75,518	-	-	75,518
Corporate securities	79,323	235,593	-	314,916
Investment contracts	-	-	-	345,352
	207,472	563,187	-	1,116,011
Mutual funds				104,244
Total investments (component units)				1,220,255
Total reporting entity				**$ 3,254,736**

The Funds used asset backed securities (ABS), collateralized mortgage obligations (CMOs,) mortgage-backed pools and securities, floating rate notes, structured notes, stripped/zero coupon bonds, and forward mortgage backed security contracts (TBAs) primarily to increase potential returns. ABS and mortgage-backed pools and securities offer higher potential yields than comparable duration U. S. Treasury Notes with higher credit and market risks. CMO's also offer higher potential yields than comparable duration U. S. Treasury Notes, with higher market risks, although the market risks may be higher or lower than comparable mortgage-backed pools. Market risk for asset backed and mortgage backed pools and securities is managed by monitoring the duration of the investments. Credit risk is managed by monitoring credit ratings, the underlying collateral for each security and any related guarantee.

The Funds invest in structured notes with step-up coupons that offer higher yields than comparable U. S. Treasury

NOTE 2. CASH AND INVESTMENTS

Notes in exchange for higher market and/or credit risks. Securities with step-up coupons pay interest according to a pre-set series of interest rates, which start at one rate and then step-up to higher rates on specific dates. The Funds also contain stripped/zero coupon bonds, which are purchased at a discount and do not pay an interest rate.

The Funds also hold derivative investments indirectly by participating in pooled, commingled, mutual or short-term funds that hold derivatives. Information regarding any risks associated with these holdings is not generally available.

At September 30, 2001, Pension Trust Funds' portfolio included $356,368 of derivative investments, or 17.9% of the pension investment portfolio. The proportion of derivative investments varied at times throughout the year. Further information regarding balances throughout the year is not available.

Derivative investments by type at September 30, 2001 are shown in **Table 3.**

Table 3 – Derivative Investments by Type ($000s)

Investment Instrument Type		
Mortgage backed securities	$	249,105
Collateralized mortgage obligations		21,672
Asset backed securities		71,872
Structured notes (including stripped securities)		3,377
Stock performance index futures fund		85,270
Total derivatives	**$**	**431,296**

At September 30, 2001, the Housing Finance Agency held $249,105 in Government National Mortgage Association (GNMA) certificates, which are classified as mortgage-backed securities.

C. SECURITIES LENDING

During FY 2001, the master custodian, at the direction of the Retirement Board, lent the Funds' equity securities and received collateral in the form of cash (United States and foreign currency), securities issued or guaranteed by the United States government, the sovereign debt of Organization of Economic Cooperation and Development countries and irrevocable letters of credit by a bank insured by the FDIC. The collateral could not be pledged or sold unless the borrower defaulted on the loan. Borrowers delivered collateral for each loan equal to (i) at least 102% of the market value of the loaned securities if these securities were sovereign debt issued by a foreign government denominated in U. S. dollars or their primary trading market was located in the United States; or (ii) 105% of the market value of the loaned securities in the case of loaned securities not denominated in United States dollars or whose primary trading market was not located in the United States.

The Board and the borrowers maintained the right to terminate all securities lending transactions on demand.
The cash collateral received on each loan was invested, together with the cash collateral of other qualified tax-exempt plan lenders, in a collective investment pool. At September 30, 2001, the investment pool had an average duration of 74 days and an average weighted maturity of 193 days. Because the loans were terminable at will, their duration did not generally match the duration of the investments made with cash collateral.

During FY 2001, the Retirement Board did not restrict the amount of loans that the master custodian made on its behalf. No failure to return loaned securities or to pay distributions occurred during the year, and no losses were incurred from a default of a borrower or the master custodian. The Funds had no credit risk exposure to borrowers as of year-end. As of September 30, 2001, the collateral held and the market value of securities on the loan for the Board were $125,382 and $122,402, respectively. The collateral held is included in cash and investments shown in Exhibit 6 and the liabilities associated with the securities lending transactions are reported in Exhibit 6, at their carrying amounts, which are less than their market values.

At the close of 2001, gross earnings from securities lending transactions totaled $9,433. The income (net of amortization and accretion), the net realized/unrealized

NOTE 2. CASH AND INVESTMENTS

gain attributable to discount and premium, and the net increase in net assets resulting from operations totaled $7,807, $1,506 and $9,306, respectively. The Funds' share of the net earnings on securities lending transactions totaled $759 in 2001.

NOTE 3. RESTRICTED ASSETS

At September 30, 2001, restricted assets of the primary government and its component units totaled $3,986,969 as summarized in **Table 4**.

Table 4 – Summary of Restricted Assets ($000s)

	General	Special Revenue	Capital Projects	Enterprise	Trust and Agency	Component Units
Bond Escrow Accounts	$ 203,992	-	-	-	-	-
Restricted Investments – Unpaid Prizes	-	-	-	79,795	-	-
Joint Venture Escrow Fund	-	-	54,737	-	-	-
Restricted Cash and Investments	100,858	65,685	-		2,401,717	1,080,185
Totals	**$ 304,850**	**65,685**	**54,737**	**79,795**	**2,401,717**	**1,080,185**

NOTE 4. COMPONENT UNIT AND INTERFUND BALANCES AND OTHER RECEIVABLES

A. RECEIVABLES AND PAYABLES BETWEEN FUNDS AND COMPONENT UNITS

Due to/due from and interfund receivable and payable balances for each individual fund and component unit at September 30, 2001 are shown in **Table 5**.

Table 5 – Summary of Due To/Due From and Interfund Balances ($000s)

		Primary Government/ Component Units		Interfund	
Fund or Component Unit		**Receivables**	**Payables**	**Receivables**	**Payables**
General	$	11,383	20,784	36,988	2,693
Capital Projects		6,510	-	21,932	53,331
Unemployment Compensation		-	-	-	1,281
Pension Fund		-	-	97	1,615
Agency Fund		-	-	-	97
Water and Sewer		16,749	6,510	-	-
Convention Center		4,035	-	-	-
University		-	11,383	-	-
Total	**$**	**38,677**	**38,677**	**59,017**	**59,017**
Less-allowance for uncollectibles		-		-	
Net total	**$**	**38,677**		**59,017**	

NOTE 5. FIXED ASSETS

B. OTHER RECEIVABLES

Taxes and other receivables are valued at their estimated collectible amount. These receivables are presented in various funds as shown in **Table 6.**

Table 6 - Other Receivables ($000s)

		General Fund	Capital Projects	Enterprise	Trust and Agency	Discretely Presented
Gross Receivable:						
Taxes	$	306,587	-	-	-	-
Accounts		292,322	16,162	4,386	36,749	72,741
Total gross receivable		**598,909**	**16,162**	**4,386**	**36,749**	**72,741**
Less-allowance for uncollectibles		285,843	-	456	13,384	7,236
Total net receivable	$	**313,066**	**16,162**	**3,930**	**23,365**	**65,505**

NOTE 5. FIXED ASSETS

A. GENERAL FIXED ASSETS BY CLASS

Table 7 presents the changes in the General Fixed Assets Account Group by category for the primary government:

Table 7 - Changes in the General Fixed Assets by Asset Class ($000s)

Asset Class		Balance October 1, 2000	Additions	Transfers/ Dispositions	CIP Transfers in (out)	Balance September 30, 2001
Land	$	240,241		27,321	-	267,562
Improvements		2,368,311		1,582	245,447	2,615,340
Buildings		2,328,835	-	209,577	137,080	2,675,492
Equipment		358,956	26,392	11,157	62,749	459,254
Construction in progress		200,265	780,056	(277,776)	(445,276)	257,269
Total		**5,496,608**	**806,448**	**(28,139)**	**-**	**6,274,917**
Less-accumulated depreciation		(2,396,691)	(154,908)	(106,048)	-	(2,657,647)
Net general fixed assets		**3,099,917**	**651,540**	**(134,187)**	**-**	**3,617,270**
Governmental		2,096,889	519,956	(126,257)	-	2,490,588
Intergovernmental		1,003,028	131,584	(7,930)	-	1,126,682
Total resources invested	$	**3,099,917**	**651,540**	**(134,187)**	**-**	**3,617,270**

Capital outlays totaled $868,159 for the fiscal year ended September 30, 2001, which are reported in the Capital Projects Funds. As construction progresses, the cumulative expenditures are capitalized as construction in progress in the General Fixed Assets Account Group.
Upon completion of the asset, the balance in the Construction in Progress account is transferred to an appropriate descriptive capital asset account such as building or equipment.

