NOTES TO THE BASIC FINANCIAL STATEMENTS

September 30, 2016

(Dollar amounts expressed in thousands)

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NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. BACKGROUND AND HISTORY OF THE GOVERNMENTAL UNIT

General Operations

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 of Columbia (the District) was established as the nation's capital on July 16, 1790, from territory ceded by Maryland and Virginia.

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 Columbia, and Washington Convention and Sports Authority (t/a Events DC). 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

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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 and websites:

Health Benefit Exchange Authority
Executive Director
1225 Eye Street, N.W., Suite 400
Washington, DC 20005
http://hbx.dc.gov

Housing Finance Agency
Executive Director
815 Florida Avenue, N.W.
Washington, DC 20001
http://www.dchfa.org

Not-For-Profit Hospital Corporation
d/b/a United Medical Center
Chief Executive Officer
1310 Southern Avenue, S.E.
Washington, DC 20032
http://oig.dc.gov

University of the District of Columbia
President
Van Ness Campus
4200 Connecticut Avenue, N.W.
Washington, DC 20008
http://www.udc.edu

Washington Convention and Sports Authority
t/a Events DC
General Manager
801 Mount Vernon Place, N.W.
Washington, DC 20001
http://eventsdc.com

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, DC 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 (the Authority), 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.

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Joint Venture

A joint venture is a legal entity or other organization that results from a contractual arrangement and 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 presented in Note 12 found on page 132.

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 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 outflows of resources, liabilities, deferred inflows 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 inflows of resources (except those accounted for in the proprietary funds and the discretely presented component units) are accounted for in the governmental funds.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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) initiatives to build affordable housing; (b) homeownership opportunities for low income families; and (c) preservation of 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 Debt Service Fund, and the Highway Trust 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:

- *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 District of Columbia Lottery and Charitable Games Control Board.
- *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 during a calendar year.

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 Benefits Funds* – used to report the activities of the District's retirement funds/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 qualified college education expenses 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, 2015, from which such summarized information was derived.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

D. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

The District's financial statements are prepared in accordance with 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 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 activities 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 outflows of resources, current liabilities, deferred inflows 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 the governmental funds are recognized in the year they become susceptible to accrual (both measurable and available) to pay current fiscal year liabilities. The District considers all revenues to be available if they are collected within 60 days of the end of the current fiscal year. Property taxes, individual and franchise taxes, sales taxes, federal grants and charges for services are significant revenues that are subject to accrual. All other revenue items are considered to be measurable and available only when cash is received by the government. The District accrues income tax revenue net of estimated income tax refunds relating to the fiscal year, that will not be collected or paid until after the fiscal year end.

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;
- 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 year for which they are levied, provided they are available.

Real property taxes are levied as of October 1 on

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 30th 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 local budget act and a federal portion 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 May 25th 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 federal portion budget request act to the President of the United States for transmission by him to Congress. After public hearings, Congress enacts the federal portion of the budget through an appropriations act. The Chairman of the Council submits the local budget request act to the Congress, which then becomes law upon expiration of a 30-day review period.

Appropriations Act

The Consolidated 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 by sending notification to Congress not fewer than 30 days in advance of the changes taking place.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Pursuant to Section 446 of the Home Rule Act (D.C. Code § 1-204.46) and the Reprogramming Policy Act (D. C. Official Code §47- 363)), the District may reallocate budget amounts. The appropriated budget amounts in the Budgetary Comparison Statement (Exhibit 2-d found on page 49) 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 authorized expenditures but does not specify revenue amounts. The revenue budget is based primarily on the revenue estimates submitted to the President and Congress with the District's budget and is modified as new revenue estimates are issued. If a new revenue estimate indicates a decrease, the District reduces its planned expenditures or takes other steps to rebalance the budget.

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 found on page 49. 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 found on page 47 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 77.

- *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 77.

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 Funds or the Special Revenue Funds.

Encumbered amounts at year-end have been included within the restricted fund balance in **Table N60a –** Schedule of FY 2016 Fund Balance found on page 130.

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.

The District's cash management pool is considered a cash equivalent. 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 changes in interest rates have little or no impact on the value of the securities. For an investment to be considered a cash equivalent, it must have a maturity date no greater than three months after the date it was 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 2006 (D.C. Official Code §47-351.01, et seq.), and the District's Investment Policy, as adopted in November 2008. As of September 30, 2016, 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 and Other Post-Employment Benefits Funds are

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

authorized to invest monies consistent with their respective Investment Policies. Historically, these Funds' investments have been comprised of equities, balanced funds, fixed income securities and other long-term horizon investment securities.

The District's investments are reported at fair value in accordance with GASB Statement No. 72, *Fair Value Measurement and Application*. Fair value is defined by GASB Statement No. 72 as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are inputs, other than quoted prices, included within Level 1, that are observable for the asset or liability, either directly or indirectly. Finally, Level 3 inputs are unobservable inputs, such as management's assumptions and information about market participant assumptions that is reasonably available.

Portfolio investments of the Private Purpose Trust Fund are reported at net asset value (NAV), in accordance with GASB Statement No. 72, in the accompanying Statement of Fiduciary Net Position. The stability of the 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 meet the criteria established by GASB Statement No. 79 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 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 outflows of resources over liabilities, deferred inflows 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 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 interest 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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

Activities 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 are 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 reported at their acquisition value on the date received. Acquisition value is defined as the price that would be paid to acquire an asset with equivalent service potential in an orderly market transaction at the acquisition date, or the amount at which a liability with the counterparty could be liquidated. The cost of maintenance and repairs that do 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; meet the capitalization threshold; and are nonfinancial in nature. For financial reporting purposes, the District includes such assets in Construction in Progress (CIP) until completion.

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 (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
Improvements Other Than Buildings	5-25 years
Buildings	15-60 years
Equipment and Machinery	3-10 years
Furniture and Fixtures	5 years
Vehicles (and Other Mobile Equipment)	5-12 years
Street Cars	30 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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 at the end of a calendar year, 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 retiring District employees who have accumulated 22 days of sick leave regardless as to whether they participate in the Civil Service Retirement System or the District Retirement Program.

The District estimates the potential sick leave credits (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 (D.C. Code § 1-206.03), 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 five 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 5.66% 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 2006 Tobacco CABs scheduled principal payment dates are June 2046 and June 2055. There are no periodic interest payments due. The CABs accrete to their full value at maturity. Interest is accreted 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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

future reporting period. Deferred inflows of resources have a natural credit balance, and therefore, decrease net position much in the same manner as do liabilities.

R. ADOPTION OF NEW ACCOUNTING STANDARDS

During the fiscal year ended September 30, 2016, the District adopted the following new accounting standards issued by the Governmental Accounting Standards Board (GASB):

- Statement No. 72, *Fair Value Measurement and Application,* provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. This Statement requires a government to use valuation techniques that are appropriate under the circumstances and for which sufficient data are available to measure fair value.

  Statement No. 72 establishes a hierarchy of inputs (comprised of three levels) to valuation techniques used to measure fair value. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are inputs—other than quoted prices—included within Level 1 that are observable for the asset or liability, either directly or indirectly. Finally, Level 3 inputs are unobservable inputs, such as management's assumptions and information about market participant assumptions that is reasonably available.

- Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, *Accounting and Financial Reporting for Pensions*, as well as for the assets accumulated for purposes of providing those pensions. This Statement also establishes requirements for defined contribution pensions that are not within the scope of Statement No. 68. It also amends certain provisions of Statement No. 67, *Financial Reporting for Pension Plans* and Statement No. 68 for pension plans and pensions that are within their respective scopes.

  The requirements of this Statement extend the approach to accounting and financial reporting established in Statement No. 68 to all pensions, with modifications as necessary to reflect that for accounting and financial reporting purposes, any assets accumulated for pensions that are provided through pension plans that are not administered through trusts that meet the criteria specified in Statement No. 68 should not be considered pension plan assets. It also stipulates that information similar to that required by Statement No. 68 be included in notes to financial statements and required supplementary information by all similarly situated employers and nonemployer contributing entities.

- Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, identifies, in the context of the current governmental financial reporting environment, the hierarchy of generally accepted accounting principles (GAAP). This Statement, which supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP.

- Statement No. 79, *Certain External Investment Pools and Pool Participants*, addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. An external investment pool qualifies for that reporting if it meets all of the applicable criteria established in this Statement. The specific criteria address (1) how the external investment pool transacts with participants; (2) requirements for portfolio maturity, quality, diversification, and liquidity; and (3) calculation and requirements of a shadow price.

  This Statement establishes additional note disclosure requirements for qualifying external investment pools that measure all of their investments at amortized cost for financial reporting purposes and for governments that participate in those pools. Those disclosures for both the qualifying external investment pools and their participants include information about any limitations or restrictions on participant withdrawals.

Implementation of Statements No. 72, 73, 76 and 79 had no material impact on the District's fiscal year 2016 financial statements.

More detailed information regarding the requirements contained in these statements may be found at the following website: www.gasb.org.

S. NEW ACCOUNTING PRONOUNCEMENTS TO BE IMPLEMENTED IN THE FUTURE

The District will adopt by the required effective dates the following new accounting standards issued by the GASB:

- Statement No. 74, *Financial Reporting For Postemployment Benefit Plans Other Than*

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Pension Plans, replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended, Statement 43, and Statement No. 50, *Pension Disclosures*.

The scope of this Statement includes OPEB plans—defined benefit and defined contribution—administered through trusts that meet specific criteria presented in the statement. It also includes requirements related to financial reporting for assets accumulated for purposes of providing defined benefit OPEB through OPEB plans that are not administered through trusts that meet the specified criteria.

The requirements of this statement are effective for financial statements for reporting periods beginning after June 15, 2016, the District's fiscal year 2017.

- Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. This Statement addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. In addition, this Statement establishes standards for recognizing and measuring liabilities/assets, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to 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 defined benefit OPEB also are addressed.

  This Statement also details the recognition and disclosure requirements for employers with payables to defined benefit OPEB plans that are administered through trusts that meet the specified criteria and for employers whose employees are provided with defined contribution OPEB. Statement No. 75 also addresses certain circumstances in which a nonemployer entity provides financial support for OPEB of employees of another entity. In this Statement, distinctions are made regarding the particular requirements depending upon whether the OPEB plans through which the benefits are provided are administered through trusts that meet the specific criteria presented in this statement.

  The requirements of this statement are effective for financial statements for reporting periods beginning after June 15, 2017, the District's fiscal year 2018.

- Statement No. 77, *Tax Abatement Disclosures*, defines a tax abatement as resulting from an agreement between a government and an individual or entity in which the government promises to forgo tax revenues and the individual or entity promises to subsequently take a specific action that contributes to economic development or otherwise benefits the government or its citizens. This Statement requires disclosure of tax abatement information about: (1) a reporting government's own tax abatement agreements and (2) those that are entered into by other governments and that reduce the reporting government's tax revenues.

  This Statement requires governments that enter into tax abatement agreements to disclose the following information about the agreements:

  - Brief descriptive information, such as the tax being abated, the authority under which tax abatements are provided, eligibility criteria, the mechanism by which taxes are abated, provisions for recapturing abated taxes, and the types of commitments made by tax abatement recipients.
  - The gross dollar amount of taxes abated during the period.
  - Commitments made by a government, other than to abate taxes, as part of a tax abatement agreement.

  The requirements of this statement are effective for financial statements for reporting periods beginning after December 15, 2015, the District's fiscal year 2017.

- Statement No. 78, *Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans*, addresses a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions. Prior to the issuance of this Statement, the requirements of Statement 68 applied to the financial statements of all state and local governmental employers whose employees are provided with pensions through pension plans that are administered through trusts that meet the criteria in paragraph 4 of Statement 68.

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Statement 78 amends the scope and applicability of Statement 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that: (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). This Statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that have the characteristics described above.

The requirements of this statement are effective for financial statements for reporting periods beginning after December 15, 2015, the District's fiscal year 2017.

- Statement No. 80, *Blending Requirements for Certain Component Units—an amendment of GASB Statement No. 14*, amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organizations Are Component Units*.

  The requirements of this statement are effective for financial statements for reporting periods beginning after June 15, 2016, the District's fiscal year 2017.

- Statement No. 81, *Irrevocable Split-Interest Agreements*, requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third-party, if the government controls the present service capacity of the beneficial interests. Statement 81 requires that a government recognize revenue when the resources become applicable to the reporting period.

  The requirements of this statement are effective for financial statements for reporting periods beginning after December 15, 2016, the District's fiscal year 2018.

- Statement No. 82, *Pension Issues—an amendment of GASB Statements No. 67, Financial Reporting for Pension Plans, No. 68, Accounting and Financial Reporting for Pensions, and No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, addresses issues regarding: (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

  The requirements of this statement are effective for financial statements for reporting periods beginning after June 15, 2016, the District's fiscal year 2017.

The District has not determined the impact, if any, that the implementation of Statement Nos. 74, 75, 77, 78, 80, 81, and 82 will have on its financial statements.

More detailed information regarding the requirements contained in these statements may be found at the following website: www.gasb.org.

T. NET POSITION AND FUND BALANCE

Assets plus deferred outflows of resources less liabilities less deferred inflows of resources 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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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. Resources can only be committed if the formal action is issued on or before the end of the fiscal year. 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.
- *Assigned* – Resources neither restricted nor committed for which the District has a stated intended use as established by the highest level of decision-making authority, or a body or official to which the authority to assign amounts for specific purposes was delegated. These are resources where the constraints/restrictions are less binding than that for committed resources. Resources may only be assigned if the intended use is determined within 60 days after the end of the fiscal year.
- *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 then 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 6.00% of the previous fiscal year's General Fund Local expenditures less debt service costs. The 6.00% includes a contingency cash reserve of 4.00% and an emergency cash reserve of 2.00%, which are discussed further under Minimum Fund Balance Policies found on page 74.

As of September 30, 2016, the District's fund balance included the following categories (see **Table N60a** on page 130).

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 is available for future debt service obligations or cash requirements.

Budget – This portion of fund balance represents unused fiscal year 2016 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 externally imposed limitations on how the District

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

may expend the funds. Other revenues include but not limited to resources restricted for Unemployment Insurance Administrative expense, Charter Schools direct loan fund, and Storm Water Permit compliance activities.

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, 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.

Committed Fund Balance

Fiscal Stabilization Reserve – This portion of fund balance is committed to purposes permitted for use of the Contingency Reserve Fund.

Cash Flow Reserve – This portion of fund balance is committed to cover cash flow needs; provided that any reserve amounts used must be replenished 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 Cost 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.

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

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.

WMATA Operations Fund – This portion of the fund is committed to support the implementation of the Washington Metropolitan Area Transit Authority Momentum Strategic Plan in accordance with Fiscal Year 2015 Budget Support Emergency Act of 2014 (BSA 20-0377). In fiscal year 2015, $57.5 million was reserved in local fund. Upon further evaluation of the source of the fund, $35.8 million was reclassified to Other-Type fund balances during fiscal year 2016. The remaining $21.7 million left in the local fund had been appropriated for fiscal year 2017 expenditures.

Subsequent Years Expenditures – This portion of the fund balance represents amount to be used to finance certain policy initiatives and other expenditures included in the FY 2017 budget approved by the District Council.

Other Special Purposes – This portion of fund balance is committed to activities financed by specific sources of revenues as authorized by formal action of the District Council. i.e. funds obtained from real property or other assets formerly under the authority of the National Capital Revitalization Corporation or the Anacostia Waterfront Corporation committed to administering properties and programs under the authority of the Deputy Mayor for Planning and Economic Development, some of District of Columbia V. Expedia, Inc. settlement amount committed to WMATA Momentum Support Fund, and resources committed to Renewable Energy Development Fund.

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 set aside to finance certain policy initiatives and other expenditures pending formal approval of 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, 2016 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

<u>Restricted Fund Balances</u>

Through Congressional mandate, established by D.C. Code § 1-204.50a, the District is required to maintain cash reserves totaling 6.00% of the previous fiscal year's General Fund expenditures (local portion) less debt service cost. The 6.00% is comprised of a contingency cash reserve of 4.00% and an emergency cash reserve of 2.00%. These reserves are reported as restricted cash and restricted net position in the government-wide financial statements.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 5.00% 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 4.00% 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 contingency reserve fund to the 4.00% 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 2.00% 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 2.00% required balance, whichever is less, must be replenished by the end of the second fiscal year following each such allocation.

<ins>Committed Fund Balances</ins>

Fiscal Stabilization Reserve

The fiscal stabilization reserve may be used by the Mayor for the same purposes for which the contingency reserve was established. Pursuant to D.C. Code § 47–392.02(j-1), as amended, the fiscal stabilization reserve account may be used by the Chief Financial Officer to cover cash flow needs; provided, that any amounts used shall be replenished to the fiscal stabilization reserve account in the same fiscal year. At full funding, the fiscal stabilization reserve must equal 2.34% of the District's General Fund operating expenditures for each 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. POSTEMPLOYMENT BENEFITS

Defined Benefit Pension Plans

District full-time employees receive pension benefits through the federally administered Civil Service Retirement System (CSRS), the Social Security System, or the District's Retirement Funds. The District of Columbia Retirement Board (DCRB or Board) administers the District's Retirement Funds, which consist of two single-employer defined benefit pension plans: (1) the District of Columbia Teachers' Retirement Fund or TRF, and (2) the District of Columbia Police Officers' and Firefighters' Retirement Fund or POFRF.

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the District Retirement Funds and additions to/deductions

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

from the District Retirement Funds' fiduciary net position have been determined on the same basis as they are reported by DCRB. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. Further information regarding the District Retirement Funds is presented in Note 9 on page 120.

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. Additional information regarding the OPEB contribution policy, including the District's premium for retiree's spouse and dependent health insurance coverage, is presented in Note 10, found on pages 127 through 129.

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 funds the OPEB plan on an actuarial basis.

As of September 30, 2016, there were 1,279 OPEB Plan participants receiving such benefits. The participants were comprised of 982 teachers, police, and firefighters, and 297 general District retirees. During fiscal year 2016, $10.3 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

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. This reconciliation is presented in Exhibit 2-a found on page 46.

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. This reconciliation is presented in Exhibit 2-c found on page 48.

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.

	(Dollars in $000s)	
	GENERAL FUND	FEDERAL AND PRIVATE RESOURCES
EXCESS OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES - BUDGETARY BASIS	$ 301,168	$ 1,997
Basis differences:		
Inventory is recorded using the purchase method for budgetary purposes and the consumption method on a GAAP basis	(1,105)	(3,750)
Transfers/Reclassifications	(14,224)	(2,457)
Fund balance released from restrictions - a funding source for budgetary purposes but not revenue on a GAAP basis	(63,812)	(2,863)
Federal pass-through contribution (D.C. Federal Pension Fund and SNAP)*	-	670,880
Federal pass-through expenditures (D.C. Federal Pension Fund and SNAP)*	-	(670,880)
EXCESS OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES - GAAP BASIS	**$ 222,027**	**$ (7,073)**

** The federal pass through contribution/expenditures are comprised of: on-behalf payment to D.C. Federal Pension Fund ($460,928) and payments to eligible low income families under the Supplemental Nutrition Assistance Program (SNAP) ($209,952).*

Y. RESTATEMENT

Component Unit

Change in Reporting Entity - Based on GASB 14, *the Financial Reporting Entity* and GASB 39, D*etermining Whether Certain Organizations are Component Units*, the University of the District of Columbia (UDC) evaluated the nature and significance of its relationship with two foundations: (1) the University of the District of Columbia Foundation, Inc. and (2) the University of the District of Columbia School of Law Foundation, and determined that the foundations are component units of UDC. Based on this determination, UDC discretely presented the financial statements of the two foundations in its fiscal year 2016 audited financial statements. Implementation of this change resulted in an increase in UDC's October 1, 2015 net position balance.

The following table summarizes the effect of the change in the reporting entity.

Restatement Table

	Dollars in $000s
	October 1, 2015
Net position, as previously reported	$ 228,843
Reporting entity change	14,719
Net position, as restated	**$ 243,562**

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 $3,989,343 in deposits within the custody of the District as of September 30, 2016, were insured or collateralized with securities held by the District or by its agent in the District's name. As of September 30, 2016, the carrying amount of cash for the primary government including the fiduciary funds was $3,630,758 and the carrying amount of cash (deposits) for the component units was $358,585.

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 District Retirement Funds, the OPEB Fund and the D.C. Library Trust Fund) consisted primarily of collateralized certificates of deposits, repurchase agreements and mortgage-backed securities as presented in **Table N2a**.

NOTE 2. CASH AND INVESTMENTS

Table N2a – Cash and Investments Detail

	(Dollars in $000s) Total Carrying Value	
INVESTMENTS		
Primary Government:		
U. S. government securities	$ 2,336	
Certificates of deposit	102,500	
Mortgage-backed securities	5,660	
Guaranteed investment contracts	2,147	
Repurchase agreements	11,155	
Exchange traded funds	1,519	
Alternative investments	51	
Total Primary Government		$ 125,368
Fiduciary Funds:		
Commodities	41,679	
Equity securities	5,040,992	
Fixed income securities	2,406,422	
Real estate	479,380	
Private equity	393,368	
Total Fiduciary Funds		8,361,841
Component Units:		
Certificates of deposit	34,086	
U. S. government securities	265,072	
Fixed income securities	11,127	
Corporate securities	2,824	
Investment contracts	13,071	
Equities	30,838	
Money market	157,748	
Alternative investments	15,445	
Total Component Units		530,211
Total Reporting Entity Investments		**$ 9,017,420**
CASH BALANCES		
Primary government		$ 3,481,020
Fiduciary funds		149,738
Component units		358,585
Total Cash Balances		**$ 3,989,343**
Total Cash and Investment Balances		**$ 13,006,763**

Table N2b – Reconciliation of the District's Cash and Investment Balances

(Dollars in $000s)

	Exhibit 1-a			Exhibit 4-a				
	Primary Government	**Component Units**	**Total (Exhibit 1-a)**	**Pension/ OPEB Trust Funds**	**Private Purpose Trust Fund**	**Agency Funds**	**Total (Exhibit 4-a)**	**Total Cash and Investment Balances**
Cash and cash equivalents	$ 1,505,386	$ 181,671	$ 1,687,057	$ -	$ -	$ -	$ -	$ 1,687,057
Investments	-	158,445	158,445	-	-	-	-	158,445
Cash and cash equivalents (restricted)	1,975,634	176,914	2,152,548	88,512	1	61,225	149,738	2,302,286
Investments (restricted)	125,368	371,766	497,134	7,902,524	459,317	-	8,361,841	8,858,975
Total	**$ 3,606,388**	**$ 888,796**	**$ 4,495,184**	**$ 7,991,036**	**$ 459,318**	**$ 61,225**	**$ 8,511,579**	**$ 13,006,763**

NOTE 2. CASH AND INVESTMENTS

Fair Value Hierarchy

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. GASB Statement No.72 established a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

- Level 1 – Observable market inputs that are unadjusted quoted prices for identical assets or liabilities in active markets that a government can access at the measurement date.
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly (for example, quoted prices for similar assets or liabilities in active markets).
- Level 3 – Unobservable inputs (including the District's own assumptions in determining the fair value of investments).

