Financial Section

General Purpose Financial Statements

Combining and Individual Fund Statements and Schedules

Government of the District of Columbia

Office of the Chief Financial Officer

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REPORT OF THE INDEPENDENT AUDITORS

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

District of Columbia Financial Responsibility
And Management Assistance Authority

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, 2000, 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 the 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.

As discussed in Note 15 to the general purpose financial statements, the District of Columbia Financial Responsibility and Management Assistance Authority (Authority) was created by Public Law 104-8 to provide oversight of District financial management activities and may be suspended if certain conditions set forth in this law are met. The Authority is reported as a special revenue fund of the District.

The Public Benefit Corporation (PBC), a discretely presented component unit of the District, has suffered recurring losses from operations and has a substantial accumulated deficit. Management's plans with respect to the ongoing nature of the activities of PBC are described in Note 10 to the general purpose financial statements.

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, 2000, 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.

In accordance with *Government Auditing Standards*, we have also issued a report dated January 26, 2001 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 identifies material weaknesses in internal control over financial reporting and noncompliance with certain provisions of laws, regulations, contracts and grants 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 in the accompanying table of contents 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 identified in the accompanying table of contents, and accordingly, express no opinion thereon.

KPMG LLP

January 26, 2001

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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, 2000
($000s)

	Governmental Fund Types			Proprietary Fund Type	Fiduciary Fund Type	Account Groups		
		Special Revenue						
	General	Financial Responsibility Authority	Capital Projects	Enterprise	Trust and Agency	General Fixed Assets	General Long Term Liabilities	Component Units
ASSETS AND OTHER DEBITS								
Cash and investments								
Restricted	$ 205,712	-	73,554	76,878	2,955,780	-	-	569,379
Unrestricted	537,657	955	78,621	8,846	-	-	-	777,921
Taxes receivable, net	194,219	-	-	-	-	-	-	-
Accounts receivable, net	70,718	-	16,740	3,951	25,644	-	-	113,454
Due from Federal government	479,384	-	30,816	-	198	-	-	47,679
Due from primary government	-	-	-	-	-	-	-	31,047
Due from component units	22,784	-	-	-	-	-	-	-
Interfund receivables	62,451	167	440,490	-	4,532	-	-	-
Inventories	15,479	-	-	556	-	-	-	11,415
Properties held for resale	-	3,151	-	-	-	-	-	-
Loans receivable, net	13,403	-	-	-	-	-	-	265,405
Deferred charges	-	-	-	-	-	-	-	28,131
Property and equipment, net	-	-	-	480	-	3,099,917	-	1,669,831
Other assets	9,773	1,373	-	6	41,277	-	-	4,409
Resources available in general fund	-	-	-	-	-	-	156,369	-
Resources to be provided	-	-	-	-	-	-	3,354,217	-
Total assets and other debits	$ 1,611,580	5,646	640,221	90,717	3,027,431	3,099,917	3,510,586	3,518,671

Exhibit 1 (continued)

	Governmental Fund Types			Proprietary Fund Types	Fiduciary Fund Type	Account Groups		
		Special Revenue						
	General	Financial Responsibility Authority	Capital Projects	Enterprise	Trust and Agency	General Fixed Assets	General Long Term Liabilities	Component Units
LIABILITIES, EQUITY AND OTHER CREDITS								
Payables:								
Accounts	$ 339,800	1,230	136,608	1,763	179,890	-	-	82,059
Compensation	152,851	238	-	613	-	-	-	28,159
Due to primary government	-	-	-	-	5,563	-	-	64,843
Due to component units	25,484	-	-	-	-	-	-	-
Interfund	4,509	-	14,397	-	488,734	-	-	-
Accrued liabilities	359,944	-	-	7,730	-	-	-	53,459
Deferred revenue	243,784	-	24,447	133	-	-	-	114,276
Current maturities	-	-	-	-	-	-	-	17,691
General obligation bonds payable	-	-	-	-	-	-	3,109,728	91,181
Other bonds and loans payable	-	-	-	-	40,107	-	-	1,585,888
Other liabilities	20,271	3,151	6,339	77,203	-	-	400,858	374,152
Total liabilities	1,146,643	4,619	181,791	87,442	714,294	-	3,510,586	2,411,708
Equity and other credits:								
Other credits:								
Investment in general fixed assets	-	-	-	-	-	3,099,917	-	-
Contributed capital	-	-	-	-	-	-	-	699,627
Retained earnings	-	-	-	3,275	-	-	-	407,336
Fund balances:								
Reserved	474,583	-	458,430	-	2,313,137	-	-	-
Unreserved	(9,646)	1,027	-	-	-	-	-	-
Total equity and other credits	464,937	1,027	458,430	3,275	2,313,137	3,099,917	-	1,106,963
Total liabilities, equity and other credits	$ 1,611,580	5,646	640,221	90,717	3,027,431	3,099,917	3,510,586	3,518,671

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, 2000
($000s)

	Governmental Fund Types			Fiduciary Fund Type
		Special Revenue		
	General	Financial Responsibility Authority	Capital Projects	Expendable Trust
Revenues:				
Taxes	$ 3,127,849	-	-	108,268
Licenses and permits	44,446	-	-	-
Fines and forfeits	54,865	-	-	-
Charges for services	174,438	-	-	-
Benefit contributions	-	-	-	8,721
Investment income	31,933	2,930	8,075	14,906
Miscellaneous	182,585	6	24,033	-
Federal contributions	435,381	-	132,224	-
Operating grants	1,253,445	-	-	-
Total revenues	5,304,942	2,936	164,332	131,895
Expenditures:				
Current:				
Governmental direction and support	247,664	6,019	-	-
Economic development and regulation	180,443	-	-	-
Public safety and justice	924,843	-	-	-
Public education system	899,763	-	-	-
Human support services	1,552,495	-	-	80,896
Public works	135,067	-	-	-
Receiverships	366,961	-	-	-
Employee benefits addition (deduction)	13,968	-	-	-
Capital outlay	-	-	413,038	-
Joint venture subsidies	135,531	-	22,298	-
Debt service:				
Principal	220,054	-	-	-
Interest and fiscal charges	175,058	-	-	-
Total expenditures	4,851,847	6,019	435,336	80,896
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	453,095	(3,083)	(271,004)	50,999
Other Financing Sources (Uses):				
Proceeds of:				
General obligation bonds	2,689	-	186,663	-
Capital leases	-	-	9,144	-
Sales of fixed assets	-	-	2,727	-
Uncollectible prior years' advances	(41,415)	-	-	-
Operating transfers in	69,450	3,140	51,975	-
Operating transfers out	(51,976)	-	-	-
Operating transfers to component units	(191,116)	-	-	-
Total other financing net sources (uses)	(212,368)	3,140	250,509	-
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	**240,727**	**57**	**(20,495)**	**50,999**
Fund Balances at October 1 (restated)	**224,210**	**970**	**478,925**	**220,662**
Fund Balances at September 30	**$ 464,937**	**1,027**	**458,430**	**271,661**

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, 2000
($000s)