Included in major additions to fixed assets are the Wilson Building with a carrying value of $64,350, the old Convention Center with a carrying value of $82,056, a new elementary school with a carrying value of $9,131, the transfer of buildings from the University of the District of Columbia with a carrying value of $10,930,

NOTE 4. COMPONENT UNIT AND INTERFUND BALANCES AND OTHER RECEIVABLES

and donations from the Federal Government for the Health Department with a carrying value of $20,295. Furthermore, the sale of the DOES building was included in transfer/dispositions.

Mayor's Mansion

In February 2001, The Eugene B. Casey Foundation offered to purchase property located at 1801 Foxhall Road, N.W., and to renovate the existing structures to be used as the Official Residence of the Mayor, to be named the Casey Mansion. This unexpected offer will provide the District a mayoral residence, similar to that provided by each of the 50 U.S. States, many major U.S. cities and also to the mayors of many other world capital cities.

B. GENERAL FIXED ASSETS BY FUNCTION

Table 8 presents the changes in the General Fixed Assets by function for the primary government:

Table 8- General Fixed Assets by Function ($000s)

Function		Balance October 1, 2000	Transfers/ Additions	Transfers/ Dispositions	CIP Transfers in (out)	Balance September 30, 2001
Governmental direction and support	$	471,266	382	120,620	55,817	648,085
Economic development and regulation		135,141	992	854	4,536	141,523
Public safety and justice		746,235	5,633	(11,315)	37,457	778,010
Public education system		700,713	857	864	-	702,434
Human support services		439,551	3,954	134,020	20,071	597,596
Public works		2,803,437	14,574	4,594	327,395	3,150,000
Construction in progress (CIP)		200,265	780,056	(277,776)	(445,276)	257,269
Total	$	**5,496,608**	**806,448**	**(28,139)**	**-**	**6,274,917**

C. ENTERPRISE FUND FIXED ASSETS

Enterprise fund fixed assets are as presented in **Table 9**.

Table 9 - Enterprise Fund Fixed Assets ($000s)

Asset Class		Balance October 1, 2000	Additions	Transfers/ Dispositions	Balance September 30, 2001
Equipment	$	3,129	1,075	(592)	3,612
Total		**3,129**	**1,075**	**(592)**	3,612
Less-accumulated depreciation		(2,649)	(227)	592	(2,284)
Net fixed assets	**$**	**480**	**848**	**-**	**1,328**

NOTE 5. FIXED ASSETS

D. DISCRETELY PRESENTED COMPONENT UNITS FIXED ASSETS

A summary of fixed assets by class for the discretely presented component units is shown in **Table 10**.

Table 10 - Fixed Assets by Class for the Discretely Presented Component Units ($000s)

Asset Class		Balance October 1, 2000	Additions	Transfers/ Dispositions	CIP Transfers in (out)	Balance September 30, 2001
Land	$	42,072	151	(30,284)	-	11,939
Utility plant		1,591,836	-	-	52,628	1,644,464
Buildings		346,606	-	(203,374)	-	143,232
Equipment		143,414	3,907	(47,583)	16,505	116,243
Construction in progress		380,792	270,302	-	(69,133)	581,961
Total		**2,504,720**	**274,360**	**(281,241)**	**-**	**2,497,839**
Less-accumulated depreciation		834,889	40,479	(190,150)	-	685,218
Net fixed assets	**$**	**1,669,831**	**233,881**	**(91,091)**	**-**	**1,812,621**

E. CONSTRUCTION IN PROGRESS

Construction in progress by function is shown in **Table 11**:

Table 11 – Construction In Progress by Function ($000s)

Function	Number of Projects		Authorizations	Cumulative Expenditures	Unexpended Balances
Governmental direction and support	10	$	184,373	100,130	84,243
Public safety and justice	6		81,930	5,775	76,155
Public education system	6		885,895	134,341	751,554
Human support services	9		73,722	16,890	56,832
Public works	1		133	133	-
Total general	**32**	**$**	**1,226,053**	**257,269**	**968,784**

The Capital Projects Funds include certain assets and liabilities arising from dedicated taxes that are legally restricted for various highway projects. Any excess of restricted assets over liabilities payable from restricted assets is reported as "reserved for capital project expenditures." As of September 30, 2001, the District incurred commitments related to unperformed (executory) contracts for goods and services related to its general capital improvement program in the amount of $625,206.

Contributed Capital

Contributed capital is created when a residual equity transfer is received by a proprietary fund or component unit, when a general fixed asset is "transferred" to a proprietary fund or, prior to October 1, 2000, when a grant was received that was externally restricted to capital acquisition or construction. Two component units reported contributed capital totaling $410,328, as follows:

At September 30, 2001, the Public Benefit Corporation was no longer in existence, and as such the contributed capital was retired.

The Water and Sewer Authority's contributed capital originates from two sources. Federal government contributed capital represents the undepreciated balances of the utility plant constructed from federal funding sources. District of Columbia contributed capital represents its original equity on September 30, 1979, the date the Water and Sewer Fund was organized, plus donated property and assets transferred from the District's General Fixed Assets Group of Accounts during subsequent years. At September 30, 2001, Federal government contributed capital totaled $221,020 and District contributed capital totaled $173,593.

NOTE 5. FIXED ASSETS

A new Convention Center is being constructed and scheduled to be opened in 2003. This decision changed the accounting treatment of the old convention center from capital lease to operating lease. Accordingly, the contributed capital has been removed from the accounting books of the old Convention Center. Additionally, convention center recaptured $13,304 of previously recorded depreciation expense and recorded it against the October 1, 2000 contributed capital balance.

The Sports and Entertainment Commission reported contributed capital of $15,715 at September 30, 2001. This amount is related to funds provided by the District for construction of and improvements to the RFK Stadium.

The changes in the contributed capital accounts are summarized in **Table 12**:

Table 12 – Changes in Component Unit Contributed Capital ($000s)

		Balance October 1, 2000	Contributions	Deductions	Balance September 30, 2001
Public Benefit Corporation	$	119,816	-	(119,816)	-
Water and Sewer Authority		399,183	-	(4,570)	394,613
Washington Convention Center		82,057	-	(82,057)	-
Sports and Entertainment Commission		15,715	-	-	15,715
Total Contributed Capital	**$**	**616,771**	**-**	**(206,443)**	**410,328**

NOTE 6. CONDUIT DEBT OBLIGATIONS

INDUSTRIAL REVENUE BOND PROGRAM

The District has issued, under its Industrial Revenue Bond Program, private activity bonds for which the principal and interest are payable solely from defined revenues of private entities, such as non-profit organizations. The District has no obligation for this debt beyond resources that may have been provided by related leases or loans. Organizations participating in the Industrial Revenue Bond Program are allowed to borrow at the prevailing municipal bond rate. These private activity bonds provide economic incentive to construct, modernize or enhance private entity facilities in the District thereby supporting the District's economic base. As of September 30, 2001, the aggregate outstanding principal amount for these conduit debt obligations was $3,470,659.

