NOTES TO THE BASIC FINANCIAL STATEMENTS

Index

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES 56
A. BACKGROUND AND HISTORY OF THE GOVERNMENTAL UNIT 56
B. FINANCIAL REPORTING ENTITY 56
C. BASIS OF PRESENTATION 58
D. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING 60
E. BASIS OF BUDGETING AND BUDGETARY CONTROL POLICIES 62
F. CASH AND INVESTMENTS 63
G. INVENTORY 64
H. RESTRICTED ASSETS 64
I. PREPAID ITEMS 65
J. RECEIVABLES AND PAYABLES 65
K. TRANSFERS AND OTHER TRANSACTIONS BETWEEN FUNDS 65
L. CAPITAL ASSETS 65
M. DEFERRED OUTFLOWS OF RESOURCES 66
N. CAPITAL LEASES 66
O. COMPENSATED ABSENCES 66
P. LONG-TERM LIABILITIES 67
Q. DEFERRED INFLOWS OF RESOURCES 67
R. NEW ACCOUNTING STANDARDS ADOPTED 67
S. NEW ACCOUNTING PRONOUNCEMENTS TO BE IMPLEMENTED IN THE FUTURE 69
T. NET POSITION AND FUND BALANCE 71
U. OTHER POSTEMPLOYMENT BENEFITS (OPEB) 74
V. USE OF ESTIMATES 75
W. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS 75
X. RECONCILIATION OF BUDGETARY BASIS TO GAAP BASIS 76
Y. RESTATEMENT 76

NOTE 2. CASH AND INVESTMENTS 77
A. CASH 77
B. INVESTMENTS 77
C. SECURITIES LENDING 86

NOTE 3. RESTRICTED ASSETS 88

NOTE 4. RECEIVABLES, INTERFUND TRANSFERS/BALANCES 88
A. RECEIVABLES 88
B. INTERFUND TRANSFERS 89
C. RECEIVABLES AND PAYABLES BETWEEN FUNDS AND COMPONENT UNITS 89

NOTE 5. CAPITAL ASSETS 90
A. GOVERNMENTAL ACTIVITIES CAPITAL ASSETS BY CLASS 90
B. GOVERNMENTAL ACTIVITIES CAPITAL ASSETS BY FUNCTION 91
C. GOVERNMENTAL ACTIVITIES CAPITAL ASSETS ACCUMULATED DEPRECIATION BY FUNCTION 91
D. BUSINESS-TYPE ACTIVITIES CAPITAL ASSETS 92
E. DISCRETELY PRESENTED COMPONENT UNITS CAPITAL ASSETS 92
F. CONSTRUCTION IN PROGRESS 94

NOTE 6. CONDUIT DEBT AND OTHER FINANCING PROGRAMS 95
A. INDUSTRIAL REVENUE BOND PROGRAM 95
B. ENTERPRISE ZONE FACILITY BONDS 95
C. TAX INCREMENT FINANCING (TIF) NOTES 95
D. PAYMENT IN LIEU OF TAXES REVENUE NOTES 96
E. GROUND LEASE AGREEMENT RELATED TO THE WASHINGTON CONVENTION CENTER HEADQUARTERS (HQ) HOTEL 97
F. NONEXCHANGE FINANCIAL GUARANTEES 97

NOTE 7. SHORT TERM LIABILITIES 99

NOTE 8. LONG –TERM LIABILITIES 100
A. LONG TERM LIABILITIES OUTSTANDING 100
B. ANNUAL DEBT SERVICE REQUIREMENTS 105
C. LONG TERM DEBT ACTIVITY DURING FISCAL YEAR 2014 109
D. OTHER LONG-TERM LIABILITIES 111
E. COMPONENT UNITS 112

NOTE 9. RETIREMENT PROGRAMS 113
A. DEFINED BENEFIT PENSION PLANS 113
B. DEFINED CONTRIBUTION PENSION PLAN 116
C. DEFERRED COMPENSATION PLANS 117

NOTE 10. OTHER POSTEMPLOYMENT BENEFITS (OPEB) 117

NOTE 11. FUND BALANCE/NET POSITION 121

NOTE 12. JOINT VENTURE 122

NOTE 13. TRANSACTIONS WITH THE FEDERAL GOVERNMENT 122
A. FEDERAL CONTRIBUTION 122
B. EMERGENCY PREPAREDNESS 122
C. SUPPLEMENTAL NUTRITION ASSISTANCE PROGRAM (SNAP) 123
D. GRANTS 123

NOTE 14. LEASES 123
A. CAPITAL LEASES 123
B. OPERATING LEASES 123
C. SCHEDULE OF FUTURE MINIMUM LEASE COMMITMENTS 123

NOTE 15. COMMITMENTS AND CONTINGENCIES 124
A. RISK MANAGEMENT 124
B. GRANTS AND CONTRACTS 124
C. CONTINGENCIES RELATED TO DERIVATIVE INSTRUMENTS 124
D. LITIGATION 124
E. DISABILITY COMPENSATION 125
F. DEBT SERVICE DEPOSIT AGREEMENTS 125

NOTE 16. SUBSEQUENT EVENTS 125
A. TAX REVENUE ANTICIPATION NOTES 125
B. GENERAL OBLIGATION BONDS 126
C. INCOME TAX SECURED REVENUE REFUNDING BONDS 126
D. PILOT REVENUE NOTE (THE YARDS PROJECT) 126
E. COMPONENT UNITS 126
F. WATER AND SEWER AUTHORITY (D. C. WATER) PAYMENT IN LIEU OF TAXES 127

NOTES TO THE BASIC FINANCIAL STATEMENTS

September 30, 2014

(Dollar amounts expressed in thousands)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. BACKGROUND AND HISTORY OF THE GOVERNMENTAL UNIT

General Operations

The District of Columbia (the District) was created on March 30, 1791, from territory ceded by Maryland and Virginia. Article 1, section 8, clause 17 of the United States Constitution empowered Congress to establish the seat of government for the United States. Pursuant to the cited Constitutional provisions, the District was established as the nation's capital on December 1, 1800.

On January 2, 1975, Congress granted the District a Home Rule Charter, which became effective through the enactment of the District of Columbia Self-Government and Governmental Reorganization Act, Public Law 93-198. Pursuant to its charter, 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 law unless Congress and the President of the United States disapprove it after it has been adopted. Citizens residing in 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 non-voting Delegate to the United States House of Representatives.

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

B. FINANCIAL REPORTING ENTITY

Component Units

A financial reporting entity consists of a primary government and its component units. Accordingly, for financial reporting purposes, the primary government is the District of Columbia, including all of the agencies that make up its legal entity. The criteria used to determine whether organizations are to be included as component units within the District's financial reporting entity are as follows:

- The organization is a legally separate entity.
- The District appoints a voting majority of the organization's board.
- There is a financial benefit/burden relationship between the District and the organization or the District is able to impose its will on the organization.

Organizations meeting the above criteria are included in the District's financial reporting entity as discretely presented component units. Entities which meet any one of the following in addition to the above criteria are considered to be blended component units of the District:

- The organization's governing body is substantively the same as the District's governing body and (1) there is a financial benefit or burden relationship between the District and the organization, or (2) management of the District has operational responsibility for the organization.
- The organization provides services entirely, or almost entirely, to the District, or otherwise exclusively, or almost exclusively, benefits the District even though it does not provide services directly to it.
- The organization's total debt outstanding, including leases, is expected to be repaid entirely or almost entirely with District resources.

Legally separate organizations that do not otherwise meet the criteria for inclusion as a component unit may be included in the financial reporting entity if it is determined that their exclusion would render the financial statements misleading. This determination is based on the nature and significance of the organization's relationship with the District.

Based on the application of the criteria outlined above, the District includes five discretely presented component units in its reporting entity: Health Benefit Exchange Authority, Housing Finance Agency, Not-for-Profit Hospital Corporation (d/b/a United Medical Center), University of the District of

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Columbia, and Washington Convention and Sports Authority. Each of these organizations is a legally separate entity with a governing board that is appointed by the Mayor, with the advice and consent of the Council. In addition, with respect to each of these entities, one or both of the following conditions exists: (a) there is a financial benefit or burden relationship between the District and the organization or (b) the District is able to impose its will on the organization. Each entity's relationship with the District is discussed briefly below:

- **Health Benefit Exchange Authority** - The District has the ability to impose its will on the Health Benefit Exchange Authority because the District is able to approve or modify the entity's budgets and may overrule, veto, or modify certain decisions made by the Authority's governing board (i.e., the awarding of contracts valued at $1 million or more.) In addition, the Council must approve or disapprove the rules adopted by the Authority; therefore, the District has the ability to modify or approve the rates or fees charged by the Authority.

- **Housing Finance Agency** – The District is able to impose its will on the Housing Finance Agency because the Council has the ability to modify the financing for Housing Finance Agency projects and, consequently, has the ability to affect the Agency's budget. In addition, the District has the authority to approve or modify rental rates and may overrule certain decisions made by the Agency's Board (i.e., contracts valued at $1 million or more.)

- **Not-For-Profit Hospital Corporation** – There is a financial benefit/burden relationship between the District and the Corporation because the District has assumed the obligation to provide financial support to the Corporation to help sustain the hospital's operations. In addition, the District is able to impose its will on the Corporation because the District has the ability to modify or approve the Corporation's budget.

- **University of the District of Columbia** – A financial benefit/burden relationship exists between the University and the District because the District provides financial support to the University in the form of subsidy payments. In addition, the District is able to impose its will on the University because the District has the ability to approve and/or modify the University's budget.