	Original	Budget Revisions	Revised	Actual	Variance - Favorable (Unfavorable)
Revenues and Other Sources:					
Taxes:					
Property taxes	$ 693,700	(41,450)	652,250	692,781	40,531
Sales and use taxes	620,000	6,565	626,565	698,861	72,296
Income and franchise taxes	1,185,100	94,755	1,279,855	1,338,564	58,709
Other taxes	348,500	(10,417)	338,083	353,621	15,538
Total taxes	2,847,300	49,453	2,896,753	3,083,827	187,074
Licenses and permits	48,498	(7,504)	40,994	43,754	2,760
Fines and forfeits	56,771	(3,495)	53,276	53,216	(60)
Charges for services	34,173	3,629	37,802	37,257	(545)
Miscellaneous	93,558	6,827	100,385	118,207	17,822
Private & other	318,574	29,488	348,062	308,607	(39,455)
Federal contributions	23,750	-	23,750	23,576	(174)
Operating grants	1,231,408	301,973	1,533,381	1,256,673	(276,708)
General obligation bonds	-	-	-	2,689	2,689
Transfer of interest income	23,000	-	23,000	1,745	(21,255)
Transfer in from Lottery Board	69,000	-	69,000	69,450	450
Tax Parity Act	(58,950)	58,950	-	-	-
Total revenues and other sources	4,687,082	439,321	5,126,403	4,999,001	(127,402)
Expenditures and Other Uses:					
Governmental direction and support	167,356	81,573	248,929	217,300	31,629
Economic development and regulation	190,335	70,181	260,516	174,267	86,249
Public safety and justice	778,770	19,872	798,642	826,063	(27,421)
Public education system	867,411	90,868	958,279	901,096	57,183
Human support services	1,526,361	112,095	1,638,456	1,590,917	47,539
Public works	271,395	10,835	282,230	271,035	11,195
Receiverships	342,077	27,094	369,171	358,753	10,418
Workforce investments	8,500	(8,147)	353	-	353
Buyouts and other management reforms	18,000	(14,352)	3,648	-	3,648
Reserve	150,000	(26,560)	123,440	-	123,440
Financial Responsibility Authority	3,140	-	3,140	3,140	-
Repay bonds and interest	328,417	(2,031)	326,386	315,656	10,730
Repay deficit bonds and interest	38,286	-	38,286	38,343	(57)
Interest on short term borrowing	9,000	-	9,000	3,002	5,998
Certificates of participation	7,950	-	7,950	7,929	21
Optical and dental insurance	1,295	-	1,295	-	1,295
Productivity bank	20,000	-	20,000	-	20,000
Management supervisory service	-	174	174	-	174
Total expenditures and other uses	4,728,293	361,602	5,089,895	4,707,501	382,394
Subtotal	(41,211)	77,719	36,508	291,500	254,992
PL 106-113 General supply schedule savings	14,457	-	14,457	-	(14,457)
PL 106-113 Management reform savings	7,000	-	7,000	-	(7,000)
PL 106-113 Productivity Savings	20,000	-	20,000	-	(20,000)
Subtotal	41,457	-	41,457	-	(41,457)
EXCESS OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES -- BUDGETARY BASIS	$ 246	77,719	77,965	291,500	213,535
Reconcile Budgetary to GAAP Basis:					
Convention center taxes				(54,524)	
Claims and judgments accrual				36,691	
Tobacco trust account				33,638	
Debt retirement not budgeted				(34,720)	
Medicaid accrual, net of revenue				(13,378)	
Operating cost from enterprise funds				(7,849)	
Increase allowance for uncollectible receivables				(7,766)	
Accrued interest				(6,124)	
Grant disallowance accrual				1,927	
All other, net				1,332	
EXCESS OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES -- GAAP BASIS				$ 240,727	

The accompanying notes are an integral part of this statement.

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Exhibit 4

COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS

PROPRIETARY FUND TYPE AND DISCRETELY PRESENTED COMPONENT UNITS

Year Ended September 30, 2000

($000s)

		Proprietary Fund Type Enterprise	Component Units
Operating Revenues:			
Charges for services	$	216,134	333,595
Miscellaneous		-	25,513
Total operating revenues		216,134	359,108
Operating Expenses:			
Lottery prize expense		124,534	-
Personal services		5,159	245,067
Contractual services		16,201	130,456
Supplies		79	38,268
Occupancy		1,590	40,115
Depreciation		155	43,269
Miscellaneous		453	77,737
Total operating expenses		148,171	574,912
OPERATING INCOME (LOSS)		67,963	(215,804)
Nonoperating Revenues (Expenses):			
Federal government support		-	34,242
Interest revenue		1,534	32,055
Interest and fiscal charges		-	(55,954)
Miscellaneous		-	(427)
Total nonoperating revenues (expenses)		1,534	9,916
INCOME (LOSS) BEFORE TRANSFERS		69,497	(205,888)
Transfers:			
Operating transfers out		(69,450)	-
Transfers in excess of appropriation		-	51,666
Operating transfers in from primary government		-	139,450
Total transfers in (out)		(69,450)	191,116
NET INCOME (LOSS)		**47**	**(14,772)**
Depreciation closed to Contributed Capital		-	9,449
INCREASE (DECREASE) IN RETAINED EARNINGS		**47**	**(5,323)**
Retained Earnings at October 1 (restated)		**3,228**	**412,659**
Retained Earnings at September 30	$	**3,275**	**407,336**

The accompanying notes are an integral part of this statement.

Exhibit 5

COMBINED STATEMENT OF CASH FLOWS

PROPRIETARY FUND TYPE AND DISCRETELY PRESENTED COMPONENT UNITS

Year Ended September 30, 2000
($000s)

	Proprietary Fund Type	
	Enterprise Fund	Component Units
Operating Activities:		
Cash receipts from customers	$ 215,123	346,390
Cash receipts from loans and interest	-	22,333
Other cash receipts	-	60,699
Mortgage and construction loans	-	(168,772)
Cash payments to vendors	(18,264)	(261,578)
Cash payments to employees	(5,123)	-
Other cash payments, including prizes	(125,376)	-
Net cash provided (used)	66,360	(928)
Capital and Related Financing Activities:		
Acquisitions of fixed assets	(235)	(232,268)
Payments of long term debt	-	(16,573)
Payments of interest and charges	-	(46,258)
Contributions of capital	-	11,007
Net cash used	(235)	(284,092)
Noncapital Financing Activities:		
Operating grant receipts	-	27,504
Operating transfers to General Fund	(69,450)	-
Operating transfers from General Fund	-	191,116
Proceeds of loans payable	-	283,247
Payments of interest and charges	-	(36,903)
Mortgages and construction loans	-	(56,910)
Receipts from other funds	-	38,483
Net cash provided (used)	(69,450)	446,537
Investing Activities:		
Receipts of interest and dividends	1,534	32,078
Payments of annuities and loans payable	(3,759)	(67,673)
Net cash used	(2,225)	(35,595)
INCREASE (DECREASE) IN CASH	**(5,550)**	**125,922**
Cash and Investments at October 1	**91,274**	**1,221,378**
Cash and Investments at September 30	**$ 85,724**	**1,347,300**

Exhibit 5

		Proprietary Fund Type Enterprise Fund	Component Units
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:			
Operating income (loss)	$	67,963	(215,804)
Depreciation		155	43,269
Miscellaneous nonoperating revenues		-	11,839
Bad debt expense		-	25
Loss on disposition of fixed assets		-	82,880
Decrease (increase) in assets:			
Receivables		(993)	33,227
Inventories		(89)	837
Other current assets		17	9,902
Loans receivable		-	-
Increase (decrease) in liabilities:			
Payables		(140)	11,924
Accrued liabilities		(842)	(14,284)
Deferred revenue		(18)	36,363
Other current liabilities		307	(1,106)
Net Cash Provided (Used)	$	66,360	(928)
Noncash contributions of capital	$	-	-

The accompanying notes are an integral part of this statement.

Exhibit 6

PENSION TRUST FUNDS

COMBINING STATEMENT OF NET ASSETS

September 30, 2000

($000s)

	Fund		
	Police and Fire	Teachers	Totals
ASSETS			
Assets:			
Cash and investments	$ 1,256,148	916,583	2,172,731
Receivables (net of allowances for uncollectibles):			
Accounts	956	1,300	2,256
Interfund	-	1,018	1,018
Total assets	**1,257,104**	**918,901**	**2,176,005**
Liabilities:			
Payables:			
Securities lending	74,927	54,164	129,091
Accounts	2,976	2,272	5,248
Interfund	190	-	190
Total liabilities	**78,093**	**56,436**	**134,529**
Net Assets:			
Held in trust for pension benefits	**$ 1,179,011**	**862,465**	**2,041,476**

The accompanying notes are an integral part of this statement.