An asset or a liability categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The District's investments measured at fair value as of September 30, 2016, are presented in **Table N3a** in accordance with the GASB Statement No.72 valuation hierarchy.

Table N3a – Investments Measured at Fair Value

(Dollars in $000s)

		Fair Value Measurement Using		
	September 30, 2016	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value level				
Exchange traded funds:				
U.S. government bond fund	$ 407	$ -	$ 407	$ -
International equity funds	472	472	-	-
US equity funds	317	317	-	-
Corporate bond funds	155	-	155	-
High yield bond funds	111	-	111	-
Commodity funds	57	-	57	-
Total exchange traded funds	1,519	789	730	-
Mortgage-backed securities	5,660	-	5,660	-
Repurchase agreements	11,155	-	11,155	-
Guaranteed investment contracts	2,147	-	-	2,147
Total	**$ 20,481**	**$ 789**	**$ 17,545**	**$ 2,147**

- *Exchange traded funds (ETFs)* – An exchange traded fund is a marketable security that tracks an index, a commodity, bonds, or a basket of assets like an index fund. The District has invested in ETFs within the asset classes noted in **Table N3a**. ETF shares are traded on a national stock exchange and at market prices that may or may not be the same as the net asset value (NAV) of the shares. ETFs trade both at end of trading day NAV per share or Intraday Value (market price) that fluctuates throughout the trading day. An ETF's market price is generally maintained close to the ETF's end-of-day NAV because of the arbitrage function inherent to the structure of the ETF. The basket of assets that are traded like an index fund are classified as Level 1 in the fair value hierarchy. ETFs that are traded in bonds are classified as Level 2 in the fair value hierarchy.
- *Mortgage-backed securities* – Mortgage-backed securities are valued using quoted market prices, recent market transactions and spread data for similar instruments. The value amounts of these assets were determined using a Level 2 measurement as presented in **Table N3a**.
- *Repurchase agreements* – The fair values of repurchase agreements are determined using quantitative models, including discounted cash flow models that require the use of multiple market inputs including interest rates and spreads to generate continuous yield or pricing curves, and volatility factors. The majority of market inputs is actively quoted and can be validated through external sources, including brokers, market transactions and third-party pricing services. The valuation of repurchase agreements is classified as Level 2 in **Table N3a**.
- *Guaranteed investment contracts* – Guaranteed investment contracts are valued at fair value by discounting the related cash flows based on current yields of similar instruments with

NOTE 2. CASH AND INVESTMENTS

comparable durations considering the credit-worthiness of the issuer. The determination of fair value includes certain unobservable inputs assessed through review of contract terms (for example, duration or payout date) while others are substantiated utilizing available market data. These fair value amounts were determined by using Level 3 measurement as presented in **Table N3a**.

District Retirement Funds

The District of Columbia Retirement Board (DCRB) is authorized to manage and control the investment of the District Retirement Funds' assets. DCRB may invest in fixed income, equity securities and various other types of investments. As prescribed in D.C. Code §1-907.01 (2001 ED), DCRB 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 D.C. Code §1-907.01 (2001 ED).

Cash, short-term investments and Investment Pools held in the control of DCRB as of September 30, 2016, are presented in **Table N3b**. **Table N3c** presents the District Retirement Funds' investments measured at fair value as of September 30, 2016, in accordance with the GASB Statement No.72 valuation hierarchy.

Table N3b – Cash and Investment Pools: District Retirement Funds

(Dollars in $000s)

	September 30, 2016	September 30, 2015
Cash and short-term investments	$ 51,480	$ 75,492
Investments:		
Domestic equity	1,956,019	1,393,360
International equity	2,081,748	1,683,172
Fixed income	1,818,097	1,875,532
Real estate	479,380	395,430
Private equity	393,368	708,607
Total cash and investments	**$ 6,780,092**	**$ 6,131,593**

Table N3c – Investments Measured at Fair Value: District Retirement Funds

(Dollars in $000s)

		Fair Value Measurement Using		
	September 30, 2016	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value level				
Domestic equity	$ 264,682	$ 264,682	$ -	$ -
Fixed income	234,083	-	234,083	-
Private equity	896	896	-	-
Total investments by fair value level	$ 499,661	$ 265,578	$ 234,083	$ -
Investments measured at the Net Asset Value (NAV)				
Domestic equity	$ 1,691,337			
International equity	2,081,748			
Fixed income	1,584,014			
Real estate	479,380			
Private equity	392,472			
Total investments measured at the NAV	6,228,951			
Total investments measured at fair value	**$ 6,728,612**			

NOTE 2. CASH AND INVESTMENTS

- *Equity securities* – Equity securities classified in Level 1 of the fair value hierarchy are valued at the last sale price or official close price as of the close of trading on the applicable exchange where the security principally trades.
- *Fixed income securities* – Fixed income securities classified in Level 2 of the fair value hierarchy are valued at prices provided by independent pricing vendors. The vendors provide these prices after evaluating observable inputs including, but not limited to: quoted prices for similar securities, the mean between the last reported bid and ask prices (or the last bid price in the absence of an asked price), yield curves, yield spreads, credit ratings, deal terms, tranche level attributes, default rates, cash flows, prepayment speeds, broker/dealer quotations, inflation and reported trades.

Additional information about the nature of investments measured at the Net Asset Value per share is presented in **Table N3d**.

Table N3d – Investments Measured at the Net Asset Value (NAV): District Retirement Funds

(Dollars in $000s)

	Fair Value as of September 30, 2016	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Investments measured at the NAV				
Domestic equity	$ 1,691,337	$ -	Daily	None
International equities	2,081,748	-	Daily	None
Fixed income	1,584,014	-	Daily, Monthly	3-30 days
Real estate	479,380	204,735	None	N/A
Private equity	392,472	199,766	None	N/A
Total Investments measured at the NAV	**$ 6,228,951**	**$ 404,501**		

Domestic and international equities – DCRB has investments in six funds with a domestic focus and five funds with an international focus, in which the equity securities maintain some level of market exposure; however, the level of market exposure may vary through time.

Fixed income - DCRB has investments in five funds, including corporate bonds, and U.S. Treasury obligations, with redemption notifications not greater than 30 days.

Real estate and private equity - DCRB has made commitments to purchase partnership interests in private equity and real estate funds as part of its long-term asset allocation plan for private markets. As presented in **Table N3d**, the unfunded commitments totaled $404,501, as of September 30, 2016. This represents global investments in twenty-eight real estate and eighteen private equity funds. In general, investments in the private markets program are illiquid and redemptions are structurally limited over the life of the investment. The private equity program spans a range of underlying strategies including buyouts, growth equity/venture, private debt, secondaries and fund-of-funds. The real estate program includes investments in a broad range of real estate strategies (i.e., core, value-added, opportunistic), infrastructure and natural resources funds.

District of Columbia Other Postemployment Benefits Fund (OPEB)

During fiscal year 2016, the District's Annuitants' Health and Life Insurance Employer Contribution Fund (OPEB Fund) maintained certain cash and cash equivalents in six investment accounts. **Table N4a** presents the Fund's cash and cash equivalents that were held in investment accounts as of September 30, 2016. **Table N4b** presents investments measured at fair value as of September 30, 2016, in accordance with GASB Statement No.72 valuation hierarchy.

Table N4a – Cash and Cash Equivalents Held in Investment Accounts: OPEB Fund

(Dollars in $000s)

	September 30, 2016	September 30, 2015
Cash account	$ 5,696	$ 8,175
Brandywine large cap	7,733	4,221
ClearBridge mid cap	1,741	2,001
Bernstein strategic core	5,814	20,141
Bernstein global plus	4,798	1,393
Farr, miller washington large cap growth	11,250	9,728
Total cash and cash equivalents	**$ 37,032**	**$ 45,659**

NOTE 2. CASH AND INVESTMENTS

Table N4b – Investments and Derivative Instruments Measured at Fair Value: OPEB Fund

(Dollars in $000s)

		Fair Value Measurement Using		
	September 30, 2016	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value level				
Equity securities				
U.S. equities (by Industry)				
Industrials	113,526	113,526	-	-
Consumer retail	86,869	86,869	-	-
Information technology	62,095	62,095	-	-
Financial institutions	77,405	77,405	-	-
HealthCare	53,112	53,112	-	-
Other	5,853	5,853	-	-
International equities			-	-
Consumer retail	2,960	2,960	-	-
Information technology	3,131	3,131	-	-
Industrials	7,965	7,965	-	-
Real estate investment trust securities	10,538	-	-	10,538
Mutual funds	67,115	67,115	-	-
Total equity securities	**490,569**	**480,031**	**-**	**10,538**
Debt securities				
U.S. government issues	24,690	-	24,690	-
International government issues	123,243	-	123,243	-
Corporate bonds	82,541	-	82,541	-
Mortgage backed securities	57,195	-	54,448	2,747
Credit card/automotive receivable	13,434	-	-	13,434
Mutual funds	112,357	-	112,357	-
US state and local government bonds	364	-	364	-
Total debt securities	**413,824**	**-**	**397,643**	**16,181**
Commodity investments				
Gresham commodities fund	41,678	-	-	41,678
Total investments by fair value level	**946,071**	**$ 480,031**	**$ 397,643**	**$ 68,397**
Investments measured at the Net Asset Value (NAV)				
SSgA emerging markets equity index	79,099			
Barclays international growth fund	124,877			
Blue bay emerging markets debt fund	23,865			
Total investments measured at the NAV	**227,841**			
Total investments measured at fair value	**$ 1,173,912**			
Investment derivative instruments				
Interest rate swaps	$ (247)	$ -	$ (247)	$ -
Credit defaults swaps	3	-	3	-
Foreign exchange forwards	29	-	29	-
Total investments derivative instruments	**$ (215)**	**$ -**	**$ (215)**	**$ -**

NOTE 2. CASH AND INVESTMENTS

The following provides a summary of investments measured at fair value as presented in **Table N4b.**

- *Equity securities and mutual funds:* These investments are classified as Level 1 of the fair value hierarchy, and are valued using prices quoted in active markets for those securities. The mutual funds held in equities are deemed to be actively traded, and support classification of the fair value measurement as Level 1 in the fair value hierarchy.
- *Real estate investment trust securities*: Investments in Real Estate Investment Trust Securities are valued using either a discounted cash flow or market comparable company's technique. Consequently, measurement of the fair value of these assets is classified as Level 3.
- *Debt securities*: Classified as Level 2 of the fair value hierarchy, these assets are valued using market pricing and other observable market inputs for similar securities from a number of data providers, standard in the industry; or a broker quote in a non-active market. Collateralized auto loan securities, which are included in Collaterized Debt Obligations, are classified as Level 3; and are valued using consensus pricing. The mutual funds held in bonds are classified as Level 2.
- *Commodities fund*: The investment objectives of the fund are to provide a partial price hedge with an attractive risk/return profile, as compared to other products using a commodity index or a pool of commodities. Partial or complete redemption may be made, upon five (5) days' prior written notice, on the last business day of each calendar month or at such times and on such terms as the General Partner of the fund may, in his/her sole discretion, allow. The valuation techniques and inputs categorization within the valuation hierarchy is based upon Level 3; and uses the income approach, where the advisor considers a list of factors to determine whether there has been significant decrease in relation to normal market activity.

Investment derivative instruments: OPEB's derivative financial instruments are valued by a third-party investment fund's manager, based on prevailing market data derived from proprietary models, and are carried at fair value. The Fund had three types of off-balance sheet derivative financial instrument outstanding. These derivative instruments are financial contracts, the values of which depend on the value of one or more underlying assets, or reference rates or financial indices, which dictate the rate of change of output with respect to the financial contracts. The financial instruments' categorization within the valuation hierarchy is based upon Level 2, which is the lowest level of input that is significant to the fair value measurement.

Investments measured at the NAV: This investment category consists of three (3) funds that include hedge funds and other funds/products that employ dynamic trading strategies aimed at achieving absolute returns. These alternative investment funds are organized as limited partnerships that are not traded on an exchange, and do not redeem shares on a daily basis. The funds have varying restrictions on liquidity and transferability. The fair values of the investments in this type have been determined using the NAV per share of the investments. The funds have varying redemption restrictions such as "lock-ups" or "gates". A lock-up period is a window of time when investors of a hedge fund or another closely held investment vehicle are not allowed to redeem or sell shares. A gate is a restriction placed on a hedge fund limiting the amount of withdrawals from the fund during a redemption period. These investments have redemption frequency that range from monthly to quarterly, and a redemption notice period that ranges from five to thirty calendar days. Additional information about the nature of investments measured at the Net Asset Value per share is presented in **Table N4c**.

Table N4c – Investments Measured at the Net Asset Value (NAV): OPEB Fund

(Dollars in $000s)

	Fair Value as of September 30, 2016	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Investments measured at the NAV				
SSgA emerging markets	$ 79,099	$ -	Monthly	30 days
Barclays international	124,877	-	Monthly	5 days
Blue bay emerging markets debt fund	23,865	-	Monthly	30 days
Total investments measured at the NAV	$ 227,841	$ -		

- *SSgA emerging markets equity fund*: The fund's investment objective is to produce long-term capital growth. The Fund seeks to achieve its investment objective by primarily investing in a diversified portfolio of equity securities and equity-related securities; which are, or for which the underlying securities are, traded in emerging markets. Redemptions, in aggregate, by Shareholders on any Dealing Day (First Business Day of each month) may be limited to 20% of the

NOTE 2. CASH AND INVESTMENTS

number of Shares within each Share Class then in issue at the end of the previous Dealing Day. In the event that aggregate requests are received for redemptions exceeding 20% of the number of Shares within any Share Class in issue at the end of the previous Dealing Day, any unredeemed balance of Shares over the said 20% level shall be held over on a pro-rata basis until the next Dealing Day, where they shall be redeemed in priority to new redemption requests received in respect of such Dealing Day. No issue or redemption of Shares will take place during any period when the calculation of the Net Asset Value is suspended.

- *Barclays international emerging markets equity, value and growth funds*: The fund's investment objective is to produce long-term capital growth. The Fund seeks to achieve its investment objective by primarily investing in a diversified portfolio of equity securities and equity-related securities; which are, or for which the underlying securities are, traded in emerging markets. Redemptions, in aggregate, by Shareholders on any Dealing Day (First Business Day of each month) may be limited to 20% of the number of Shares within each Share Class then in issue at the end of the previous Dealing Day. In the event that aggregate requests are received for redemptions exceeding 20% of the number of Shares within any Share Class in issue at the end of the previous Dealing Day, any unredeemed balance of Shares over the said 20% level shall be held over on a pro-rata basis until the next Dealing Day, where they shall be redeemed in priority to new redemption requests received in respect of such Dealing Day. No issue or redemption of Shares will take place during any period when the calculation of the Net Asset Value is suspended.

- *Blue bay emerging markets debt fund*: The investment objectives of this Fund are to achieve favorable income-oriented returns from a globally diversified portfolio of primarily developing market debt or debt-like securities, and preservation and enhancement of principal. Participating Shares may be redeemed monthly, with five (5) days prior written notice, on the last business day of each calendar month; or at such times, and on such terms as the Board of Directors of the Fund may, in their sole discretion, allow.

Deposit and Investment Risk Disclosures

The District's investments and those of its discretely presented component units are subject to interest rate, credit, custodial credit, concentration of credit and foreign currency risks. The District, including DCRB on behalf of the District Retirement Funds, 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 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 District Retirement Funds and the OPEB Fund) may be exposed are described in **Table N5**.

NOTE 2. CASH AND INVESTMENTS

Table N5 – Deposit and Investment Risk Disclosures

Risk	Definition	District of Columbia	District Retirement Funds	OPEB Fund
Interest Rate Risk	Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment.	An investment with a longer maturity will generally have 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 authorized investments and maturity limits as detailed in the District's investment policy are presented in **Table N6**.	DCRB 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 investment'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. As a general rule, the risk and return of DCRB's fixed income segment of the portfolio is compared to the Barclays Capital U.S. Universal Index. To mitigate interest rate risk, the fixed income segment is expected to maintain a weighted average duration (sensitivity to interest rate changes) within +/-2 (two) years of the duration of this Index.	The OPEB 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 examine how sensitive the fixed income portfolios' underlying assets are to movement in interest rates, and to recommend any appropriate investment manager changes.
Credit Risk	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.	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 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, 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 DCRB, 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 Fund's bond holdings in each investment manager's portfolio should be maintained at "A" or better. OPEB has not failed to access collateral, when required. Since the derivative products have been established for some time, OPEB uses models that are widely accepted in the financial services industry. These models reflect the contractual terms of the derivatives, including the period to maturity; and market-based parameters such as interest rates, volatility, and the credit quality of the counterparty. For portfolios that were not individually managed, the credit quality exceeded the index value of "BBB-". As of September 30, 2016, the average quality ratings of those counterparties were as follows: SSgA was Aa2, and Access Capital was AAA.
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.	The District had no custodial credit risk exposure during the fiscal year. All District investments in fiscal year 2016 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 District Retirement Funds had no custodial credit risk exposure during fiscal year 2016. Investments controlled by DCRB in fiscal year 2016 were collateralized. Investments held by the custodian on behalf of DCRB were held in an account in the name of DCRB. Funds not invested at the end of the day were placed in overnight investments in the name of DCRB.	The OPEB Fund investments are uninsured, unregistered, and are held by the counterparty in the Fund's name. The counterparty is the party that pledges collateral or repurchase agreement securities to the government or that sells investments to or buys them for the OPEB Fund.

NOTE 2. CASH AND INVESTMENTS

Concentration of Credit Risk	Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer.	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 the following exceptions: 1) U.S. Treasury, 100% maximum; Each Federal Agency, 40% maximum; Each Repurchase Agreement Counterparty, 25% maximum; Each Money Market Mutual Fund, 25% maximum. As of September 30, 2016, the District was in compliance with this policy.	DCRB's investment guidelines do not permit direct investment in any single issuer in excess of 5.00% of the value of the portfolio. This excludes U.S. Treasuries, U.S. government-sponsored enterprises and U.S. government agency securities. As of September 30, 2016, DCRB was in compliance with this policy.	OPEB Fund has no significant concentrations of exposure to credit risk that has not been reduced by collateral and other set-offs.
Foreign Currency Risk	Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment.	As of September 30, 2016, the District had no exposure to foreign currency risk (other than investments held by DCRB on behalf the District Retirement Funds and the OPEB Fund).	As a general policy of DCRB, investment managers with authority to invest in securities denominated in a foreign currency may reduce exposure to currency risk by systematically hedging foreign currency positions back to U.S. dollars through the foreign currency markets. Because the forward exchange rate is seldom equal to the spot exchange rate, forward hedging gains and losses may arise. At the end of fiscal year 2016, the District Retirement Funds held investments that were denominated in a currency other than the United States dollar, as presented in **Table N7a**.	The OPEB Fund does not have a formal policy for limiting its exposure to changes in exchange rates. **Table N7b** presents the OPEB Fund's investments that were denominated in a currency other than the United States dollar.

Table N6 – District Investment Maturities and Limits

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	N/A	30%
Money Market Mutual Funds	N/A	100%
Bank Deposits	N/A	100%

N/A - Not Applicable

NOTE 2. CASH AND INVESTMENTS

Table N7a – District Retirement Funds' Investments Denominated in Foreign Currency

	Asset Class (in $000s)				
	Cash	Equities	Fixed Income	Private Equity	Total
Canadian Dollar	$ -	$ -	$ -	$ 1,258	$ 1,258
Euro	76	-	-	29,203	29,279
Swiss Franc	110	-	-	-	110
Total Foreign Currency	**$ 186**	**$ -**	**$ -**	**$ 30,461**	**$ 30,647**

Table N7b – OPEB Fund Investments Denominated in Foreign Currency

	(Dollars in $000s)		
	Short-Term and Cash	Convertible and Fixed Income	Total
Australian Dollar	$ (13)	$ 88	$ 75
Brazilian Real	-	4,816	4,816
Canadian Dollar	69	12,987	13,056
Euro	(33)	50,229	50,196
Japanese Yen	160	32,769	32,929
Mexican Peso	-	2,507	2,507
New Zealand Dollar	20	(5)	15
Norwegian Kroner	23	81	104
Polish Zloty	20	803	823
Pound Sterling	93	13,506	13,599
Russian Ruble	-	401	401
Singapore Dollar	-	334	334
South African Rand	18	262	280
Swedish Krona	-	969	969
Turkish Lira	-	354	354
Total Foreign Currency	**$ 357**	**$ 120,101**	**$ 120,458**

Derivative Instruments

Derivative instruments are generally defined as contracts, the value of which depends on or derives from the value of an underlying asset, reference rate or index. Structured financial instruments are also defined as derivatives, such as mortgage-backed securities, asset-backed securities, and floating rate notes. Other common types of derivatives used by governments include: interest rate and commodity swaps, interest rate locks, and forward contracts.

Table N8 presents the fair value balances and notional amounts of the District's derivative instruments outstanding as of September 30, 2016, classified by type, and the changes in fair value of such derivative instruments for the year then ended.

NOTE 2. CASH AND INVESTMENTS

Table N8 – Derivative Instruments Outstanding as of September 30, 2016

	(Dollars in $000s)				
	Changes in Fair Value		Fair Value at September 30, 2016		
	Classification	Amount	Classification	Amount	Notional
Governmental Activities:					
Cash flow hedges:					
Floating to fixed interest rate swaps:					
2014B (formerly 2008C) Swap	Deferred outflows	$ (883)	Swap	$ (45,959)	$ 224,300
2007 AWC Swap	Deferred outflows	2,030	Swap	(5,191)	54,675
2004B Swap	Deferred outflows	618	Swap	(656)	9,460
Derivative instrument liabilities, at end of year				**$ (51,806)**	
Floating to floating interest rate swaps:					
2001C/D Basis Swap	Investment revenue	$ (92)	Swap	$ 513	$ 155,315
Derivative instrument assets, at end of year				**$ 513**	

The District is a party to five interest rate swap agreements recorded in the financial statements in accordance with GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, which became effective for financial statements for periods beginning after June 15, 2009. Consistent with that statement, all derivatives are to be reported in the statement of net position at fair value, and all hedges must be tested for effectiveness to qualify for hedge accounting. Depending on the test results, the change in fair value is either reported in the statement of net position, or in the statement of activities.