NOTE 7. LONG-TERM LIABILITIES

A. LONG-TERM DEBT

Primary Government

At September 30, 2001, the District had serial and term general obligation bonds, tax increment financing (TIF) notes and tobacco bonds outstanding totaling $3,110,023. The average interest rate for the outstanding debt for the serial obligation bonds was 5.5%, and variable rates not to exceed 9% for the TIF notes and 6.75% for the tobacco bonds.

Prior to the creation of the Water and Sewer Authority as an independent entity, the District issued general obligation bonds to fund improvements to the water and wastewater system. The Water and Sewer Authority is responsible for this debt. While the Water and Sewer Authority is not directly liable for the general obligation bonds, it is required by enabling legislation to transfer to the District the funds necessary to pay its portion of the debt service on these bonds. Accordingly, a portion of these bonds totaling $91,204 is reflected in the financial statements of the Water and Sewer Authority.

NOTE 7 LONG – TERM LIABILITIES

The remainder of the bonds were authorized and issued primarily to provide funds for certain other capital projects and improvements. They are backed by the full faith and credit of the District. The bonds are further secured by a security interest in and lien on the funds derived from a Special Real Property Tax levied annually by the District. Amounts collected are deposited in banks and held in escrow for payment of bond principal and interest when due. A summary of the changes in general long-term bonds of the primary government is shown in **Table 13.**

Table 13 - Changes in General Long-Term Bonds of Primary Government ($000s)

		General Obligation Bonds	TIF Notes	Tobacco Bonds	Total
Debt payable at October 1, 2000	$	**3,109,728**	**-**	-	**3,109,728**
Bond and note proceeds:					**-**
Series 2001A		103,658	-	-	103,658
Series 2001B		65,645	-	-	65,645
Tobacco Bonds issued		-	-	521,105	521,105
TIF notes issued		-	6,900	-	6,900
Total	$	**3,279,031**	**6,900**	**521,105**	**3,807,036**
Debt payments:					
Principal matured		109,490	-	-	109,490
Principal defeased		584,979	-	-	584,979
Other		2,545	-	-	2,545
Debt payable September 30, 2001	$	**2,582,017**	**6,900**	**521,105**	**3,110,022**

A summary of debt service requirements for general long-term debt to maturity for these bonds is shown in **Table 14**.

Table 14 - Summary of Debt Service Requirements for General Long-Term Debt to Maturity ($000s)

		General Obligation		Tobacco Bonds	
Year Ending September 30		**Principal**	**Interest**	**Principal**	**Interest**
2002	$	131,692	139,218	6,825	39,412
2003		138,345	132,087	7,730	33,195
2004		143,965	125,625	3,810	32,712
2005		151,355	117,402	4,000	32,476
2006		158,950	109,423	4,720	32,223
2007 - 2011		859,652	409,436	60,800	214,018
2012 - 2016		411,229	268,974	92,840	183,114
2017 - 2021		586,829	224,966	130,695	97,284
2022 - 2025		-	-	131,220	57,532
May 15, 2026		-	-	78,465	2,648
Total	**$**	**2,582,017**	**1,527,131**	**521,105**	**724,614**

NOTE 7. LONG-TERM LIABILITIES

Current Year Bond Issuance

On March 5, 2001, the District issued $114,150 in multimodal general obligation bonds (Series 2001A), which were issued as auction rate securities (ARS). Included in the $114,150 was $10,492, which was used to refund Water and Sewer general obligation bond. The Series 2001A bonds are scheduled to mature on June 1, 2008. Bond proceeds were used to (1) redeem $112,800 of Series 1992A general obligation variable-rate bonds and (2) pay bond issuance costs of $1, 350.

The Series 2001A bonds will bear interest from their date of issue at the applicable ARS variable rate for the seven day auction period, unless the length of the auction period is changed from seven days or unless the interest rate is converted to a fixed interest rate or flexible rate in accordance with the indenture. The Series 2001A bonds have an interest rate swap agreement associated with them, as described in Note 14 (Commitments and Contingencies).

On March 14, 2001 the District issued $65,645 in fixed-rate general obligation bonds (Series 2001B). Series 2001B bonds are scheduled to mature on June 1, 2031. Bond proceeds, including a premium of $292, were used to (i) fund capital projects totaling $65,000 and (ii) pay bond issuance costs of $937. The effective interest rate for the 2001B bonds was 5.24%.

In 2001, the District promised to pay an aggregate principal amount of $6,900 to a Development Sponsor. The Tax Increment Financing (TIF) Note is a special limited obligation of the District. The sole source of repayment of the TIF Note shall be the Increment Revenues from the Project and the District shall have no obligation to make any payments on the TIF Note, other than through the remittance to the Paying Agent. If the Increment Revenues are insufficient to pay the principal and interest due on the TIF Note when due, such payment shortfall shall not constitute a default under the TIF Note. If and when the Increment Revenues are sufficient, the District shall pay the amount of any shortfall to the Development Sponsor without any penalty of interest or premium thereon.

Defeased Bonds

In November 1998, the District (along with a number of other States and various jurisdictions) signed a Master Settlement Agreement with the major U.S. tobacco companies that ended litigation over health care treatment costs incurred for smoking-related illnesses. Under the settlement, the District is scheduled to receive total annual payments aggregating an estimated $1.2 billion by 2025. There are a number of potential adjustments to this schedule, including an inflation adjustment and a cigarette volume adjustment. In addition, there are numerous risks regarding whether the District will receive the full amount to which it is entitled under the terms of the Master Settlement Agreement, including various lawsuits outside the District alleging that the Master Settlement Agreement is void or voidable

Pursuant to the Tobacco Act, the Tobacco Corporation issued $521,105 aggregate principal amount of its Tobacco Settlement Asset-Backed Bonds, Series 2001 (the "Tobacco Bonds") on March 13, 2001. On that date, the District sold to the Tobacco Corporation substantially all of its right, title and interest in certain amounts paid or payable to the District under the Master Settlement Agreement, including certain initial and annual payments already received by the District and the District's right to receive future payments under the Master Settlement Agreement in exchange for the agreement of the Tobacco Corporation to repay certain obligations of the District and a security interest representing the right to receive payments under the Master Settlement Agreement not required to pay expenses, debt service, or reserves for the Tobacco Bonds. The Tobacco Corporation applied the net proceeds of the Tobacco Bonds and Tobacco settlement payments received prior to the bond issuance to redeem or defease certain general obligation bonds of the District, thereby reducing the District's bond debt service by an average of approximately $50 million per year through 2014, and reducing outstanding principal by approximately $482.5 million. The Tobacco Bonds are neither general nor moral obligations of the District and are not secured by a pledge of the full faith and credit of the District.

Table 15 presents a summary of the defeased portions of the bonds.