- **Washington Convention and Sports Authority** – There is a financial benefit/burden relationship between the Washington Convention and Sports Authority and the District because the District is legally obligated or has otherwise assumed the obligation to provide financial support to the Washington Convention and Sports Authority through the transfer of certain dedicated taxes which are linked directly to the hospitality sector. In addition, the District is able to impose its will on the Washington Convention and Sports Authority because the District has the ability to modify or approve the Washington Convention and Sports Authority's budget and the rates or fees charged by that entity.

The financial data for these organizations is presented in a separate column in the government-wide financial statements to emphasize that these entities are legally separate from the District.

The financial statements of each discretely presented component unit may be obtained from the following locations:

Health Benefit Exchange Authority
Executive Director
1225 Eye Street, N.W., Suite 400
Washington, D.C. 20005

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

Not-For-Profit Hospital Corporation
d/b/a United Medical Center
Chief Executive Officer
1310 Southern Avenue, S.E.
Washington, D.C. 20032

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

Washington Convention and Sports Authority
General Manager
801 Mount Vernon Place, N.W.
Washington, D.C. 20001

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The District of Columbia Tobacco Settlement Financing Corporation (the Tobacco Corporation) was created by the Tobacco Settlement Financing Act of 2000 as a special purpose, independent instrumentality of the District government. The Tobacco Corporation, which is legally separate from the District, was established to purchase all of the District's rights, title, and interest in the Master Settlement Agreement executed by participating cigarette manufacturers, states and other jurisdictions. The Tobacco Corporation issued bonds in FY 2001 to finance the purchase of the District's securitized right, title and interest in the tobacco settlement revenues.

The Tobacco Corporation is a blended component unit because: (a) the District appoints the Tobacco Corporation's Board; (b) the District is legally entitled to and can otherwise access the Tobacco Corporation's resources, thereby establishing a benefit/burden relationship; (c) the District has the ability to modify or approve the Tobacco Corporation's budget, thereby, giving the District the ability to impose its will on the Tobacco Corporation and (d) the Tobacco Corporation provides services entirely to the District.

Separate audited financial statements for the Tobacco Corporation are available at the Office of the Chief Financial Officer, Office of Finance and Treasury, 1101 4th Street, S.W., Suite 800, Washington, D.C. 20024.

Related Organizations

A related organization is an entity for which the District is accountable because the District appoints a voting majority of its governing board; however, the District is not *financially* accountable for the organization. The District reports two entities as related organizations: the District of Columbia Housing Authority (Housing Authority) and the District of Columbia Water and Sewer Authority (WASA) because the Mayor, with the consent and advice of the Council, appoints a majority of the voting members of these organizations' governing boards. However, the District's accountability for these organizations does not extend beyond these appointments.

Joint Venture

A joint venture is a legal entity or other organization that results from a contractual arrangement and that is owned, operated, or governed by two or more participants as a separate and specific activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility. *Joint control* means that no single participant has the ability to unilaterally control the financial or operating policies of the joint venture. Generally, the purpose of a joint venture is to pool resources and share the costs, risks, and rewards of providing goods or services to the venture participants directly, or for the benefit of the general public or specific service recipients.

The District participates 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; the cities of Alexandria, Falls Church, Fairfax, Manassas, and Manassas Park and the counties of Arlington, Fairfax, Loudoun, and Prince William in Virginia; and the counties of Montgomery, Anne Arundel, and Prince George's in Maryland. The Washington Metropolitan Area Transit Authority (WMATA) was created in February 1967 to fulfill the purposes of the joint venture.

Pursuant to P.L. 111-62, which revised the WMATA compact agreement, WMATA is governed by an eight-member board and eight alternates, comprised of two directors and two alternates for Maryland, Virginia, the District of Columbia, and the federal government. The directors and alternates for Maryland are appointed by the Washington Suburban Transit Commission from among its members; for Virginia, by the Northern Virginia Transportation Commission from among its members; for the District of Columbia, by the Council from its members and mayoral nominees; and for the federal government, by the Administrator for General Services. The District does not have explicit measurable equity interest in the joint venture; accordingly, the District does not include the financial activities of the joint venture in its financial statements. However, condensed financial statements are presented as disclosures. Further information regarding this joint venture is discussed in Note 12 on page 122.

C. BASIS OF PRESENTATION

Government-wide Financial Statements – The government-wide financial statements report information on all of the non-fiduciary activities of the primary government and its component units. Because assets of fiduciary funds are held for the benefit of a third party and cannot be used to address activities or obligations of the District, these funds are not incorporated into the government-wide financial statements. Governmental activities of the primary government, which normally are supported

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for services. The government-wide financial statements are comprised of the following:

- *Statement of Net Position* – The Statement of Net Position reports all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position of the District's governmental and business-type activities and its discretely presented component units. The District reports all debts and capital assets, including infrastructure, in the government-wide Statement of Net Position. The District reports net position in three distinct categories: (1) net investment in capital assets; (2) restricted; and (3) unrestricted.

- *Statement of Activities* – The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include fines and forfeitures; charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported as general revenues. The District also reports depreciation expense (the cost of "using up" capital assets) in the Statement of Activities.

Fund Financial Statements - Fund accounting is used to demonstrate legal compliance and to segregate transactions related to certain District functions or activities. Each fund represents a separate accounting entity and the transactions in each fund are summarized in a separate set of self-balancing accounts which include assets, deferred outflow of resources, liabilities, deferred inflow of resources, fund equity, revenues and expenses/expenditures.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though fiduciary funds are excluded from the government-wide financial statements. Major individual governmental funds and major individual proprietary funds are reported in separate columns in the fund financial statements.

Governmental Funds are used to account for all of the District's general activities. The acquisition, use and balance of the District's expendable financial resources and the related liabilities and deferred inflow of resources (except those accounted for in the proprietary funds and the discretely presented component units) are accounted for in the governmental funds.

The District reports the following major governmental funds:

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

- *Federal and Private Resources Fund* - used to account for proceeds of intergovernmental grants and other federal payments, private grants and private contributions that are legally restricted to expenditure for specified purposes.

- *Housing Production Trust Fund* - used to account for the financial resources which provide financial assistance to a variety of affordable housing programs and opportunities across the District such as: (a) fund initiatives to build affordable housing; (b) provide homeownership opportunities for low income families; and (c) preserve existing federally assisted housing. The Housing Production Trust Fund is administered by the Department of Housing and Community Development.

- *General Capital Improvements Fund* - used to account for the purchase or construction of capital assets financed by operating transfers, capital grants and debt proceeds.

Nonmajor Governmental Funds include four Special Revenue Funds: (1) Tax Increment Financing (TIF) Program Fund; (2) Tobacco Settlement Financing Corporation (TSFC) Fund; (3) PILOT Special Revenue Fund; and (4) Baseball Special Revenue Fund. Other Nonmajor Governmental Funds include the Highway Trust Fund, and the Debt Service Fund.

Proprietary Funds are used to account for activities similar to those found in the private sector. The criteria for inclusion as a proprietary fund include: (a) the costs (including depreciation) of providing goods or services primarily or solely to the public on a continuing basis are financed or recovered mostly through user charges; and (b) the determination of net income is necessary or useful for sound financial administration. The District's proprietary funds include two major proprietary funds which are discussed below:

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- *Lottery and Games Fund* - used to account for revenues from lotteries and daily numbers games operated by the District, and from the issuance of licenses to conduct bingo games and raffles, and related prizes, expenses and capital outlays. Gaming activities are administered by the Lottery and Charitable Games Control Board, which consists of five members appointed by the Mayor with the consent of the Council.

- *Unemployment Compensation Fund* - used to account for the accumulation of financial resources to be used for benefit payments to unemployed former employees of the District, Federal agencies and private employers in the District. Resources are contributed by private employers at rates fixed by law, and by the federal government on a reimbursable basis. The administrative costs of the program are accounted for in the General Fund.

  Unemployment Insurance in general is a federal-state program that provides temporary benefits to workers who become unemployed through no fault of their own, and who are able and available for work. The benefits paid to unemployed workers reduce the hardship of unemployment, help maintain purchasing power of the unemployed, thereby supporting the local economy, and help to stabilize the workforce so that local workers are available to employers when they are ready to re-employ. The cost of the unemployment insurance program is financed by employers who pay state and federal taxes on part of the wages paid to each employee in a calendar year.

  The Emergency Unemployment Compensation (EUC) program is a 100% federally funded program that provides benefits to individuals who have exhausted regular state benefits. The EUC program was created on June 30, 2008 and has been modified several times. The American Taxpayer Relief Act of 2012 (P.L. 112-240) extended the expiration date of the EUC program to January 1, 2014. The extended benefit payments beyond the 26 weeks base period have to be authorized by the Federal Government. When this happens, the states, including the District of Columbia, are reimbursed by the Federal Government to cover the extended benefits.

Fiduciary Funds are used to account for assets held by the District in a trustee capacity or as an agent for individuals, private organizations or other governments. The District reports the following fiduciary funds:

- *Pension and Other Postemployment Trust Funds* – used to report the activities of the District's retirement systems, which accumulate financial resources for pension benefit payments to eligible District employees and assets that are accumulated and benefits that are paid for postemployment healthcare and life insurance.

- *Private Purpose Trust Fund* - used to report trust arrangements not reported in pension trust funds under which principal and income benefit individuals, private organizations, or other governments. The District uses this fund to account for amounts held in its 529 College Savings Investment Plan, which was established to help families save for college education expenses of designated beneficiaries while also receiving certain tax benefits.

- *Agency Funds* – used to report those resources which are held by the District in a purely custodial capacity and do not involve measurement of results of operations.

Fiduciary funds are not included in the government-wide financial statements because the resources cannot be used for operations of the government.