Exhibit 7

PENSION TRUST FUNDS

COMBINING STATEMENT OF CHANGES IN NET ASSETS

Year Ended September 30, 2000

($000s)

	Fund		
	Police and Fire	Teachers	Totals
Additions:			
Benefit contributions:			
Employer	$ 39,900	10,700	50,600
Employees	16,285	23,646	39,931
Investment income:			
Interest and dividends	39,243	28,896	68,139
Net appreciation in fair value of investments	110,614	78,536	189,150
Less - investment expenses	(8,938)	(6,681)	(15,619)
Total additions	197,104	135,097	332,201
Deductions:			
Benefits	2,200	1,600	3,800
NET INCREASE	**194,904**	**133,497**	**328,401**
Net Assets held in trust for pension benefits:			
October 1	**984,107**	**728,968**	**1,713,075**
September 30	**$ 1,179,011**	**862,465**	**2,041,476**

The accompanying notes are an integral part of this statement.

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NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2000

(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 also has the power to borrow funds on behalf of the District. The President appoints the five members of the Financial Responsibility Authority, who are granted broad powers during a control year to achieve the objectives for which the Authority was created.

The District entered a control period when the Financial Responsibility Authority was activated in April 1995. Fiscal year 2000 was a control year, which is defined as a fiscal year that commences during a control period. Special conditions of a control period and a control year are described below and are further discussed in the Budgeting section of this note.

During a control year, all Acts passed by the Council, along with a fiscal impact statement, must be submitted to the Financial Responsibility Authority, which has seven (7) business days within which to review such legislation unless this period has been extended for an additional seven (7) business days. The Financial Responsibility Authority may disapprove a Council Act if it determines that the Council Act is significantly inconsistent with the District's financial plan and budget. Also during a control year, the District may not borrow funds without the prior consent of the Financial Responsibility Authority. The proceeds of the annual federal payment, borrowings by the District and borrowings by the Financial Responsibility Authority are deposited into escrow accounts that are maintained by the Financial Responsibility Authority. Such payments and proceeds are subsequently allocated to the District in such amounts and at such times as the Financial Responsibility Authority considers to be consistent with the financial plan and budget.

The Financial Responsibility Authority may also at any time submit recommendations to the District, President or Congress to ensure compliance with the financial plan and budget or otherwise promote the financial stability, responsible management, and efficient service delivery of the District. In the event that the District, within its power, does not adopt a recommendation, the Financial Responsibility Authority may "take such action concerning the recommendation as it deems appropriate, after consulting with the Committee on Governmental Reform and Oversight of the House of Representatives and the Committee on Governmental Affairs of the Senate."

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Furthermore, the Financial Responsibility Authority may at any time issue such orders, rules or regulations as it determines to be appropriate to carry out the purposes of Public Law 104 - 8 and the amendments made thereto, to the extent that the issuance of such an order, rule, or regulation is within the authority of the Mayor or the head of any department or agency of the District government. Any such order, rule or regulation is legally binding to the same extent as if issued by the Mayor or the head of any such department or agency. Public Law 104-8, section 204 (d) stipulates that the Financial Responsibility Authority's decision to issue such an order, rule, or regulation is final and not subject to judicial review.

A control period commences when at least one of the following circumstances or events occurs:

(1) There has been a borrowing from the U. S. Treasury pursuant to D. C. Code 47-3401.

(2) The District has estimated that a cash deficit will last beyond the current fiscal year or the first half of the subsequent fiscal year.

(3) The District has been unable to pay debt service, payroll, employee benefits, or interstate compact agreements.

A control period ends when both of the following conditions have occurred:

(1) The Financial Responsibility Authority determines, after consultation with the District's Inspector General, that the District has adequate and reasonable access to short-term and long-term credit markets.

(2) The District has not operated at a deficit for four (4) consecutive years.

The Financial Responsibility Authority will suspend all activities following the latest date on which either of the following occurs:

(1) Twelve (12) months after all borrowings by the Financial Responsibility Authority for the use of the District, or by the District from the U. S. Treasury pursuant to D. C. Code 47-3401 have been discharged or

(2) After the expiration of the control year in which a control period ends and in which all borrowings, as discussed above in (1) in this section have been discharged. See further discussion of Financial Responsibility Authority suspension in Note 15.

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 of Columbia has six discretely presented component units, which include the Public Benefit Corporation, Water and Sewer Authority, Convention Center, Sports and Entertainment Commission, Housing Finance Agency 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, except the Public Benefit Corporation. The District has an obligation to provide financial support to the Public Benefit Corporation, 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 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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Although the Financial Responsibility Authority is also a separate legal entity, in substance, it is 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 not financially accountable for 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 Financial Responsibility and Management Assistance Authority, Chief Financial Officer, 441 4th Street, N.W., Room 570 North, Washington, D. C., 20001.

C. RELATED ORGANIZATIONS

Three organizations are considered to be related organizations. In two of these instances, the District appoints voting members to the entities' respective boards; however, its accountability for these organizations does not extend beyond making such appointments. The District of Columbia Courts is also considered a related organization, although the District does not make appointments as previously described. In addition, the District is not financially accountable for the courts system. Due to this lack of financial accountability, related organizations are excluded from the financial reporting entity.

District of Columbia Housing Authority	Created after the District's Department of Public and Assisted Housing was abolished to provide and maintain public housing in the District. The Housing Authority was under federal receivership until September 10, 2000 and reports independently.
District of Columbia Redevelopment Land Agency	A separate legal entity with broad powers to promote redevelopment in blighted areas within the District.
District of Columbia Courts	Created as a separate legal entity by PL 105-33, for which all funding is provided by the federal government. The District does not appoint the members of the Joint Committee on Judicial Administration and is not accountable for the DC Courts operations.

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 City 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 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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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:

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

- *Special Revenue Fund*, used to account for the operations of the Financial Responsibility Authority

- *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. 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 assets held in the custody of the District or the Financial Responsibility Authority on the behalf of others as an agent.

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 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 are accounted for on a flow of economic resources 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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

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 revenues when received because they are generally not measurable until actually received. Charges for services are recorded as revenues as services are provided.

Those revenues susceptible to accrual are taxes and Federal contributions and grants. 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 as earned.

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.

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, except for the Public Benefit Corporation, do not apply Financial Accounting Standards Board statements and interpretations issued after November 30, 1989.

G. BASIS OF BUDGETING AND BUDGETARY CONTROL POLICIES

Process

During a control period, by February 1, the Mayor submits an operating budget for the upcoming fiscal year, 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 has thirty (30) days within which to review, approve and/or reject the proposed budget and financial plans. If these are rejected, the Mayor is to submit within fifteen (15) days, a revised package to the Financial Responsibility Authority. The Financial Responsibility Authority then has fifteen (15) days within which to review, approve or reject the revised submissions. After the budget and financial plans are approved, they are submitted to the Council for a 30-day review period. The Council's financial plan and budget act is submitted to the Financial Responsibility Authority for a 15-day review and approval period. If these are rejected, the Council is to submit a revised financial plan and budget to the Financial Responsibility Authority for another 15-day review and approval period. By June 15, the Mayor submits the approved financial plan and budget request act and the Financial Responsibility Authority submits a recommended financial plan and budget to the President of the United States for review, submission to Congress and enactment.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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).

At the close of 2000, actual expenditures exceeded appropriated expenditures and uses in the Public Safety and Justice function. The variance is attributed to the payment of certain claims and judgments that were in excess of the amounts budgeted for that purpose. In addition, the District exceeded the budget as established for the repayment of bonds.

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 schedule (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 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. The Financial Responsibility Authority recognizes budgetary expenditures when orders and contracts are issued rather than when goods and services are received. Annual appropriations lapse at year-end unless amounts have been duly encumbered.

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 all funds and certain component units, excluding the Financial Responsibility Authority, is pooled unless prohibited by law. The cash management

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

pool is considered to be cash because it is used as a demand deposit account by each 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, 2000, the District has invested primarily in investments backed by U. S. government agencies' securities, with the implicit guarantee of the federal government and in corporate securities. Such investments are considered to be the equivalents of cash. The Pension Trust Funds are 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, which occurs approximately three business days after the trade 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. 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.