NOTE 7. LONG-TERM LIABILITIES

Table 15 – Summary of Defeased Bonds ($000s)

Bond Series	Interest Rate (%)		Amount
Defeased by Tobacco Settlement Bond Proceeds:			
1992B - SER	6.125 - 6.250	$	17,755
1993A - SER	6.000		12,175
1993E - SER	5.000 - 6.000		106,550
1994A-1 - SER	6.500		13,950
1994B - SER	5.800 - 6.000		33,226
1994B - CAB	0.000		9,456
1997A - SER	6.500		4,145
1997A - 2017 TERM	5.500		6,070
1998A - SER	4.500 - 5.25		8,325
1998B - SER	5.000 - 6.000		85,265
1999A - SER/SER2	4.375 - 5.500		13,470
1999B - SER/SER2	5.500		125,355
Total:			435,742
Defeased by Cash:			
Bond Series	**Interest Rate (%)**		**Amount**
1993A - SER	5.500 - 5.875		38,175
1993B SER2	5.100 - 5.200		1,194
1993E - SER	5.750 - 6.000		7,435
Total:			46,804
Defeased by Bond 2001A:			
Bond Series	**Interest Rate (%)**		**Amount**
1992A	6.020		102,433
TOTAL:		$	**584,979**

COMPONENT UNITS

Water and Sewer Authority

The Water and Sewer Authority derives its funding for future capital projects from the issuance of revenue bonds, District general obligation bonds, notes payable to the federal government and various other non-debt sources of financing. The public utility revenue bonds and notes payable to the federal government for the Washington Aqueduct are considered senior debt. Notes payable to the federal government for the Washington Aqueduct are specifically secured by user charges assessed on retail customers. During the year ended September 30, 2001, the highest rate on these notes was 7.25% and the lowest rate was 4.55%. Debt outstanding at September 30, 2001 totaling $397,621 included net unamortized premiums of $6,271 and a remaining principal balance of $391,350.

A summary of Water and Sewer Authority's debt service requirements to maturity for principal and interest is shown in **Table 16**.

NOTE 7. LONG-TERM LIABILITIES

Table 16 - Water and Sewer Authority Debt Service Requirements to Maturity ($000s)

Year Ending September 30		Principal	Interest	Total
2002	$	28,498	20,498	48,996
2003		13,844	19,834	33,678
2004		14,717	19,082	33,799
2005		16,134	18,274	34,408
2006		13,385	17,409	30,794
2007 - 2011		71,063	76,199	147,262
2012 - 2016		64,278	58,636	122,914
2017 - 2021		84,403	38,632	123,035
2022 - 2026		61,716	15,325	77,041
2027 - 2031		17,692	3,027	20,719
2032 - 2036		2,593	753	3,346
2037 - 2041		3,027	303	3,330
Total	$	391,350	287,972	679,322
Unamortized Bond Premium		6,271	-	6,271
Total	**$**	**397,621**	**287,972**	**685,593**

Washington Convention Center

On September 29, 1998, the Washington Convention Center issued $524 million in senior lien dedicated tax revenue serial and term bonds at various rates and maturities.

The bond proceeds are used to construct and equip the new convention center. The 1998 bonds are special obligations of the Convention Center. The 1998 Bonds are payable solely from dedicated tax receipts and pledged funds established under the Trust Agreement.

The WCCA Act authorized the pledge of the dedicated taxes to secure the repayment of the 1998 bonds. Pursuant to the WCCA Act, the District has also pledged not to limit or alter any rights vested in the Convention Center to fulfill agreements made with holders of the 1998 Bonds, or in any way impair rights and remedies of bondholders until the 1998 bonds and the interest thereon are paid in full.

A summary of Washington Conventions Center's debt service requirements to maturity for principal and interest is shown in **Table 17**.

Table 17 – Washington Convention Center Debt Service Requirements to Maturity ($000s)

Year Ending September 30		Principal	Interest	Total
2002	$	-	25,952	25,952
2003		-	25,952	25,952
2004		10,225	25,952	36,177
2005		10,685	25,491	36,176
2006		11,190	24,984	36,174
2007 - 2011		64,870	116,000	180,870
2012 - 2016		83,675	97,196	180,871
2017 - 2021		107,690	73,179	180,869
2022 - 2026		137,145	43,723	180,868
2027 - 2029		98,980	9,548	108,528
Total	**$**	**524,460**	**467,977**	**992,437**

NOTE 7. LONG-TERM LIABILITIES

Housing Finance Agency

Bonds payable consists of term and serial bonds which are subject to redemption at the option of the Housing Finance Agency in accordance with the terms of the respective bond indenture and bond resolution, in whole or in part, on various dates at prescribed redemption prices. Included in certain bond issues are capital appreciation bonds. The principal amount of these bonds appreciates either annually or semi-annually, compounding on the original principal balance. These bonds are recorded in the financial statements at their current appreciated amounts.

Bonds have been issued to provide financing for the Housing Finance Agency's housing programs and are collateralized by: (a) mortgage loans made on the related developments or single-family residential mortgage loans purchased (b) substantially all revenues, mortgage payments, and recovery payments received by the agency from mortgage loans made on related developments or (c) certain accounts, generally debt service reserve funds, established pursuant to the indenture authorizing issuance of the bonds.

A summary of Housing Finance Agency's debt service requirements to maturity for principal and interest is shown in **Table 18**.

Table 18 - Housing Finance Agency Debt Service Requirements to Maturity ($000s)

Year Ending September 30		Principal	Interest	Total
2002	$	102,820	45,628	148,448
2003		26,110	43,209	69,319
2004		13,770	42,629	56,399
2005		4,235	41,999	46,234
2006		2,505	41,849	44,354
2007 - 2011		30,910	204,829	235,739
2012 - 2016		31,532	192,936	224,468
2017 - 2021		118,500	182,525	301,025
2022 - 2026		155,305	148,325	303,630
2027 - 2031		214,852	91,404	306,256
2032 - 2036		88,895	36,142	125,037
2037 - 2041		22,760	17,380	40,140
2042 - 2046		46,360	2,439	48,799
Subtotal		858,554	1,091,294	1,949,848
Unamortized Bond Premium		3,445	-	3,445
Total	**$**	**861,999**	**1,091,294**	**1,953,293**

NOTE 7. LONG-TERM LIABILITIES

B. OTHER LONG-TERM LIABILITIES

A summary of changes in other long-term liabilities is shown in **Table 19** for the General Long-Term Liabilities Account Group.

Table 19 - Changes in Other Long-Term Liabilities ($000s)

Account		Balance October 1, 2000	Additions	Deductions	Balance September 30, 2001
General:					
Accrued disability compensation (Note 14)	$	177,660	55,200	32,329	200,531
Accumulated annual leave		63,095	-	1,950	61,145
Other payroll liabilities		12,743	-	12,743	-
Accrued interest		16,193	-	1,895	14,298
Capital leases payable (Note 13)		131,167	-	9,603	121,564
Total	**$**	**400,858**	**55,200**	**58,520**	**397,538**

NOTE 8. RETIREMENT PROGRAMS

A. DEFINED BENEFIT PENSION PLANS

District full-time employees receive pension benefits either through the federally administered Civil Service Retirement System or the District's Retirement Programs and the Social Security System.

Plan Descriptions

Civil Service Retirement and Social Security Systems

The Civil Service Retirement System (5 U.S.C. 8331), a cost sharing multiple employer public employee retirement system, covers permanent full-time employees hired before October 1, 1987 (except those covered by the District Retirement Program) and the Social Security System (42 U. S. C. 301), which covers all other employees (except those covered by the District Retirement Program.)

The Balanced Budget Act of 1997 (P. L. 105-33) mandated an increase in the District's contribution for most Civil Service covered employees from 7% to 8.51% (9.01% for law enforcement officers and firefighters.) This increase became effective for the first pay period ended on or after October 1, 1997. The contribution rate will revert to 7.5% in October 2002, and then back to 7% in January 2003. The employee contribution rate for Civil Service covered employees changed to 7.0% on January 2001.