In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application*, which addresses accounting and financial reporting issues related to fair value measurements. GASB Statement No. 72 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between swap counterparties at the measurement date, which includes the non-performance risk (the mark-to-market value excludes the risk of nonperformance). The District adopted GASB Statement No. 72 in fiscal year 2016. Consequently, an independent party was engaged to perform the valuation and required tests under GASB Statement No.53 and GASB Statement No.72 on these five swaps.

The expected swap cash flows are calculated using the zero-coupon discounting method which takes into consideration the prevailing interest rate environment, the specific terms and conditions of a given transaction, and assumes that the current forward rates implied by the yield curve are the market's best estimate of future spot interest rates. The income approach is then used to obtain the fair value of the swaps, where future amounts (the expected swap cash flows) are converted to a single current (discounted) amount, using a rate of return that takes into account the relative risk of nonperformance associated with the cash flows, and time value of money. Where applicable under the income approach, the option pricing model technique, such as the Black-Derman-Toy model, or other appropriate option pricing model is used. The observability of inputs used to perform the measurement results in the swap fair values being categorized as Level 2.

Objective and Terms of Hedging Derivative Instruments

Table N9 presents the objective and terms of the District's hedging derivative instruments outstanding as of September 30, 2016, along with the credit rating of the associated counterparty.

NOTE 2. CASH AND INVESTMENTS

Table N9 – Objectives and Terms of Hedging Derivative Instruments Outstanding as of September 30, 2016

(Dollars in $000s)

Type	Objective	Notional Amount	Effective Date	Maturity Date	Terms	Counterparty Credit Rating
Pay-Fixed Interest Rate Swaps:						
2014B (formerly 2008C) Swap	Hedge of changes in cash flows on the Series 2014B Bonds (formerly 2008C Bonds)	$224,300	11/13/2002	6/1/2027	Pay fixed rate of 3.615%; receive 67% of 1-month LIBOR	A3/BBB+/A
2007 AWC Swap	Hedge of changes in cash flows on the Series 2007 AWC PILOT Revenue Bonds	$54,675	9/20/2007	12/1/2021	Pay fixed rate of 4.463%; receive the rate that matches the rate paid on the underlying bonds (SIFMA) plus 0.70%	Aa2/AA-/AA
2004B Swap	Hedge of changes in cash flows on the Series 2004B General Obligation Bonds	$9,460	12/8/2004	6/1/2020	Pay fixed rate of 5.121%; receive the rate that matches the rate on the underlying bonds (Muni CPI Index)	Aa3/A+/AA-
Pay Floating Basis Swaps:						
2001 C/D Basis Swap	Reduces basis risk by providing for a closer match between the underlying variable rate bonds and the variable rate swap receipts from the counterparty	$155,315	6/2/2003	6/1/2029	Pay 67% of LIBOR; receive variable rate as a percentage of the actual LIBOR reset each month ranging from 60% to 90% of LIBOR	Aa3/A+/AA-

Risks

Credit Risk

The mark-to-market values of the interest rate swaps represent the District's obligation to the respective counterparties if the swap agreements were terminated. The District is exposed to credit risk on hedging derivative instruments that have positive mark-to-market values (or are in asset positions). To minimize its exposure to loss related to credit risk, the District diversified its counterparties and as such, has a different counterparty for each of its outstanding swaps. The credit ratings of each of the counterparties as of September 30, 2016, were as presented in **Table N9**.

The District was exposed to minimal credit risk because most of the interest rate swaps had negative mark-to-market values. The aggregate mark-to-market value of hedging derivative instruments in asset positions as of September 30, 2016, was $513 (thousand). This represents the maximum loss that would be recognized at the reporting date if all counterparties failed to perform as contracted. In each of the District's swap agreements, the payments are netted against the obligations within each swap. As such, if the District is owed any payment due to an event of default by the counterparty that payment can be netted against any outstanding obligations within that specific swap agreement.

Interest Rate Risk

The District is exposed to interest rate risk on its interest rate swaps. As LIBOR or the SIFMA swap index decreases, the District's net payment on its pay-fixed, receive variable interest rate swaps increases.

As of September 30, 2016, the fair value of the investments in derivative instruments subject to interest rate risk was $513 (thousand). These investments had maturities of more than 10 years.

The District invested in a floating-to-fixed rate swap in connection with its $214,155 Multimodal General Obligation Bonds, Series 2001C and its $69,715 Multimodal General Obligation Refunding Bonds, Series 2001D (2001C/D Swap). As of September 30, 2016, the notional amount of the 2001C/D Swap was $155,315. The District pays the counterparty 67% of LIBOR and the counterparty pays the District a variable rate as a percentage of the actual LIBOR reset each month. The original swap agreement was executed on December 6, 2001 and the District entered into an enhanced swap agreement on June 2, 2003. The 2001C/D swap matures in June 2029. As of September 30, 2016, this interest rate swap had

NOTE 2. CASH AND INVESTMENTS

a fair value of $513 (thousand).

Basis Risk

Basis risk is the risk that the interest rate paid by the District on underlying variable rate bonds to bondholders differs from the variable swap rate received from the applicable Counterparty. The District has mitigated its basis risk on all its hedges by ensuring a match between the variable rates paid on the hedged variable rate bonds and the variable rates received on the swaps. The interest paid on the Series 2014B Bonds is based on a percentage of LIBOR as is the variable swap rate received. The interest paid on the Series 2007 AWC Bonds is tax-exempt and the swap variable rate received is based on SIFMA Swap Index which is tax-exempt as well. The interest paid on the Series 2004B Bonds is based on the Muni CPI Index as is the variable swap rate received from the associated swaps. Consequently, as of September 30, 2016, the District had no exposure to basis risk.

Termination Risk

The District or its counterparties may terminate a derivative instrument if the other party fails to perform under the terms of the associated contract. The District is exposed to termination risks on its pay-fixed interest rate swap agreements, which incorporate the International Swap Dealers Association (ISDA) Master Agreement. The ISDA Master Agreement includes standard termination events. Accordingly, an interest rate swap may be terminated if a counterparty or its Credit Support Provider, or the District has one or more outstanding issues of rated unsecured, unenhanced senior debt and none of such issues has a rating of at least: (i) BAA3 or higher as determined by Moody's Investors Service, Inc.; (ii) BBB-, or higher as determined by Standard & Poor's Ratings Service; or (iii) an equivalent investment grade rating determined by a nationally recognized rating service acceptable to both parties.

If at the time of termination, a hedging derivative instrument is in a liability position, the District would be liable to the counterparty for a payment equal to the liability, subject to netting arrangements, as applicable.

Rollover Risk

The District is exposed to rollover risk on hedging derivative instruments that are hedges of debt that mature or may be terminated prior to the maturity of the hedged debt. When these hedging derivative instruments terminate, or in the case of a termination option, if the counterparty exercises its option, the District will be re-exposed to the risks being hedged by the hedging derivative instrument. In order to mitigate this risk, the District matches the maturity of each fixed to floating rate swap with the maturity date of the underlying bonds. The District was not exposed to rollover risk during fiscal year 2016.

District of Columbia Retirement Funds' Derivatives

During fiscal year 2016, the District's Retirement Funds, in accordance with the policies of the District of Columbia Retirement Board (DCRB) and through the District's Retirement Funds' investment managers who have full discretion over investment decisions, invested in various derivative instruments either to increase potential earnings or to hedge against potential losses. **Table N10a** presents the types of derivatives in which the District Retirement Funds have invested, the purpose of each derivative holding, and a brief description of the methodologies used to manage the associated risks.

NOTE 2. CASH AND INVESTMENTS

Table N10a – District Retirement Funds' Derivative Holdings

Type of Derivative	Purpose	Management of Credit Risk	Management of Market Risk
To-Be-Announced Market Trades (TBAs or Dollar Rolls)	Used as an alternative to holding mortgage-backed securities outright to raise the potential yield and reduce transaction cost	By limiting transactions to primary dealers	Note: Risk not significantly different from market risk for mortgage-backed securities
Foreign Currency Forwards, Futures Contracts, and Foreign Currency Options	Used to hedge the Retirement Funds' exposure to particular currencies when significant adverse short-term movement in exchange rate levels is expected	By limiting transactions to counterparties with short-term credit ratings of A1 or P1 (investment grade ratings) or by trading on organized exchanges	Risk is limited to the purchase cost
Equity Index Futures	Used to gain exposure to equity markets in a more efficient and liquid manner than by directly investing in all of the underlying investment securities	By dealing with member firms of futures exchanges	Risks due to movements in the equity markets underlying the contracts used; notional amounts of contracts not included in the derivative holdings
Exchange-Traded and Over-the-Counter Bond Futures and Options	Used to gain exposure to fixed income markets in a more efficient and liquid manner than by purchasing the underlying bonds	By limiting transactions to counterparties with investment grade ratings or by trading with member firms of organized exchanges	Risk is limited to purchase cost
Warrants and Rights	Used to gain equity exposure and enhance performance Warrants are held for the same fundamental reasons as the original common stock and/or bond holdings	Risks are monitored and managed by external investment managers	Risk is limited to purchase cost
Swaps	Used to manage interest rate fluctuations, protect against borrower default, or gain market exposure without having to own the asset	By using credit default swaps	Use of credit default swaps limits exposure to other types of risk

NOTE 2. CASH AND INVESTMENTS

The District's Retirement Funds also hold derivative instruments indirectly by participating in pooled, commingled, or short-term funds that hold derivatives. Information regarding risks associated with these holdings is not generally available. There were no derivatives as of September 30, 2016.

Additional information regarding the Retirement Funds' derivative holdings is presented in the Funds' separately issued audited financial statements which may be obtained from the District of Columbia Retirement Board 900 7th Street, N.W., Washington, DC 20001 or by accessing the following website: http://dcrb.dc.gov.

District of Columbia Other Postemployment Benefits Fund's Derivatives:

In accordance with OPEB's investment policies, OPEB regularly invests in derivative financial instruments with off-balance-sheet risk in the normal course of its investing activities, in order to enhance return on investment and manage exposure to certain risks within the funds. Derivative instruments are financial contracts, the values of which depend on the value of one or more underlying assets, reference rates, or financial indices. During fiscal year 2016, OPEB invested directly in forward currency contracts.

At September 30, 2016, OPEB had two types of off-balance-sheet derivative financial instruments outstanding including swaps and currency forwards. The swaps represent interest rate swaps and credit default swaps which are used to hedge interest rate and credit exposure risks. Currency forwards represent foreign exchange contracts, and are used to effect settlements and to protect the base currency value of portfolio assets denominated in foreign currencies, against fluctuations in the exchange rates of those currencies or to gain exposure to the change in market value of a specific currency. A forward foreign currency exchange contract is a commitment to purchase or sell a foreign currency at a future date and at a negotiated price. The credit risk of currency contracts that are exchange-traded lies with the clearinghouse of the exchange where the contracts are traded. The credit risk of currency contracts traded over-the-counter lies with the counterparty, and exposure usually is equal to the unrealized profit on in-the-money contracts. The market risk in foreign currency contracts is related to adverse movements in currency exchange rates.

All of OPEB's derivative instruments include provisions that require OPEB to post collateral in the event its credit rating falls below "AA" as issued by Standard & Poor's, or "Aa" as issued by Moody's Investors Services. The collateral posted is to be in the form of U.S. Treasury funds in the amount of the fair value hedging derivative instruments in liability positions, net of the effect of applicable netting arrangements. If OPEB does not post collateral, the hedging derivative instrument may be terminated by the counterparty. As of September 30, 2016, the aggregate fair value of all hedging derivative instruments with these collateral posting provisions was $10 (thousand). If the collateral posting requirements were triggered, OPEB would be required to post the aggregate fair value in collateral to its counterparties. The District has an "Aa" rating; therefore, no collateral has been required to be posted as of September 30, 2016. The net unrealized gain on foreign currency spot and forward contracts for the years ended September 30, 2016, was $322 (thousand). **Table N10b** presents a list of the OPEB Fund's derivatives aggregated by type as of September 30, 2016.

Table N10b – Derivative Investments Aggregated by Type: OPEB

(Dollars in $000s)

	Changes in Fair Value		Fair Value at September 30, 2016		
Type of Derivative	**Classification**	**Amount**	**Classification**	**Amount**	**Notional**
Credit Default Swaps Bought	Investment Revenue	$ (79)	Swaps	$ (20)	$ 506
Credit Default Swaps Written	Investment Revenue	(3)	Swaps	24	2,420
Equity Options Written	Investment Revenue	21	Options	-	-
Fixed Income Futures Long	Investment Revenue	594	Futures	-	30,435
Fixed Income Futures Short	Investment Revenue	(503)	Futures	-	(14,636)
FX Forwards	Investment Revenue	2,657	LT Instruments	28	113,520
Pay Fixed Interest Rate Swaps	Investment Revenue	(233)	Swaps	(445)	62,064
Receive Fixed Interest Rate Swaps	Investment Revenue	241	Swaps	198	4,420
Total		**$ 2,695**		**$ (215)**	

NOTE 2. CASH AND INVESTMENTS

C. SECURITIES LENDING

Consistent with District statutes and DCRB policies, the District Retirement Funds may participate in securities lending transactions. When entering into such transactions, the District Retirement Funds are to rely upon a Securities Lending Authorization Agreement, which authorizes the master custodian to lend the Funds' securities to qualified broker-dealers and banks pursuant to a loan agreement. During fiscal year 2016, the District Retirement Funds did not participate in any security lending transactions.

NOTE 3. RESTRICTED ASSETS

As of September 30, 2016, restricted assets of the primary government, component units, and fiduciary funds totaled $11,161,261 as summarized in **Table N11**.

Table N11 – Summary of Restricted Assets

(Dollars in $000s)

	Governmental Funds/Governmental Activities					
	General	Federal & Private Resources	Housing Production Trust Fund	General Capital Improvements	Nonmajor Funds	Total
Bond escrow accounts	$ 498,030	$ -	$ -	$ -	$ -	$ 498,030
Capital project	-	-	-	25,387	68,611	93,998
Emergency cash reserve	129,048	-	-	-	-	129,048
Contingency cash reserve	258,017	-	-	-	-	258,017
Other	109,852	115,880	244,473	-	242,772	712,977
Total	**$ 994,947**	**$ 115,880**	**$ 244,473**	**$ 25,387**	**$ 311,383**	**$ 1,692,070**

	Proprietary Funds/Business-Type Activities				
	Lottery & Games	Unemployment Compensation	Total	Fiduciary Funds	Component Units
Bond escrow accounts	$ -	$ -	$ -	$ -	$ 239,986
Unpaid prizes	2,336	-	2,336	-	-
University endowment	-	-	-	-	28,980
Benefits	-	406,596	406,596	8,511,579	-
Purpose restrictions	-	-	-	-	267,836
Other	-	-	-	-	11,878
Total	**$ 2,336**	**$ 406,596**	**$ 408,932**	**$ 8,511,579**	**$ 548,680**

The bond escrow accounts in the general fund include bond escrow for capital lease payment of $1,837.

NOTE 4. RECEIVABLES, INTERFUND TRANSFERS/BALANCES

A. RECEIVABLES

Receivables are valued at their estimated collectible amounts. These receivables are presented in various funds as shown in **Table N12**.

Table N12 – Receivables

(Dollars in $000s)

	General	Federal & Private Resources	Housing Production Trust	General Capital Improvements	Nonmajor Governmental Funds	Lottery & Games	Unemployment Compensation	Fiduciary Funds
Gross receivables:								
Taxes	$ 376,562	$ -	$ -	$ -	$ 3,845	$ -	$ -	$ -
Accounts and other	334,176	8,473	258	-	37,671	4,024	33,524	12,899
Federal	7,143	398,579	-	53,308	-	-	600	23,496
Total gross receivables	717,881	407,052	258	53,308	41,516	4,024	34,124	36,395
Less-allowance for uncollectibles	128,976	-	-	-	-	254	23,617	-
Total net receivables	**$ 588,905**	**$ 407,052**	**$ 258**	**$ 53,308**	**$ 41,516**	**$ 3,770**	**$ 10,507**	**$ 36,395**

B. INTERFUND TRANSFERS

Other than the transfers between the District of Columbia Lottery and Charitable Games Control Board and the General Fund which are reported on the Statement of Activities, all other interfund transfers are eliminated in the government-wide financial statements. **Table N13** shows a summary of interfund transfers for the fiscal year ended September 30, 2016.

Table N13 – Summary of Interfund Transfers

Transfer from (out)	Transfer to (in)	Purpose	Amount (in $000s)
General Fund	Highway Trust Fund	Motor fuel taxes dedicated to the Highway Trust Fund	$ 25,333
Lottery and Games	General Fund	DC Lottery excess revenues, after operating costs	53,287
General Fund	Capital Improvements Fund	PAYGO - Projects financed by the General Fund	98,942
General Fund	Capital Improvements Fund	PAYGO - Capital Projects financed by Local Transportation Fund	45,162
Capital Improvements Fund	General Fund	Unspent Capital Paygo transferred back to the General Fund	14,082
PILOT Special Revenue Fund	General Fund	Excess collections above PILOT debt service requirements	2,400
Tax Increment Financing Fund	General Fund	Excess collections above TIF debt service requirements	9,416
Federal and Private Resources Fund	General Fund	Revenues generated from indirect cost recovery	1,318
Baseball Special Revenue Fund	Baseball Debt Service Fund	Funds for baseball debt service payments	120,343
General Fund	Housing Production Trust Fund	Funds for housing projects and services	90,179
		Total Interfund Transfers	**$ 460,462**

NOTE 4. RECEIVABLES, INTERFUND TRANSFERS/BALANCES

C. RECEIVABLES AND PAYABLES BETWEEN FUNDS AND COMPONENT UNITS

Due to/Due from and interfund receivable and payable balances for each fund and individual component unit as of September 30, 2016, are shown in **Table N14**. All interfund balances within the Governmental Funds are eliminated in the government-wide financial statements.

Table N14 – Summary of Due To/Due From and Interfund Balances

(Dollars in $000s)

	Primary Government/Component Units		Interfund	
Fund or Component Unit	**Receivables**	**Payables**	**Receivables**	**Payables**
General	$ 24,596	$ 16,874	$ 348,942	$ 21,725
Federal & Private Resources	-	1,026	21,666	195,398
Housing Production Trust	-	-	5,581	-
General Capital Improvements	-	1,464	-	131,543
Nonmajor - Baseball Special Revenue	665	-	4,754	-
Nonmajor - PILOT Special Revenue	-	-	863	2,400
Nonmajor - Tax Increment Financing	532	744	2,168	9,415
Unemployment Compensation	-	-	419	21,895
Pension Trust	-	-	-	1,866
Agency Fund	-	349	-	151
Health Benefit Exchange Authority	446	1,011	-	-
Not-For-Profit Hospital Corporation	241	-	-	-
Washington Convention and Sports Authority	13,161	2,051	-	-
University of the District of Columbia	6,609	22,731	-	-
Total	**$ 46,250**	**$ 46,250**	**$ 384,393**	**$ 384,393**

The above balances represent the impact of transactions among the funds and component units which will be settled during fiscal year 2017.

NOTE 5. CAPITAL ASSETS

Capital Outlays

Capital outlays reported in the General Capital Improvements and Highway Trust Funds totaled $1,107,239 during the fiscal year ended September 30, 2016. As construction progresses, capital expenditures which meet the criteria to be capitalized as set forth in **Note 1L**, are capitalized as Construction in Progress (CIP) in the governmental activities column of the government-wide financial statements. Upon completion of the project, all project costs are transferred from CIP into the appropriate "in-service" capital asset account.

A. GOVERNMENTAL ACTIVITIES: CAPITAL ASSETS BY CLASS

Table N15 presents the changes in the governmental activities capital assets by class for the primary government.

Table N15 – Changes in the Governmental Activities: Capital Assets by Asset Class

(Dollars in $000s)

Asset Class	Balance October 1, 2015	Additions	Transfers/ (Dispositions)	Transfers from CIP	Balance September 30, 2016
Non-depreciable:					
Land	$ 933,835	$ 3,648	$ -	$ 10,929	$ 948,412
Construction in progress	1,325,618	894,154	-	(999,864)	1,219,908
Total non-depreciable	**2,259,453**	**897,802**	**-**	**(988,935)**	**2,168,320**
Depreciable:					
Infrastructure	5,829,329	-	2,950	345,383	6,177,662
Buildings	7,795,842	1,230	(8,049)	590,569	8,379,592
Equipment	1,562,594	37,928	(35,275)	52,983	1,618,230
Total depreciable	**15,187,765**	**39,158**	**(40,374)**	**988,935**	**16,175,484**
Less accumulated depreciation for:					
Infrastructure	(2,504,632)	(149,313)	(634)	-	(2,654,579)
Buildings	(1,804,526)	(150,777)	858	-	(1,954,445)
Equipment	(1,221,036)	(113,035)	31,180	-	(1,302,891)
Total accumulated depreciation	**(5,530,194)**	**(413,125)**	**31,404**	**-**	**(5,911,915)**
Total depreciable, net	**9,657,571**	**(373,967)**	**(8,970)**	**988,935**	**10,263,569**
Net governmental activities capital assets	**$ 11,917,024**	**$ 523,835**	**$ (8,970)**	**$ -**	**$ 12,431,889**

NOTE 5. CAPITAL ASSETS

B. GOVERNMENTAL ACTIVITIES: CAPITAL ASSETS BY FUNCTION

Table N16 presents the changes in the governmental activities capital assets by function for the primary government.