J. 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.

K. 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. Intergovernmental payables are amounts owed to other governments.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

L. 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.)

M. 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 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	7 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. Depreciation on such fixed assets acquired through capital grants is closed to Contributed Capital and reported in the operating statements as an adjustment to net income (loss) at the Water and Sewer Authority and the University.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

N. 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.

O. 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 and Recording Policies

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.

P. 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.

Q. LONG-TERM LIABILITIES

Under the District of Columbia Home Rule Act, as amended, and the National Capital Revitalization and Self-Government Improvement Act of 1997, no long-term general obligation debt (other than refunding debt) may be issued during any fiscal year in an amount which would cause the total amount of the principal and interest paid in any fiscal year on all general obligation debt to exceed 17% of the revenues of any fiscal year. This limitation does not apply to the general obligations of the component units. 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-term liabilities directly related to and intended to be paid from the proprietary fund 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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

been accumulating and automatically applied to 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. The District did not designate any portions of fund balance during fiscal year 2000.

As of September 30, 2000, the District had established the following reservations:

Reserve for early reduction of debt – This portion of fund balance represents that portion of required fund balance (4 percent of the projected General Fund expenditures for the subsequent fiscal year) that would be available for early reduction of debt, pursuant to P.L. 106-113 and H. R. 106-479.

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 operations – 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 Pay As You Go Financing – This portion of the fund balance represents resources that would be available for the funding of capital projects or other needs utilizing current revenues.

Reserve for tobacco settlement – This portion of the fund balance represents Tobacco Settlement funds that are available for appropriation and expenditure, for purposes consistent with the corresponding legislation.

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, 2000.

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, 2000.

Reserve for inventories – This portion of fund balance represents that portion of inventories that is not available for appropriation and expenditure at September 30, 2000.

Reserve for proceeds from property sales – This portion of fund balance represents proceeds from the sale of property that are to be used for a specific purpose.

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 – 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, 2000 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, 2000.

S. POSTEMPLOYMENT BENEFITS

In addition to the pension benefits described in Note 8, employees may receive postretirement health care and life insurance benefits. In fiscal year 2000, there were 16,094 individuals eligible to receive such benefits. The cost of providing such benefits to employees hired prior to October 1, 1987 is borne by the federal government. Pursuant to D. C. Code 1-622, employees hired after September 30, 1987 who subsequently retire may be eligible to continue their health care benefits plan. Furthermore, in accordance with D. C. Code 1-623, these employees may convert their group life insurance to individual life insurance. It is this portion of the cost (that relating to employees hired after September 30, 1987) for which the District bears responsibility. The District does not record a liability for its portion of the cost of postretirement benefits but rather records such cost as expenditures when premiums are paid. During the year, $3,661 of expenditures were recognized for post-retirement healthcare and life insurance benefits.

(Dollars in Thousands) Notes to the Financial Statements

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

U. RESTATEMENTS

General Fund

In 1999, a portion of long-term debt was removed from the General Long Term Liabilities Account Group in anticipation of defeasing a portion of the outstanding bonds in 2000. The amount reclassified as current maturities should have remained in the General Long-Term Liabilities Account Group because the settlement of this debt did not require expenditure of current available resources.

Additionally, during 2000, it has been determined that the Medicaid receivables and related revenues at September 30, 1999 were overstated by $9,709. As a result of these two sets of circumstances, the fund balance in the General Fund at September 30, 1999, has been restated as follows.

As previously reported	$198,919
Adjustment for improper recording of current maturities of debt	35,000
Adjustment for overstatement of Medicaid receivables	(9,709)
As restated	$224,210

General Fixed Assets Account Group

In prior years, the District has capitalized assets related to the transit system infrastructure. During 2000, it has been determined that such assets are not to be capitalized because the District does not have equity interest in its joint venture, the Washington Metropolitan Area Transit Authority. Accordingly, these assets have been removed from the General Fixed Assets Account Group. As such, Investments in General Fixed Assets and property and equipment, net, at September 30, 1999, have been restated as follows:

	Investment in fixed assets	**Property and equipment, net**
As previously reported	$3,378,032	$3,378,032
Adjustment for proper treatment of joint venture assets	(815,778)	(815,778)
As restated	$2,562,254	$2,562,254

Capital Projects Fund

During 2000, it was determined that a transfer of funds from one cash account to the escrow account established for the joint venture with the Washington Metropolitan Area Transit Authority, should have been recorded as a reclassification between cash accounts rather than as an expenditure. As a result, fund balance of the Capital Projects Funds at September 30, 1999 has been restated, as shown below:

As previously reported	$387,531
Adjustment for overstatement of expenditures	91,394
As restated	$478,925

Discretely Presented Component Units

Convention Center

During 2000, the Convention Center determined that interest earned on unspent bond proceeds during the construction period should be offset against interest incurred during the construction period in the determination of the amount of interest to be capitalized. Consequently, retained earnings at September 30, 1999 has been restated as follows.

As previously reported	$204,155
Adjustment for overstatement of revenues	(28,114)
As restated	$176,041

Notes to the Financial Statements (Dollars in Thousands)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

University of the District of Columbia

During 2000, retained earnings of the University of the District of Columbia was restated to correct certain accounting related to tuition receivables, accrued litigation and other liabilities. Consequently, the fund balance at September 30, 1999 has been restated as follows:

As previously reported	$18,461
Adjustments to correct net tuition receivable, accrued litigation, and other accrued liabilities	1,851
As restated	$20,312

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. In accordance with District policies, substantially all deposits within the custody of the District Treasurer were insured or collateralized with securities held by the District or by its agent in the District's name. As of September 30, 2000, approximately $6 million of the $1,039,619 in deposits held by the District Treasurer were not insured or collateralized with securities held by the District or agent in the District's name. At September 30, 2000, the carrying amount of cash (deposits) for the primary government was $ 789,881 and the bank balance was $ 744,423 The carrying amount of cash (deposits) for the component units was 52,157 and the bank balance was $ 55,445

B. INVESTMENTS

Investments held by the District at September 30, 2000 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 counterparty. 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 counterparty'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 counterparty, 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, 2000 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 2000, the Pension Trust Funds (the Funds) broadly diversified investments of the District Retirement Funds to increase potential earnings or to hedge against potential losses. Derivative investments are defined as contracts, 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 counterparties to the contracts and, for asset backed securities and collateralized mortgage obligations, the creditworthiness of the related consumers

NOTE 2. CASH AND INVESTMENTS

and mortgagees. The Retirement Board maintains that all contracts are legally permissible in accordance with its policy.

For 2000, 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**.

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

	Category 1	Category 2	Category 3	Total Carrying Value
Primary Government:				
Investments:				
U. S. government securities	$ 77,199	$ 17	$ -	$ 77,216
Repurchase agreements	730,713	-	-	730,713
Corporate securities	5,000	14,261	-	19,261
Pension trust funds investments:				
Equity securities (net of securities transaction payable of $356,256)	921,443	-	-	921,443
Fixed income securities	682,162	-	-	682,162
	2,416,517	14,278	-	2,430,795
Not Categorized:				
Mutual funds				457,919
Pension trust funds investments:	-	-	-	
Real estate	-	-	-	5,295
Equity securities	-	-	-	46,148
Fixed income securities	-	-	-	78,874
Securities lending collective investment pool	-	-	-	129,091
Total investments (excluding certifcates of deposit (primary government))	2,416,517	14,278	-	3,148,122
Component Units:				
U. S. government securities	55,320	261,661	10,546	327,527
Repurchase agreements	89,336	-	-	89,336
Corporate securities	96,242	274,778	3,771	374,791
Investment contracts	-	-	-	430,076
	240,898	536,439	14,317	1,221,730
Mutual funds				73,413
Total investments (component units)				1,295,143
Total reporting entity				**$ 4,443,265**

NOTE 2. CASH AND INVESTMENTS

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.