Prior Year Comparative Information

The financial statements include summarized prior-year comparative information. Such information does not include sufficient details to constitute a presentation in conformity with U.S. generally accepted accounting principles (GAAP). Accordingly, such information should be read in conjunction with the District's financial statements for the year ended September 30, 2013, from which such summarized information was derived.

D. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

The District's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) applicable to state and local governmental entities as established by the Governmental Accounting Standards Board (GASB).

Government-Wide Financial Statements

The government-wide financial statements are reported using the flow of economic resources measurement focus and the accrual basis of accounting. Therefore, the Statement of Net Position reports all assets, including receivables regardless of

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

when collected, and capital assets, such as heavy trucks and infrastructure (i.e., highways and bridges), deferred outflows of resources, all liabilities regardless of when payment is due, deferred inflows of resources, and net position.

The Statement of Activities is designed to present the degree to which the direct expenses of a particular function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include charges for goods or services, grant revenues, and fines. Tax revenues are reported separately as general revenues. The Statement of Activities reports: (a) expenses associated with governmental activities; (b) expenses associated with business-type activities; and (c) the expenses of component units. The expenses of the governmental activities include governmental fund expenditures that are not eliminated or reclassified and current year depreciation on capital assets. The effect of interfund activity is eliminated from the government-wide financial statements.

Fund Financial Statements

Governmental Funds

All governmental funds are accounted for using a flow of current financial resources measurement focus and the modified accrual basis of accounting. Under this measurement focus, only current assets, deferred outflow of resources, current liabilities, deferred inflow of resources, and fund balance are reported 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.

Under the modified accrual basis of accounting, revenues of governmental funds are recognized in the year they become susceptible to accrual (both measurable and available) to pay current fiscal year liabilities. Property taxes are considered to be available if they are collected within 60 days of the fiscal year-end. A one-year availability period is used for revenue recognition for all other governmental fund revenues, with the exception of expenditure-driven grants, which are recognized when all eligibility criteria and compliance requirements have been met and the related amounts are earned.

Service payment expenditures and liabilities such as debt service, compensated absences, claims and judgments, and special termination benefits are recorded in the governmental fund statements only when they mature or become due for payment within the period. Otherwise, such activity is reported in the government-wide financial statements as incurred.

Proprietary Funds, Pension and Other Postemployment Benefits (OPEB) Trust Funds, and Component Units

The proprietary funds, pension and OPEB trust funds, private purpose trust fund, and discretely presented component units are accounted for on a flow of economic resources measurement focus and the accrual basis of accounting. Under this measurement focus, all assets, deferred outflows of resources, liabilities, and deferred inflows of resources associated with the operation of these funds are included on their respective Statements of Net Position. Net position of the proprietary funds is segregated into net investment in capital assets, restricted, and unrestricted components. Under the accrual basis of accounting, revenues are recognized in the fiscal year earned and expenses are recognized in the fiscal year incurred. The related operating statements of proprietary funds present increases (revenues) and decreases (expenses) in net position. Operating statements of pension and private purpose trust funds present additions and deductions in fiduciary net position.

Proprietary funds classify revenues and expenses as either operating or nonoperating. Operating revenues and expenses generally result from providing services and/or producing and delivering goods in connection with a proprietary fund's principal ongoing operations.

The Pension and OPEB Trust Funds recognize additions to net position, derived from various sources, as follows:

- Participants' contributions, when due;
- District contributions, when due and a formal commitment for payment has been made; and
- Net investment income, as earned.

Expenditures for benefits and refunds are recognized when due and payable. The Private Purpose Trust Fund recognizes additions to net position when participants' contributions are received.

Revenue Recognition (by Type or Source)

Property Taxes

Property taxes are recognized as revenue in the tax

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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. After these dates, the bill becomes delinquent and the District may assess penalties and interest. Real property taxes attach as enforceable liens on property as of October 1 of the year after levy.

In the District, the personal property tax is self-assessed. Each year, on or before July 31, property owners must file a personal property tax return covering the tax year beginning July 1 and ending June 30 of the next year. The return should report the remaining cost of all tangible personal property as of July 1 that is taxable in the District of Columbia. Property taxes are levied after the returns are filed. If a taxpayer fails to pay the levied taxes when due, the District would have a legal claim to the taxpayer's property. Pursuant to the Clarification of Personal Property Tax Revenue Reporting Act of 2011, the revenue budget for Personal Property Tax is formulated with the understanding that 100% of collections are to be allocated for the year in which the tax was levied.

Other Taxes and Revenues

Sales and use taxes are recognized as revenue when the sales or uses take place. Interest on investments is recognized when earned. Charges for services are recorded as revenues when services are provided.

Intergovernmental Revenues

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 at the time of receipt or earlier, if measurable and available. Resources arising from grants are usually subject to certain eligibility requirements; therefore, most grant revenues are recognized as revenue only when the conditions of the grant are met. Grant funds received with all eligibility requirements met except for the timing requirement are recorded as deferred inflows of resources.

Supplemental Nutrition Assistance Program (SNAP)

The District participates in the federal government's Supplemental Nutrition Assistance Program (SNAP) (food stamp program), which is designed to increase the food purchasing power of economically disadvantaged residents. The District uses the electronic benefits transfer (EBT) system that allows program beneficiaries to charge their qualifying food purchases, thereby eliminating the need for paper stamps. Revenues and expenditures are reported in the federal and private resources fund when the underlying transaction (the food purchase) occurs.

Revenues Susceptible To Accrual

Revenues which are susceptible to accrual include: taxes, federal contributions and grants, charges for services, and investment income.

Revenues Not Susceptible To Accrual

Licenses, permits, fines, and forfeitures are recorded as revenue when received in cash because they are generally not measurable until received. However, fines that remain unpaid after the allowable grace period or after appeals are denied become susceptible to accrual.

E. BASIS OF BUDGETING AND BUDGETARY CONTROL POLICIES

Process

On or about March 20 of each year, at the direction of the Council, the Mayor submits to the Council an annual budget for the District of Columbia government, which includes: (1) the budget for the forthcoming fiscal year, commencing October 1, specifying the agencies and purposes for which funds are being requested; (2) an annual budget message; (3) a multi-year plan for all agencies of the District government; and (4) a multi-year capital improvement plan by project for all agencies of the District government. The Council holds public hearings and adopts the budget through passage of a budget request act. The Mayor may not forward and the Council may not adopt any budget for which expenditures and other financing uses exceed revenues and other financing sources. On or about June 1 of each year, after receipt of the budget proposal from the Mayor, and after the public hearings, the Council adopts the annual budget for the District of Columbia government. The Mayor submits the budget to the President of the United States for transmission by him to the Congress. After public hearings, the Congress enacts the budget through an appropriations act.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Appropriations Act

The Congressional Appropriations Act authorizes District government expenditures at the function level or by appropriation title, such as Public Safety and Justice, Human Support Services, or Public Education. In general, after enactment of the annual Appropriations Act by Congress, the District may transmit amendments or supplements to the budget by submitting a request for supplemental appropriation to the President and Congress. However, within certain limits, pursuant to D.C. Code §47-369.02, the District may supplement its General Fund budget simply by sending notification to Congress 30 days in advance of the changes taking place.

Pursuant to Home Rule Act § 446 and the Reprogramming Policy Act (D. C. Official Code §47-363 (2001), as amended), the District may reallocate budget amounts. The appropriated budget amounts in the Budgetary Comparison Statement (Exhibit 2-d found on page 47) include all approved reallocations and other budget changes. This statement reflects budget to actual comparisons at the function (or appropriation title) level as well as by agency. Actual expenditures and uses may not legally exceed appropriated budgeted expenditures and uses at the function level as shown in this statement. A negative expenditure variance in the budgetary comparison statement for a particular function is a violation of the federal Anti-Deficiency Act (31 U.S.C. §§1341, 1342, 1349, 1351, 1511-1519 (2008)); the District of Columbia Anti-Deficiency Act (D.C. Official Code §§47-355.01-355.08, (2001)); and Section 446 of the Home Rule Act, (D.C. Official Code § 1-204.46). In addition, a negative expenditure variance for a particular agency within an appropriation title is also a violation of the D.C. Anti-Deficiency Act.

The Appropriations Act specifically identifies expenditures and net operating results but 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.

By law, for budgeting purposes, the general fund includes the federal and private resources fund as presented in the Budgetary Comparison Statement in Exhibit 2-d. The budgetary basis of accounting used to prepare this statement differs from the GAAP basis used to prepare the general fund and federal and private resources fund statements presented in Exhibit 2-b due to the following differences:

- *Basis Differences* – which arise because the basis of budgeting differs from the basis of accounting prescribed by GAAP as indicated in Note 1X on page 76.
- *Entity Differences* – which result from the inclusion or exclusion of certain activities for budgetary purposes as opposed to those included or excluded on a GAAP basis as indicated in Note 1X on page 76.

Budgetary Controls

The District maintains budgetary controls designed to monitor compliance with expenditure limitations contained in the annual appropriated budget approved by Congress and the President. The level of budgetary control (i.e., the level at which expenditures and other obligations cannot legally exceed the appropriated amount) is established by function, fund, and agency within the general fund.

Encumbrances

Encumbrance accounting is used in the governmental funds. Under this method of accounting, purchase orders, contracts, and other commitments for the expenditure of funds are recorded in order to reserve the required portion of an appropriation. Encumbrances outstanding at year-end do not constitute expenditures or liabilities for GAAP or budgetary purposes. Encumbered amounts lapse at year-end in the General Fund and may be re-appropriated and re-encumbered as part of the subsequent year's budget. However, encumbered amounts do not lapse at year-end in the Capital Projects Fund, Special Revenue Funds, or Federal and Private Resources Fund.