District contributions to the pension plans administered by the federal government, for the years ended September 30, 2001, 2000, and 1999 were as shown in **Table 20**.

NOTE 8. RETIREMENT PROGRAMS

Table 20 - Summary of District Contributions to Federally Administered Pension Plans ($000s)

Plan	Rate	Employees		2001	2000	1999
Civil Service	7.00%	8,417	$	27,309	29,027	33,245
Social Security	7.65%	8,548		48,037	34,571	34,417
Total			**$**	**75,346**	**63,598**	**67,662**
Total Payroll			**$**	**1,198,182**	**1,606,136**	**1,492,649**

The District has no further liability to the plans.

District Retirement Programs

The Retirement Board administers the District's Retirement Programs (D.C. Code 4-601, 11-1561, 31-120), which are single employer defined benefit pension plans, one established for police and firefighters and the other for teachers.

Each of the two plans provides retirement, death and disability benefits, and annual cost of living adjustments to plan members and beneficiaries. Each pension trust fund issues a publicly available financial report that includes financial statements and required supplementary information. These reports can be obtained from the District of Columbia Retirement Board, Executive Director, 1400 L Street, N. W., Suite 300, Washington, D. C. 20005.

Funding Policy

The Retirement Board establishes, for each pension trust fund, the contribution requirements of plan members and the District government. The Retirement Board, when deemed necessary, may amend these requirements. A summary of the actuarial assumptions is shown in **Table 21.**

Fund members contribute by salary deductions on the basis of a normal rate of contributions, which is assigned by the Fund at membership. Members contribute 7% (or 8% for teachers hired on or after November 16, 1996) of annual pay minus any pay received for summer school. Fund members may also contribute up to 10% of annual pay toward an annuity in addition to any vested pension.

The District is required to contribute the remaining amounts necessary to finance the coverage of its employees through periodic contributions at actuarially determined amounts in accordance with the provisions of the Replacement Act. The District contributions for fiscal year 2001, 2000 and 1999 were equal to the Fund's independent actuary's recommendation.

Pursuant to D.C. Code, Chapter 12, Title 31, contribution requirements of the Fund members' and the District are established and may be amended by the City Council. Administrative costs are financed through investment earnings.

Under P. L. 105-33, the federal government makes annual contributions to the Police and Firefighters' Plan and to the Teachers' plan on behalf of District employees and retirees. These on-behalf payments totaled $197,100 for the year ended September 30, 2001 and have been reported as intergovernmental revenue. Related expenditures of $802 and $196,298 have been reported in the public education system and public safety and justice functions.

(Dollars in Thousands) Notes to the Financial Statements

NOTE 8. RETIREMENT PROGRAMS

Table 21 - Actuarial Assumptions

	Police and Fire	Teachers
Contribution rates Plan members	7% - 8%	7% - 8%
Actuarial valuation date	10/01/99	10/01/99
Actuarial cost method	Aggregate	Aggregate
Asset valuation method	Market value	Market value
Actuarial assumptions:		
Investment rate of return	7.25%	7.25%
Projected salary increases	5.5% - 8.8%	5.3% - 8.8%
Inflation rate	5%	5%
Cost of living adjustments	5%	5%

* The aggregate actuarial cost method does not identify or separately amortize unfunded actuarial liabilities.

Pension Cost

A summary of the pension costs for the last three years, and related employer contributions is provided in **Tables 22** and **23**.

Table 22 - Police and Fire Pension Plan

Year Ended	Annual Pension Cost (APC) (millions)	Percentage of APC Contributed	Net Pension Obligation
09/30/99	$35.1	100%	$0
09/30/00	39.9	100%	0
09/30/01	49.0	100%	0

Table 23- Teachers Pension Plan

Year Ended	Annual Pension Cost (APC) (millions)	Percentage of APC Contributed	Net Pension Obligation
09/30/99	$18.6	100%	$0
09/30/00	10.7	100%	0
09/30/01	.2	100%	0

NOTE 8. RETIREMENT PROGRAMS

Actuarially Required Contributions

The District made its actuarially required contribution of $49.0 million to the Police and Firefighters' Plan and $.2 million to the Teachers' Plan during the year ended September 30, 2001.

B. DEFINED CONTRIBUTION PENSION PLANS

District of Columbia

Under the provisions of D. C. Code 1-627, the District sponsors a defined contribution pension plan with a qualified trust under Internal Revenue Code section 401(a) for permanent full-time employees covered under the Social Security System. Employees do not contribute to the plan and are eligible to participate after one year of service. The District contributes 5% of base salaries for eligible employees each pay period. This contribution rate is 5.5% of base salaries for detention officers. Contributions and earnings vest fully after four years of service following a one-year waiting period. Contributions and earnings are forfeited if separation occurs before five years of credited service. These contributions are not considered assets of the District, and the District has no further liability to this plan. For the fiscal year ended September 30, 2001, District contributions to the plan were $15,628.

University Component Unit

The University sponsors a contributory pension and retirement plan administered by the Teachers Insurance and Annuity Association/College Retirement Equities Fund (TIAA/CREF.) Eligible employees are those on the faculty and administrative staff of the University. The employees have the option to contribute a minimum of 5% of base salaries. The University contributes a percentage of each employee's base salary as follows: 15% for general faculty, 7% for law school faculty, and 7% for administrative staff. University contributions to the plan in fiscal year 2001 were $2,690. Generally, employees are fully vested in both their contributions and in those of the University.

C. DEFERRED COMPENSATION PLANS

Internal Revenue Code Section 403 Plan

The District sponsors an annuity purchase plan (D. C. Code 31-1252) with insurance companies and other issuers in accordance with IRC Section 403 for public teachers covered by the District Retirement Program. The District does not contribute to this plan and has no liability to the plan. Under this annuity purchase plan, eligible employees may defer up to $10,500 of their annual compensation. Employees with more than fifteen years of service may defer up to $13,000. Contributions vest immediately and are not assets of the District.

Internal Revenue Code Section 457 Plan

The District offers its employees a deferred compensation plan (D. C. Code 47-3601) created in accordance with Internal Revenue Code Section 457. Employees, other than teachers, may defer up to 25% of their annual compensation, not to exceed $8,500. Compensation deferred and income earned are taxable when paid or made available to the participant or beneficiary upon retirement, death, termination, or unforeseeable emergency. Contributions are not assets of the District, which has no further liability to the plan.

NOTE 9. FUND BALANCE RESERVATIONS

Reserved fund balances at September 30, 2001 are shown in **Table 24**.

Table 24 - Schedule of FY 2001 Reserved Fund Balance ($000s)

Reserved		General Fund	Special Revenue Fund	Capital Projects Fund	Trust & Agency Fund
Debt service – bond escrow	$	203,992	65,692	-	-
Emergency cash reserve fund		100,858	-	-	-
Long-term assets		16,092	-	-	-
Other assets		8,982	-	-	-
Inventories		11,683	-	-	-
Purpose restrictions		70,903	-	2,462	-
Operations		58,401	-	-	-
Joint venture capital subsidies		-	-	57,199	-
Future benefits		-	-	-	2,176,179
Encumbrance				54,444	
Total Reserved Fund Balance	**$**	**470,911**	**65,692**	**114,105**	**2,176,179**

The general capital improvement fund has a negative fund balance of $(57,943) at September 30, 2001, which will be eliminated by additional operating transfers from the general fund during fiscal year 2002.