Floating rate notes (securities that pay an interest rate tied to an index) are subject to market risk to the extent of the movement of the underlying index in relation to market rates. A downward movement in the underlying index would negatively impact the interest income received on this security. Upward movements in interest rates do not adversely affect floating rate notes as much as they do fixed rate notes, allowing floating rate notes to function as a hedge against upward changes in interest rates.

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

TBAs are used by the Funds as an alternative to holding mortgage-backed securities outright to raise the potential yield and to reduce transaction costs. The TBAs used are assumed to be similar in duration to mortgage backed securities with identical credit, coupon, and maturity features. Credit risk is managed by limiting these transactions to primary dealers. Market risk for this type of security is not significantly different from the market risk for mortgage-backed securities.

Foreign currency forward and futures contracts and foreign currency options are used by the Funds for defensive purposes. These contracts hedge a portion of the Fund's exposure to particular currencies on occasion when significant adverse short-term movement in exchange rate levels are expected. Foreign currency forward and futures contracts can pose market risk when the maximum potential loss on a particular contract is greater than the value of the underlying investment.

Market risks arise due to movements in the foreign exchange rates underlying the contracts used by the Funds. Credit risk is managed by limiting transactions to counterparties with short-term credit ratings of A1 or P1 or by trading on organized exchanges. Market risk for currency options is limited to the purchase cost. Credit risk is managed by limiting transactions to counterparties with investment grade ratings or trading on organized exchanges.

Exchange-traded and over-the-counter bond futures and options were used by the Funds to gain exposure to fixed income markets in a more efficient and liquid manner than by purchasing the underlying bonds. Market risk for these options is limited to purchase cost. Credit risk is managed by limiting transactions to counterparties with investment grade ratings or by trading on organized exchanges.

Warrants were used by the Funds to gain equity exposure and to enhance performance. Warrants are often distributed by issuers to holdings of common stock and bonds, and are held for the same fundamental reasons as the original common stock and/or bond holdings. Market risk is limited to the purchase cost. Credit risk is similar to the underlying equity and/or bond holdings. At September 30, 2000, the Funds did not have any warrants outstanding.

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, 2000, Pension Trust Funds' portfolio included $439,434 of derivative investments, or 20.3% 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, 2000 are shown in **Table 3.**

NOTE 2. CASH AND INVESTMENTS

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

Investment Instrument Type		
Mortgage backed security pools and securities	$	31,023
Collateralized mortgage obligations		11,455
Asset backed securities		56,069
Floating rate notes		11,581
Mortgage backed securities forward contracts		293,451
Inflation index bonds		29,954
Structured notes (including stripped securities)		15,183
Foreign currency futures/forward contracts,		(6,528)
Options		(2,754)
Total derivatives	$	439,434

At September 30, 2000, the Housing Finance Agency held $260,160 in Government National Mortgage Association (GNMA) certificates, which are classified as mortgage-backed securities.

SECURITIES LENDING

During FY 2000, 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, 2000, the investment pool had an average duration of 74 days and an average weighted maturity of 161 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 2000, 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, 2000, the collateral held and the market value of securities on the loan for the Board were $131,387 and $134,420, respectively. The collateral held is included in cash and investments shown in Exhibit 6 and the liabilities associated with the securities lending transactions are

NOTE 2. CASH AND INVESTMENTS

reported in Exhibit 6, at their carrying amounts, which are less than their market values.

At the close of 2000, gross earnings from securities lending transactions totaled $10,137. The income (net of amortization and accretion), the net realized/unrealized gain attributable to discount and premium, and the net increase in net assets resulting from operations totaled $8,326, $1,573 and $9,899, respectively. The Funds' share of the net earnings on securities lending transactions totaled $214 in 2000.

NOTE 3. RESTRICTED ASSETS

At September 30, 2000, restricted assets of the primary government and its component units totaled $3,881,303, as summarized in **Table 4**.

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

	General	Capital Projects	Enterprise	Trust and Agency	Component Units
Bond Escrow Accounts	$205,712	-	-	-	-
Restricted Investments – Unpaid Prizes *(Lottery Board)*	-	-	76,878	-	-
Joint Venture Escrow Fund	-	73,554	-	-	-
Restricted Cash and Investments	-	-	-	2,955,780	569,379
Totals	205,712	73,554	76,878	2,955,780.	569,379

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, 2000, were as 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	$	64,843	25,484	62,451	4,509
Financial Responsibility Authority		-	-	167	-
General Capital Improvement		-	-	440,490	14,397
Unemployment Compensation		-	-	414	-
Financial Responsibility Authority Fund		-	5,563	3,100	488,544
Pension Trust - Teachers' Retirement Fund		-	-	1,018	190
Public Benefit Corporation		-	42,059	-	-
Water and Sewer		20,749	-	-	-
Convention Center		4,759	-	-	-
Sports Commission		-	2,177	-	-
University		5,539	20,607	-	-
Total	$	95,890	95,890	507,640	507,640
Less-allowance for uncollectibles		42,059		-	
Net total	$	53,831		507,640	

NOTE 4. COMPONENT UNIT AND INTERFUND BALANCES AND OTHER RECEIVABLES

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 Component Units
Gross Receivable:					
Taxes	$ 268,212	-	-	-	-
Accounts	204,314	16,740	4,407	39,028	113,454
Total gross receivable	**472,526**	**16,740**	**4,407**	**39,028**	**113,454**
Less-allowance for uncollectibles	207,589	-	456	13,384	-
Total net receivable	**$ 264,937**	**16,740**	**3,951**	**25,644**	**113,454**

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, 1999 (Restated)	Additions	Transfers/ Dispositions	Balance Sepetmebr 30, 2000
Land	$ 240,288	-	(47)	240,241
Improvements	2,214,941	-	153,370	2,368,311
Buildings	2,291,662	-	37,173	2,328,835
Equipment	341,705	20,934	(3,683)	358,956
Construction in progress	91,249	385,232	(276,216)	200,265
Total	**5,179,845**	**406,166**	**(89,403)**	**5,496,608**
Less-accumulated depreciation	(2,617,591)	(162,310)	383,210	(2,396,691)
Net general fixed assets	**2,562,254**	**243,856**	**293,807**	**3,099,917**
Governmental	1,641,446	972,013	(516,570)	2,096,889
Intergovernmental	920,808	87,621	(5,401)	1,003,028
Total resources invested	**$ 2,562,254**	**1,059,634**	**(521,971)**	**3,099,917**

NOTE 5. FIXED ASSETS

Capital outlays totaled $435,336 for the fiscal year ended September 30, 2000, 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 or amounts are expensed, as deemed to be most appropriate in the circumstances.

General fixed assets at October 1, 1999 have been restated to reflect the deletion of $815,788 in transit system infrastructure because the District has no equity interest in the assets of its joint venture. Prior to 2000, the District had been capitalizing such assets in error.

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, 1999 (restated)	Additions	Transfers/ Dispositions	Balance September 30, 2000
Governmental direction and support	$	471,485	916	(1,135)	471,266
Economic development and regulation		134,384	1,060	(303)	135,141
Public safety and justice		707,514	7,543	31,178	746,235
Public education system		695,170	4,963	580	700,713
Human support services		428,499	4,595	6,457	439,551
Public works		2,651,545	1,857	150,035	2,803,437
Construction in progress		91,249	385,232	(276,216)	200,265
Total	**$**	**5,179,846**	**406,166**	**(89,404)**	**5,496,608**

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, 1999	Additions	Transfers/ Dispositions	Balance September 30, 2000
Equipment	$	3,154	235	(260)	3,129
Total		**3,154**	**235**	**(260)**	3,129
Less-accumulated depreciation		(2,754)	(155)	260	(2,649)
Net fixed assets	**$**	**400**	**80**	**(520)**	**480**

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**.