Table N16 – Governmental Activities: Capital Assets by Function

(Dollars in $000s)

Function	Balance October 1, 2015	Additions	Transfers/ (Dispositions)	CIP Transfers in (out)	Balance September 30, 2016
Governmental direction and support	$ 2,741,180	$ 3,229	$ (226,369)	$ 20,226	$ 2,538,266
Economic development and regulation	547,104	6,942	14,060	918	569,024
Public safety and justice	1,141,634	6,105	(6,487)	25,801	1,167,053
Public education system	3,544,273	13,244	200,676	555,763	4,313,956
Human support services	1,498,391	2,390	(11,331)	33,622	1,523,072
Public works	6,649,018	10,896	(10,923)	363,534	7,012,525
Construction in progress	1,325,618	894,154	-	(999,864)	1,219,908
Total	**$ 17,447,218**	**$ 936,960**	**$ (40,374)**	**$ -**	**$ 18,343,804**

C. GOVERNMENTAL ACTIVITIES: CAPITAL ASSETS ACCUMULATED DEPRECIATION BY FUNCTION

A summary of changes in governmental activities capital assets' accumulated depreciation by function for the primary government is shown in **Table N17**.

Table N17 – Governmental Activities: Capital Assets Accumulated Depreciation by Function

(Dollars in $000s)

Function	Balance October 1, 2015	Additions	Transfers/ (Dispositions)	Balance September 30, 2016
Governmental direction and support	$ 1,038,502	$ 61,194	$ (50,042)	$ 1,049,654
Economic development and regulation	44,229	6,718	(675)	50,272
Public safety and justice	449,588	49,154	(7,470)	491,272
Public education system	755,148	92,430	45,299	892,877
Human support services	418,449	30,763	(6,956)	442,256
Public works	2,824,278	172,866	(11,560)	2,985,584
Total	**$ 5,530,194**	**$ 413,125**	**$ (31,404)**	**$ 5,911,915**

NOTE 5. CAPITAL ASSETS

D. BUSINESS-TYPE ACTIVITIES: CAPITAL ASSETS

Business-Type Activities Capital Assets are presented in **Table N18**.

Table N18 – Business-Type Activities: Capital Assets

(Dollars in $000s)

Asset Class	Balance October 1, 2015	Additions	(Dispositions) / Adjustments	Balance September 30, 2016
Lottery:				
Depreciable:				
Equipment	$ 3,845	$ 250	$ -	$ 4,095
Total	**3,845**	**250**	**-**	**4,095**
Total depreciable	**3,845**	**250**	**-**	**4,095**
Less accumulated depreciation for:				
Equipment	(3,676)	(89)	-	(3,765)
Total accumulated depreciation	(3,676)	(89)	-	(3,765)
Net capital assets	**$ 169**	**$ 161**	**$ -**	**$ 330**

E. DISCRETELY PRESENTED COMPONENT UNITS: CAPITAL ASSETS

A summary of capital assets for the discretely presented component units is shown in **Tables N19** and **N20**.

Table N19 – Capital Assets by Class for the Discretely Presented Component Units

(Dollars in $000s)

Asset Class	Balance October 1, 2015, as restated	Additions	Transfers/ (Dispositions)	CIP Transfers in (out)	Balance September 30, 2016
Non-depreciable:					
Land	$ 20,989	$ -	$ (75)	$ -	$ 20,914
Artwork	3,182	-	-	-	3,182
Construction in progress	8,793	7,171	-	(3,944)	12,020
Total non-depreciable	**32,964**	**7,171**	**(75)**	**(3,944)**	**36,116**
Depreciable:					
Buildings and improvements	1,110,083	27,368	(304)	3,944	1,141,091
Equipment	343,067	26,380	(26)		369,421
Total depreciable	**1,453,150**	**53,748**	**(330)**	**3,944**	**1,510,512**
Less accumulated depreciation for:					
Buildings and improvements	(396,430)	(39,901)	304	-	(436,027)
Equipment	(220,739)	(13,331)	26	-	(234,044)
Total accumulated depreciation	**(617,169)**	**(53,232)**	**330**	**-**	**(670,071)**
Total depreciable, net	**835,981**	**516**	**-**	**3,944**	**840,441**
Net capital assets	**$ 868,945**	**$ 7,687**	**$ (75)**	**$ -**	**$ 876,557**

NOTE 5. CAPITAL ASSETS

Table N20 – Capital Assets by Component Unit

(Dollars in $000s)

Component Units	Capital Assets				Accumulated Depreciation				Net Capital Assets	
	October 1, 2015, as restated	Additions	Transfers/ (Dispositions)	September 30, 2016	October 1, 2015, as restated	Additions	Transfers/ (Dispositions)	September 30, 2016	Balance October 1, 2015, as restated	Balance September 30, 2016
University of the District of Columbia	$ 344,728	$ 17,700	$ (403)	$ 362,025	$ (148,920)	$ (5,957)	$ 328	$ (154,549)	$ 195,808	$ 207,476
Washington Convention and Sports Authority	978,369	7,099	(2)	985,466	(423,544)	(32,032)	2	(455,574)	554,825	529,892
Health Benefit Exchange Authority	63,138	22,441	-	85,579	(9,079)	(7,398)	-	(16,477)	54,059	69,102
Housing Finance Agency	6,296	74	-	6,370	(4,283)	(145)	-	(4,428)	2,013	1,942
Not-for-Profit Hospital Corporation	93,583	13,605	-	107,188	(31,343)	(7,700)	-	(39,043)	62,240	68,145
Total	**$ 1,486,114**	**$ 60,919**	**$ (405)**	**$ 1,546,628**	**$ (617,169)**	**$ (53,232)**	**$ 330**	**$ (670,071)**	**$ 868,945**	**$ 876,557**

NOTE 5. CAPITAL ASSETS

F. CONSTRUCTION IN PROGRESS

Construction in progress by function for governmental activities capital assets is shown in **Table N21**.

Table N21 – Construction in Progress by Function

(Dollars in $000s)

Function and Sub-function	Balance October 1, 2015	Additions/ Adjustments	Transfers from CIP/ (Disposition)	Balance September 30, 2016
PRIMARY GOVERNMENT				
Governmental Direction and Support				
Finance	$ 12,403	$ 11,580	$ -	$ 23,983
Legislative	919	458	-	1,377
Administrative	53,935	129,357	(37,388)	145,904
Executive	606	251	-	857
Total	67,863	141,646	(37,388)	172,121
Economic Development and Regulation				
Community Development	32,090	15,123	(705)	46,508
Economic Regulation	2,334	1,213	(213)	3,334
Employment Services	-	888	-	888
Total	34,424	17,224	(918)	50,730
Public Safety and Justice				
Police	4,323	12,759	(7,114)	9,968
Fire	5,473	17,922	(5,914)	17,481
Corrections	1,490	3,689	(1,563)	3,616
Total	11,286	34,370	(14,591)	31,065
Public Education System				
Schools	484,655	294,719	(516,817)	262,557
Culture	18,584	32,831	(36,875)	14,540
Total	503,239	327,550	(553,692)	277,097
Human Support Services				
Health and Welfare	97,217	47,944	(4,131)	141,030
Recreation	17,795	53,909	(29,165)	42,539
Human Relations	179	15	-	194
Total	115,191	101,868	(33,296)	183,763
Public Works				
Environmental	593,615	271,496	(359,979)	505,132
Total	593,615	271,496	(359,979)	505,132
Totals	**$ 1,325,618**	**$ 894,154**	**$ (999,864)**	**$ 1,219,908**

NOTE 6. CONDUIT DEBT AND OTHER FINANCING PROGRAMS

This section discloses financing programs that are limited obligations and other similar debt instruments that provide capital financing for third- parties that are not part of the District's reporting entity. The District has no obligation for these instruments beyond the repayment of resources provided by a third-party or the remittance of incremental revenues collected.

A. INDUSTRIAL REVENUE BOND PROGRAM

The District has issued, under its Industrial Revenue Bond Program, private activity bonds for which the principal and interest are payable solely from defined revenues of private entities, including non-profit and for-profit organizations. The District has no obligation for this debt beyond resources that may have been provided by related leases or loans. Organizations participating in the Industrial Revenue Bond Program are allowed to borrow at the prevailing municipal bond rate. These private activity bonds provide economic incentive to construct, modernize or enhance private entity facilities in the District, thereby supporting the District's economic base. As of September 30, 2016, the aggregate outstanding principal amount for these conduit debt obligations was approximately $4.7 billion.

Such amounts are not reflected as liabilities of the District in the accompanying government-wide statement of net position as of September 30, 2016.

B. ENTERPRISE ZONE FACILITY BONDS

Beginning January 1, 1998, businesses located in the District of Columbia Enterprise Zone are eligible to obtain up to $15 million of tax-exempt financing. Similar to Industrial Revenue Bonds, the principal and interest are payable solely from defined revenues of private entities, including non-profit and for-profit organizations. The Enterprise Zone Program has not been extended by Congress, since approximately December 2011. The District has no obligation for this debt beyond resources that may have been provided by related leases or loans. As of September 30, 2016, the aggregate outstanding principal amount for Enterprise Zone Facility Bonds was $28.4 million.

Such amounts are not reflected as liabilities of the District in the accompanying government-wide statement of net position as of September 30, 2016.

C. TAX INCREMENT FINANCING (TIF) NOTES

Tax increment financing (TIF) is an economic development tool used to facilitate the financing of business investment activities within a locality. The sole source of repayment of the TIF Notes is the incremental sales and/or real property tax revenues from the associated project or TIF area. Therefore, the District has no obligation to make any payments on the TIF Notes other than through the remittance of the incremental revenues to the paying agent. TIF Notes are not obligations of the District and are not included as long-term liabilities of the District.

Fort Lincoln Retail Project

In November 2011, the District issued Phase I and Phase II TIF Notes for the Fort Lincoln Retail Project in the total amount of $10,000. The $6,700 Phase I TIF Note was fully repaid on December 1, 2014. The $3,300 Phase II TIF Note was released from escrow and fully repaid on June 1, 2016.

Downtown Retail Priority Area: National Crime and Punishment Museum, Madame Tussauds, Forever 21, and Clyde's

Since March 2006, the Mayor has executed several TIF Notes under the Downtown Retail Priority Area Program. The National Crime and Punishment Museum TIF Note was terminated on January 18, 2016 as a result of its lease termination. The Madame Tussauds TIF Note was fully repaid on December 1, 2015.

Table N22 presents a summary of the original loan amounts of the Downtown Retail Priority Area TIF Notes which remained outstanding as of September 30, 2016.

Table N22 – Downtown Retail Priority Area TIF Notes

Issuance Date	Description	Dollar Value/ Amount (in $000s)	Terms/Other Comments
February 2011	Forever 21 TIF Note	$4,985	Matures on February 1, 2021; Interest Rate: 6.00%
May 2011	Clyde's TIF Note	$4,472	Matures on December 1, 2021; Interest Rate: 5.50%

Verizon Center

In December 2007, the District issued $50,000 in taxable financing notes to finance upgrades at the Verizon Center. The 2007A Note was issued in the amount of $43,570 at a fixed interest rate of 6.73% and matures on August 15, 2047. The 2007B note was issued in the amount of $6,430 at a fixed interest rate of 6.58% with a maturity date of August 15, 2027. These notes are a special limited obligation of the District and are secured by a portion of the taxes on certain on-site personal property, services and public ticket sales at the Verizon Center. In the event such taxes are not sufficient, the notes are further secured by incremental tax revenues from the Downtown TIF Area, which are subordinate to the pledge of such revenues to the TIF Bonds that were issued to finance the Mandarin Oriental Hotel.

NOTE 6. CONDUIT DEBT AND OTHER FINANCING PROGRAMS

Great Streets Retail Priority Areas

In September 2009, the Mayor executed the first Great Streets TIF, the Georgia Avenue Retail Project Great Streets TIF Note, in the amount of approximately $1,935. The interest rate on the Note is 5.00%. The Note has a maturity date of June 1, 2035.

In May 2011, the Mayor executed the Howard Theatre TIF Note in the amount of $4,000. The interest rate on the Note is 6.50%, and the note has a maturity date of May 26, 2021.

D. PAYMENT IN LIEU OF TAXES REVENUE NOTES

The District issues Payment in Lieu of Taxes Revenue Notes pursuant to the provisions of the District of Columbia Home Rule Act (D.C. Code § 1-201.01, et seq), the Payment in Lieu of Taxes Act of 2004 (D.C. Code §1-308.01, et seq. (2001 ed.)), collectively referred to as the "PILOT Act", and the Payment in Lieu of Taxes Revenue Bonds Southwest Federal Center Approval Resolution of 2006 (Collectively, the "Resolution"), to assist project developers with financing, refinancing or reimbursing certain development costs. These PILOT Revenue Notes are non-recourse to the District and do not constitute a pledge of or involve the full faith and credit or taxing power of the District. Accordingly, such notes are not obligations of the District and are not reported as liabilities of the District in the accompanying government-wide statement of net position as of September 30, 2016.

Table N23 presents a summary of the original amounts of the PILOT Revenue Notes.

Table N23 – PILOT Revenue Notes

Issuance Date	Description	Dollar Value Amount (in $000s)	Terms/Other Comments
August 2011	Rhode Island Metro Plaza Project, Series 2010	$7,200	Matures on September 30, 2032; Interest Rate: 5.78%
August 2010	Foundry Lofts Project Series 2010	$5,660	Matures on January 1, 2038; Interest Rate: 5.16%

Rhode Island PILOT Note

In August 2011, the Mayor executed a revised PILOT Revenue Note for the Rhode Island Metro Plaza Project, in the amount of $7,200. The note will mature on September 30, 2032 and has an interest rate of 5.78%. The note is to be repaid from PILOT revenues from the Rhode Island PILOT Area.

Southeast Federal Center PILOT Program (Foundry Lofts Project)

In August 2010, the Mayor executed the first PILOT note under the Southeast Federal Center PILOT Program, for the Foundry Lofts Project. The note, in the amount of $5,660, bears interest at 5.16% and will mature on January 1, 2038. The note is to be repaid from PILOT revenues from the project. If such PILOT revenues are insufficient to pay the principal and interest on the note when due, the payment shortfall will not constitute a default. However, if the PILOT revenues are sufficient to pay the principal and interest on the note when due, the District must pay the amount of any previous shortfall(s) to the Development Sponsor without any penalty interest or premium thereon.

E. GROUND LEASE AGREEMENT RELATED TO THE WASHINGTON CONVENTION CENTER HEADQUARTERS (HQ) HOTEL

Pursuant to an agreement dated October 26, 2010, the District and the Washington Convention and Sports Authority (WCSA), as landlords, leased land to HQ Hotel, LLC (tenant) for a period of 97 years in connection with the development and operation of a convention center hotel. The lease payments are structured to repay the District and WCSA for their costs of acquiring the land and structures for the hotel. All lease payments are dedicated to the repayment of the WCSA bonds that were issued to support the hotel. The land is to be continuously used for the operation of the hotel, including any associated ancillary uses and amenities.

Under the agreement, Marriott HQ Hotel, LLC is to pay rent to the District and WCSA as follows:

- Rental payments to the District are to begin on June 1, 2017. Over the lease period, HQ Hotel, LLC is to pay the District the net present value of $69.7 million, which shall be paid in advance in monthly installments, consistent with the basic rent schedule established for each year of the lease. The first monthly installment will be $46,823 (not in thousands).
- With respect to WCSA, payments began on October 1, 2014. Over the lease period, HQ Hotel, LLC is to pay WCSA the net present value of $30.5 million, which shall be paid in advance in monthly installments, consistent with the basic rent schedule established for each year of the lease. As of September 30, 2016, the monthly installment was $203,339 (not in thousands).

NOTE 6. CONDUIT DEBT AND OTHER FINANCING PROGRAMS

F. NONEXCHANGE FINANCIAL GUARANTEES

Credit Enhancement Facility Agreements

In accordance with Section 603(e)(3)(c)(iii) of the Student Loan Marketing Association Reorganization Act of 1996 (20 U.S.C. 1155(e)(3)(iii)) and D.C. Code §2-301.05a, the District, through its Office of the State Superintendent for Education (OSSE), Office of Public Charter School Financing and Support, provides enhanced credit, lease guarantees, and access to financial assistance to eligible public charter schools for the acquisition, renovation, and/or construction of school facilities. As of September 30, 2016, the total outstanding guaranteed amount under credit enhancement facility agreements was $5 million.

In the event that a public charter school defaults on its monetary obligations associated with its credit enhancement facility agreement, the District (OSSE) may at its sole discretion, cure the default on the school's behalf. Provisions are included in each credit enhancement facility agreement for the school to repay the District for any amounts paid on its behalf or associated costs incurred in fulfilling the guarantee.

During fiscal year 2016, the District did not make any payments in connection with the credit enhancement facility agreements. In addition, as of September 30, 2016, no liability has been recorded in connection with these agreements because based on an assessment of relevant qualitative factors, these guarantees do not meet the "more likely than not" criterion. As such, the District has determined that it is not "more likely than not" that amounts will be paid under the outstanding guarantees.

Table N24 presents additional information regarding these guarantees.

Table N24 – Summary of OSSE Credit Enhancement Facility Agreements

School	Type of Obligation Guaranteed	Beneficiary	Guarantee Amount (in $000s)	Effective Date	Termination Date	Outstanding Amount at 9/30/2016 (in $000s)
Next Step Public Charter School	Guarantee of lease payments of the school's tenant as credit enhancement to induce lender to provide loan to finance a portion of the acquisition costs for the school's facilities	Next Step Public Charter School	$ 500	12/19/2011	Earlier of: (1) when the beneficiary's tenant, Career Academy Public Charter School, has achieved two consecutive years of minimum annual lease payments of $486 (thousand) and minimum enrollment of 180 students, or (2) five years from the date of execution of the credit enhancement guarantee agreement	$ 500
Paul Public Charter School	Guarantee to support the financing of facility construction and acquisition costs related to the renovation and expansion of the school's campus	Bank of America	500	4/2/2014	Five years from the date of the credit enhancement closing	500
Mundo Verde Bilingual Public Charter School	Guarantee of collection to induce United Bank to purchase the revenue bonds issued to finance a portion of the school's costs of acquiring and renovating Cook Elementary School	United Bank	1,000	1/14/2014	Earlier of: (1) the payment in full of all amounts owed to the lender under the loan agreement, note, and deed of trust, or (2) on the fifth anniversary of the date of execution of the guarantee	1,000
Two Rivers Public Charter School	Guarantee to support the refinancing of construction costs of the Charles E. Young School Property	SunTrust Bank	1,000	12/11/2015	Earlier of: (1) the payment in full of all amounts owed to the lender under the loan agreement, or (2) on the fifteenth business day after the fifth anniversary of the date of execution of the guarantee	1,000
Charter School Incubator Initiative	Guarantee to facilitate funding for the costs of renovation and construction of the property located at 500 19th Street, NE, Washington, DC	United Bank	1,000	10/28/2015	Earlier of: (1) the payment in full of all amounts owed to the lender under the loan agreement, or (2) on the fifteenth business day after the fifth anniversary of the date of execution of the guarantee	1,000

NOTE 6. CONDUIT DEBT AND OTHER FINANCING PROGRAMS

Mamie D. Lee, LLC	Guarantee to facilitate funding for the costs of renovation and construction of Mamie D. Lee School property	Low Income Investment Fund	1,000	4/5/2016	Earlier of: (1) the payment in full of all amounts owed to the lender under the loan agreement, or (2) on the fifteenth business day after the fifth anniversary of the date of execution of the guarantee	1,000
					Total Outstanding Guaranteed Amount	**$ 5,000**

Tax Increment Financing and the Downtown TIF Area

Tax increment financing (TIF) is a tool that is used by the District to help finance the costs of economic development business investment activities within the city. TIF Notes are special limited obligations of the District, secured by the incremental sales and/or real property tax revenues derived from the associated project. The District is not obligated to make any payments under TIF Note agreements other than through the remittance of incremental revenues to a paying agent.

For certain projects, the District secured the TIF Notes by also pledging to use a portion of the incremental tax revenues from the District's Downtown TIF area, if necessary.

Table N25a presents the projects, the TIF arrangements, and the estimate of future outflows as of September 30, 2016, under each TIF.

Table N25a – Projects with Financial Guarantee Funded by Incremental Tax Revenues from the Downtown TIF Area

Project	Type of Financing	Date Issued	Maturity Date	Amount (in $000s)	Estimate of Future Outflows at 9/30/2016* (in $000s)
Verizon Center	TIF Notes	December 2007	08/15/2047	$ 50,000	$ 3,481
Howard Theatre	TIF Notes	May 2011	05/26/2021	4,000	350
				Total	**$ 3,831**

** Release of incremental taxes related to the specific project*

District of Columbia Collateral Support Program

Pursuant to the Small Business Jobs Act of 2010 (Public Law 111-240), the District sponsors the District of Columbia Collateral Support Program (DCCSP), a Small Business Credit Initiative, which is funded by the U.S. Department of Treasury. Administered by the Department of Insurance, Securities and Banking (DISB), the DCCSP provides capital to small businesses with insufficient collateral for a loan by depositing cash collateral with lenders. In turn, the lenders extend loans to eligible businesses that otherwise might not qualify for such loans due to a collateral value shortfall. Participating lenders including federally chartered banks, insured credit unions and community financial institutions are required to sign a participation agreement with DISB. Eligible borrowers must obtain Certified Business Certification, a designation granted by the District Department of Small and Local Business Development, and also meet the DCCSP eligibility requirements. The DCCSP allows small businesses to use the proceeds, among other approved business needs, to purchase equipment and inventory, fund expansion and renovation costs, start-up costs, leasehold improvements and refinancing.

Unless an extension is granted by DISB, at the maturity date of the term loan, or the termination date of the line of credit, the security interest granted by the cash collateral deposit agreement is automatically terminated and all funds and other investment property representing the cash collateral are to be disbursed to DISB. In the event that the borrower defaults on its monetary obligations associated with the cash collateral deposit agreement, the participating lender may apply up to 100 percent of the cash collateral to the remaining default principal balance. Provisions are included in each cash collateral deposit agreement for the lender to first pursue and exhaust all applicable collection efforts prior to drawing from the cash collateral account associated with the DCCSP.

During fiscal year 2016, the District did not make any payments in connection with the District of Columbia Collateral Support Program. In addition, as of September 30, 2016, no liability has been recorded in connection with these cash collateral deposit agreements because based on an assessment of relevant qualitative factors, these guarantees do not meet the "more likely than not" criterion. As such, the District has determined that it is not more likely than not that amounts will be paid under the outstanding guarantees. As of September 30, 2016, the total outstanding guaranteed amount under cash collateral agreements by DCCSP was $6.4 million.

NOTE 6. CONDUIT DEBT AND OTHER FINANCING PROGRAMS

Table N25b presents additional information regarding these guarantees.