NOTE 10. COMPONENT UNITS

The financial reporting entity includes five discretely presented component units as of September 30, 2001, which provide a variety of public services to District residents and businesses. Condensed balance sheets for the component units that are included in the component units column of the combined balance sheet as of September 30, 2001, are shown in **Table 25.**

Tables 26 and 27 present condensed statements of revenues, expenses and changes in retained earnings and cash flows for each component unit other than the University for the year ended September 30, 2001. Information related to the operations of the Public Benefit Corporation (PBC) is for the seven months ended April 30, 2001, the date on which PBC ceased operations as a separate legal entity. Statements of changes in fund balance and current funds revenues, expenditures and other changes for the University for the year ended September 30, 2001 in conformity with the AICPA college and University model, are presented as Exhibits 6 and 7 of the general purpose financial statements.

NOTE 10. COMPONENT UNITS

Table 25 – Condensed Balance Sheets ($000s)

Account		Water and Sewer	Convention Center	Sports Commission	Housing Finance	University	Total
Current assets	$	236,436	439,714	13,252	689,622	47,904	1,426,928
Long term assets		58,949	15,911	-	298,657	66	373,583
Fixed assets, net		1,346,140	394,353	10,593	3,042	58,493	1,812,621
Total assets	**$**	**1,641,525**	**849,978**	**23,845**	**991,321**	**106,463**	**3,613,132**
Current liabilities	$	150,014	52,769	1,317	170,586	34,732	409,418
Long-term liabilities		770,477	524,460	-	761,329	-	2,056,266
Total liabilities		**920,491**	**577,229**	**1,317**	**931,915**	**34,732**	**2,465,684**
Contributed capital		394,613	-	15,715	-	-	410,328
Investment in plant assets		-	-	-	-	58,493	58,493
Retained earnings		326,421	272,749	6,813	59,406	13,238	678,627
Total equity		**721,034**	**272,749**	**22,528**	**59,406**	**71,731**	**1,147,448**
Total liabilities and equity	**$**	**1,641,525**	**849,978**	**23,845**	**991,321**	**106,463**	**3,613,132**

Table 26 – Condensed Statements of Revenues, Expenses and Changes in Retained Earnings ($000s)

Account		Public Benefit Corporation	Water and Sewer	Convention Center	Sports Commission	Housing Finance	Total
Operating revenues	$	106,319	237,480	9,811	8,421	50,179	412,210
Operating expenses:							
Depreciation		233	32,971	1,186	1,171	171	35,732
Other		112,935	189,849	25,196	8,396	30,112	366,488
Operating income (loss)		**(6,849)**	**14,660**	**(16,571)**	**(1,146)**	**19,896**	**9,990**
Nonoperating revenues, net		42,059	6,376	240	-	5,613	54,288
Transfers from primary government		131,886	-	55,851	-	-	187,737
Net income (loss)		**167,096**	**21,036**	**39,520**	**(1,146)**	**25,509**	**252,015**
Depreciation added back		-	4,570	-	-	-	4,570
Retained earnings at October 1, as restated		(167,096)	300,816	233,228	7,959	33,897	408,804
Retained earnings at September 30	**$**	**-**	**326,422**	**272,748**	**6,813**	**59,406**	**665,389**

10. COMPONENT UNITS

During 2001, the Washington Convention Center Authority (the "WCCA") determined that the existing convention center (land and building) no longer be included in its financial statements. WCCA (lessee) and the District of Columbia (lessor) effectively entered into a capital lease agreement when WCCA was created in 1994 and took sole responsibility for operating the existing convention center. Since WCCA will no longer operate the existing convention center, subsequent to March 2003, when the new convention center opens, a determination was made to treat the existing convention center arrangement as an operating lease. In accordance with the criteria established to account for an operating lease the building and land should be removed from the WCCA financial statements and be recorded in the District's financial statements. Additionally, the WCCA elected to use the depreciation add-back feature retroactive to the date that the responsibility for the convention center was transferred from the District to the WCCA. Consequently, contributed capital and retained earnings at September 30, 2000 and 1999, have been restated.

Table 27 – Condensed Statements of Cash Flows ($000s)

Account	Public Benefit Corporation	Water and Sewer	Convention Center	Sports Commission	Housing Finance	Total
Operating activities	$ 48,672	50,038	(4,060)	(1,974)	34,089	126,765
Capital and related financing activities	-	(96,136)	(159,450)	(1,786)	(243)	(257,615)
Noncapital financing activities	(48,824)	10,434	56,575	(2,177)	135,910	151,918
Investing activities	-	11,431	240	-	(61,479)	(49,808)
Increase (decrease) in cash	**(152)**	**(24,233)**	**(106,695)**	**(5,937)**	**108,277**	**(28,740)**
Cash and investments at October 1	152	156,687	540,687	17,967	567,147	1,282,640
Cash and investments at September 30	**$ -**	**132,454**	**433,992**	**12,030**	**675,424**	**1,253,900**

Complete financial statements for each component unit can be obtained from the following locations:

Convention Center

Washington Convention Center
General Manager
900 Ninth Street, N. W.
Washington, D. C. 20005

University

University of the District of Columbia
President
Van Ness Campus
4200 Connecticut Avenue, N. W.
Washington, D. C. 20008

Housing Finance

D. C. Housing Finance Agency
Executive Director
815 Florida Avenue, NW
Washington, D. C. 20001

Water and Sewer

Water and Sewer Authority
General Manager
5000 Overlook Avenue, S. W.
Washington, D. C. 20032

Sports Commission

Sports and Entertainment Commission
General Manager
2001 East Capitol Street, S.E.
Washington, D. C. 20003

NOTE 11. JOINT VENTURE

Washington Metropolitan Area Transit Authority

The Washington Metropolitan Area Transit Authority (WMATA) was created by Interstate Compact by and between Maryland, Virginia and the District of Columbia, pursuant to Public Law 89-774. The District's commitment or obligation to provide financial assistance to WMATA is established by annual appropriations, as approved by Congress. The District supports the Transit Authority through operating and capital grants. The District places the amounts to be provided to WMATA in an escrow account until such time when the funds are drawn down for use by WMATA. Operating grants may be in the form of operating and interest subsidies. WMATA records the District's operating grants as advanced contributions when received and as nonoperating revenues when the related expenses are incurred. WMATA recognizes the District's capital grants as additions to construction in progress and contributed capital when the grant resources are expended for capital acquisitions.

A summary of the grants provided to WMATA during the year ended September 30, 2001 is shown in **Table 28.**

Table 28 - Summary of Grants Provided to WMATA ($000s)

Account		2001
Operating grants	$	130,567
Debt service grants		10,331
Capital grants		28,500
Total	$	169,398

The WMATA issues separate audited financial statements that can be requested from the Washington Metropolitan Area Transit Authority, General Manager, 600 5th Street, NW, Washington, D. C. 20001.

NOTE 12. TRANSACTIONS WITH THE FEDERAL GOVERNMENT

A. FEDERAL CONTRIBUTION

In accordance with the National Capital Revitalization and Self-Government Improvement Act of 1997 (Public Law 105-33), the annual federal payment in lieu of taxes was repealed and replaced with a Federal contribution to reflect restrictions and unusual costs imposed on the District by the Federal government. Federal contributions to the General Fund for the year ended September 30, 2001 totaled $370,061 .

B. OPERATING GRANTS

The District participates in a number of federal award programs, which are funded through formula and project grants, direct payments for specified and unrestricted use, food stamps and other pass-through grants and direct and guaranteed loans.