NOTE 5. FIXED ASSETS

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

Asset Class		Balance October 1, 1999	Additions	Transfers/ Dispositions	Balance September 30, 2000
Land	$	41,774	298	-	42,072
Utility plant		1,554,454	37,382	-	1,591,836
Buildings		342,392	2,105	2,109	346,606
Equipment		130,186	16,202	(2,974)	143,414
Construction in progress		191,720	212,015	(22,943)	380,792
Total		**2,260,526**	**268,002**	**(23,808)**	**2,504,720**
Less-accumulated depreciation		761,112	43,249	30,528	834,889
Net fixed assets	**$**	**1,499,414**	**224,753**	**(54,336)**	**1,669,831**

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	Expenditures	Unexpended Balances
Governmental direction and support	9	$	392,462	115,742	276,720
Public safety and justice	4		22,347	1,773	20,574
Public education system	6		601,538	70,301	531,237
Human support services	13		92,938	8,714	84,224
Public works	8		23,122	3,736	19,386
Total general	**40**	**$**	**1,132,407**	**200,266**	**932,141**

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."

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 when a grant is received that is externally restricted to capital acquisition or construction. Five component units reported contributed capital totaling $699,627, as follows:

At September 30, 2000, the Public Benefit Corporation reported $119,816 in contributed capital. This amount includes funds provided by the District for improvements to the facilities and acquisitions of equipment.

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, 2000, Federal government contributed capital totaled $225,590 and District contributed capital totaled $173,593.

NOTE 5. FIXED ASSETS

The contributed capital of the Washington Convention Center totaled $95,361 at September 30, 2000. Contributed capital consists of building, equipment and certain monies transferred from the District.

The Sports and Entertainment Commission reported contributed capital of $15,715 at September 30, 2000. This amount is related to funds provided by the District for construction of and improvements to the RFK Stadium.

The University of the District of Columbia reported contributed capital in the amount of $69,552 2. This amount includes funds provided by the District for capital improvements.

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

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

	Balance October 1, 1999	Contributions	Retirements	Balance September 30, 2000
Public Benefit Corporation	$119,816		-	119,816
Water and Sewer Authority	397,753	5,919	(4,489)	399,183
Washington Convention Center	95,361			95,361
Sports and Entertainment Commission	15,715			15,715
University of the District of Columbia	71,611	1,531	(3,590)	69,552
Total Contributed Capital	$700,256	7,450	(8,079)	$699,627

NOTE 6. SHORT-TERM DEBT AND CONDUIT DEBT OBLIGATIONS

A. TAX REVENUE ANTICIPATION NOTES

The District issued $70 million in Tax Revenue Anticipation Notes (TRANs) to finance its seasonal cash needs during the year. That borrowing occurred on December 30, 1999 and matured on September 30, 2000. Total interest paid on these notes was $3,002.

B. 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, 2000, the aggregate outstanding principal amount for these conduit debt obligations was $2,894,551.

NOTE 7. LONG - TERM LIABILITIES

A. LONG-TERM DEBT

Primary Government

At September 30, 2000, the District had serial and term general obligation bonds and variable demand obligation bonds outstanding totaling $3,109,728. The interest rate for the outstanding debt ranged from 4.500% to 7.250% for the general obligation bonds and 5.500% for the variable demand obligation 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 $100,147 is reflected in the financial statements of the Water and Sewer Authority.

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
Debt payable at October 1, 1999	$	**3,136,511**
Bond proceeds:		
Series 1999A		66,550
Series 1999B		122,635
Other		4,086
Total		**3,329,782**
Debt payments:		
Principal matured		185,334
Principal defeased		34,720
Debt payable September 30, 2000		**3,109,728**
Less-current maturities		-
Long term debt	$	**3,109,728**

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)

Year Ending September 30		General Obligation Principal	General Obligation Interest
2001	$	156,830	171,219
2002		139,303	160,346
2003		164,379	152,814
2004		176,253	144,812
2005		192,295	134,749
2006 - 2010		1,072,421	511,438
2011 - 2015		632,648	307,558
2016 - 2020		575,599	236,033
Total	$	**3,109,728**	**1,818,969**

NOTE 7. LONG - TERM LIABILITIES

Current Year Bond Issuance

On September 22, 2000, the District issued $66,550 in variable rate demand obligation bonds (Series 2000A) to mature on June 1, 2015 and $122,635 in variable rate demand obligation bonds (Series 2000B) to mature on June 1, 2030. Total bond proceeds of $189,185 are to be used to fund capital projects totaling $186,496 and bond issuance costs of $2,522. The remaining $167 has been recorded as miscellaneous revenues. These bonds will bear interest from their date of issue at a variable rate unless converted to a fixed interest rate, ARS rate or flexible rate in accordance with the indenture. The bonds were initially issued as variable rate bonds bearing interest at weekly rate periods; however, the interest rate borne by the variable rate bonds is subject to change. The effective rates of interest at September 30, 2000 for the Series 2000A and Series 2000B bonds were 5.4708% and 5.5034%, respectively.

Defeased Bonds

In prior years, the District has defeased certain bond issues by issuing refunding bonds. The proceeds from such issuances were used to purchase investments that were placed in irrevocable trusts. The investments and fixed earnings from the investments are sufficient to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the debt has been considered defeased and therefore removed as a liability from the General Long-Term Liabilities Account Group. As of September 30, 2000, the amount of defeased debt outstanding but removed from the General Long-Term Liabilities Account Group amounted to $2,937,349. In accordance with the FY 2000 Appropriations Act requirements, in fiscal year 2000, the District purchased and deposited U. S. Treasury securities in escrow in order to defease portions of the Series 1993A Bonds and the Series 1999B Bonds for the purpose of reducing the amount of outstanding debt. The securities were placed in irrevocable trust to provide for all future debt service payments on these defeased bonds. **Table 15** presents a summary of the defeased portions of the bonds noted above.

Table 15 – Summary of Defeased Portion of Series 1993A and 1999B Bonds ($000s)

Prior Bonds	Maturity Date	Interest Rate	Defeased Portion of the Bonds
Series 1993A	06/01/01	5.500%	$6,780
	06/01/02	5.625%	17,900
	06/01/03	5.750%	9,630
Series 1999B	06/01/02	5.500%	410
Total			**$34,720**

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, 2000, the highest rate on these notes was 7.19% and the lowest rate was 5.88%. Debt outstanding at September 30, 2000 totaling $399,908 included net unamortized premiums of $6,531 and a remaining principal balance of $393,377.

NOTE 7. LONG TERM LIABILITIES

A summary of debt service requirements to maturity for principal and interest is shown in **Table 16**.

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

Year Ending September 30		Principal	Interest	Total
2001	$	17,691	20,982	38,673
2002		12,810	20,465	33,275
2003		13,943	19,783	33,726
2004		14,726	19,019	33,745
2005		15,552	18,285	33,837
2006 - 2010		58,791	64,753	123,544
2011 - 2015		62,625	64,042	126,667
Thereafter		197,239	73,876	271,115
Subtotal		393,377	301,205	694,582
Unamortized Bond Premium		6,531	-	6,531
Total	**$**	**399,908**	**301,205**	**701,113**

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 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
2001	$	-	25,952	25,952
2002		-	25,952	25,952
2003		-	25,952	25,952
2004		10,225	25,952	36,177
2005		10,685	25,952	36,637
Thereafter		503,550	364,168	867,718
Total	**$**	**524,460**	**493,928**	**1,018,388**

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 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
2001	$ 140,385	41,673	182,058
2002	6,200	37,695	43,895
2003	16,765	34,992	51,757
2004	14,940	34,376	49,316
2005	4,445	33,743	38,188
Thereafter	584,572	698,512	1,283,084
Subtotal	767,307	880,991	1,648,298
Unamortized Bond Premium	3,085	-	3,085
Total	**$ 770,392**	**880,991**	**1,651,383**

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. treatment revenue in the year the costs are incurred.