Table N25b – District of Columbia Collateral Support Program Financial Guarantees

Borrower	Type of Financing	Guarantee Amount (in $000s)	Effective Date	Lender	Termination/ Maturity Date	Outstanding Amount at 9/30/2016 (in $000s)
Brougton Construction Company, LLC	Line of Credit	$ 750	4/1/2013	Industrial Bank	3/31/2017	$ 750
Forney Enterprises, Inc.	Term Loan	423	4/15/2013	Industrial Bank	5/15/2018	220
Forney Enterprises, Inc.	Line of Credit	500	4/15/2013	Industrial Bank	3/31/2017	500
Bacon Funeral Home, Inc.	Term Loan	645	4/29/2013	Industrial Bank	5/29/2018	473
Brougton Construction Company, LLC	Line of Credit	150	4/11/2014	Industrial Bank	3/31/2017	150
Absolute Builders	Term Loan	72	7/1/2014	Bank of Georgetown	8/1/2016 with option for extension until March 2017	47
Baked by Yael, LLC	Term Loan	188	9/15/2014	Revere Bank	9/15/2021	188
Big City Foods III, LLC	Term Loan	120	9/24/2014	Industrial Bank	9/24/2019	87
Joon Hokim, Inc.	Term Loan	139	9/29/2014	Premara Bank	10/05/2019	134
JPN Masonry, LLC	Term Loan and Line of Credit	484	1/22/2015	City First Bank	1/22/2016 with option for extension until March 2017	463
Savage and Associates Law Group, PC	Line of Credit	125	4/13/2015	Bank of Georgetown	03/31/2017	125
Ivy and Coney, LLC	Term Loan	100	4/15/2015	Revere Bank	04/15/2020	100
Elite Physical Therapy & Wellness Center, Inc.	Term Loan and Line of Credit	61	4/27/2015	Industrial Bank	04/27/2019	54
Baked by Yael, LLC	Term Loan	25	6/8/2015	Revere Bank	06/08/2022	21
First Choice Masonry, Inc.	Line of Credit	982	8/13/2015	Bank of Georgetown	03/31/2017	982
Jubilee Housing, Inc.	Line of Credit	450	8/27/2015	United Bank	03/31/2017	225
Union Kitchen, LLC	Line of Credit	75	10/23/2015	Revere Bank	03/31/2017	75
Hot Yoga Ivy City, LLC	Term Loan	66	11/9/2015	Washington Area Community Investment, Inc.	03/31/2017	66
Solar Solution, LLC	Line of Credit	1,250	6/10/2016	First National Bank	03/31/2017	1,250
SwatchRoom, LLC	Line of Credit	150	6/20/2016	Columbo Bank	03/31/2017	150
Union Kitchen, LLC	Line of Credit	275	6/22/2016	Revere Bank	03/31/2017	275
David's Stars Child Development Center, Inc.	Term Loan	25	9/6/2016	Latino Economic Development Corporation	03/31/2017	25
Ice Cream Jubilee, LLC	Term Loan	75	9/6/2016	Revere Bank	03/31/2017	75
			Total outstanding guaranteed amount			**$ 6,435**

NOTE 7. SHORT-TERM LIABILITIES

TAX REVENUE ANTICIPATION NOTES

The District issued $250,000 in Tax Revenue Anticipation Notes (TRANs) on December 2, 2015. The TRANs are general obligations of the District, secured by the District's full faith and credit, and payable from available revenues, including tax revenues, of the District. The issuance of such notes during the first quarter of a fiscal year is a short-term financing method used to provide for seasonal cash flow needs in anticipation of the receipt of revenues for that fiscal year. Operational and other costs are covered by the proceeds from the TRANs until periodic taxes, grants, and other revenues are received. These notes, which were issued as fixed-rate notes with an interest rate of 1.50%, matured on September 30, 2016, and the District paid the notes in their entirety by the statutorily required deadline of September 30, 2016.

Table N26 presents the changes in short-term liabilities during fiscal year 2016.

Table N26 – Changes in Short-Term Liabilities

(Dollars in $000s)

	Balance October 1, 2015	Additions	Deductions	Balance September 30, 2016
Governmental Activities				
Tax Revenue Anticipation Notes	$ -	$ 250,000	$ (250,000)	$ -

NOTE 8. LONG-TERM LIABILITIES

A. LONG-TERM LIABILITIES

Long-term liabilities for the District's governmental activities and the business-type activities for the year ended September 30, 2016 are presented in **Table N27**.

Table N27 – Summary of Long-Term Liabilities Outstanding as of September 30, 2016

(Dollars in $000s)

Governmental Activities		Outstanding
General Obligation (GO) Bonds:		
Series 1998B, issued on April 16, 1998, in the amount of $451,635; final maturity date: June 1, 2021; interest rates ranging from 4.50% to 6.00%	$	44,985
Series 2004B, issued on December 8, 2004, in the amount of $38,250; final maturity date: June 1, 2020; interest rate: MUNI-CPI Rate		9,460
Series 2005B, issued on December 15, 2005, in the amount of $116,475, to redeem or defease a portion of the District's outstanding general obligation bonds (Series 1994B,1997A, 1998A, 1998B and 2001B) and to pay the costs and expenses of issuing and delivering the Series 2005B Bonds; final maturity date: June 1, 2027; interest rates ranging from 4.00% to 5.25%		17,475
Series 2007A, issued on June 1, 2007, in the amount of $576,475, to finance capital project expenditures and pay the costs and expenses of issuing and delivering the bonds; final maturity date: June 1, 2036; interest rates ranging from 3.00% to 4.75%		576,475
Series 2007B, issued on June 7, 2007, in the amount of $251,155, to redeem or defease a portion of the District's outstanding general obligation bonds (Series 2001B, 2003A, 2003B, and 2005A) and pay the costs and expenses of issuing and delivering the Series 2007B Bonds; final maturity date: June 1, 2030; interest rates ranging from 4.50% to 5.25%		226,815
Series 2007C, issued on December 19, 2007, in the amount of $333,840, to finance capital projects expenditures and pay the costs and expenses of issuing and delivering the Series 2007C Bonds; final maturity date: June 1, 2033; interest rates ranging from 4.00% to 5.00%		236,125
Series 2008E, issued on August 27, 2008, in the amount of $327,905, to finance capital project expenditures and pay the costs and expenses of issuing and delivering the Series 2008E Bonds; final maturity date: June 1, 2033; interest rates ranging from 4.00% to 5.00%		253,240
Series 2008F, issued on August 27, 2008, in the amount of $151,615, to refund $150,585 of outstanding 1998A and 1998B Bonds and pay the costs and expenses of issuing and delivering the Series 2008F Bonds; final maturity date: June 1, 2025; interest rates ranging from 3.00% to 5.00%		113,135
Series 2010A, Build America Bonds, issued on December 22, 2010, in the amount of $181,330, to finance capital projects' expenditures and pay the costs and expenses of issuing and delivering the Series 2010A Bonds; final maturity date: June 1, 2023; interest rates ranging from 1.91% to 5.92%		107,150
Series 2013A, issued on December 18, 2013, in the amount of $495,425, to finance capital projects' expenditures under the District's capital improvements plan, and pay the costs and expenses of issuing and delivering the Series 2013A Bonds; final maturity date: June 1, 2030; interest rates ranging from 2.00% to 5.00%		448,565
Series 2014A, issued on June 26, 2014, in the amount of $99,985, to finance all or a portion of the costs of certain capital projects of the District; final maturity date: June 1, 2039; interest rate: variable equal to an adjusted SIFMA rate (1.20% as of September 30, 2016)		99,985
Series 2014B, issued on June 26, 2014, in the amount of $224,315 of which $224,300 was to refund all of the District's outstanding Multimodal General Obligation Refunding Bonds, Series 2008C, and $15 (thousand) to fund new capital projects; maturity date: June 1, 2027; variable rate bonds bearing interest at varying monthly rates (0.77% as of September 30, 2016)		224,315
Series 2014C, issued on October 23, 2014, in the amount of $379,355, to finance capital projects' expenditures under the District's capital improvements plan and pay the costs and expenses of issuing and delivering the Series 2014C Bonds; final maturity date: June 1, 2026; interest rates ranging from 3.00% to 5.00%		379,355
Series 2014D, issued on October 23, 2014, in the amount of $136,190, to refund all of the District's outstanding Multimodal General Obligation Refunding Bonds, Series 2008A, Series 2008D; and pay the costs and expenses of issuing and delivering the Series 2014D Bonds; final maturity date: June 1, 2023; interest rates ranging from 1.00% to 5.00%		126,220
Series 2015A, issued on June 24, 2015, in the amount of $500,000, to finance capital projects' expenditures under the District's capital improvements plan; and pay the costs and expenses of issuing and delivering the Series 2015A Bonds; final maturity date: June 1, 2040; interest rate: 5.00%		500,000
Series 2015B, issued on June 24, 2015, in the amount of $34,190, to refund a portion of the District's outstanding General Obligation Refunding Bonds, Series 2005B; and pay the costs and expenses of issuing and delivering the Series 2015B Bonds; final maturity date: June 1, 2027; interest rate: 5.00%		34,190
Series 2016A, issued on June 23, 2016, in the amount of $431,815, to finance capital project expenditures under the District's capital improvements plan; and pay the costs and expenses of issuing and delivering the Bonds; final maturity date: June 1, 2036; interest rates ranging from 1.75% to 5.00%		431,815
Total General Obligation Bonds	**$**	**3,829,305**

NOTE 8. LONG-TERM LIABILITIES

		Outstanding
Qualified Zone Academy Bonds (QZAB):		
Qualified Zone Academy Bonds, issued on December 28, 2005, in the amount of $3,191; final maturity date: December 28, 2020 (non-interest bearing)	$	887
Qualified Zone Academy Bonds, issued on May 29, 2008, in the amount of $2,360; final maturity date: December 1, 2017 (non-interest bearing)		472
Qualified Zone Academy Bonds, issued on June 30, 2010, in the amount of $4,140; final maturity date: December 1, 2024 (non-interest bearing)		2,486
Total Qualified Zone Academy Bonds	**$**	**3,845**
Income Tax Secured Revenue Bonds:		
Series 2009A, issued in March 2009, in the amount of $491,645, to provide funds for capital projects and pay for financing costs; final maturity date: December 1, 2034; interest rates ranging from 4.00% to 5.50%	$	421,625
Series 2009B, issued in March 2009, in the amount of $309,685, to refund outstanding debt (Series 2000A, 2000B, 2003C and 2003D general obligation bonds) and pay for financing costs; final maturity date: December 1, 2029; interest rates ranging from 4.00% to 5.25%		236,300
Series 2009C, issued in September 2009, in the amount of $270,455, to refund the District's Series 1999A and Series 1999B general obligation bonds and pay for financing costs; final maturity date: December 1, 2028; interest rates ranging from 3.00% to 5.00%		102,060
Series 2009D, issued in December 2009, in the amount of $129,620, to provide funds for capital projects, pay for financing costs, and fund capitalized interest on the Series 2009D Bonds; final maturity date: December 1, 2017; interest rates ranging from 2.50% to 5.00%		41,345
Series 2009E Build America Bonds, issued in December 2009, in the amount of $501,290 to provide funds for capital projects, pay for financing costs, and fund capitalized interest on the 2009E Bonds; maturity date: December 1, 2034; interest rates ranging from 4.34% to 5.59%		501,290
Series 2010A, issued in March 2010, in the amount of $694,300, to refund the following outstanding general obligation bonds: Series 1998B, Series 1999A, Series 2001B, Series 2001C, Series 2001D, Series 2002D, Series 2003A, Series 2003B, Series 2004A, Series 2005A, Series 2007C, Series 2008E and Series 2008F and pay for the financing costs of the Series 2010A Bonds; final maturity date: December 1, 2031; interest rates ranging from 3.00% to 5.00%		694,300
Series 2010B, issued in March 2010, in the amount of $14,040, to terminate an interest rate swap agreement related to the Series 2002D General Obligation Bonds which were refunded by the issuance of the Series 2010A Bonds and pay the costs of issuance associated with the 2010 Bonds; final maturity date: December 1, 2017; interest rate: 4.05%		14,040
Series 2010D Qualified School Construction Bonds, issued in June 2010, in the amount of $32,945, to pay for the costs of Qualified School Construction projects and financing cost; final maturity date: December 1, 2026; interest rate: 5.00%		32,945
Series 2010F Build America Bonds, issued in December 2010, in the amount of $342,615, to pay for costs of capital projects and the costs and expenses of issuing and delivering the Series 2010F Bonds; final maturity date: December 1, 2035; interest rates ranging from 4.71% to 5.58%		342,615
Series 2011A, issued in September 2011, in the amount of $138,470, to pay for costs of capital projects and the costs and expenses of issuing and delivering the Series 2011A Bonds; final maturity date: December 1, 2036; interest rates ranging from 1.00% to 5.00%		127,325
Series 2011B-E, $241,735, issued in November 2011 to: (a) refund $63,335 of the remaining outstanding principal amount of Series 2010C, Income Tax Secured Revenue Refunding Bonds; and $31,930 of Series 2010E Income Tax Secured Revenue Refunding Bonds; (b) refund General Obligation Bonds Series 2003A and 2003B; and (c) pay the costs and expenses of issuing and delivering the Series 2011B-C-D-E Bonds. As of September 30, 2016, Series 2011B, 2011C and 2011D were paid off. The outstanding balance is related to the Series 2011E, which has a final maturity of December 1, 2017; interest rates: variable equal to an adjusted SIFMA rate (1.59% as of September 30, 2016)		56,525
Series 2011F-G Bonds, $400,720, issued in December 2011 to pay for costs of capital projects and costs and expenses of issuing and delivering the Series F-G Bonds; final maturity date: December 1, 2036; interest rates ranging from 2.00% to 5.00%		360,850
Series 2012A-B Bonds, $314,110, issued in May 2012 to refund a portion of the District's GO Bonds, Series 2002C, 2004A and 2005A and pay the costs and expenses of issuing and delivering the Series 2012A-B Bonds; final maturity date: December 1, 2027; interest rates ranging from 2.00% to 5.00%		293,845
Series 2012C-D Bonds, $775,770, issued on November 28, 2012, to pay costs associated with capital projects, bond issuance costs, and refund the outstanding PILOT Revenue Bond Anticipation Notes (Arthur Capper/Carrollsburg Public Improvement Issue); final maturity date: December 1, 2037; interest rates ranging from 2.00% to 5.00%		723,155
Series 2014A, issued on September 10, 2014, in the amount of $155,665 to currently refund the District's outstanding Certificates of Participation, Series 2003 and to advance refund the District's outstanding Certificates of Participation, Series 2006 and pay the costs and expenses of issuing and delivering the Series 2014A Bonds; final maturity date: December 1, 2025; interest rates ranging from 1.00% to 5.00%		138,200

NOTE 8. LONG-TERM LIABILITIES

Series 2014B, issued on November 25, 2014, in the amount of $60,875 to currently refund the District's Income Tax Secured Revenue Refunding Bonds, Series 2013A matured December 1, 2014 and pay the costs and expenses of issuing and delivering the Series 2014B Bonds; final maturity date: December 1, 2017; interest rates: variable equal to an adjusted SIFMA rate (1.14% as of September 30, 2016)		58,160
Series 2015A, issued on November 24, 2015, in the amount of $95,575 to currently refund $39,900 of the District's Income Tax Secured Revenue Refunding Bonds, Series 2011B, and $55,220 of Series 2011E that matured December I, 2015; and pay the costs and expenses of issuing and delivering the Series 2015A; final maturity date: December 1, 2016; interest rates: variable equal to an adjusted SIFMA rate (0.96% as of September 30, 2016)		95,575
Total Income Tax Secured Revenue Bonds	**$**	**4,240,155**
Tobacco Settlement Asset-Backed Bonds:		
Series 2001, issued on February 1, 2001, in the amount of $521,105; final maturity on May 15, 2040; interest rates ranging from 5.20% to 6.75%	$	352,710
Series 2006, issued on August 30, 2006, in the amount of $248,264; final maturity on June 15, 2055; interest rates ranging from 6.25% to 7.25%		248,264
Total Tobacco Settlement Asset-Backed Bonds	**$**	**600,974**
Tax Increment Financing (TIF) Bonds:		
Tax Increment Revenue Refunding Bonds (Gallery Place Project, Series 2012), issued on June 21, 2012, in the amount of $52,365 to: (a) refund the Gallery Place Project Tax Increment Revenue Bonds, Series 2002 and (b) pay the costs and expenses of issuing and delivering the Series 2012 Bonds; final maturity: June 1, 2031; interest rates ranging from 3.00% to 5.00%	$	44,755
Mandarin Oriental Hotel TIF Bonds, issued on April 1, 2002, in the amount of $45,995; final maturity: July 1, 2022; interest rate yields ranging from 4.26% to 5.48%		13,637
City Market at O Street TIF Bonds, issued on November 17, 2011, in the amount of $38,650; final maturity: June 1, 2041; interest rates ranging from 3.00% to 5.13%		38,430
Total Tax Increment Financing (TIF) Bonds	**$**	**96,822**
Ballpark Revenue Bonds:		
Series 2006A, issued on May 15, 2006, $154,835 (Taxable) to finance a portion of the cost of construction of the District's baseball stadium; final maturity date: February 1, 2036; interest rates ranging from 5.96% to 6.17%	$	150,570
Series 2006B-1, issued on May 15, 2006, $354,965 (Tax-Exempt) to finance a portion of the cost of construction of the District's baseball stadium; final maturity date: February 1, 2036; interest rates ranging from 4.00% to 5.50%		220,735
Total Ballpark Revenue Bonds	**$**	**371,305**
Federal Highway Grant Anticipation Revenue Bonds (GARVEE):		
Series 2011, issued on February 16, 2011, in the amount of $82,610, to: (a) finance a portion of the 11th Street Bridge Project, (b) pay certain costs of issuing the Series 2011 Bonds, and (c) fund the Senior Lien Bonds Debt Service Reserve Subaccount; final maturity date: December 1, 2027; interest rates ranging from 2.00% to 5.25%	$	61,070
Series 2012, issued on October 10, 2012, in the amount of $42,935, to: (a) finance Phase II of the 11th Street Bridge Project, and (b) pay costs of issuing the Series 2012 Bonds; maturity date: December 1, 2027; interest rates ranging from 2.00% to 5.00%		36,350
Total Federal Highway Grant Anticipation Revenue Bonds (GARVEE)	**$**	**97,420**
Deed Tax Revenue Bonds (Housing Production Trust Fund Program):		
Series 2007A, issued on May 31, 2007, in the amount of $34,105, to finance, refinance and reimburse a portion of the costs of redeveloping, constructing, acquiring, furnishing and equipping the Northwest One New Communities Project and pay the costs of issuance of the Series 2007A Bonds; final maturity date: June 1, 2037; interest rates ranging from 4.00% to 5.00%	$	28,360
Series 2010A-C, issued on August 24, 2010, in the amount of $53,190 to: (a) finance, refinance and reimburse a portion of the costs of the New Communities Initiatives, (b) satisfy the debt service reserve requirement, and (c) pay costs of issuance of the Series 2010 Bonds; final maturity date: June 1, 2040; interest rates ranging from 3.50% to 5.00%		47,685
Series 2012A-B, issued on December 6, 2012, in the amount of $39,585 to: (a) fund portions of the New Communities Projects, (b) fund a deposit to the Debt Service Reserve Fund, and (c) pay cost of issuing the Series 2012 Bonds; final maturity date: June 1, 2042; interest rates ranging from 3.00% to 5.00%		36,920
Total Deed Tax Revenue Bonds (Housing Production Trust Fund Program)	**$**	**112,965**
PILOT Revenue Bonds and Notes:		
Anacostia Waterfront Corporation (AWC) PILOT Revenue Bonds, issued in September 2007, in the amount of $111,550, to finance, refinance and reimburse the AWC for development costs associated with park and infrastructure projects along the Anacostia River waterfront; final maturity date: December 1, 2021; interest rate: 4.46%	$	54,675
Southeast Federal Center PILOT Revenue Note (The Yards Project) Series 2014, issued in December 2014, in the amount of $34,800, to reimburse Forest City SEFC, LLC for public infrastructure associated with the phased development of The Yards, an approximately 42 acre site located in the southeast quadrant of the District; final maturity date: December 1, 2037; interest rate: 0.75% of the LIBOR 30-day index plus 1.70%. The note is structured as a 5-year interest-only draw-down note, with interest paid on drawn funds and has a mandatory repurchase date of December 18, 2019 when it will be extended or refinanced. Total cumulative draw-downs as of September 30, 2016 is $18,067		14,093

NOTE 8. LONG-TERM LIABILITIES

Southwest Waterfront Project Revenue Bonds (The Wharf Project) Series 2015 issued in September 2015, in the amount of $145,445, to finance construction of public infrastructure at the Southwest Waterfront (the Wharf), a 24 acre mixed use project in Southwest Washington; final maturity date: June 1, 2040; interest rates ranging from 2.82% to 5.04%		145,445
Total PILOT Revenue Bonds and Notes	**$**	**214,213**
Total Bonds and Notes	**$**	**9,567,004**

Other Long-Term Liabilities:		
225 Virginia Avenue lease	$	89,531
Premium on long-term debt		580,293
Equipment financing program		61,139
Accreted interest		235,721
Capital leases		1,837
Long-term tax refunds		135,566
Long-term payroll accrual		10,538
Annual leave		170,205
Disability compensation		130,438
Grant disallowances		15,189
Claims and judgments		145,974
Total Other Long-Term Liabilities	**$**	**1,576,431**
Total Long-Term Liabilities – Governmental Activities	**$**	**11,143,435**

Business-Type Activities		**Outstanding**
Obligation for unpaid prizes, D.C. Lottery and Charitable Games Control Board	$	2,336
Compensated Absences		443
Total Long-Term Liabilities – Business-Type Activities	**$**	**2,779**

NOTE 8. LONG-TERM LIABILITIES

B. ANNUAL DEBT SERVICE REQUIREMENTS

Tables N28 through **N42** present annual debt service requirements to maturity for the District's outstanding long-term liabilities as of September 30, 2016.