Encumbered amounts at year-end have been included within the restricted fund balance in **Table N53a** – Schedule of FY 2014 Fund Balance found on page 121.

F. CASH AND INVESTMENTS

Cash and Cash Equivalents

Cash from the governmental and proprietary funds is pooled unless prohibited by law. The cash management pool is used as a demand deposit account by each participating fund. If a fund overdraws its share of the pooled cash, that fund reports a liability (Due To) to the General Fund, which is deemed to have loaned the cash to the overdrawn fund. The General Fund reports a receivable (Due From) from the overdrawn fund.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Cash that is not needed for immediate disbursement is invested to generate investment income. The District purchases legally authorized investments consistent with the provisions of the Financial Institutions Deposit and Investment Act of 1997 (D.C. Law 12-56, D.C. Official Code §47-351.01, et seq.), which became effective March 18, 1998, and the District's Investment Policy, adopted November 2008. At September 30, 2014, the District invested primarily in securities backed by the U.S. government which included obligations of Government Sponsored Entities (GSEs) that have the explicit and implicit guarantee of the U.S. federal government. Such investments are considered to be cash equivalents if they mature within 90 days after the date of purchase. The Pension Trust Funds are authorized to invest in fixed income, equity securities and other types of investments. Also, the Private Purpose Trust Fund is authorized to invest monies consistent with the District's Investment Policy. Historically, this Fund's investments have been comprised of equities, balanced funds, and fixed income securities.

The Pension Trust Funds' investments are reported at fair value. All investments, with the exception of real assets, hedge funds, and private equity, are valued based on closing market prices or broker quotes. Securities not having a quoted market price are valued based on yields currently available on comparable securities of issuers with similar credit ratings. The fair value of investments in real assets, hedge funds or private equity, in the absence of a readily ascertainable market value, are based on management's valuation of estimates and assumptions from information and representations provided by the respective general partners.

Portfolio investments of the Private Purpose Trust Fund are valued at the closing net asset value per share (unit) of each underlying fund on the day of valuation. The stability of principal portfolio is valued in accordance with the terms of the corresponding funding agreement, inclusive of accrued interest. Security transactions, normally in shares of the underlying funds, are accounted for on the trade date basis. Realized gains and losses are reported on the identified cost basis. Income and capital gains distributions, if any, from investments in the underlying funds are recorded on the ex-dividend date.

Money market investments must be in compliance with the requirements of Rule 2a-7 (17 CFR 270.2a-7) under the Investment Company Act of 1940 (15 U.S.C. 80a-1 et seq.). Money market investments that have a 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. Investment purchases and sales are recorded as of the trade date. These transactions are not finalized until the settlement date. Cash received as collateral on securities lending transactions and investments made are reported as assets and related liabilities for collateral received.

G. INVENTORY

Inventory reported in the governmental funds consists of materials and supplies held for consumption. Inventory on hand at year-end is 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.

Consistent with District practices, inventories of the proprietary funds are to be recorded at the lower of weighted average cost or market. The Not-For-Profit Hospital Corporation is the only component unit which reports inventory which is recorded at the lower of cost or market. Cost is determined using the first-in-first-out (FIFO) method.

H. RESTRICTED ASSETS

Certain governmental and proprietary fund assets, some assets reported by the component units, and all fiduciary fund assets are restricted as to use by legal or contractual requirements. Any excess of restricted assets, deferred outflow of resources over liabilities, deferred inflow of resources from restricted assets is reported as part of the restricted net position in the government-wide, proprietary, and fiduciary financial statements and as "restricted" fund balance in the governmental fund financial statements, to indicate the portion of the net position or fund balance that is

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

available for restricted purposes only. Restricted assets also include cash deposited in bank accounts legally restricted for certain purposes such as the payment of bond principal and interest.

I. PREPAID ITEMS

Prepaid items are payments made by the District in the current fiscal 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 funds, long-term debt premiums/ (discounts) and issuance costs are recognized in the current period as other financing sources/ (uses) and fiscal charges, respectively. In the government-wide financial statements, long-term debt premiums/ (discounts) are capitalized and amortized over the term of the related debt using the outstanding balance method and issuance costs are expensed in the period incurred.

J. RECEIVABLES AND PAYABLES

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

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

K. TRANSFERS AND OTHER TRANSACTIONS BETWEEN FUNDS

Interfund transactions are categorized as: (a) revenue 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, advances or operating transfers. Reimbursements between funds occur when expenditures/expenses made from one fund are properly applicable to another fund.

Activity between funds that represent lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "Due To Other Funds" or "Due From Other Funds." Any remaining balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "Internal Balances." Short-term amounts owed between the primary government and a discretely presented component unit is classified as "Due To/From Primary Government" and "Due To/From Component Units" on the Statement of Net Position.

Transfers are included in the results of operations of both the governmental and proprietary funds. Accordingly, transfers are reported in the "Other Financing Sources/ (Uses)" section of the Statement of Revenues, Expenditures, and Changes in Fund Balance of the Governmental Funds and in the "Transfers" section in the Statement of Revenues, Expenses, and Changes in Net Position of the Proprietary Funds.

L. CAPITAL ASSETS

Capital assets, which include property, land, equipment, land improvements, and infrastructure (i.e., roads, bridges, streets and sidewalks, drainage systems, lighting systems, and similar items), are reported in the applicable governmental or business-type activities or component units columns in the government-wide financial statements and proprietary fund financial statements. All purchased capital 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 capital assets are stated at their estimated fair market value on the date received. The cost of maintenance and repairs that does not add to the value of the assets or materially extend their useful lives is not capitalized. Betterments are capitalized as separate assets. Capital asset purchases are recorded as expenditures in the governmental fund financial statements. Depreciation expense is recorded in the government-wide financial statements, as well as the proprietary funds and component units' financial statements.

Intangible assets are legal rights which lack physical substance; have a useful life of more than one reporting year; meets the capitalization threshold; and are nonfinancial in nature. For financial reporting

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

purposes, the District includes such assets in Construction-in-Progress (CIP).

When the construction of assets is financed through the issuance of long-term debt, interest is capitalized in the government-wide financial statements and proprietary funds. 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

Capitalized assets have an original cost of $5 (five thousand) or more per unit. Depreciation is calculated on each class of depreciable property using the straight-line method. Estimated useful lives for capital assets are shown in **Table N1** by class.

Table N1 – Estimated Useful Lives (by Asset Class)

	Useful life
Storm Drains	45 years
Infrastructure	20-40 years
Buildings	50 years
Equipment and Machinery	5-10 years
Furniture and Fixtures	5 years
Vehicles (and Other Mobile Equipment)	5-12 years
Library Books	5 years
Leasehold Improvements	10 years, not to exceed term of lease

M. DEFERRED OUTFLOWS OF RESOURCES

Deferred outflows of resources represent the consumption of net position by the District that is applicable to a future reporting period. Deferred outflows of resources have a natural debit balance and therefore, increase net position in a manner similar to assets.

N. CAPITAL LEASES

In general, a lease is considered to be a capital lease if it meets any one of the following criteria:

- The lease transfers ownership of the property to the lessee at the end of the lease term.
- The lease contains an option to purchase the leased property at a bargain price.
- The lease term is equal to or greater than 75% of the estimated life of the leased property.
- The present value of rental and other minimum lease payments equals or exceeds 90% of the fair value of the leased property less any investment tax credit less executory cost retained by the lessor.

Leased property having elements of ownership is recorded in the government-wide and proprietary fund financial statements. The related obligations, in amounts equal to the present value of future minimum lease payments due during the term of the leases, are also recorded in these financial statements.

O. COMPENSATED ABSENCES

Benefit Accumulation Policies

The District's policy allows employees to accumulate unused sick leave, with no maximum limitation. Annual leave (vacation) may be accumulated up to 240 hours, regardless of the employee's length of service, while there is no limit to the amount of compensatory leave (leave granted to eligible employees in lieu of paid overtime) that may be accumulated.

Recording of Accrual for Accumulated Leave

The District records vacation leave as an expenditure and related liability in the governmental fund financial statements only to the extent that the compensated absences have matured or come due for payment. Accumulated annual leave that has not matured by the end of the current fiscal year is reported in the government-wide financial statements. Accumulated annual leave of the proprietary funds and discretely presented component units is recorded as an expense and liability as the benefits accrue to employees.

The District does not record a liability for accumulated rights to receive sick pay benefits. At the time of retirement, however, unused sick leave can be used to determine employees' years of service. District employees earn sick leave credits that are considered termination payments at the time of retirement. For instance, one month would be added to the years and months of service of employees who have accumulated 22 days of sick leave in the Civil Service Retirement System or in the District Retirement Program.

The District estimates the potential sick leave credits

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(termination payments) at fiscal year-end based on the number of employees who are currently eligible for retirement and sick leave payments upon separation, or who are expected to become eligible in the future to receive such payments.

P. LONG-TERM LIABILITIES

Pursuant to Section 603 of the District of Columbia Home Rule Act, as amended, no long-term general obligation debt (other than refunding debt) may be issued during any fiscal year in an amount which would cause the amount of the principal and interest paid in any fiscal year on all general obligation debt to exceed 17% of the total General Fund revenues of the fiscal year in which the debt is issued. The legal debt limitation is calculated annually by dividing maximum annual principal and interest by current-year total General Fund revenues.

In addition, consistent with the Limitation on Borrowing and Establishment of Operating Cash Reserve Act of 2008 (D.C. Code § 47-335.02), the Council shall not approve a District bond issuance if the applicable annual debt service on the District bond issuance would cause the debt service on all District bonds in the fiscal year in which the District bonds are issued, or in any of the three succeeding fiscal years, to exceed 12% of General Fund expenditures in any applicable fiscal year.