A summary of federal operating grant expenditures (by function) for the general fund for the year ended September 30, 2001 is shown in **Table 29.**

NOTE 12. TRANSACTIONS WITH THE FEDERAL GOVERNMENT

Table 29 – Federal Grant Expenditures by Function ($000s)

Function		2001
Governmental direction and support	$	14,945
Economic development and regulation		80,994
Public safety and justice		25,276
Public education system		108,679
Human support services		947,294
Public works		2,587
Receiverships		99,339
Total general fund	**$**	**1,279,114**

C. CAPITAL GRANTS

The federal government also provides capital grants, which are used for the purchase or construction of fixed assets. Capital grants, except for those associated with water and sewer facilities, are recorded as intergovernmental revenue in the Capital Projects Funds.

A summary of capital grants by type for the year ended September 30, 2001 is shown in **Table 30**.

Table 30 - Capital Grants by Type ($000s)

Function		2001
Pulic Safety	$	1,599
Public Education		28
Human Support		2,184
Public works		179,803
Total capital projects fund	**$**	**183,614**

D. WATER AND SEWER SERVICES

The District exercises no oversight responsibility over the Washington Aqueduct, which is owned by the Federal government and operated by the U. S. Army Corps of Engineers. Historically, the District issued long-term debt to finance most of the Aqueduct's capital facilities and the Water and Sewer Authority recorded this debt and related capital costs in its financial statements. In 1997, the Water and Sewer Authority and the other Northern

Virginia customers entered into an agreement with the federal government, which provides for the funding of the Washington Aqueduct's capital improvement program directly through borrowings. The Water and Sewer Authority is now responsible for funding only its portion of this debt, other related capital projects, and operating costs calculated as it's pro rata share of water purchased. The Water and Sewer Authority records payments for capital costs related to the Washington Aqueduct as purchased capacity. Such costs, which are allocable to other jurisdictions, but funded by the Water and Sewer Authority prior to April 1, 1999 are reported as due from other jurisdictions.

Capital outlays are capitalized and depreciated over 60 years by the Water and Sewer Authority. Total capital outlays including capitalized interest from the U. S. Treasury drawdowns and pay-as-you-go financing were $16,637 for the fiscal year ended September 30, 2001.

NOTE 13. LEASES

A. CAPITAL LEASES

The District leases buildings and equipment under various agreements that are accounted for as capital leases that have varying terms. Capital lease commitments for the governmental funds are reported in the General Long-Term Liabilities Account Group and the related assets (e.g., buildings and equipment) are reported in the General Fixed Assets Account Group.

Capital lease payments are classified as current expenditures in the governmental funds. Such expenditures totaled $15,964 in 2001.

Master Lease

The District began its Master Equipment Lease Purchase Program. (the "Program") in 1998 to provide tax exempt financing for projects with short-term to intermediate-term useful lives. The Program enables the District to improve its asset/liability management by matching the useful life of the asset being financed to the amortization of the liability (5 to 10 years).

Lease payment obligations are not debt nor are they general obligations of the District, but are payable from appropriation. Each schedule under the Program sets forth the principal and interest components of each rental payment payable during the lease term.

As of September 30, 2001, the District had financed approximately $22.6 million of its capital equipment needs through the Program, and had approximately $15 million in principal outstanding. During the year, the average interest rate used to finance equipment through the Program was 4.210%, with payments being made on a quarterly basis.

Equipment procured under this program include such items as fire apparatus (trucks) and other emergency medical services equipment (ambulances); trucks and cranes used by the Department of Public Works; vehicles used by the Metropolitan Police Department; and other heavy equipment items. There was no master lease transactions in fiscal year 2001.

Other Leasing Arrangements

In 1997, the District entered into an agreement for a third party to operate the Correctional Treatment Facility for twenty years. As part of this transaction, the District sold the facility to the third party and leased it back from the third party for twenty years. At the end of the lease, the facility will return to the District. Upon early termination of this agreement, the lease will be terminated and the District will buy out the balance of the lease payments.

B. OPERATING LEASES

Operating leases are not recorded in the balance sheet. These leases contain various renewal options, the effects of which are reflected in the minimum lease payments only if it is considered that the option will be exercised. Certain other operating leases contain escalation clauses and contingent rentals that are not included in the calculation of the future minimum lease payments. Operating lease expenditures recorded in governmental funds were $99,658 in 2001.

C. SCHEDULES OF FUTURE MINIMUM LEASE COMMITMENTS

The present value of future minimum lease payments under capital leases (including the Master Lease) and minimum lease payments for all operating leases having noncancelable terms in excess of one year at September 30, 2001 is shown in **Table 31**.

NOTE 13. LEASES

Table 31 - Schedule of Future Minimum Lease Payments ($000s)

	Primary Government			Component Units	
		Operating Leases		Operating Leases	
Year Ending September 30	**Capital Leases**	**Facilities**	**Equip-ment**	**Facilities**	**Equip-ment**
2002	$ 15,967	76,298	1,024	1,225	414
2003	15,946	78,631	500	1,240	77
2004	15,457	78,937	327	1,240	71
2005	11,972	80,519	291	1,241	31
2006	10,828	83,226	86	1,241	-
Thereafter	84,672	211,272	-	414	-
Minimum lease payments	**154,842**	**608,883**	**2,228**	**6,601**	**593**
Less - imputed interest	33,278				
Present value of payments	**$ 121,564**				

NOTE 14. COMMITMENTS AND CONTINGENCIES

A. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District covers all claim settlements and judgments out of its General Fund resources and currently reports all of its risk management activities in its General Fund. Claims expenditures and liabilities are reported when it is probable that loss has occurred and the amount of that loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported.

B. GRANTS AND CONTRACTS

Federally Assisted Programs

The District has received federal grants for specific purposes that are subject to review and audit by the grantor agencies. Claims against these resources are generally conditional upon compliance with the terms and conditions of grant agreements and applicable federal regulations, including the expenditure of resources for allowable purposes. Any disallowance resulting from an audit may become a liability of the District. The audits of these federally assisted programs have not been conducted for the year ended September 30, 2001 and various prior years. As such, the District's compliance with applicable grant and federal requirements will be assessed and established at some future date. An accrual of $57,720 in the General Fund has been provided which estimates the probable cumulative expenditures that may be disallowed by the granting agencies based on prior experience.

C. LITIGATION

The District is named as a party in legal proceedings and investigations that occur in the normal course of governmental operations. Although the ultimate outcome of these legal proceedings and investigations is unknown, the District is vigorously defending its position in each case. All amounts in connection with lawsuits in which a loss is probable have been included in the provision for claims and judgments at September 30, 2001.

A summary of the changes in the accrued liability for claims and judgments in the General Fund is shown in **Table 32**.

Table 32 - Summary of Changes in Claims and Judgments Accrual

Description	2001	2000
Liability at October 1	**$ 95,271**	**129,602**
Incurred claims	26,951	36,500
Less - claims payments/adjustments	35,332	70,831
Liability at September 30	**$ 86,890**	**95,271**

Notes to the Financial Statements (Dollars in Thousands)

NOTE 14. COMMITMENTS AND CONTINGENCIES

The accrued liability is based on estimates of the payments that will be made upon judgment or resolution of the claim. No accrual has been provided for possible but not probable additional claims, which are estimated to be approximately $111,943.

D. DISABILITY COMPENSATION

The District, through the Department of Employment Services, administers a disability compensation program under Title XXIII of the District of Columbia Comprehensive Merit Personnel Act of 1978 (CMPA). This program, which covers all District employees hired under the authority of CMPA, provides compensation for lost wages, medical expenses, and other limited rehabilitation expenses to eligible employees and/or their dependents, where a work-related injury or illness results in disability or death. The benefits are funded on a pay-as-you-go basis. The present value at 6.3% of projected disability compensation is accrued in the General Long-Term Liabilities Account Group.

A summary of changes in this accrual is shown in **Table 33**.