Table N28 – Debt Service Requirements to Maturity – General Obligation Bonds

(Dollars in $000s)

Year Ending September 30	General Obligation Bonds Principal	Interest	Total
2017	$ 130,055	$ 181,560	$ 311,615
2018	122,340	176,512	298,852
2019	136,365	170,258	306,623
2020	178,480	163,238	341,718
2021	168,120	154,303	322,423
2022-2026	762,040	655,032	1,417,072
2027-2031	774,310	478,324	1,252,634
2032-2036	1,000,310	261,351	1,261,661
2037-2041	557,285	49,800	607,085
Total	**$ 3,829,305**	**$ 2,290,378**	**$ 6,119,683**

Table N29 – Debt Service Requirements to Maturity – Qualified Zone Academy Bonds

(Dollars in $000s)

Year Ending September 30	QZAB Principal
2017	$ 690
2018	690
2019	454
2020	454
2021	454
2022-2026	1,103
Total	**$ 3,845**

Table N30 – Debt Service Requirements to Maturity– Income Tax Secured Revenue Bonds

(Dollars in $000s)

Year Ending September 30	Income Tax Secured Revenue Bonds Principal	Interest	Total
2017	$ 119,300	$ 203,980	$ 323,280
2018	159,040	197,865	356,905
2019	186,000	190,183	376,183
2020	158,800	182,605	341,405
2021	171,165	175,124	346,289
2022-2026	1,228,140	717,096	1,945,236
2027-2031	1,225,880	396,294	1,622,174
2032-2036	853,970	131,383	985,353
2037-2038	137,860	5,302	143,162
Total	**$ 4,240,155**	**$ 2,199,832**	**$ 6,439,987**

Table N31 – Debt Service Requirements to Maturity – Tobacco Settlement Asset-Backed Bonds

(Dollars in $000s)

Year Ending September 30	Tobacco Bonds Principal	Interest	Total
2017	$ 35,060	$ 23,395	$ 58,455
2018	23,600	21,116	44,716
2019	25,755	19,582	45,337
2020	28,070	17,908	45,978
2021	30,530	16,083	46,613
2022-2026	209,695	48,915	258,610
2042-2046	159,733	1,697,592	1,857,325
2052-2055	88,531	2,478,469	2,567,000
Total	**$ 600,974**	**$ 4,323,060**	**$ 4,924,034**

Table N32 – Debt Service Requirements to Maturity – Gallery Place TIF Bonds

(Dollars in $000s)

Year Ending September 30	Gallery Place Principal	Interest	Total
2017	$ 2,075	$ 2,238	$ 4,313
2018	2,180	2,134	4,314
2019	2,290	2,025	4,315
2020	2,400	1,911	4,311
2021	2,520	1,791	4,311
2022-2026	14,625	6,931	21,556
2027-2031	18,665	2,891	21,556
Total	**$ 44,755**	**$ 19,921**	**$ 64,676**

NOTE 8. LONG-TERM LIABILITIES

Table N33 – Debt Service Requirements to Maturity – Mandarin Oriental Hotel TIF Bonds

(Dollars in $000s)

Year Ending September 30	Mandarin Oriental Hotel		
	Principal	Interest	Total
2017	$ 1,761	$ 2,744	$ 4,505
2018	1,650	2,859	4,509
2019	1,544	2,960	4,504
2020	1,448	3,057	4,505
2021	2,954	1,555	4,509
2022	4,280	224	4,504
Total	**$ 13,637**	**$ 13,399**	**$ 27,036**

Table N34 – Debt Service Requirements to Maturity – City Market at O Street TIF Bonds

(Dollars in $000s)

Year Ending September 30	City Market at O Street		
	Principal	Interest	Total
2017	$ 300	$ 1,871	$ 2,171
2018	350	1,862	2,212
2019	450	1,851	2,301
2020	550	1,836	2,386
2021	625	1,817	2,442
2022-2026	5,400	8,562	13,962
2027-2031	7,890	6,996	14,886
2032-2036	10,025	4,857	14,882
2037-2041	12,840	2,040	14,880
Total	**$ 38,430**	**$ 31,692**	**$ 70,122**

Table N35 – Debt Service Requirements to Maturity – Ballpark Revenue Bonds

(Dollars in $000s)

Year Ending September 30	Ballpark Bonds		
	Principal	Interest	Total
2017	$ 1,880	$ 20,237	$ 22,117
2018	9,835	19,921	29,756
2019	10,875	19,377	30,252
2020	3,055	18,999	22,054
2021	3,510	18,798	22,308
2022-2026	64,820	87,019	151,839
2027-2031	128,165	59,439	187,604
2032-2036	149,165	19,566	168,731
Total	**$ 371,305**	**$ 263,356**	**$ 634,661**

Table N36 – Debt Service Requirements to Maturity - Federal Highway Grant Anticipation Revenue Bonds (GARVEE)

(Dollars in $000s)

Year Ending September 30	Federal Highway Grant Anticipation Revenue Bonds		
	Principal	Interest	Total
2017	$ 7,250	$ 4,523	$ 11,773
2018	7,550	4,222	11,772
2019	7,905	3,871	11,776
2020	8,255	3,514	11,769
2021	8,640	3,127	11,767
2022-2026	50,225	8,613	58,838
2027-2028	7,595	384	7,979
Total	**$ 97,420**	**$ 28,254**	**$ 125,674**

Table N37 – Debt Service Requirements to Maturity – Deed Tax Revenue Bonds (Housing Production Trust Fund)

(Dollars in $000s)

Year Ending September 30	Housing Production Trust		
	Principal	Interest	Total
2017	$ 2,725	$ 5,100	$ 7,825
2018	2,850	4,972	7,822
2019	2,990	4,839	7,829
2020	3,140	4,689	7,829
2021	3,275	4,551	7,826
2022-2026	18,950	20,166	39,116
2027-2031	23,675	15,439	39,114
2032-2036	29,345	9,777	39,122
2037-2041	23,850	3,256	27,106
2042	2,165	87	2,252
Total	**$ 112,965**	**$ 72,876**	**$ 185,841**

NOTE 8. LONG-TERM LIABILITIES

Table N38 – Debt Service Requirements to Maturity – Anacostia Waterfront Corporation PILOT Revenue Bonds

(Dollars in $000s)

Year Ending September 30	Anacostia Waterfront Corporation Principal	Interest	Total
2017	$ 8,200	$ 2,351	$ 10,551
2018	8,570	1,981	10,551
2019	8,960	1,594	10,554
2020	9,360	1,190	10,550
2021	9,685	767	10,452
2022	9,900	221	10,121
Total	**$ 54,675**	**$ 8,104**	**$ 62,779**

Table N39 – Debt Service Requirements to Maturity – The Yards PILOT Revenue Note

(Dollars in $000s)

Year Ending September 30	The Yards Project Principal	Interest	Total
2017	$ -	$ 300	$ 300
2018	-	300	300
2019	-	300	300
2020	14,093	75	14,168
Total	**$ 14,093**	**$ 975**	**$ 15,068**

Table N40 – Debt Service Requirements to Maturity – Southwest Waterfront Project Revenue Bonds (The Wharf)

(Dollars in $000s)

Year Ending September 30	The Wharf Project Principal	Interest	Total
2017	$ -	$ 6,636	$ 6,636
2018	-	6,636	6,636
2019	-	6,636	6,636
2020	4,330	6,636	10,966
2021	4,350	6,514	10,864
2022-2026	25,735	30,106	55,841
2027-2031	31,575	24,371	55,946
2032-2036	39,820	16,118	55,938
2037-2040	39,635	5,118	44,753
Total	**$ 145,445**	**$ 108,771**	**$ 254,216**

Table N41 – Debt Service Requirements to Maturity – 225 Virginia Avenue Lease

(Dollars in $000s)

Year Ending September 30	225 Virginia Avenue, LLC Principal	Interest	Total
2017	$ 3,333	$ 5,941	$ 9,274
2018	3,565	5,709	9,274
2019	3,813	5,461	9,274
2020	4,078	5,195	9,273
2021	4,362	4,911	9,273
2022-2026	26,812	19,557	46,369
2027-2031	37,539	8,829	46,368
2032	6,029	154	6,183
Total	**$ 89,531**	**$ 55,757**	**$ 145,288**

Table N42 – Debt Service Requirements to Maturity – Equipment Financing Program

(Dollars in $000s)

Year Ending September 30	Equipment Financing Principal	Interest	Total
2017	$ 26,397	$ 1,047	$ 27,444
2018	18,690	564	19,254
2019	11,614	230	11,844
2020	4,438	48	4,486
Total	**$ 61,139**	**$ 1,889**	**$ 63,028**

NOTE 8. LONG-TERM LIABILITIES

Table N43 presents aggregate debt service requirements and net receipts/payments on the associated hedging derivative instruments as of September 30, 2016. These amounts assume that current interest rates on variable rate bonds and the current reference rates of hedging derivative instruments will remain the same for their term.

As these rates vary, interest payments on variable rate bonds and net receipts/payments on the hedging derivative instruments will vary. Information on the District's derivative instruments is presented in Note 2, found on page 88.

Table N43 – Aggregate Debt Service Requirements and Net Receipts/Payments on Hedging Derivative Instruments

(Dollars in $000s)

Year Ending September 30	Principal	Interest	Hedging Derivatives, Net	Total
2017	$ 8,200	$ 2,598	$ 9,306	$ 20,104
2018	8,570	2,493	9,041	20,104
2019	8,960	2,386	8,807	20,153
2020	43,270	2,270	8,435	53,975
2021	44,320	1,788	7,080	53,188
2022-2026	152,575	4,798	19,735	177,108
2027-2029	32,000	186	1,046	33,232
Total	**$ 297,895**	**$ 16,519**	**$ 63,450**	**$ 377,864**

C. LONG-TERM DEBT ACTIVITY DURING FISCAL YEAR

Table N44 presents long-term debt activity for the year ended September 30, 2016:

Table N44 – Long-Term Debt Activity

(Dollars in $000s)

	September 30, 2015	Additions	Reductions	September 30, 2016	Due Within One Year
Governmental activities:					
General obligation bonds	$ 3,530,770	$ 431,815	$ (133,280)	$ 3,829,305	$ 130,055
QZAB	4,791	-	(946)	3,845	690
Income tax secured revenue bonds	4,327,855	95,575	(183,275)	4,240,155	119,300
Tobacco settlement asset-backed bonds	616,404	-	(15,430)	600,974	35,060
Tax increment financing bonds	100,895	-	(4,073)	96,822	4,136
Ballpark revenue bonds	467,360	-	(96,055)	371,305	1,880
Federal highway grant anticipation revenue bonds (GARVEE)	104,395	-	(6,975)	97,420	7,250
Deed tax revenue bonds (housing production trust fund program)	115,565	-	(2,600)	112,965	2,725
PILOT revenue bonds	215,647	8,615	(10,049)	214,213	8,200
225 Virginia Avenue lease	92,646	-	(3,115)	89,531	3,333
Premium on long-term debt	586,507	84,235	(90,449)	580,293	55,251
Equipment financing program	86,717	11,368	(36,946)	61,139	26,397
Accreted interest	207,315	28,406	-	235,721	-
Capital leases	5,105	-	(3,268)	1,837	1,837
Long-term tax refunds	88,442	50,724	(3,600)	135,566	-
Long-term payroll accrual	10,686	-	(148)	10,538	-
Annual leave	160,949	9,501	(245)	170,205	168,264
Disability compensation	127,537	20,130	(17,229)	130,438	-
Grant disallowances	70,000	-	(54,811)	15,189	-
Claims and judgments	201,309	90,047	(145,382)	145,974	-
OPEB liability	10,006	-	(10,006)	-	-
Total long-term liabilities - Governmental activities	$ 11,130,901	$ 830,416	$ (817,882)	$ 11,143,435	$ 564,378
Business-Type activities:					
Obligation for unpaid prizes	$ 3,422	$ -	$ (1,086)	$ 2,336	$ 807
Compensated absences	439	4	-	443	-
Total long-term liabilities - Business-Type activities	$ 3,861	$ 4	$ (1,086)	$ 2,779	$ 807

NOTE 8. LONG-TERM LIABILITIES

NEW BOND ISSUANCES

General Obligation Bonds

In June 2016, the District issued $431,815 in General Obligation Bonds, Series 2016A. These Bonds are general obligations of the District and as such, the full faith and credit of the District is pledged to the payment of the principal of and interest on the Bonds when due. The Bonds are further secured by a security interest in the revenue derived from a special real property tax levied annually by the District, without limitation as to rate or amount, in amounts sufficient to pay the principal of and interest on the Bonds and any other outstanding general obligation Parity Bonds when due.

The proceeds of the Series 2016A Bonds were used to finance capital project expenditures under the District's capital improvements plan, and pay the costs and expenses of issuing and delivering the Bonds. The interest rates pertaining to the Series 2016A Bonds range between 1.75% and 5.00%.

Income Tax Secured Revenue Bonds

In November 2015, the District issued $95,575 in Income Tax Secured Revenue Refunding Bonds, Series 2015A. The proceeds of the Series 2015A Bonds were used to currently refund $39,900 of the District's Income Tax Secured Revenue Refunding Bonds, Series 2011B (Adjusted SIFMA Rate) and currently refund $55,220 of the District's Income Tax Secured Revenue Refunding, Series 2011E (Adjusted SIFMA Rate) that matured December 1, 2015, and pay the costs and expenses of issuing and delivering the Series 2015A Bonds.

The Series 2015A Bonds bear interest at a variable rate equal to the Adjusted SIFMA rates, which was 0.96% as of September 30, 2016.

INTEREST RATES ON GENERAL OBLIGATION BONDS AND INCOME TAX SECURED REVENUE BONDS

The weighted average interest rate on the District's outstanding fixed-rate bonds was 4.95% in fiscal year 2016. The weighted average interest rate on the District's variable rate bonds for fiscal year 2016 was 0.64%.

PLEDGED TAX REVENUES FOR DEBT SERVICE ON INCOME TAX SECURED REVENUE BONDS

During fiscal year 2016, the District collected $2,464,330 in Income and Business Franchise Taxes. Of this amount, $371,712, or 15.08%, was held in the General Fund for the payment of debt service on outstanding Income Tax Secured Revenue Bonds in fiscal year 2017. The anticipated debt service amount for fiscal year 2017 is $323,280. Therefore, total available tax revenues collected and set aside in the Fund in fiscal year 2016 covers the total amount of anticipated debt service for fiscal year 2017 as presented in **Table N45:**

Table N45 – Debt Service Coverage Ratio (Income Tax Secured Revenue Bonds)

Available Tax Revenues Collected in FY 2016
(Dollars in $000s)

Individual Income		$	1,907,862
Business Franchise			556,468
Total		**$**	**2,464,330**
Amount Held in Escrow for FY 2017 Debt Service	(a)		371,712
FY 2017 Debt Service Amount	(b)		323,280
Rate of Coverage (c)=(a)/(b)			**115%**

In fiscal year 2016, debt service on the Income Tax Secured Revenue Bonds totaled $267,857. The debt service coverage ratio was 9.20 to 1: Total available taxes of $2,464,330, divided by FY 2016 debt service of $267,857.

REFUNDINGS AND BOND DEFEASANCES

On November 24, 2015, the District issued $95,575 in Income Tax Secured Revenue Refunding Bonds, Series 2015A. The proceeds of the Series 2015A Income Tax Secured Revenue Refunding Adjusted SIFMA Rate bonds were used to current refund the Series 2011B and 2011E Income Tax Secured Revenue Refunding Adjusted SIFMA Rate bonds that matured December 1, 2015. As a result of this refunding, the stated maturities of the Series 2011B and 2011E bonds were both extended to December 1, 2016 while maintaining the bonds' planned amortization. Although this current refunding resulted in the defeasance of the outstanding Series 2011B bonds and 50% of the outstanding Series 2011E bonds, the economic gain or loss and the aggregate difference in debt service cannot be determined. Such determination could not be made because both the refunded debt and the refunding bonds have variable interest rates, which complicate the completion of accurate calculations.

As of September 30, 2016, the total amount of defeased debt outstanding held by the escrow agent was $10,195. This amount has been removed from the government-wide financial statements.

REDEMPTION: BALLPARK REVENUE BONDS

In fiscal year 2016, the District paid $96,055 in principal payments on the outstanding Ballpark Revenue Bonds, Series 2006A and 2006B-1. The payment includes $88,130 in addition to the minimum principal payment requirements. These additional payments were possible because the 2006B-1 bonds became callable in 2016. The additional payments were made from surplus revenues dedicated to the Ballpark Revenue Bonds.

NOTE 8. LONG-TERM LIABILITIES

GENERAL OBLIGATION DIRECT PURCHASE BOND PROGRAM

Direct purchase bonds are another form of debt financing in which the bonds are privately placed with a financial institution. This source of funding may be used in lieu of a public offering through a negotiated or competitive transaction. The District did not issue any direct purchase bonds in fiscal year 2016.

Table N46 provides an overview for each of the direct purchase obligation refunding(s).

Table N46 – General Obligation Direct Purchase Bonds

Series	Par Outstanding (in $000s)		Final Maturity	Reset Mode/ Payment Frequency	Direct Purchase Bank	Direct Purchase Agreement Date	Direct Purchase Expiration Date
2014A	$	99,985	6/1/2039	7-Day Reset / Monthly Pay	Banc of America Preferred Funding Corporation	10/25/2012	6/23/2017
2014B		224,315	6/1/2027	Monthly Reset/ Monthly Pay	Banc of America Preferred Funding Corporation	10/25/2012	6/23/2017
Total	**$**	**324,300**					

D. OTHER LONG-TERM LIABILITIES

Equipment Financing Program

The District began its Master Equipment Lease Purchase Program in 1998 as a means of providing tax-exempt financing for assets with short-term to intermediate-term useful lives. District agencies use this program to procure such items as fire apparatus (trucks) and other emergency medical services equipment (ambulances); trucks and cranes used by the Department of Public Works; vehicles used by the Metropolitan Police Department; and other heavy equipment items.

As of September 30, 2016, the District had financed approximately $537 million of its capital equipment needs through the Master Equipment Lease Purchase Program since inception, and had approximately $61.14 million in principal outstanding. Payments are made on a quarterly basis. During the year, the average interest rate used to finance equipment through this program was 3.93%.

Obligation for Unpaid Prizes

The D.C. Lottery and Charitable Games Control Board (the Lottery) is a member of the Multi-State Lottery Association (MUSL), which is responsible for payments to Lotto-America and Powerball winners. MUSL is responsible for providing cash to the Lottery for funding these installment payments.

As of September 30, 2016, MUSL purchased for the Lottery, U.S. government securities totaling $2,410 to fund future installment payments to winners. The market value of these securities as of September 30, 2016, was $2,336. The Lottery has reflected the fair market value of the securities as restricted investments and as corresponding obligations for unpaid prizes on the statement of net position.

E. COMPONENT UNITS

Washington Convention and Sports Authority (WCSA)

On September 28, 1998, WCSA issued $524,500 in Senior Lien Dedicated Tax Revenue Refunding Bonds (Series 1998A bonds) to finance the construction of the new Washington Convention Center.

On February 1, 2007, WCSA issued $492,500 of refunding bonds, Series 2007A Bonds, to refund the Series 1998A Bonds. The refunding bonds have maturities ranging from October 1, 2008 to October 1, 2036 and interest rates ranging from 3.75% to 5.00%. The net proceeds of these refunding bonds were used to advance refund all of the Series 1998A Bonds in the aggregate principal amount of $480,600. As a result, the refunded bonds were considered defeased and the liabilities for those were extinguished. The aggregate difference in debt service between the refunded debt and the refunding debt was $10,000.

Between June 2006 and July 2009, the Council passed a series of legislative Acts, which authorized the financing, construction and development of a privately owned and operated headquarters hotel for the Convention Center.

In October 2010, WCSA issued Senior Lien Dedicated Tax Revenue Bonds (Series 2010 Bonds) with face value of $249,200, with maturities ranging from October 2015 to October 2040, at interest rates ranging from 3.10% to 7.00%. The proceeds are to be used to fund as needed a portion of the costs of acquiring, developing, constructing, and equipping the Convention Center Hotel project. A portion of the proceeds was also used to defease to the earliest optional redemption date that portion of WCSA's outstanding Senior Lien Dedicated Tax Revenue and Refunding Bonds, Series 2007A maturing on December 1, 2036 in the aggregate principal amount of $25,400. In addition, net proceeds from the issuance of the Series 2010 Bonds were used to purchase U.S.

NOTE 8. LONG-TERM LIABILITIES

government securities which were deposited in an irrevocable trust to provide debt service payments until the Series 2007A bonds are called or mature. Consequently, the aggregate principal amount of $25,400 from Series 2007A Bonds is considered to be defeased and therefore has been removed as a liability from WCSA's financial statements.

Table N47 presents the debt service requirements to maturity for principal and interest for WCSA's outstanding bonds.

Table N47 – Washington Convention and Sports Authority Debt Service Requirements to Maturity

(Dollars in $000s)

Year Ending September 30	Principal	Interest	Total
2017	$ 19,760	$ 31,248	$ 51,008
2018	20,655	30,283	50,938
2019	21,600	29,244	50,844
2020	23,425	28,094	51,519
2021	24,545	26,885	51,430
2022-2026	143,135	114,479	257,614
2027-2031	195,450	71,873	267,323
2032-2036	67,335	36,214	103,549
2037-2040	86,995	10,742	97,737
Subtotal	**602,900**	**379,062**	**981,962**
Add:			
Unamortized Bond Premium - Net	10,299	-	10,299
Total	**$ 613,199**	**$ 379,062**	**$ 992,261**

Housing Finance Agency

The Housing Finance Agency (HFA) issues bonds primarily to finance the Agency's housing programs. Such bonds are collateralized by: (a) mortgage-backed securities in connection with underlying loans; (b) mortgage loans made on the related multi-family developments or single-family residential mortgage loans purchased; or (c) investments of bond proceeds, debt service reserves and escrow accounts, and all revenues, mortgage payments, and recovery payments received by the Agency from investments, mortgage loans, and mortgage-backed securities in connection with the related developments.

Bonds issued by HFA are special obligations of the Agency and are payable from the revenue and special funds of the applicable indentures. The bonds and notes do not constitute debt of and are not guaranteed by the District or any other program of the District. All mortgage revenue bonds for multifamily projects financed to date have been issued by the Agency as standalone pass-through financings with no direct economic recourse to the Agency as the issuer.

The provisions of the various bond indentures require or allow for the special redemption of bonds at par through the use of unexpended bond proceeds and excess funds accumulated primarily through prepayment of mortgage loans and mortgage-backed securities. All outstanding bonds are subject to redemption at the option of HFA or the borrower, in whole or in part at any time, after certain dates, as specified in the respective bond indentures and bond resolutions, at prescribed redemption prices. The redemption premiums can range up to 5.00%. Under the Multi-Family (Conduit Bond) Program, this option generally cannot be exercised until the bonds have been outstanding for ten years as provided in the various indentures. Term bonds are generally subject to redemption, without premium, from mandatory sinking fund payments.