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

The District began paying principal on its 2002 Mandarin TIF Capital Appreciation Bonds (CABs) on July 1, 2002, and will make such payments annually until July 1, 2021. The CABs accrete to their full value at maturity. Interest is accreted and compounded semi-annually using rates ranging from 5.56% to 5.91%. Accreted interest is calculated throughout the maturity periods of the bonds and is recorded in the government-wide financial statements. The accreted value of such bonds is the current value, plus the interest that has been accumulating on the bonds.

The District will begin paying principal on its 2006 Tobacco CABs in June 2046 and June 2055. There are no periodic interest payments due. The CABs accrete to their full value at maturity. Interest is accreted and recorded annually using rates ranging from 6.25% to 7.25%. Accreted interest is calculated throughout the maturity periods of the bonds and is recorded in the government-wide financial statements. The accreted value of such bonds is the current value, plus the interest that has been accumulating on the bonds.

Q. DEFERRED INFLOWS OF RESOURCES

Deferred inflows of resources represent the acquisition of net position by the District that is applicable to a future reporting period. Deferred inflow of resources has a natural credit balance, and therefore, decreases net position much in the same manner as do liabilities.

R. NEW ACCOUNTING STANDARDS ADOPTED

During the fiscal year ended September 30, 2014, the District adopted the following new accounting standards issued by the Governmental Accounting Standards Board (GASB):

Statement No. 66, Technical Corrections – 2012—an Amendment of GASB Statements No. 10 and No. 62

Issued in March 2012, the objective of this statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*.

This statement amends Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues,* by removing the provision that limits funds-based reporting of an entity's risk financing activities to the general fund and the internal service fund type. As a result, governments should base their decisions about fund type classification on the nature of the activity to be reported, as required in Statement No. 54 and Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local*

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Governments.

This Statement also amends Statement No. 62 by modifying the specific guidance on accounting for (1) operating lease payments that vary from a straight-line basis, (2) the difference between the initial investment (purchase price) and the principal amount of a purchased loan or group of loans, and (3) servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a current (normal) servicing fee rate. These changes clarify how to apply Statement No. 13, *Accounting for Operating Leases with Scheduled Rent Increases,* and result in guidance that is consistent with the requirements in Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues,* respectively.

Implementation of this statement had no material impact on the District's fiscal year 2014 financial statements.

Statement No. 67, Financial Reporting for Pension Plans – an Amendment of GASB Statement No. 25

Issued in June 2012, this statement replaces the requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 50, *Pension Disclosures*, as they relate to pension plans that are administered through trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 25 and 50 remain applicable to pension plans that are not administered through trusts covered by the scope of this Statement and to defined contribution plans that provide postemployment benefits other than pensions.

This Statement, along with Statement No. 68, *Accounting and Financial Reporting for Pensions*, establishes a definition of a pension that reflects the primary activities associated with the pension arrangement—determining pensions, accumulating and managing assets dedicated for pensions, and paying benefits to plan members as they come due. The scope of this Statement addresses accounting and financial reporting for the activities of pension plans that are administered through trusts that have the following characteristics:

- Contributions from employers and non-employer contributing entities to the pension plan and earnings on those contributions are irrevocable.
- Pension plan assets are dedicated to providing pensions to plan members in accordance with the benefit terms.
- Pension plan assets are legally protected from the creditors of employers, non-employer contributing entities, and the pension plan administrator. If the plan is a defined benefit pension plan, plan assets also are legally protected from creditors of the plan members.

For defined benefit pension plans, this Statement establishes standards of financial reporting for separately issued financial reports and specifies the required approach to measuring the pension liability of employers and non-employer contributing entities for benefits provided through the pension plan (the net pension liability), about which information is required to be presented. Distinctions are made regarding the particular requirements depending upon the type of pension plan administered, as follows:

- Single-employer pension plans - those in which pensions are provided to the employees of only one employer (as defined in this Statement).
- Agent multiple-employer pension plans (agent pension plans) - those in which plan assets are pooled for investment purposes but separate accounts are maintained for each individual employer so that each employer's share of the pooled assets is legally available to pay the benefits of only its employees.
- Cost-sharing multiple-employer pension plans (cost-sharing pension plans) - those in which the pension obligations to the employees of more than one employer are pooled and plan assets can be used to pay the benefits of the employees of any employer that provides pensions through the pension plan.

This Statement also details the note disclosure requirements for defined contribution pension plans administered through trusts that meet the identified criteria.

Implementation of this statement by the District of Columbia Retirement Board had no material impact on the District's fiscal year 2014 financial statements.

Statement No. 70, Accounting and Financial Reporting for Nonexchange Financial Guarantees

Issued in April 2013, the objective of this Statement is to improve accounting and financial reporting by state

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

and local governments that extend and receive nonexchange financial guarantees.

This Statement requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. The amount of the liability to be recognized should be the discounted present value of the best estimate of the future outflows related to the guarantee expected to be incurred. When there is no best estimate but a range of the estimated future outflows can be established, the amount of the liability to be recognized should be the discounted present value of the minimum amount within the range.

This Statement requires a government that has issued an obligation guaranteed in a nonexchange transaction to recognize revenue to the extent of the reduction in its guaranteed liabilities. This Statement also requires a government that is required to repay a guarantor for making a payment on a guaranteed obligation or legally assuming the guaranteed obligation to continue to recognize a liability until legally released as an obligor. When a government is released as an obligor, the government should recognize revenue as a result of being relieved of the obligation. This Statement also provides additional guidance for intra-entity nonexchange financial guarantees involving blended component units.

This Statement specifies the information required to be disclosed by governments that extend nonexchange financial guarantees. In addition, this Statement requires new information to be disclosed by governments that receive nonexchange financial guarantees.

Implementation of this statement had no material impact on the District's fiscal year 2014 financial statements.

S. NEW ACCOUNTING PRONOUNCEMENTS TO BE IMPLEMENTED IN THE FUTURE

The District plans to implement the following pronouncements by the required implementation dates. Earlier implementation will occur when deemed feasible.

Statement No. 68, Accounting and Financial Reporting for Pensions –an amendment of GASB Statement No. 27

Issued in June 2012, this Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements that meet certain criteria. The requirements of Statements 27 and 50 remain applicable for pensions that are not covered by the scope of this Statement.

This Statement and Statement 67 establish a definition of a pension plan that reflects the primary activities associated with the pension arrangement—determining pensions, accumulating and managing assets dedicated for pensions, and paying benefits to plan members as they come due.

The scope of this Statement addresses accounting and financial reporting for pensions that are provided to the employees of state and local governmental employers through pension plans that are administered through trusts that have the following characteristics:

- Contributions from employers and non-employer contributing entities to the pension plan and earnings on those contributions are irrevocable.
- Pension plan assets are dedicated to providing pensions to plan members in accordance with the benefit terms.
- Pension plan assets are legally protected from the creditors of employers, non-employer contributing entities, and the pension plan administrator. If the plan is a defined benefit pension plan, plan assets also are legally protected from creditors of the plan members.

This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and related expenses/ expenditures. For defined benefit pensions, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service.

Note disclosure and required supplementary information requirements about pensions also are addressed. Distinctions are made regarding the particular requirements for employers based on the number of employers whose employees are provided with pensions through the pension plan and whether pension obligations and pension plan assets are shared. Employers are classified in one of the following categories for purposes of this Statement:

- Single employers are those whose employees are provided with defined benefit pensions through

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

single-employer pension plans—pension plans in which pensions are provided to the employees of only one employer (as defined in this Statement).

- Agent employers are those whose employees are provided with defined benefit pensions through agent multiple-employer pension plans—pension plans in which plan assets are pooled for investment purposes but separate accounts are maintained for each individual employer so that each employer's share of the pooled assets is legally available to pay the benefits of only its employees.

- Cost-sharing employers are those whose employees are provided with defined benefit pensions through cost-sharing multiple-employer pension plans—pension plans in which the pension obligations to the employees of more than one employer are pooled and plan assets can be used to pay the benefits of the employees of any employer that provides pensions through the pension plan.

In addition, this Statement details the recognition and disclosure requirements for employers with liabilities (payables) to a defined benefit pension plan and for employers whose employees are provided with defined contribution pensions. This Statement also addresses circumstances in which a non-employer entity has a legal requirement to make contributions directly to a pension plan.

The requirements of this statement are effective for fiscal years beginning after June 15, 2014, the District's fiscal year 2015.

Statement No. 69, Government Combinations and Disposals of Government Operations

Issued in January 2013, this Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this Statement, the term *government combinations* includes a variety of transactions referred to as mergers, acquisitions, and transfers of operations.

The distinction between a government merger and a government acquisition is based upon whether an exchange of significant consideration is present within the combination transaction. Government mergers include combinations of legally separate entities without the exchange of significant consideration. This Statement requires the use of carrying values to measure the assets and liabilities in a government merger. Conversely, government acquisitions are transactions in which a government acquires another entity, or its operations, in exchange for significant consideration. This Statement requires measurements of assets acquired and liabilities assumed generally to be based upon their acquisition values. GASB Statement No. 69 also provides guidance for transfers of operations that do not constitute entire legally separate entities and in which no significant consideration is exchanged. This Statement defines the term *operations* for purposes of determining the applicability of this Statement and requires the use of carrying values to measure the assets and liabilities in a transfer of operations.

A disposal of a government's operations results in the removal of specific activities of a government. This Statement provides accounting and financial reporting guidance for disposals of government operations that have been transferred or sold.