Table 33 – Summary of Changes in Disability Compensation Accrual

Description	2001	2000
Liability at October 1	**$ 177,660**	**198,285**
Claims incurred	55,200	50,925
Less - benefit payments	32,329	26,840
Adjustments to insured events of prior years	-	(44,710)
Liability at September 30	**$ 200,531**	**177,660**

E. INTEREST RATE SWAP AGREEMENTS

The District has entered into interest rate swap agreements for two variable rate bond issues (1991B and 2001A), of which $72,200 and $114,150 are outstanding at September 30, 2001, respectively. The agreements are for the term of the related outstanding bonds. Based on the rate swap agreements, the District owes interest to the counter parties to the swap calculated at a fixed rate of 5.80% and 6.02% respectively. In return, the counter parties owe the District interest based on a variable rate. Only the net difference in interest payments is actually exchanged between the counter parties. The District continues to pay interest to the bondholders at the variable rate as provided by the bonds, and the net interest payment under the swap agreements adjusts the net interest rate paid by the District on these bonds to an approximate fixed rate (the fixed rates stated above). The District will be exposed to variable rates on the bonds if the counter party defaults or if a swap agreement is terminated. Terminating a swap agreement may result in the District making or receiving a termination payment related to market rates at that time.

F. DEBT SERVICE DEPOSIT AGREEMENTS

The District entered into debt service deposit agreements effective through 2014 that exchanged future cash flows of certain special tax fund escrow accounts for a fixed amount received by the District upon entering into the agreements, thus increasing the predictability of cash flows from the earnings on escrow account investments. Upon early termination of an agreement and depending upon the then current interest rates, a termination amount may be owed by the District.

G. IMPACT OF ACTS OF TERRORISM

As a result of the September 11th terrorist attack, the District's economy took a direct and immediate hit. The continuing fear of further incidents, such as the anthrax threat, requires careful distribution of funding and the tracking of services. The consequences of that sad event, and the aftermath, strains just about every District agency's budget, revenue stream and general operation. The negative economic impact on tourism, the convention and hospitality industry, transportation, and retail sales is already evident. Revenues from sales and use, income and franchise, gross receipts, property and other taxes will most likely shrink. The effects will definitely extend to employment in these and other sectors of the economy. The likelihood of reduced business activity may well extend into the foreseeable future.

The District was awarded $156 million, out of its $250 million request, for Emergency Preparedness Funds following the September 11 terrorist attacks. Additionally, the District was awarded $12.7 million for the development and implementation of an Emergency Plan for the District.

NOTE 15. NEW ACCOUNTING PRONOUNCEMENT

In June 1999, GASB issued GASB Statement No. 34 "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments," This Statement establishes financial reporting standards for state and local governments, including changes to the basic financial statements and required supplementary information. The District is required to implement these statements in the year ending September 30, 2002, and is currently assessing the impact of these new standards.

NOTE 16. DISCONTINUED OPERATIONS

A. PUBLIC BENEFIT CORPORATION (PBC)

The Public Benefit Corporation (PBC) was created in 1996 to provide comprehensive, community-centered health care to residents of the District by assuming the functions and personnel of the D. C. General Hospital and the Commission on Public Health Community Clinics. PBC was created as an enterprise agency that by definition should be self-supporting. At the time, it was thought that the establishment of the PBC would reduce expenditures, promote economy, and increase the efficiency with which health care services would be provided to residents. However, it had been faced with severe financial difficulties since its inception.

Various factors contributed to the financial difficulties, including the presence of excessive and duplicative hospital facilities, decreased admissions and lengths of stay due to the presence of managed care, increasing substitution of community-based care for hospital-based services and by stringent payment policies adopted by Medicare, Medicaid, and private payers. Because of these financial difficulties, PBC continuously experienced budget deficits and had to depend on cash advances from the District to survive. PBC also had difficulty in maintaining its physical plant. Independent reports prepared for the District estimated that the cost of repairing and updating the Hospital would be as much as $100 million. PBC borrowed $109 million from the District to continue operating between fiscal years 1998 and 2000. During the fiscal year ended September 30, 2000, the District wrote off $42 million of this amount to bad debt. The District of Columbia Appropriations Act for the fiscal year 2001 prohibited the Chief Financial Officer from advancing additional funds to the PBC. The absence of additional funding after PBC depleted its fiscal year 2001 subsidy from the District in the amount of $45.3 million forced it to discontinue its operations as of April 30, 2001.

The Council of the District of Columbia in conjunction with the District of Columbia Financial Responsibility and Management Assistance Authority enacted a resolution cited as the "Health Care Privatization Emergency Amendment Act of 2001 Emergency Declaration Resolution of 2001". This resolution ordered the closure of PBC, established a Health Care Safety Net Administration in the Department of Health (DOH) and transferred functions of PBC to DOH.

Effective May 1, 2001, the District's Department of Health was given the responsibility to oversee the activities of the discontinued PBC during the phase-out period. The District engaged a private provider to deliver the healthcare services formerly provided by the PBC and the residual net liabilities of the PBC were transferred to the Department of Health within the general fund.

B. THE DISTRICT OF COLUMBIA FINANCIAL RESPONSIBILITY AND MANAGEMENT ASSISTANCE AUTHORITY (THE AUTHORITY)

When Congress passed PL 104-8 creating the Authority in 1995, in response to the District's then ongoing financial and operational problems, it defined the initial control period to commence on the effective date of the Authority Act and to terminate only upon specific statutory findings of the Authority, after consultation with the Inspector General, that (i) the District has access to both short-term and long-term markets at reasonable interest rates to meet its borrowing needs; (ii) all of the Authority's borrowings and all U. S. Treasury advances have been repaid; and (iii) for each of four consecutive fiscal years (occurring after the date of the enactment of the Authority Act or commencement of a control period) the expenditures of the District did not exceed its revenues, as determined in accordance with GAAP.

Under the Authority Act, the Authority was to suspend its activities 12 months after the Authority certified that all borrowings and all U. S. Treasury advances have been repaid. The Authority made this certification on September 20, 2000, along with the required certification that the District has adequate access to both the short-term and long-term credit markets at reasonable interest rates to meet its borrowing needs.

For fiscal years 1997, 1998, and 1999, the District's revenues exceeded expenditures, resulting in a surplus for each of these years. For fiscal year 2000, the Authority

NOTE 16. DISCONTINUED OPERATIONS

certified the termination of the initial control period upon receipt of the District's audited financial statements for fiscal year 2000, verifying that the District achieved a surplus in that year. As a result of the foregoing, the operations of the Authority were suspended on September 30, 2001, and all residual assets were transferred to the District's general fund.

NOTE 17. SUBSEQUENT EVENTS

A. ISSUANCE OF BONDS

On December 6, 2001, the District issued Series 2001C and 2001D Bonds in the aggregated principal amount of $283,870. The proceeds of the Bonds are to be used to fund a portion of the District's fiscal year 2001 Capital Improvement Program, defease a portion of the District's outstanding General Obligation Bonds and to pay the costs and expenses of issuing and delivering the Bonds. The Bonds, together with the District's outstanding general obligation bonds and bonds issued in the future are secured by the Special Real Property Tax and are issued under Section 461 of the Home Rule Act. The Bonds bear interest from their date of issue at a variable rate unless converted to a fixed interest rate. The Series 2001C will mature on June 1, 2026, while the Series 2001D mature on June 1, 2029.

B. HOUSING FINANCE AGENCY

The Agency issued Series 2001 Multi-Family Housing Mortgage Revenue Bonds of $8,000. In addition, the Agency issued Single Family Draw-Down Series 1999A Bonds for $35,000 and $16,830.