<u>Bond Issuances in Fiscal Year 2016</u>

During fiscal years 2010 through 2016, HFA issued certain multifamily revenue bonds in a draw-down mode. Consequently, out of the total amount of bonds closed, only a portion may get drawn during any given reporting period.

For more information on HFA's long-term debt activity during fiscal year 2016, refer to the separately issued financial statements for that year. The contact information can be found in Note 1 on page 61.

Table N48 presents the debt service requirements to maturity for principal and interest for the Housing Finance Agency's outstanding bonds.

Table N48 – Housing Finance Agency Debt Service Requirements to Maturity

(Dollars in $000s)

Year Ending September 30	Principal	Interest	Total
2017	$ 68,808	$ 42,283	$ 111,091
2018	14,954	41,083	56,037
2019	64,492	39,998	104,490
2020	15,165	39,070	54,235
2021	15,895	38,361	54,256
2022-2026	96,554	180,013	276,567
2027-2031	114,919	157,829	272,748
2032-2036	186,200	121,072	307,272
2037-2041	113,024	93,485	206,509
2042-2046	177,582	70,140	247,722
2047-2051	198,901	22,513	221,414
2052-2056	72,306	1,480	73,786
Subtotal	**1,138,800**	**847,327**	**1,986,127**
Add:			
Unamortized Bond Premium - Net	2,121	-	2,121
Total	**$ 1,140,921**	**$ 847,327**	**$ 1,988,248**

NOTE 9. RETIREMENT PROGRAMS

A. DEFINED BENEFIT PENSION PLANS

District full-time employees receive pension benefits through the federally administered Civil Service Retirement System (CSRS), the Social Security System, or the District's Retirement Funds.

Civil Service Retirement System

Plan Description

The District contributes to the CSRS, a defined benefit, contributory retirement system, administered by the federal government's Office of Personnel Management (OPM). Permanent full-time District employees hired before October 1, 1987, except those covered by the District Retirement Funds, are covered by CSRS, which provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and their beneficiaries. In fiscal year 2016, there were 1,649 District employees who were covered by CSRS. The OPM issues a publicly available financial report that includes financial statements and required supplementary information for CSRS, which may be obtained at www.opm.gov.

Funding Policy

CSRS-covered employees contribute 7.00% of their base pay (annual salary) to CSRS and the District matches the contributions made by employees. Contribution requirements of those participating in the CSRS are established (and may be amended) by the OPM. The District contributed 100% of the required amount to the CSRS for each of the past three fiscal years. The District's CSRS contributions for the years ended September 30, 2016, 2015, and 2014, were $9,594, $10,240, and $11,030, respectively.

Social Security System

Plan Description

The District also contributes to the federal government's Social Security System, a program that provides benefits for retirement, disability, survivorship, and death, which is funded by dedicated payroll taxes. The Social Security Administration and the U.S. Departments of Health and Human Services, Labor, and the Treasury administer this program. The authority to establish and amend policy and benefit provisions rests with the President and Congress of the United States.

Funding Policy

Consistent with the Federal Insurance Contributions Act (FICA), a 6.20% Social Security tax is to be withheld from the gross salary/wages of District employees, up to but not exceeding the applicable social security wage base, which was $118,500 (not in thousands) for 2016, in addition to the District's matching contribution of 6.20% FICA taxes on behalf of the District employees. Moreover, the District also pays a 1.45% payroll tax for Medicare with an additional 1.45% being withheld from each employee's salary/wages as the employee's portion of the Medicare tax.

Beginning January 1, 2013, Additional Medicare Tax applies to an individual's Medicare wages that exceed a threshold amount based on the taxpayer's filing status. Employers, including the District, are responsible for withholding the 0.90% Additional Medicare Tax on an individual's wages paid in excess of $200,000 in a calendar year. An employer is required to begin withholding Additional Medicare Tax in the pay period in which wages paid to an employee in the calendar year exceed $200,000. There is no employer match for the Additional Medicare Tax.

District contributions to the Social Security System for FICA, for the years ended September 30, 2016, 2015 and 2014, were $89,350, $81,295, and $75,062, respectively. In addition, District contributions for Medicare for fiscal years 2016, 2015 and 2014 were $35,670, $32,470, and $30,007, respectively.

District Retirement Funds

General Information about the Pension Plans

Plan Description: The District of Columbia Retirement Board (DCRB or Board) administers the District Retirement Funds (D.C. Code §4-601, 11-1561, 31-120), which consist of two single-employer defined benefit pension plans, one established for the District's teachers (the District of Columbia Teachers' Retirement Fund or TRF), and the other for the District's police officers and firefighters (the District of Columbia Police Officers' and Firefighters' Retirement Fund or POFRF). Each plan provides retirement, death and disability benefits, and annual cost of living adjustments to plan members and beneficiaries. Title 38, Chapter 20 of the D.C. Code (D.C. Code § 38-2001, et seq. (2001 ed.)) assigns the authority to establish and amend benefit provisions to the Council of the District of Columbia (the Council) for the Teachers' Plan. Retirement and disability benefit provisions for police and firefighters are established by the Policemen and Firemen's Retirement and Disability Act (D.C. Code §5-701 et seq. (2001 ed.)).

DCRB issues a publicly available financial report which includes financial statements and required supplementary information for the plans. This report can be obtained from the Executive Director, District of Columbia Retirement Board, 900 7th Street, N.W., 2nd Floor, Washington, DC 20001 or online at:

http://dcrb.dc.gov.

Benefits provided:

- <u>The District of Columbia Teachers' Retirement Fund:</u>

  Permanent, temporary, part-time and probationary teachers and certain other employees of the District

NOTE 9. RETIREMENT PROGRAMS

of Columbia public day schools are automatically enrolled in the Teachers' Retirement Fund on their date of employment. Certain D.C. Public Charter School employees are also eligible to participate. D.C. Code § 38-2021.01 et seq. (2001 Ed.) establishes benefit provisions which may be amended by the Council. For employees hired before November 1, 1996, the annual retirement benefit is the average salary, as defined, multiplied by 1.50% for each of the first five years of service, plus 1.75% for each of the second five years; plus 2.00% for each additional year over 10 years. For employees hired on or after November 1, 1996, the annual retirement benefit is the average salary, as defined, multiplied by 2.00% for each year of service. The average salary is the highest average consecutive 36 months of pay.

The annuity may be further increased by crediting unused sick leave as of the date of retirement. Participants receiving retirement benefits receive an annual benefit increase proportional to changes in the Consumer Price Index; however, the annual increase may not exceed 3.00% for participants hired on or after November 1, 1996. Participants who have five years of school service and who become disabled and can no longer perform their jobs satisfactorily may be eligible for disability retirement. Voluntary retirement is available for teachers who have a minimum of five years of school service and who achieve certain age and length of service requirements. Employees who are involuntarily separated other than for cause and who have five years of school service, may be eligible for retirement at any age with 25 years of service or at age 50 with 20 years of service. An involuntary retirement benefit is reduced if at the time of its commencement the participant is under the age of 55.

- <u>The District of Columbia Police Officers' and Firefighters' Retirement Fund:</u>

A participant becomes a member when he/she begins work as a police officer or firefighter in the District. Retirement and disability benefit provisions for District of Columbia police officers and firefighters are established by the "Policemen and Firemen's Retirement and Disability Act" (D.C. Code § 5-701 et seq. (2001 Ed.)).

Members hired before February 15, 1980 are eligible for optional retirement with full benefits at any age with 20 years of departmental service, or for deferred retirement at age 55 with five years of departmental service. The annual basic retirement benefit equals 2.50% of average base pay, which is defined as the highest average consecutive 12 months of base pay, multiplied by departmental service through 20 years; plus 3.00% of average base pay multiplied by average base pay times departmental service over 20 years; plus 2.50% of average base pay multiplied by years of other creditable service; however, the aggregate annual basic retirement benefit may not exceed 80% of the member's average base pay. Members terminated after five years of police or fire service are entitled to a deferred pension beginning at age 55. Benefits are also provided to certain survivors of active, retired, or terminated vested members. Retirement benefits are increased by the same percentage in base pay granted to active participants. Members with a service-related disability receive a disability retirement benefit of 2.50% of average base pay multiplied by the number of years of creditable service. A minimum annual disability retirement benefit of 66.67% of average base pay and a maximum annual disability retirement benefit of 70% of average base pay apply. Members with a non-service related disability and at least five years of departmental service receive a disability retirement benefit of 2.00% of average base pay multiplied by the number of years of creditable service. A minimum annual disability retirement benefit of 40% of average base pay and a maximum annual disability retirement benefit of 70% of average base pay apply.

Members hired on or after February 15, 1980 and before November 10, 1996 are eligible for optional retirement with full benefits at age 50 with at least 25 years of departmental service, or after age 55 with five years of departmental service. The annual basic retirement benefit equals 2.50% of average base pay, which is defined as the highest average consecutive 36 months of base pay, multiplied by the number of years of creditable service through 25 years; plus 3.00% of average base pay multiplied by the number of years of departmental service over 25 years; plus 2.50% of average base pay multiplied by the number of years of other creditable service; however, the aggregate annual basic retirement benefit may not exceed 80% of the member's average base pay. Members separated from the Police or Fire Department after five years of departmental service are entitled to a deferred pension beginning at age 55. Benefits are also provided to certain survivors of active, retired or terminated vested members. Members who retired after February 15, 1980 receive annual benefit increases proportional to changes in the Consumer Price Index.

Members hired on or after November 10, 1996 are eligible for retirement at any age, with at least 25 years of departmental service or after age 55 with five years of departmental service. The annual basic retirement benefit equals 2.50% of average base pay, which is defined as the highest average consecutive 36 months of base pay, multiplied by creditable service; however, the aggregate annual basic retirement benefit may not exceed 80% of the average base pay. Members separated after five years of departmental service are entitled to

NOTE 9. RETIREMENT PROGRAMS

a deferred pension beginning at age 55. Benefits are also provided to certain survivors of active, retired, or terminated vested members. Members receive annual benefit increases proportional to changes in the Consumer Price Index; however, the increase is capped at 3.00%. Members with a service-related disability receive a disability retirement benefit of 70% of base pay multiplied by the percentage of disability. A minimum annual disability retirement benefit of 40% of base pay applies. Members with a non-service related disability and at least five years of departmental service receive a disability retirement benefit of 70% of base pay multiplied by the percentage of disability. A minimum annual disability retirement benefit of 30% of base pay applies.

Table N49a presents the number of plan members that were covered by the benefit terms as of September 30, 2016 and 2015.

Table N49a – District Retirement Funds' Plan Members Covered by Benefit Terms

TRF *	2016	2015
Inactive plan members (Retirees and survivors receiving benefits - post-June 30, 1997)	3,882	3,718
Active plan members	5,141	4,866
Vested terminations	1,176	1,152
Total	**10,199**	**9,736**

POFRF *	2016	2015
Inactive plan members (Retirees and survivors receiving benefits - post-June 30, 1997)	3,003	2,609
Active plan members	5,359	5,537
Vested terminations	293	319
Total	**8,655**	**8,465**

** Numbers not in thousands*

Contributions: The District is required to contribute the amounts necessary to finance the Plan benefits of its members through annual contributions at actuarially determined amounts in accordance with the provisions of the Replacement Act. The amount of the District contributions for fiscal years 2016 and 2015 were equal to the amounts computed, if any, by the District of Columbia Retirement Board's independent actuary. **Table N49b** presents required amounts contributed by the District to the District Retirement Funds for fiscal years 2016 and 2015. Plan members contribute by salary deductions at rates established by D.C. Code § 5-706 (2001 Ed.). Members contribute 7.00% (or 8.00% for Teachers, Police Officers and Firefighters hired on or after November 1, 1996 and November 10, 1996, respectively) of annual gross salary, including any differential for special assignment and longevity, but excluding overtime, holiday, or military pay. Contribution requirements of members are established by D.C. Code § 5-706 and requirements for District of Columbia government contributions to the Fund are established by D.C. Code § 1-907.02 (2001 Ed.), which may be amended by the Council.

Table N49b - District Contributions to the District Retirement Funds

	(in $000s)	
Fiscal Year Ended	**TRF**	**POFRF**
September 30, 2016	$ 44,469	$ 136,115
September 30, 2015	39,513	103,430

Net Pension Liability

The District's net pension liability was measured as of September 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of October 1, 2015. **Table N50** presents the aggregate amounts of the District Retirement Funds as of September 30, 2016.

Table N50 – District Retirement Funds' Aggregate Amounts

	(in $000s)	
Description	**TRF**	**POFRF**
Total pension liabilities	$ 2,064,138	$ 4,675,562
Pension net position	1,821,949	4,954,631
Deferred outflows of resources	111,765	289,826
Deferred inflows of resources	40,211	188,370
Pension expense	75,055	218,262
Net pension liabilities (Assets)	242,189	(279,069)

Actuarial Assumptions: The total pension liability was determined based on an actuarial valuation as of October 1, 2015, then updated using actuarial assumptions presented in **Table N51**, applied to all periods included in the measurement and rolled forward to the measurement date of September 30, 2016. **Table N51** presents the actuarial assumptions used to determine the total pension liability.

NOTE 9. RETIREMENT PROGRAMS

Table N51 – Summary of Actuarial Assumptions Used to Determine Total Pension Liability as of September 30, 2016

	TRF	POFRF
Inflation	3.50%	3.50%
Salary increases	4.45% - 8.25%, including wage inflation of 4.25%	4.25% - 9.25%, including wage inflation of 4.25%
Investment rate of return	6.50%, net of pension plan investment expense, and including inflation	6.50%, net of pension plan investment expense, and including inflation
Mortality	Pre-retirement and post-retirement mortality rates were based on the RP 2000 Combined Mortality Table projected to 2015 with Projection Scale AA set back three years for females. Post-disability mortality rates were based on the RP 2000 Disabled Mortality Table set back 1 year for males and set back 5 years for females.	Pre-retirement and post-retirement mortality rates were based on the RP 2000 Combined Mortality Table projected to 2015 with Projection Scale AA set forward 1 year for females.

The actuarial assumptions used in the October 1, 2015 valuation were based on the results of the most recent actuarial experience study for the period October 1, 2006 to September 30, 2010, dated November 7, 2011.

The long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. **Table N52** presents target allocation and best estimates of arithmetic real rates of return for each major asset class.

Table N52 – Summary of Target Allocation and Long-Term Expected Real Rate of Return by Asset Class (District Retirement Funds)

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	22.00%	5.10%
Foreign Equity (Developed)	20.00%	5.00%
Foreign Equity (Emerging)	8.00%	6.90%
Investment Grade Bonds	15.00%	0.20%
Treasury Inflation-Protected Securities (TIPS)	3.00%	1.40%
High Yield Bonds	3.00%	3.70%
Foreign Bonds (Developed)	2.00%	1.00%
Emerging Markets Debt (Local)	2.00%	3.50%
Real Estate	5.00%	4.60%
Infrastructure	2.00%	5.70%
Private Equity	8.00%	7.30%
Hedge Funds	10.00%	3.40%
Total	100.00%	

Discount Rate: The discount rate used to measure the total pension liability was 6.50%.The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that the District contributions will be made in accordance with

NOTE 9. RETIREMENT PROGRAMS

the Board's funding policy adopted in 2012. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Table N53 presents changes in the District's Net Pension Liability for the year ended September 30, 2016.

Table N53 – Changes in Net Pension Liability

Increase (Decrease) (in $000s)

	Teachers' Retirement Fund			Police Officers' and Firefighters' Retirement Fund		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a)-(b)	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a)-(b)
Balances at 9/30/2015	$ 1,950,811	$ 1,670,638	$ 280,173	$ 4,383,413	$ 4,461,998	$ (78,585)
Changes for the year						
Service Cost	61,599	-	61,599	198,020	-	198,020
Interest	124,370	-	124,370	282,285	-	282,285
Difference between expected and actual experience	2,656	-	2,656	(106,840)	-	(106,840)
Contributions - employer	-	44,469	(44,469)	-	136,115	(136,115)
Contributions - employees	-	33,591	(33,591)	-	32,785	(32,785)
Net Investment Income	-	152,262	(152,262)	-	415,157	(415,157)
Benefit payments including refunds of employee contributions	(75,298)	(75,298)	-	(81,316)	(81,316)	-
Administrative Expenses	-	(4,746)	4,746	-	(12,918)	12,918
Other Income	-	1,033	(1,033)	-	2,810	(2,810)
Net Changes	113,327	151,311	(37,984)	292,149	492,633	(200,484)
Balances at 9/30/2016	**$ 2,064,138**	**$ 1,821,949**	**$ 242,189**	**$ 4,675,562**	**$ 4,954,631**	**$ (279,069)**

Sensitivity of the Net Pension Liability (Asset) to Changes in the Discount Rate: **Table N54** presents the net pension liability (asset) of the Plans, for TRF and POFRF, respectively, calculated using the discount rate of 6.50%, as well as the Plans' net pension liability (asset), calculated using a discount rate that is 1-percentage point lower (5.50%) or 1-percentage point higher (7.50%) than the current rate.

Table N54 – Sensitivity of Net Pension Liability (Asset) to Changes in the Discount Rate

(in $000s)

	1% Decrease (5.50%)	Current Discount Rate (6.50%)	1% Increase (7.50%)
Teachers' Plan's Net Pension Liability (Asset)	$ 571,400	$ 242,189	$ (36,976)
Police Officers' and Firefighters' Plan's Net Pension Liability (Asset)	$ 532,621	$ (279,069)	$ (943,216)

Pension Plans' Fiduciary Net Position: Detailed information about the Plans' fiduciary net position is available in the separately issued District Retirement Funds financial statements and required supplementary information issued by the District of Columbia Retirement Board.

Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions: For the year ended September 30, 2016, the District recognized pension expense of $75,055 and $218,262 for TRF and POFRF, respectively. **Table N55** presents deferred outflows of resources and deferred inflows of resources related to pensions as of September 30, 2016.

NOTE 9. RETIREMENT PROGRAMS

Table N55 – District Retirement Funds' Deferred Outflows of Resources and Deferred Inflows of Resources

(in $000s)

	TRF		POFRF	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 1,524	$ 3,220	$ -	$ 85,891
Changes of assumptions	-	-	-	-
Net difference between projected and actual earnings on plan investments	110,241	36,991	289,826	102,479
Total	**$ 111,765**	**$ 40,211**	**$ 289,826**	**$ 188,370**

Table N56 presents deferred outflows of resources and deferred inflows of resources that will be recognized in pension expenses in future periods.

Table N56 – Schedule of Amortization of Deferred Inflows and Deferred Outflows of Resources (District Retirement Funds)

(in $000s)

Year Ending September 30:	TRF	POFRF
2017	$ 26,619	$ 47,884
2018	26,684	47,884
2019	27,499	47,884
2020	(9,248)	(41,650)
2021	-	(322)
2022	-	(224)

Payable to the Pension Plans

The District's contributions for fiscal years 2016, 2015, and 2014 were equal to the fund's independent actuary's recommendation; therefore, there were no outstanding amounts due to the plans as of September 30, 2016.

B. DEFINED CONTRIBUTION PENSION PLAN

Plan Description

Under the provisions of D C. Code §1-627, the District sponsors a defined contribution pension plan with a qualified trust under Internal Revenue Code (IRC) Section 401(a) for permanent full-time employees covered under the Social Security System. In fiscal year 2016, there were 17,222 employees participating in the Section 401(a) plan. New hires do not contribute to the plan and are eligible to participate after one year of service.

The District contributes 5.00% of base salaries for eligible employees each pay period. This contribution rate is 5.50% of base salaries for detention officers. Contributions and earnings vest incrementally beginning after two years of service, including a one-year waiting period, and vest fully after five years of service including the one-year waiting period. Contributions and earnings are forfeited for the period of service during which the employee does not achieve incremental vesting, if separation occurs before five years of credited service. These contributions are not considered assets of the District, and the District has no further liability to this plan.

For the fiscal years ended September 30, 2016, 2015, and 2014, District contributions to the plan were $60,382, $54,174, and $50,274, respectively.

This plan also covers employees of the D.C. Housing Authority and the Health Benefit Exchange Authority, while the employees of the Housing Finance Agency, Washington Convention and Sports Authority, the University of the District of Columbia, and the Not-for-Profit Hospital Corporation are covered under separate defined contribution plans.

NOTE 9. RETIREMENT PROGRAMS

C. DEFERRED COMPENSATION PLANS

Internal Revenue Code Section 403(b) Plan

The District sponsors an annuity purchase plan (D.C. Code §31-1252) with insurance companies and other issuers in accordance with IRC Section 403(b) for public teachers covered by the District Retirement Program. The District does not contribute to this plan and has no liability to the plan. Under this annuity purchase plan, eligible employees were able to defer up to $18 (thousand) of their annual compensation for calendar year 2016. Employees with 15 years of service or more were able to defer an additional amount, not to exceed the lesser of: (a) $3 (thousand) in additional contributions; (b) $15 (thousand) reduced by amounts contributed under this special provision in prior years; or (c) $5 (thousand) times the number of years of service less the total elective deferrals from previous years. In addition, employees who were 50 years old or older by the end of the plan year were able to defer an additional amount as a catch up contribution. The maximum amount for such catch up contributions was $6 (thousand) in 2016. District employees contributed $20,226 to this annuity plan in fiscal year 2016. Contributions vest immediately and are not assets of the District.

Internal Revenue Code Section 457 Plan

The District offers its employees a deferred compensation plan (D.C. Code §47-3601) created in accordance with IRC Section 457. Employees, including teachers, were able to defer the lesser of $18 (thousand) or 100% of includable compensation in calendar year 2016. A special catch-up provision is also available to participants that allows them to "make up" or "catch up" for prior years in which they did not contribute the maximum amount to the plan. The "catch up" limit is the lesser of: (a) twice the annual contribution limit, $36 (thousand); or (b) the annual contribution limit for the year plus underutilized amounts from prior taxable years. An additional deferral of $6 (thousand) is available to participants who are at least 50 years old before the end of the calendar year.

Compensation deferred and income earned are taxable when paid, or made available to the participant or beneficiary, upon retirement, death, termination, or unforeseeable emergency. As of September 30, 2016, there were 11,679 employees participating in the Section 457 plan. District employees contributed $54,356 to this plan in fiscal year 2016. Contributions are not assets of the District, and the District has no further liability to the plan.