GASB Statement No. 69 requires disclosures to be made about government combinations and disposals of government operations to enable financial statement users to evaluate the nature and financial effects of those transactions.

The requirements of this statement are effective for government combinations and disposals of government operations occurring in fiscal years beginning after December 15, 2013, the District's fiscal year 2015.

Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68

Issued in November 2013, this statement addresses an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or non-employer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability.

Statement No. 68 requires a state or local government employer (or non-employer contributing entity in a special funding situation) to recognize a net pension liability measured as of a date (the measurement date) no earlier than the end of its prior fiscal year. If a state or local government employer or non-employer contributing entity makes a contribution to a defined benefit pension plan between the measurement date of the reported net pension

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

liability and the end of the government's reporting period, Statement No. 68 requires that the government recognize its contribution as a deferred outflow of resources. In addition, Statement No. 68 requires recognition of deferred outflows of resources and deferred inflows of resources for changes in the net pension liability of a state or local government employer or non-employer contributing entity that arise from other types of events. At transition to Statement No. 68, if it is not practical for an employer or non-employer contributing entity to determine the amounts of *all* deferred outflows of resources and deferred inflows of resources related to pensions, paragraph 137 of Statement No. 68 required that beginning balances for deferred outflows of resources and deferred inflows of resources not be reported.

Consequently, if it is not practical to determine the amounts of all deferred outflows of resources and deferred inflows of resources related to pensions, contributions made after the measurement date of the beginning net pension liability could not have been reported as deferred outflows of resources at transition. This could have resulted in a significant understatement of an employer or non-employer contributing entity's beginning net position and expense in the initial period of implementation.

This Statement amends paragraph 137 of Statement No. 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. Statement No. 68, as amended, continues to require that beginning balances for other deferred outflows of resources and deferred inflows of resources related to pensions be reported at transition only if it is practical to determine all such amounts.

The provisions of Statement No. 71 are required to be applied simultaneously with the provisions of Statement No. 68. Consequently, the requirements of this statement are effective for fiscal years beginning after June 15, 2014, the District's fiscal year 2015.

T. NET POSITION AND FUND BALANCE

Assets plus deferred outflows less liabilities less deferred inflows equal "Net Position" in the government-wide, proprietary, and fiduciary fund statements and "Fund Balance" in governmental fund statements. In the government-wide and proprietary fund financial statements, "Net Position" is further categorized as:

- *Net Investment In Capital Assets* – This category groups all capital assets, including infrastructure, into one component of net position. Accumulated depreciation and the outstanding balances of debt, net of unspent proceeds, that are attributable to the acquisition, construction, or improvement of these assets, reduce the balance in this category.

- *Restricted Net Position* - This category presents net position subject to external restrictions imposed by creditors, grantors, contributors, or laws and regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation. Non-expendable restricted net position represents the portion of net position that must be held in perpetuity in accordance with donor stipulations.

- *Unrestricted Net Position* - This category represents net position not restricted for any project or other purpose.

In accordance with GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, in governmental fund financial statements, fund balances are classified as follows:

- *Nonspendable* - resources which cannot be spent because they are either: (a) not in spendable form; or (b) legally or contractually required to be maintained intact.

- *Restricted* – resources with use constraints which are either: (a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

- *Committed* – resources which can only be used for specific purposes pursuant to limitations imposed by formal action of the District government's highest level of decision-making authority. Amounts in this category may be redeployed for other purposes with the appropriate due process. Committed amounts cannot be used for any other purpose unless the District government removes or changes the specified use by taking the same type of action it used to previously commit the amounts.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- *Assigned* – resources neither restricted nor committed for which the District has a stated intended use as established by the Mayor, Council, or a body or official to which the Mayor or Council has delegated the authority to assign amounts for specific purposes. These are resources where the constraints/restrictions are less binding than that for committed resources.

- *Unassigned* – resources which cannot be classified in one of the other four categories. The general fund is the only fund that is permitted to report a positive unassigned fund balance amount. In other governmental funds, it is not possible to report a positive unassigned fund balance; if expenditures incurred for specific purposes exceed the amounts restricted, committed, or assigned to those purposes, negative unassigned fund balance may be reported.

For committed fund balance, the bodies which have the highest level of decision-making authority are the Executive Office of the Mayor and the Council of the District of Columbia (the Council). The Council must pass legislation to establish, modify, or rescind a commitment of fund balance. Consistent with Sections 424, 448, and 450 of the District of Columbia Home Rule Act, the District's Mayor, Council, and Chief Financial Officer are responsible for managing the District's financial resources. In fulfilling their respective responsibilities, the Mayor, Council, or Chief Financial Officer, as authorized, may assign portions of fund balance for specific purposes; however, the assignment of fund balance must be formally documented in the form of an Executive Order, letter, or some other official directive.

It is the policy of the District to use restricted resources first, followed by committed resources and the assigned resources, when expenses are incurred for purposes for which any of these resources are available. Therefore, the District considers restricted amounts to have been spent when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available and considers committed fund balance to have been spent when an expenditure has been incurred for purposes for which committed, assigned, or unassigned amounts could have been used. The District does, however, reserve the right to selectively spend unassigned resources first and to defer the use of the other classified funds.

Consistent with mandates imposed by the federal government and D.C. Code §1-204.50a, the District is required to maintain cash reserves totaling 6% of the previous fiscal year's general fund expenditures less debt service costs. The 6% includes a contingency cash reserve of 4% and an emergency cash reserve of 2%.

As of September 30, 2014, the District's fund balance included the following categories (see **Table N53a** on page 121)

Nonspendable Fund Balance

Inventory – This portion of fund balance represents amounts not available for appropriation or expenditure because the underlying asset (inventory) is not an available financial resource for appropriation or expenditure.

Restricted Fund Balance

Emergency and Contingency Cash Reserves – This portion of fund balance represents amounts that, in accordance with legislative mandate, are held in two funds: an emergency cash reserve fund and a contingency cash reserve fund, to be used for unanticipated and non-recurring, extraordinary needs of an emergency nature.

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.

Budget – This portion of fund balance represents unused FY 2014 budget reserve amounts that are restricted for specific purposes and available for such purposes until expended.

Purpose Restrictions – This portion of fund balance represents resources from grants and other revenues with limitations on how the District may expend the funds.

Payment in Lieu of Taxes (PILOT) – This portion of fund balance is restricted for payment of future debt service associated with the PILOT Revenue Bonds.

Tobacco Settlement – This portion of fund balance is restricted to pay future debt service and related expenses associated with the Tobacco Corporation's issuance of Tobacco Settlement Asset-Backed Bonds in fiscal years 2001 and 2006.

Tax Increment Financing (TIF) Program – This portion of fund balance is restricted for debt service on TIF Bonds.

Housing Production Trust – This portion of fund balance is restricted to provide financial assistance to developers for the planning and production of low,

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

very low, and extremely low income housing and related facilities.

Highway Projects – This portion of fund balance is restricted for the purpose of executing federal highway projects.

Baseball Special Revenue – This portion of fund balance represents resources set aside for baseball debt service payments.

Soccer Stadium – This portion of fund balance represents resources set aside for financing the infrastructure costs associated with the construction of the soccer stadium.

Committed Fund Balance

Fiscal Stabilization Reserve – This portion of fund balance is committed to purposes permitted for use of the Contingency Reserve Fund (except for cash flow management purposes).

Cash Flow Reserve – This portion of fund balance is committed to cover cash flow needs; provided that any amounts used must be replenished to this reserve in the same fiscal year.

Budget Support Act – This portion of fund balance is committed to various non-lapsing accounts established in the budget support act, which is a local law.

Commodities Reserve – This portion of fund balance represents unexpended funds which were appropriated for fixed costs at the end of the fiscal year pursuant to the Commodities Cost Reserve Fund Act of 2005.

Dedicated Taxes – This portion of fund balance represents the portions of the District's tax revenue streams which are dedicated for specific purposes and are not available for general budgeting.

Other Special Purposes – This portion of fund balance is committed to activities financed by fees and charges for services.

Assigned Fund Balance

Contractual Obligations – This portion of fund balance represents amounts set aside by the executive branch to fund other special purpose (O-Type) fund activities.

Subsequent Years' Expenditures – This portion of fund balance represents amounts to be used to finance certain non-recurring policy initiatives and other expenditures included in the FY 2015 budget approved by the District Council.

Unassigned Fund Balance

Capital Projects – This portion of fund balance is restricted for the purpose of executing capital projects. The capital projects fund reported a negative unassigned fund balance at September 30, 2014 because expenditures were made in the Capital Projects Fund from resources that were advanced from the General Fund in anticipation of bond proceeds that will be restricted to the purpose for which those expenditures were made.

Minimum Fund Balance Policies

Restricted Fund Balances

Through Congressional mandate, the District is required to maintain cash reserves totaling 6% of the previous fiscal year's General Fund expenditures (local portion) less debt service cost. The 6% is comprised of a contingency cash reserve of 4% and an emergency cash reserve of 2%. These reserves are reported as restricted cash and restricted net position in the government-wide financial statements.

Contingency Reserve

The contingency reserve may only be used for nonrecurring or unforeseen needs that arise during the fiscal year, including expenses associated with unforeseen weather conditions or other natural disasters, unexpected obligations created by federal law or new public safety or health needs or requirements that have been identified after the budget process has occurred, or opportunities to achieve cost savings. In addition, the contingency reserve may be used, as needed, to cover revenue shortfalls experienced by the District government for three consecutive months (based on a two-month rolling average) that are 5% or more below the budget forecast. The contingency reserve fund may not be used to fund any shortfalls in any projected reductions which are included in the budget proposed by the District for the fiscal year.