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

Account	Balance October 1, 1999	Additions	Deductions	Balance September 30, 2000
General:				
Accrued disability compensation (Note 14)	$ 198,285	50,925	71,550	177,660
Accumulated annual leave	56,437	6,658	-	63,095
Other payroll liabilities	16,316	-	3,573	12,743
Accreted interest	16,099	94		16,193
Capital leases payable (Note 13)	132,189	9,144	10,166	131,167
Construction contracts payable	10		10	-
Total	**$ 419,336**	**66,821**	**85,299**	**400,858**

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 7.25% on January 20, 1999.

District contributions to the pension plans administered by the federal government, for the years ended September 30, 2000, 1999, and 1998 were as shown in **Table 20.**

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

Plan	Rate	Employees	2000	1999	1998
Civil Service	8.51%	9,451	$29,027	$33,245	$33,231
Social Security	7.65%	9,991	34,571	34,417	30,553
Total			**$63,598**	**$ 67,662**	**$ 63,784**
Total payroll			$1,606,136	1,492,649	1,458,251

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.

Notes to the Financial Statements (Dollars in Thousands)

NOTE 8. RETIREMENT PROGRAMS

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 2000, 1999 and 1998 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 $181,700 for the year ended September 30, 2000 and have been reported as intergovernmental revenue. Related expenditures of $38,423 and $143,277 have been reported in the public education system and public safety and justice functions.

Table 21 - Actuarial Assumptions

	Police and Fire	Teachers
Contribution rates Plan members	7% - 8%	7% - 8%
Actuarial valuation date	10/01/98	10/01/98
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
09/30/98	$47.7	100%	$0
09/30/99	35.1	100%	0
09/30/00	39.9	100%	0

(Dollars in Thousands) Notes to the Financial Statements

NOTE 8. RETIREMENT PROGRAMS

Table 23- Teachers Pension Plan

Year Ended	Annual Pension Cost (APC) (millions)	Percentage of APC Contributed	Net Pension Obligation
09/30/98	$9.6	100%	$0
09/30/99	18.6	100%	0
09/30/00	10.7	100%	0

Actuarially Required Contributions

The District made its actuarially required contribution of $39.9 million to the Police and Firefighters' Plan and $10.7 million to the Teachers' Plan during the year ended September 30, 2000.

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, 2000, District contributions to the plan were $2,349.

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 2000 were $2,159. 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 $10,000 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 $8,000. 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 AND RETAINED EARNINGS

A. RESERVATIONS OF FUND BALANCE

Reserved fund balances at September 30, 2000 were as shown in **Table 24**.

Table 24 - Schedule of FY 2000 Reserved Fund Balances ($000s)

	Government		
Reserved/Restricted For:	General Fund	Capital Projects Fund	Trust and Agency Fund
Early retirement of debt	$122,480		
Debt service – bond escrow	156,370	-	-
Operations	75,000	-	-
Pay As You Go Financing	48,440		
Tobacco settlement	33,638	-	-
Long-term assets	13,403	-	-
Other assets	9,773	-	-
Inventories	15,479	-	-
Encumbrances	-	318,913	-
Joint venture capital subsidies	-	73,554	
Capital project expenditures	-	65,963	-
Future benefits	-	-	2,313,137
Total Reserved/Restricted Fund Balance	$474,583	458,430	2,313,137

B. DEFICIT RETAINED EARNINGS

The Public Benefit Corporation reported deficit retained earnings totaling $167,096 at the close of fiscal year 2000. This was due to a substantial decrease in operating revenues between 1999 and 2000 of $14,891 or 11% while operating expenses, increased over the same period by $25,434 or 15%. (See Note 10)

NOTE 10. COMPONENT UNITS

The financial reporting entity includes six component units, which provide a variety of public services to District residents and businesses. Condensed financial statements of the component units as of and for the year ended September 30, 2000, are shown in **Tables 25 to 27.**

NOTE 10. COMPONENT UNITS

Table 25 – Condensed Balance Sheets ($000s)

Account		Public Benefit Corporation	Water and Sewer	Convention Center	Sports Commission	Housing Finance	University	Total
Current assets	$	26,176	292,294	548,229	18,588	581,706	55,029	1,522,022
Long term assets		-	33,282	16,500	-	277,036	-	326,818
Fixed assets, net		2,000	1,268,783	318,149	8,375	2,971	69,553	1,669,831
Total assets	**$**	**28,176**	**1,594,359**	**882,878**	**26,963**	**861,713**	**124,582**	**3,518,671**
Current liabilities	$	75,456	140,232	43,133	3,289	55,092	43,285	360,487
Long-term liabilities		-	754,129	524,460	-	772,632	-	2,051,221
Total liabilities		**75,456**	**894,361**	**567,593**	**3,289**	**827,724**	**43,285**	**2,411,708**
Contributed capital		119,816	399,183	95,361	15,715	-	69,552	699,627
Retained earnings (deficit)		(167,096)	300,815	219,924	7,959	33,989	11,745	407,336
Total equity		**(47,280)**	**699,998**	**315,285**	**23,674**	**33,989**	**81,297**	**1,106,963**
Total liabilities and equity	**$**	**28,176**	**1,594,359**	**882,878**	**26,963**	**861,713**	**124,582**	**3,518,671**

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

Account		Public Benefit Corporation	Water and Sewer	Convention Center	Sports Commission	Housing Finance	University	Total
Operating revenues	$	69,394	227,930	10,072	7,047	25,513	19,152	359,108
Operating expenses:								
Depreciation		4,639	30,329	2,251	932	158	4,960	43,269
Other		224,762	176,396	15,380	7,034	28,449	79,622	531,643
Operating income (loss)		**(160,007)**	**21,205**	**(7,559)**	**(919)**	**(3,094)**	**(65,430)**	**(215,804)**
Nonoperating revenues, net		-	(5,872)	(3,082)	-	7,458	11,412	9,916
Transfers from primary government		96,101	-	54,524	-	-	40,491	191,116
Net income (loss)		**(63,906)**	**15,333**	**43,883**	**(919)**	**4,364**	**(13,527)**	**(14,772)**
Depreciation added back		-	4,489	-	-	-	4,960	9,449
Retained earnings (deficit) at October 1, as restated		(103,190)	280,993	176,041	8,878	29,625	20,312	412,659
Retained earnings (deficit) at September 30	**$**	**(167,096)**	**300,815**	**219,924**	**7,959**	**33,989**	**11,745**	**407,336**

NOTE 10. COMPONENT UNITS

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

Account		Public Benefit Corporation	Water and Sewer	Convention Center	Sports Commission	Housing Finance	University	Total
Operating activities	$	(95,459)	121,847	5,744	117	21,084	(54,261)	(928)
Capital and related financing activities		(490)	(158,392)	(121,867)	(1,976)	(126)	(1,241)	(284,092)
Noncapital financing activities		96,101	21,233	49,040	-	219,065	61,098	446,537
Investing activities		-	12,744	2,437	-	(52,593)	1,817	(35,595)
Increase (decrease) in cash		**152**	**(2,568)**	**(64,646)**	**(1,859)**	**187,430**	**7,413**	**125,922**
Cash and investments at October 1		-	191,216	605,333	19,826	379,717	25,286	1,221,378
Cash and investments at September 30	**$**	**152**	**188,648**	**540,687**	**17,967**	**567,147**	**32,699**	**1,347,300**

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

Public Benefit Corporation

District of Columbia Health and Hospitals
Public Benefit Corporation
Executive Director
19th & Massachusetts Avenue, S. E.
Washington, D. C. 20003

Water and Sewer

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

Convention Center

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

Sports Commission

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

Housing Finance

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

University

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

NOTE 10. COMPONENT UNITS

PBC Restructuring

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. 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.

PBC has been faced with severe financial difficulties since its inception. Various factors have caused these difficulties, including the presence of excessive and duplicative hospital facilities, decreased admissions and lengths of stay pursuant 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 has also had difficulty in maintaining its physical plant. Independent reports prepared for the District have estimated that the cost of repairing and updating the Hospital could be as much as $100 million. The expected continuation of these factors makes it unlikely that PBC can survive in its present form.