Each fiscal year, the District must appropriate sufficient funds during the budget process to replenish any amounts allocated from the contingency reserve fund during the preceding fiscal years. Such appropriation is necessary so that not less than 50% of any amount allocated in the preceding fiscal year or the amount necessary to restore the contingency reserve fund to the 4% required balance, whichever is less, is replenished by the end of the first fiscal year following such allocation. In addition, 100% of the amount allocated

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

or the amount necessary to restore the contingency reserve fund to the 4% required balance, whichever is less, must be replenished by the end of the second fiscal year following each such allocation.

Emergency Reserve

The emergency reserve fund may be used to provide for unanticipated and nonrecurring extraordinary needs of an emergency nature, including a natural disaster or calamity or unexpected obligations by federal law. The emergency reserve fund may also be used in the event that a State of Emergency is declared by the Mayor. However, the emergency reserve fund may not be used to fund: (a) any department, agency, or office of the District government which is administered by a receiver or other official appointed by a court; (b) shortfalls in any projected reductions which are included in the budget proposed by the District for the fiscal year; or (c) settlements and judgments made by or against the District government.

Each fiscal year, the District must appropriate sufficient funds during the budget process to replenish any amounts used from the emergency reserve fund during the preceding fiscal years. Such appropriation is necessary so that not less than 50% of any amount allocated in the preceding fiscal year or the amount necessary to restore the emergency reserve fund to the 2% required balance, whichever is less, is replenished by the end of the first fiscal year following such allocation. In addition, 100% of the amount allocated or the amount necessary to restore the emergency reserve fund to the 2% required balance, whichever is less, must be replenished by the end of the second fiscal year following each such allocation.

Committed Fund Balances

Fiscal Stabilization Reserve

The fiscal stabilization reserve may be used by the Mayor for the same purposes for which the contingency reserve was established (except for cash flow management purposes.) At full funding, this reserve must equal 2.34% of the District's General Fund operating expenditures for the current fiscal year.

Cash Flow Reserve

The cash flow reserve may be used by the District's Chief Financial Officer to cover cash flow needs. When amounts are used, the cash flow reserve must be replenished in the same fiscal year of use. At full funding, the cash flow reserve must equal 8.33% of the General Fund operating budget for the current fiscal year.

If either the fiscal stabilization reserve or the cash flow reserve is below full funding upon issuance of the Comprehensive Annual Financial Report, the District's Chief Financial Officer must commit 50% of the unassigned end-of-year fund balance to each reserve, or 100% of the end-of-year unassigned fund balance to the reserve that has not reached full capacity, to fully fund the reserves to the extent allowed by the end-of-year fund balance. Moreover, if the amount required for the contingency reserve or emergency cash reserve is reduced, the amount required to be retained in the fiscal stabilization reserve is to be increased by the same amount.

U. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

In addition to the pension benefits described in Note 9 and pursuant to D.C. Code §1-621.13, employees hired after September 30, 1987, who retire may be eligible to continue their healthcare benefits. Furthermore, in accordance with D.C. Code §1-622.16, these employees may convert their group life insurance to individual life insurance. The expense of providing such benefits to employees hired prior to October 1, 1987, is paid by the federal government and the District has no liability for these costs. However, the District provides health and life insurance benefits to retirees first employed by the District after September 30, 1987.

The District utilizes a graded contribution schedule whereby District contributions to the plan are based on the employee's years of creditable District service. District contributions are limited such that the District pays no more than 75% of the cost of health insurance, and 30% of the cost of life insurance for eligible retirees. The District also pays no more than 40% of the premium for a retiree's spouse and dependent health insurance coverage. More information regarding the OPEB contribution policy is presented in Note 10 on page 117.

The District records a liability in its government-wide financial statements for its portion of the cost of postemployment benefits. A liability for such benefits is not recorded in the fund statements. The District began funding the OPEB plan on an actuarial basis in fiscal year 2008.

As of September 30, 2014, there were 555 OPEB Plan participants receiving such benefits. The

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

participants were comprised of 418 teachers, police, and firefighters, and 137 general District retirees. During fiscal year 2014, $5.1 million was paid from the OPEB plan for the associated insurance carrier premiums and other administrative costs.

V. USE OF ESTIMATES

The preparation of financial statements in conformity with GAAP requires management to use estimates and make assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities, deferred inflows of resources and the disclosure of contingent assets and liabilities at the date of the basic financial statements. The use of estimates may also affect the reported amounts of revenues, expenses and expenditures during the reporting period. Actual results could differ from the estimates used.

W. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

Explanation of certain differences between the governmental funds balance sheet and governmental activities on the government-wide statement of net position

The governmental funds balance sheet includes reconciliation between fund balances - total governmental funds versus net position - governmental activities as reported in the government-wide statement of net position. One element of that reconciliation explains that certain deferred inflows of resources under the modified accrual basis of accounting, are reported as revenues in the government-wide financial statements. The difference in deferred inflows of resources of $127,276 between the two statements is a reconciling item, which is attributable to the modified accrual basis of accounting having been used to defer property tax revenues and other unavailable revenues in the governmental funds as this amount is not currently available for use in fiscal year 2014. The accrual basis of accounting is used to record revenues in the government-wide financial statements.

Explanation of certain differences between the governmental funds statement of revenues, expenditures, and changes in fund balances and governmental activities on the government-wide statement of activities

The governmental funds statement of revenues, expenditures, and changes in fund balances includes reconciliation between net changes in fund balances of governmental funds and changes in net position of governmental activities as reported in the government-wide statement of activities.

The details of the $477,150 difference related to capital outlay are as follows:

Capital outlay capitalized	$	849,992
Less:		
Depreciation expense		(414,748)
Capital asset additions		43,512
Transfer and dispositions		(1,606)
Net Adjustment	$	**477,150**

The details of the ($381,751) difference related to long-term liabilities are as follows:

Bonds issued	$	(1,072,535)
Equipment financing program		(31,716)
Premium on long-term debt		(85,679)
Less:		
Loss on refunding		7,037
Principal payments on bonds		801,142
Net Adjustment	$	**(381,751)**

The details of the $62,898 difference related to the change in accrued liabilities are as follows:

Annual leave	$	(2,245)
Future disability benefits		249
Accreted interest		(18,958)
Grant disallowances		(54,350)
Accrued interest		(13,306)
Claims and judgments		48,289
DCPS liability		4,494
Reduction on equipment financing		43,042
Amortization of premium		52,658
Boys and girls club		3,125
Net OPEB liability		(100)
Net Adjustment	$	**62,898**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

X. RECONCILIATION OF BUDGETARY BASIS TO GAAP BASIS

The following presents the reconciliation of the budgetary basis operating results to the GAAP basis.

	GENERAL FUND	FEDERAL AND PRIVATE RESOURCES
EXCESS OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES - BUDGETARY BASIS	$ 203,717	$ 261
Basis differences:		
Inventory is recorded using the purchase method for budgetary purposes and the consumption method on a GAAP basis	9,621	(218)
Transfers/Reclassifications	62,203	-
Debt related adjustments	(52,393)	-
Fund balance released from restrictions - a funding source for budgetary purposes but not revenue on a GAAP basis	(98,417)	(5,720)
Federal pass-through contribution (D.C. Federal Pension Fund and SNAP)	-	689,949
Federal pass-through contribution (D.C. Federal Pension Fund and SNAP)	-	(689,949)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES - GAAP BASIS	**$ 124,731**	**$ (5,677)**

The federal pass through contribution/expenditures are comprised of: on-behalf payment to D.C. Federal Pension Fund ($467,290) and payments to eligible low income families under the Supplemental Nutrition Assistance Program (SNAP) ($222,659).

Y. RESTATEMENT

Component Units

Washington Convention and Sports Authority

<u>Change in Accounting Policy/Implementation of New Accounting Standard</u>

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, establishes accounting and financial reporting standards that reclassify, as deferred outflows and inflows of resources, certain items that were previously reported as assets and liabilities, and recognizes, as outflows or inflows of resources, certain items that were previously reported as assets and liabilities. Prior to the issuance of this statement, bond issuance costs were classified as an asset and amortized over the life of the related debt issuance. With the implementation of Statement 65, which the District and all other component units implemented in fiscal year 2013, bond issuance costs are classified as a current period outflow of resources and expense. Implementation of this statement resulted in a decrease in Net Position for this component unit at October 1, 2013 in the amount of $9,039.

The effect of this change in accounting policy was as follows:

	October 1, 2013
Net position, as previously reported	$ 242,673
Accounting Policy Change	(9,039)
Net position, as restated	$ 233,634

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 operational efficiency, and to maximize investment opportunities. In accordance with the provisions of the Financial Institutions Deposit and Investment Act of 1997 (D.C. Law 12-56), which became effective on March 18, 1998, substantially all of the $3,361,932 in deposits within the custody of the District at September 30, 2014, were insured or collateralized with securities held by the District or by its agent in the District's name. At September 30, 2014, the carrying amount of cash for the primary government including the fiduciary funds was $3,156,695 and the carrying amount of cash (deposits) for the component units was $205,237.

B. INVESTMENTS

The Treasurer is authorized by District laws to invest funds in a manner that will preserve principal and meet the District's anticipated daily cash requirements, while maximizing investment earnings. The District purchases legally authorized investments consistent with the provisions of the Financial Institutions Deposit and Investment Act of 1997 (D.C. Law 12-56) and the District's Cash and Investment Management Policy, adopted November 2008. The District's investment policy limits investments to obligations of the United States and agencies thereof, prime commercial paper, bankers' acceptances and repurchase agreements fully collateralized in obligations of the United States government and agency securities. During the fiscal year, the District's investments (other than those held by the Retirement Board) consisted primarily of equities and bonds. See **Table N7a** on page 81 for details.

The Retirement Board is authorized to manage and control the investment of the District's Retirement Funds' (Teachers', Police Officers' and Firefighters' Retirement Funds) assets. The Retirement Board may invest in a variety of investments including fixed income, equity securities and other types of investments. As prescribed in D.C. Code §1-907.01 (2001 ED), the Retirement Board may not invest in debt instruments of the District, the Commonwealth of Virginia, or the State of Maryland governments, political subdivisions thereof, or any entity subject to control by them; debt instruments fully guaranteed by those governments; real property in those jurisdictions; or debt instruments secured by real property in those jurisdictions, subject to the exceptions in subsection (c) of this section.

The fair values of the investments held in the control of the Retirement Board as of September 30, 2014 are presented in **Table N2**.

Table N2 – Fair Values of Investments: Retirement Board

	(Dollars in $000s)	
	2014	**2013**
Cash and short-term investments	$ 27,400	$ 96,058
Investments at fair value:		
Domestic equity	1,477,647	1,372,613
International equity	1,922,262	1,773,661
Fixed income	1,872,920	1,617,778
Real estate	354,593	356,125
Private equity	648,346	654,901
Total cash and investments at fair value	**$ 6,303,168**	**$ 5,871,136**

The District's Annuitants' Health and Life Insurance Employer Contribution Trust Fund (OPEB Trust Fund) also held investments at September 30, 2014. Cash and cash equivalents are maintained in six investment accounts. **Table N3** presents the Fund's cash and cash equivalents that were held in investment accounts as of September 30, 2014. **Table N4** presents the aggregate fair values of the Fund's investments based on quoted market prices as of September 30, 2014.

Table N3 – Cash and Cash Equivalents Held in Investment Accounts: OPEB Trust Fund

	(Dollars in $000s)	
Fund	**2014**	**2013**
Cash Account	$ 88,819	$ 109,401
Brandywine Large Cap	7,416	4,896
ClearBridge Mid Cap	1,846	4,758
Bernstein Strategic Core	17,784	21,257
Bernstein Global Plus	1,227	2,963
FMW Large Cap Growth	7,296	8,588
Total cash and cash equivalents held in investment accounts	**$ 124,388**	**$ 151,863**

NOTE 2. CASH AND INVESTMENTS

Table N4 – Aggregate Fair Values of Investments: OPEB Trust Fund

Funds	Aggregate Fair Market Value 2014	2013
Bernstein Strategic Core	$ 131,613	$ 131,080
Brandywine Large Cap Value	162,517	137,959
FMW Large Cap Growth	134,719	115,545
Bernstein Global Plus	73,639	72,789
ClearBridge Mid Cap - PRI	101,015	89,285
SSgA Bond Index	74,839	71,984
Barclays International	86,217	77,465
State Street Emerging Market Equity	33,862	-
Blue Bay Emerging Market - Debt	21,731	-
Gresham Commodities Fund	41,703	-
Royce FD	64,389	62,271
Access Capital ETI - PRI	15,728	15,158
Total Aggregate Fair Value	**$ 941,972**	**$ 773,536**

Table N5 presents the debt instruments which were held by the Retirement Board's Investment Pool as of September 30, 2014.

Table N5 – Debt Instruments Held by the Retirement Board Investment Pool at September 30, 2014

Investment Type	(Dollars in $000s) Fair Value	% of Segment	Duration	Rating*
US Agency	$ 20,322	1.09%	4.64	AA+
Asset Backed	5,787	0.31%	2.46	AA+
Bank Loans	108,393	5.79%	4.69	NR
CMBS	2,748	0.15%	3.13	AA+
CMO	7,586	0.41%	5.49	AA+
Corporate	469,896	25.09%	5.01	BB
Foreign	379,422	20.26%	2.70	AA+
Mortgage Pass-Through	177,148	9.46%	4.39	AA+
Municipal	13,739	0.73%	10.01	AA-
Unclassified	2,470	0.13%	2.26	AA+
US Treasury	657,401	35.10%	5.55	AA+
Yankee	16,305	0.87%	6.88	A
Other	11,703	0.61%	N/A	NR
Total Fixed Income	$ 1,872,920	100.00%		

* Using quality ratings provided by Standard & Poor's
N/A - Not Available
NR - Not Rated

The District's investments and those of its discretely presented component units are subject to interest rate, credit, custodial credit, and foreign currency risks. The District, including the Retirement Board, broadly diversifies the investment of District funds so as to minimize the risk of large losses, unless under the circumstances, it is clearly prudent not to do so.

The OPEB Trust Fund's investments are uninsured and unregistered and are held by the counterparty in the Plan's (or Fund's) name.

The types of risks to which the District (including the Retirement Board and the OPEB Trust Fund) may be exposed are described below:

- *Interest Rate Risk* – Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, an investment with a longer maturity will have a greater sensitivity to fair value changes that are related to market interest rates. As a means of limiting its exposure to fair value losses resulting from rising interest rates, the District's investment policy limits the District's portfolio to specific maturities.

  The District's investment policy stipulates that for the District's authorized investments, investment maturities are limited as follows:

Type of Investment	Maturity	Maximum Investment
U.S. Treasury Obligations	Five years	100%
Federal Agency Obligations	Five years	100%
Repurchase Agreements	90 days or less	100%
Commercial Paper	180 days or less	30%
Bankers' Acceptances	270 days or less	40%
Municipal Obligations	Five years	20%
Federally Insured or Collateralized Certificates of Deposit		30%
Money Market Mutual Funds		100%

The Retirement Board monitors the interest rate risk inherent in its portfolio by measuring the weighted average duration of its portfolio. Duration is a measure of a debt instrument's exposure to fair value changes arising from changing interest rates. It uses the present value of cash flows, weighted for those cash flows as a percentage of the investment's full price. Duration measures the sensitivity of the price of a fixed income investment to a change to interest rates expressed as a number of years. As a general rule, the risk and return of the Retirement Board's fixed income segment of the portfolio is compared to the Barclays Capital US Universal Index. To mitigate interest rate risk, the fixed income segment

NOTE 2. CASH AND INVESTMENTS

is expected to maintain a weighted average duration (sensitivity to interest rate changes) within +/-2 years of the duration of this Index.

The OPEB Trust Fund addresses interest rate risk through a process that focuses on the review of investment managers and fund returns. The Fund also uses an independent consultant to review assets and recommend any appropriate changes. The average duration for Sanford Bernstein US Core Plus was 5.36 years and Global XUS Plus was 6.46 years for the fiscal year ended September 30, 2014. The average duration for Access Capital was 4.25 years as of September 30, 2014 and the duration of the SSgA Bond Index Fund was 5.61 years as of September 30, 2014. The duration of the Blue Bay Emerging Market Fund was 5.87 as of September 30, 2014.

- *Credit Risk* – Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization.

  The District's Investment Policy limits investments in commercial paper, bankers' acceptances, municipal obligations, and money market mutual funds to certain ratings issued by nationally recognized credit rating agencies. District policy requires that for investments in: (a) commercial paper, the issuing corporation, or its guarantor have a short-term rating of no less than A-1 (or its equivalent) by at least two credit rating agencies; (b) bankers' acceptances, the short-term paper of the issuer be rated not lower than A-1 or the equivalent by a credit rating agency; (c) municipal obligations, such as bonds, notes, and other evidences of indebtedness be rated in either of the two highest rating categories by a credit rating agency, without regard to gradation; (d) money market mutual funds, the fund be rated AAAm or AAAm-G or the equivalent by a credit rating agency; and (e) repurchase agreements, the counterparty has a long-term credit rating of at least 'AA-' or the equivalent from a Nationally Recognized Statistical Rating Organization ("NRSRO") and does not have a "negative outlook" associated with such rating, has been in operation for at least five years, and is reputable among market participants.

  Unless specifically authorized otherwise in writing by the Retirement Board, fixed income managers invest retirement funds in investment grade instruments rated in the top four categories by a recognized statistical rating service.

  The average quality of the OPEB Trust Fund's bond holdings in each investment manager's portfolio should be maintained at "A" or better. The OPEB Trust Fund does not invest more than 15% of the Fund's assets in securities rated below "A". As of September 30, 2014, the average quality rating of the SSgA was Aa2, Access Capital was AAA, and Sanford Bernstein portfolios were AA-.

- *Custodial Credit Risk* – Custodial credit risk is the risk that, given a financial institution's failure, the government will not be able to recover deposits or collateral.

  Custodial credit risk occurs when investment securities are uninsured and/or not registered in the name of the government, and there is failure of the counterparty. In such cases, the government will not be able to recover the value of its investments or collateral securities held in the possession of an outside party. The District had no custodial credit risk exposure during the fiscal year. All District investments in fiscal year 2014 were collateralized. All collateral for investments is held in the District's name by the Federal Reserve in a custodial account. Any funds not invested at the end of the day are placed in overnight investments in the District's name.

  The Retirement Board had no custodial credit risk exposure during the fiscal year. All Retirement Board investments in fiscal year 2014 were collateralized. Investments held by the custodian on behalf of the Retirement Board were held in an account in the Retirement Board's name. Any funds not invested at the end of the day are placed in overnight investments in the Retirement Board's name.

- *Concentration of Credit Risk* – The District's investment policy does not allow for an investment in any single issuer that is in excess of five percent of the District's total investment Portfolio with following exceptions:

U.S. Treasury:	100% maximum
Each Federal Agency:	40% maximum
Each Repurchase Agreement Counterparty:	25% maximum
Each Money Market Mutual Fund:	25% maximum

At September 30, 2014, the District was in compliance with this policy.