Recognizing that the District's public health system is facing a major financial crisis, the PBC, the Financial Responsibility Authority, Council and the Mayor, have worked together to determine the most feasible option for addressing the fiscal problems at PBC, while preserving the safety net for the District's uninsured population. After reviewing several options, the District decided to issue a request for proposal to identify a vendor capable of providing the healthcare services that are currently being provided to poor and uninsured District residents.

PBC Impairment Loss

In September 2000, the Public Benefit Corporation (PBC) recorded a non-cash impairment loss of $32,433 related to a write-down of the property, plant and equipment of the hospital. The write-down resulted from the PBC's inability to generate positive cash flow from operations and the expectations that this situation will continue into the foreseeable future.

The impaired assets include buildings and machinery and equipment used to provide patient care. These assets were written down to their fair value based on the salvage value of the assets. The recognition of this impairment was in accordance with the provisions of Statement of Financial Accounting Standards No. 121 – Accounting for the Impairment of Long-Lived Assets and For Long – Lived Assets to be Disposed Of.

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, 2000 is shown in **Table 28.**

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

Account	2000
Operating grants	125,200
Debt service grants	10,331
Capital grants	8,000
Total	$143,531

NOTE 11. JOINT VENTURE

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, 2000 totaled $435,381 .

B. OPERATING GRANTS

The District participates in a number of federal financial assistance 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 year ended September 30, 2000 is shown in **Table 29.**

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

Function		2000
Governmental direction and support	$	41,960
Economic development and regulation		82,134
Public safety and justice		21,192
Public education system		159,740
Human support services		825,575
Receiverships		122,844
Total general fund		**1,253,445**
Housing finance		29,716
University		10,045
Total reporting entity	**$**	**1,293,206**

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.

Capital grants for water and sewer facilities are recorded as Contributed Capital in the Water and Sewer discretely presented component unit.

A summary of capital grants by type for the year ended September 30, 2000 is shown in **Table 30**.

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

Function		2000
Public education system		11,313
Public works		120,911
Total capital projects fund	**$**	**132,224**

NOTE 12. TRANSACTIONS WITH THE FEDERAL GOVERNMENT

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 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 its 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 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 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 $8,038 for the fiscal year ended September 30, 2000.

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 $14,314 in 2000 for governmental funds, and $1,024 for discretely presented component units.

Capital lease commitments for the discretely presented component units are reported in those units as long-term obligations, related assets and depreciation.

Master Lease

In June 1998, the District entered into a Master Lease Program. Lease payment obligations are neither debt nor general obligations of the District, but are payable from appropriations of District agencies participating in the Master Lease Program, subject to annual appropriation. Each schedule under the Master Lease Program sets forth the principal and interest components of each rental payment during the lease term. During the year, the quarterly interest rate ranged from 1% to 1.6%, with payments being made on a quarterly basis. The acquisition cost of the equipment obtained under this program must be at least $25,000 per item. The financing term for such equipment is based on the useful life of the equipment, which must be at least five years but not to exceed ten years.

Equipment procured under this program, included 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. The aggregate cost of the equipment acquired and financed under the Master Lease Program was $9,144 in 2000. Debt service payments totaling $4,251 were made to the financing company during the year.

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

NOTE 13. LEASES

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 $ 75,182 in 2000.

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, 2000 is shown in **Table 31**.

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**	**Capital Leases**	**Facilities**	**Equip-ment**
2001	$ 15,981	62,948	676	90	1,193	381
2002	15,967	64,772	487	95	1,225	215
2003	15,946	66,308	130	100	1,241	-
2004	15,457	66,314	3	100	1,240	-
2005	11,972	67,047	-	100	1,240	-
Thereafter	95,500	104,849	-	1,755	1,654	-
Minimum lease payments	**170,823**	**432,238**	**1,296**	**2,240**	**7,793**	**596**
Less - imputed interest	39,656			-		
Present value of payments	**$ 131,167**			**2,240**		

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, 2000 and various prior years. For certain programs, such audits have not been completed for years prior to 2000. As such, the District's compliance with applicable grant and federal requirements will be assessed and established at some future date. An accrual of $32,397 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

(Dollars in Thousands) Notes to the Financial Statements

NOTE 14. COMMITMENTS AND CONTINGENCIES

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, 2000.

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

Component	2000	1999
Liability at October 1	$ 129,602	62,050
Incurred claims	36,500	87,233
Less - claims payments/adjustments	70,831	19,681
Liability at September 30	$ 95,271	129,602

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 $410,000.

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.

E. RATE SWAP AGREEMENTS

The District has entered into rate swap agreements for two variable rate bond issues (1991B and 1992A), of which $105,100 and $139,400 are outstanding at September 30, 2000, respectively. The agreements are for the term of the related outstanding bonds. Based on the rate swap agreements, the District owes interest to the counterparties to the swap calculated at a fixed rate of 5.80% and 6.02%. In return, the counterparties owe the District interest based on a variable rate. Only the net difference in interest payments is actually exchanged between the counterparties. 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 to an approximate fixed rate. The District will be exposed to variable rates on the bonds if the counterparty 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.

Table 33 – Summary of Changes in Disability Compensation Accrual

Component	2000	1999
Liability at October 1	$ 198,285	294,599
Claims incurred	50,925	62,104
Less - benefit payments	26,840	30,043
Adjustments to insured events of prior years	(44,710)	(128,375)
Liability at September 30	$ 177,660	198,285

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. TOBACCO SETTLEMENT TRUST

The District is a participant in the Master Settlement Agreement (MSA) between various states' attorneys general and tobacco manufacturers. The MSA requires the tobacco companies to pay amounts into a litigation trust to then be distributed to the various states. For the year ended September 30, 2000, the District received $16 million from the litigation trust. The MSA estimates that the District will receive approximately $1.25 billion through 2025 from the litigation trust.

NOTE 15. SUBSEQUENT EVENTS

A. SALE OF BUILDING

On October 4, 2000, the District entered into an agreement of sale and purchase to sell the building currently housing the Department of Employment Services. The building is located at 500 C Street, N. W., Washington, D.C. and is commonly known as the District of Columbia Employment Security Building. In consideration of the premises and subject to the terms of the agreement, the purchaser is to pay an amount equal to $49,250 and additional consideration as follows:

- An amount equal to $25,000 to be contributed to the Housing Production Trust Fund administered by the Department of Housing and Community Development pursuant to the Housing Production Trust Fund Act of 1998.

- An amount equal to $25,750 to be first applied to pay for certain costs of relocation and temporary office space for DOES and the residual to be directed to the District of Columbia Deputy Mayor's Office for Planning and Economic Development to develop and fund a neighborhood commercial revitalization program.

The U. S. Department of Labor owns sixty-seven percent (67%) of the building, while the District owns 33%. Consequently, the proceeds from the sale of the building are to be shared based on the percentage of ownership.

B. CONTROL PERIOD TERMINATION

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 is to suspend its activities 12 months after the Authority certifies 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 could certify 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.

Upon termination of a control period, the Authority will continue to be required to review and analyze the budgets of the District and to issue reports to the Congress thereon, to monitor the financial status of the District, and to carry out the activities of the Authority with respect to all District legislation and reprogrammings, and any bonds, notes or other debt obligations the District may have issued until the activities of the Authority are suspended at the end of the control year, September 30, 2001.

C. ISSUANCE OF REVENUE BONDS BY COMPONENT UNIT

The Housing Finance Agency issued Multi-Family Housing Mortgage Revenue Bonds as shown in **Table 34.**

Table 34 – Housing Finance Agency Mortgage Revenue Bonds ($000s)

Bond	Amount
Series 2000 Chesapeake /Hartford	$50,350
Series 2000 Carver Terrace	4,611
Series 2000 Communities Group/Regency Development	8,825
Total	**$63,786**