NOTE 10. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Other Postemployment Benefits (OPEB)

Information on the District's Postretirement Health and Life Insurance Benefit Plan is provided below.

a) ***Plan Description:*** The District of Columbia Postretirement Health and Life Insurance Benefit Plan (the Plan) is a single-employer defined benefit healthcare and life insurance plan administered jointly by the Department of Human Resources and the Office of Finance and Treasury. The Plan is administered as an irrevocable trust through which assets are accumulated and benefits are paid as they become due in accordance with the substantive plan. All employees hired after September 30, 1987, and employees who retire under the Teachers Retirement Plan and Police and Firefighters Retirement Plan or who are eligible for retirement benefits under the Social Security Act, are eligible to participate in the Plan. The Plan provides medical care and life insurance benefits to eligible employees. D.C. Code §1-621.09 authorizes the Mayor to determine the amount of District contribution for enrollments before the beginning of each contract period. In addition, the Mayor may propose amendments to establish and/or revise benefit provisions and the Council may elect to pass the appropriate legislation. The Plan's administrators issue a publicly available financial report that includes financial statements and required supplementary information for the Plan. This report may be obtained from the following location:

   Office of Finance and Treasury
   D.C. Treasurer
   1101 4th Street, S.W., Suite 850
   Washington, DC 20024

   State Street serves as the Master Custodian for the OPEB Fund and as an independent source, provides information on investment transactions, thereby confirming or disputing information provided by the Plan's investment managers.

b) ***Summary of Significant Accounting Policies:*** The Plan's financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. District contributions to the plan are recognized when due and the District has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan. The Plan's administrative costs are paid by the District. Investments are reported at fair value in accordance with GASB Statement No. 72, *Fair Value Measurement and Application*.

c) ***Funding Policy:*** The contribution requirements of plan members and the District are established by the Mayor and the Council of the District of Columbia. The Mayor and Council may also amend contribution requirements. The actuarial valuation of the plan's assets and liabilities using GASB Statement No. 43 parameters was performed in fiscal year 2014, and the District pays contributions based on an actuarially determined valuation using the parameters of GASB Statement No.45 in fiscal year 2015, as presented in the Schedule of Employer Contributions.

   For fiscal year 2016, the District contributed $29 million to the plan and retiree (participant) contributions totaled $430,587 (not in thousands).

   Cost sharing arrangements for annuitants vary depending on whether the employee was a General Employee, Teacher, Police Officer or Firefighter. For General Employees and Teachers, annuitants with at least 10 years of creditable District service but less than 30 years of creditable District service pay a percentage of their health insurance premiums and the District pays the remainder. The percentage paid by the annuitant is 75%, reduced by an additional 2.50% for each year of creditable service over 10 years up to a maximum of 20 such additional years. Thus, the District's contribution shall not exceed 75% of the cost of the selected health benefit plan. For annuitants with 30 or more years of creditable District service, the District pays 75% of the cost of the selected health benefit plan and the annuitant pays 25% of the cost of the selected health benefit plan.

   Covered family members of General Employee and Teacher annuitants with at least 10 years of creditable District service but less than 30 years of creditable District service pay a percentage of their health insurance premiums and the District pays the remainder. The percentage paid by the covered family member is 80%, reduced by an additional 1.00% for each year of creditable District service over 10 years up to a maximum of 20 such additional years. Thus, the District's contribution shall not exceed 40% of the cost of the selected health benefit plan for covered family members of an annuitant with 30 or more years of creditable District service and the family members of an annuitant with 30 or more years of creditable District service pays up to 60% of the cost of the selected health

NOTE 10. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

benefit plan.

For Police Officers and Firefighters, annuitants with at least 10 years of creditable District service but less than 25 years of creditable District service pay a percentage of their health insurance premiums and the District pays the remainder. The percentage paid by the annuitant is 70%, reduced by an additional 3.00% for each year of creditable service over 10 years up to a maximum of 15 such additional years. Thus, the District's contribution shall not exceed 75% of the cost of the selected health benefit plan. For annuitants with 25 or more years of creditable District service or Police Officers or Firefighters annuitants who are injured in the line of duty, the District pays 75% of cost of the selected health benefit plan and the annuitant pays 25% of the cost of the selected health benefit plan. Special rules apply for Police and Firefighters who were hired before November 10, 1996.

Covered family members of Police Officers and Firefighter annuitants with at least 10 years of creditable District service but less than 25 years of creditable District service pay a percentage of their health insurance premiums and the District pays the remainder. The percentage paid by the covered family members is 75%, reduced by an additional 3.00% for each year of creditable District service over 10 years. However, the portion paid by the covered family member is never less than 40%, and the District's contribution shall not exceed 60% of the cost of the selected health benefit plan; Covered family members of police officers or firefighters who were hired before November 10,1996 pay 40% of the cost of the selected health benefit plan.

The participant pays $.0455 per $1,000 ($1 thousand) of life insurance coverage until age 65 for the 75% reduction option, with no contributions required thereafter. Participants can also elect a 50% or 0% reduction of life insurance benefits, which require additional contributions.

d) ***Annual OPEB Cost and Net OPEB Obligation:*** The District's annual OPEB cost (expense) is calculated based on the District's annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

Table N57 presents the actuarial assumptions used in determining the District's annual required contribution. **Table N58** presents the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District's net OPEB obligation to the plan.

Table N57 – Actuarial Assumptions Used in Developing Annual Required Contribution to OPEB Plan

Valuation Date	September 30, 2015 (projected from September 30, 2014 census)
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percent of pay, closed
Remaining Amortization Period	20 years beginning with fiscal year end 2016
Asset Valuation Method	Market Value
Actuarial Assumptions:	
Investment Rate of Return	6.50%
Discount Rate	6.50%
Rate of Salary Increases	3.50% (plus merit scale)
Rate of Medical Inflation	7.20% (grading down to 3.90% in 2040, using the SOA Getzen Medical Trend Model)

NOTE 10. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Table N58 – Annual OPEB Cost, Actual Plan Contributions, and Changes in Net OPEB Obligations

	FY 2016 (in $000s)	FY 2015 (in $000s)	FY 2014 (in $000s)
Annual required contribution	$ 29,000	$ 91,400	$ 86,600
Interest on net OPEB obligation	700	700	700
Adjustment to annual required contribution	(10,706)	(700)	(600)
Annual OPEB cost (expense)	18,994	91,400	86,700
Contributions made	29,000	91,400	86,600
Change in net OPEB obligation	10,006	-	(100)
Net OPEB obligation – beginning of year	(10,006)	(10,006)	(9,906)
Net OPEB obligation – end of year*	**$ -**	**$ (10,006)**	**$ (10,006)**

** No net OPEB obligations in FY 2016 because OPEB is overfunded per the actuarial report*

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2016 and the two preceding years are shown in **Table N59**.

Table N59 - Annual OPEB Cost, Percentage of Annual OPEB Cost Contributed, Net OPEB Obligation (Fiscal Years 2014 through 2016)

Fiscal Year Ended	Annual OPEB Cost (millions)	% Of Annual OPEB Cost Contributed	Net OPEB Obligation (millions)*
09/30/16	$ 19.00	100%	$ -
09/30/15	91.40	100%	(10.00)
09/30/14	86.70	99.90%	(10.00)

** No net OPEB obligations in FY 2016 because OPEB is overfunded per the actuarial report*

e) ***Funded Status and Funding Progress:*** Using the most recent (September 30, 2015) actuarial valuation results, the September 30, 2015 estimated actuarial liability is $1,001,200 and the actuarial value of plan assets is $1,202,400 resulting in an estimated funding excess of $201,200. The estimated covered payroll is $1,607,220 and the ratio of the excess funding to covered payroll is 12.52%. The Plan is 120.10% funded.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare cost trends. Amounts determined regarding the funded status of the Plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

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

The Entry Age Normal Actuarial cost method was used to prepare the September 30, 2015, actuarial valuation. The actuarial assumptions included a 6.50% investment rate of return, a discount rate of 6.50%, a 3.50% salary increase and a medical trend rate ranging between 7.20% grading to 3.90% over 25 years. Fixed dollar amounts in the health care benefits (deductibles, co-pays, benefit maximums, etc.) are assumed to increase periodically to keep pace with the medical trend. The amortization method applied was the Level Percent of Pay, Closed Method. The remaining amortization period as of September 30, 2016, was 20 years and the asset valuation method used was Market Value.

The actual performance of the Fund's investments was favorable in comparison to the projected rate of return of 6.50% used in the actuarial valuation. The Fund as a whole had a positive rate of return of 9.20% with net investment income of $101,796 during fiscal year 2016.

NOTE 11. FUND BALANCE/NET POSITION

Fund balances as of September 30, 2016, are shown in **Table N60a**.

Table N60a – Schedule of FY 2016 Fund Balance

(Dollars in $000s)

	General Fund	Federal & Private Resources	Housing Production Trust	General Capital Improvements	Nonmajor Governmental Funds	Total Governmental Funds
Fund Balances:						
Nonspendable						
Inventory	$ 11,631	$ 2	$ -	$ -	$ -	$ 11,633
Total Nonspendable Fund Balance	11,631	2	-	-	-	11,633
Restricted for:						
Emergency and Contingency Cash Reserves	387,065	-	-	-	-	387,065
Debt Service - Bond Escrow	498,030	-	-	-	-	498,030
Budget	21,664	-	-	-	-	21,664
Purpose Restrictions	95,774	160,140	-	-	-	255,914
Payment-in-Lieu of Taxes	-	-	-	-	92,206	92,206
Tobacco Settlement	-	-	-	-	83,153	83,153
Tax Increment Financing Program	28,362	-	-	-	52,647	81,009
Housing Production Trust	-	-	250,311	-	-	250,311
Highway Projects	-	-	-	-	68,324	68,324
Baseball Special Revenue	-	-	-	-	47,248	47,248
Total Restricted Fund Balance	1,030,895	160,140	250,311	-	343,578	1,784,924
Committed to:						
Fiscal Stabilization Reserve	185,763	-	-	-	-	185,763
Cash Flow Reserve	592,346	-	-	-	-	592,346
Budget Support Act	25,361	-	-	-	-	25,361
Commodities Cost Reserve	5,000	-	-	-	-	5,000
Soccer Stadium	8,077	-	-	-	-	8,077
Dedicated Taxes	29,352	-	-	-	-	29,352
WMATA Operations Fund	21,700	-	-	-	-	21,700
Subsequent Years Expenditures	201,974	-	-	-	-	201,974
Other Special Purposes	256,322	-	-	-	-	256,322
Total Committed Fund Balance	1,325,895	-	-	-	-	1,325,895
Assigned to:						
Contractual Obligations	4,668	-	-	-	-	4,668
Subsequent Years' Expenditures	16,000	-	-	-	-	16,000
Total Assigned Fund Balance	20,668	-	-	-	-	20,668
Unassigned	-	-	-	(228,870)	-	(228,870)
Total Fund Balance	**$ 2,389,089**	**$ 160,142**	**$ 250,311**	**$ (228,870)**	**$ 343,578**	**$ 2,914,250**

NOTE 11. FUND BALANCE/NET POSITION

The net position of the proprietary and fiduciary funds as of September 30, 2016, is shown in **Table N60b**.

Table N60b – Schedule of FY 2016 Net Position, Proprietary and Fiduciary Funds

(Dollars in $000s)

Net Position	Lottery & Games	Unemployment Compensation Fund	Fiduciary Funds
Invested in capital assets	$ 330	$ -	$ -
Restricted	-	364,237	8,433,285
Unrestricted	4,184	-	-
Total Net Position	**$ 4,514**	**$ 364,237**	**$ 8,433,285**

NOTE 12. JOINT VENTURE AND TRANSACTIONS WITH COMPONENT UNITS

A. WASHINGTON METROPOLITAN AREA TRANSIT AUTHORITY

The Washington Metropolitan Area Transit Authority (WMATA) was created by an Interstate Compact between Maryland, Virginia and the District of Columbia, pursuant to Public Law 89-774. The District's commitment or obligation to provide financial assistance to WMATA is established by annual appropriations, as approved by Congress. The District supports WMATA through operating, debt service, and capital grants. The District places the amounts to be provided to WMATA in an escrow account until such time when the funds are drawn down for use by WMATA. Operating grants may be in the form of operating and interest subsidies. WMATA records the District's operating grants as advanced contributions when received and as non-operating revenues when the related expenses are incurred. WMATA recognizes the District's capital grants as additions to construction in progress and investment in capital assets when the grant resources are expended for capital acquisitions. A summary of the grants provided to WMATA during the year ended September 30, 2016, is shown in **Table N61a.**

Table N61a – Summary of Grants Provided to WMATA

	(Dollars in $000s)	
Type	Local	Capital
Operating grants	$ 340,525	$ -
School Transit Subsidy	18,572	-
Capital grants	-	131,091
Total	**$ 359,097**	**$ 131,091**

WMATA issues separate audited financial statements which can be requested from the General Manager, Washington Metropolitan Area Transit Authority, 600 5th Street, N.W., Washington, DC 20001. **Table N61b** presents information that allows financial statement users to assess whether WMATA is accumulating significant financial resources or experiencing fiscal stress that may cause additional financial benefits or burden to the District and other participating governments.

Table N61b – Summary of Financial Statements for WMATA as of and for the Year Ended June 30, 2016

Financial Position (in $000s)	
Total assets	$ 13,685,266
Total deferred outflows of resources	299,649
Total liabilities	(3,252,263)
Total deferred inflows of resources	(207,583)
Net position	**$ 10,525,069**
Operating Results (in $000s)	
Operating revenues	$ 859,165
Operating expenses	(2,629,099)
Nonoperating revenues, net	921,733
Revenue from capital contributions	1,153,762
Change in net position	**$ 305,561**
Change in Net Position (in $000s)	
Net position, beginning of year	$ 10,219,508
Change in net position	305,561
Net position, end of year	**$ 10,525,069**

B. SIGNIFICANT TRANSACTIONS WITH COMPONENT UNITS

During fiscal year 2016, the most significant transactions between the District and its component units were in the form of subsidies. The amount of subsidies, including capital contributions paid by the District to its component units were as follows: Washington Convention and Sports Authority, $123,551; Not-for-Profit-Hospital Corporation, $30,113; and the University of the District of Columbia, $87,299. The District did not provide subsidies to the Health Benefit Exchange Authority and the Housing Finance Agency.

NOTE 13. TRANSACTIONS WITH THE FEDERAL GOVERNMENT

A. FEDERAL CONTRIBUTIONS

In accordance with the National Capital Revitalization and Self-Government Improvement Act of 1997 (Public Law 105-33), the annual federal payment was repealed and replaced by a federal contribution to cover special purpose and other unusual costs imposed on the District by the federal government. Federal contributions to the District for the year ended September 30, 2016, totaled $521,828, comprised of $460,928 in on-behalf payments to the DC Federal Pension fund and $60,900 as contribution to cover costs imposed by the Federal Government.

B. EMERGENCY PREPAREDNESS

The District, as the nation's capital, serves as the command post and the source of first response to any national threat or terrorist act against the nation. As of September 2016, the District received $155,900 in federal funding for emergency preparedness. This funding was provided by the federal government to assist the District in preparing for response to potential terrorist threats or other attacks. Since 2002, the District had expended a total of $152,262 or 98% of the federal funding received for purposes of emergency preparedness. The District did not expend any additional amounts of federal funding for such purposes during fiscal year 2016.

C. 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. SNAP expenditures totaled $209,952 and $223,987 in fiscal years 2016 and 2015, respectively.

D. GRANTS

In addition to SNAP, the District participates in a number of programs which are funded by the federal government through formula and project grants, direct and guaranteed loans, direct payments for specified and unrestricted use, and other pass-through grants.

The federal government also provides capital grants, which are used for the purchase or construction of capital assets. Federal grants and contributions are shown by function on the government-wide financial statements.

NOTE 14. LEASES

A. CAPITAL LEASES

The District leases buildings and equipment under various agreements that are accounted for as capital leases with varying terms. Capital lease commitments are recorded in the government-wide financial statements.

Capital lease payments are classified as debt service expenditures in the governmental funds. Such expenditures totaled $3,268 in fiscal year 2016.

B. OPERATING LEASES

Operating leases are not recorded in the statement of net position. These leases contain various renewal options, the effects of which are reflected in the minimum lease payments only if the options will be exercised. Certain other operating leases contain escalation clauses and contingent rentals that are not included in the calculation of the future minimum lease payments. Operating lease expenditures recorded in governmental funds totaled $139,501 in fiscal year 2016.

C. SCHEDULE OF FUTURE MINIMUM LEASE COMMITMENTS

Table N62 shows the present value of future minimum lease payments under capital leases and minimum lease payments for all operating leases having non-cancelable terms in excess of one year as of September 30, 2016.

Table N62 – Schedule of Future Minimum Lease Commitments

(Dollars in $000s)

	Primary Government		
	Capital	Operating Leases	
Year Ending September 30	**Leases**	**Facilities**	**Equipment**
2017	$ 1,874	$ 88,470	$ 4,672
2018	-	89,437	3,188
2019	-	81,969	3,002
2020	-	74,943	476
2021	-	63,219	70
2022-2026	-	233,149	-
2027-2031	-	46,723	-
2032-2036	-	10,135	-
2037-2041	-	864	-
2042-2046	-	1,002	-
2047-2049	-	715	-
Minimum lease payments	**1,874**	**$ 690,626**	**$ 11,408**
Less - imputed interest	(37)		.
Present value of payments	**$ 1,837**		

NOTE 15. COMMITMENTS AND CONTINGENCIES

A. RISK MANAGEMENT

The District is exposed to various risks of loss related to: torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District retains the risk of losses and pays all claim settlements and judgments from its general fund resources and reports all of its risk management activities as governmental activities in the government-wide financial statements. Claim expenditures and liabilities are reported in the government-wide financial statements when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated, and reported in the general fund when due and payable. These losses include an estimate of claims that have been incurred but not reported.

B. GRANTS AND CONTRACTS

The District has received federal grants for specific purposes that are subject to review and audit by the grantor agencies. Claims against these resources are generally conditional upon compliance with the terms and conditions of grant agreements and applicable federal regulations, including the expenditure of resources for allowable purposes. Any disallowance resulting from an audit may become a liability of the District. The audits of these federally assisted programs have not been conducted for the year ended September 30, 2016. As such, the District's compliance with applicable grant and federal requirements will be assessed and established at some future date. Based on prior experience and resolutions reached with grantor agencies, the District determined that as of September 30, 2016, probable cumulative expenditures that may be disallowed by grantor agencies totaled $15,189. Accordingly, an accrual for such expenditures has been recorded in the government-wide financial statements.

C. CONTINGENCIES RELATED TO DERIVATIVE INSTRUMENTS

All of the District's derivative instruments, except the rate cap, include provisions that require the District to post collateral in the event its credit rating falls below AA as issued by Fitch Ratings and Standard and Poor's or Aa as issued by Moody's Investors Service. The collateral posted is to be in the form of U.S. treasury securities in the amount of the fair value of hedging derivative instruments in liability positions net of the effect of applicable netting arrangements. If the District does not post collateral, the hedging derivative instrument may be terminated by the counterparty. As of September 30, 2016, the aggregate fair value of all hedging derivative instruments with these collateral posting provisions was ($51,806) as indicated in **Table N8**. The District's general obligation credit rating is AA/Aa1/AA; therefore, no collateral had been posted as of September 30, 2016.

D. LITIGATION

The District is named as a party in legal proceedings and investigations that occur in the normal course of governmental operations. Although the ultimate outcome of these legal proceedings and investigations is unknown, the District is vigorously defending its position in each case. All amounts in connection with lawsuits in which a loss is probable have been included in the liability for claims and judgments as of September 30, 2016.

The accrued liability is based on estimates of the payments that will be made upon judgment or resolution of the claim. This accrued amount is the minimum amount in the range of estimates that have the same probability of occurrence. The sum of the amount in excess of the minimum range of probable losses and the amount of the minimum range of losses that are reasonably possible which are not accrued is estimated to be $55,358.

In fiscal year 2016, there was a $24,954 net increase in the accrual related to pending or unresolved property tax appeals made by District property owners.

A summary of the changes in the accrued liability for claims and judgments reported in the government-wide financial statements is shown in **Table N63.**

Table N63 - Summary of Changes in Claims and Judgments Accrual

Description	(Dollars in $000s) Fiscal Year 2016	Fiscal Year 2015
Liability at October 1	**$ 201,309**	**$ 159,192**
Add: Claims incurred		
Lawsuits	55,300	80,565
Property tax appeals	34,747	33,175
Less: Claims payments/ adjustments		
Lawsuits	(135,589)	(23,258)
Property tax appeals	(9,793)	(48,365)
Liability at September 30	**$ 145,974**	**$ 201,309**

E. DISABILITY COMPENSATION

The District, through its Office of Risk Management, administers a disability compensation program under Title XXIII of the District of Columbia Compensation Merit Personnel Act of 1978 (CMPA). This program, which covers all District employees hired under the authority of CMPA, provides compensation for lost wages, medical expenses, and other limited rehabilitation expenses to eligible employees and/ or their dependents, where a work-related injury or illness results in disability or death. The benefits are funded on a pay-as-you-go basis. The present value of projected disability compensation, using a discount

NOTE 15. COMMITMENTS AND CONTINGENCIES

rate of 1.75%, is accrued in the government-wide financial statements.

A summary of changes in this accrual is shown in **Table N64**.

Table N64 – Summary of Changes in Disability Compensation Accrual

Description	Fiscal Year 2016 (Dollars in $000s)	Fiscal Year 2015 (Dollars in $000s)
Liability at October 1	**$ 127,537**	**$ 129,001**
Claims incurred/adjustments	20,130	20,389
Less-benefit payments	(17,229)	(21,853)
Liability at September 30	**$ 130,438**	**$ 127,537**

NOTE 16. SUBSEQUENT EVENTS

A. GENERAL OBLIGATION BONDS

In December 2016, the District issued $398,910 in General Obligation Bonds, Series 2016D and $190,635 in General Obligation Refunding Bonds, Series 2016E. These Bonds are general obligations of the District and as such, the full faith and credit of the District is pledged to the payment of principal and interest on the Bonds when due. The Bonds are further secured by a security interest in the revenue derived from a special real property tax levied annually by the District, without limitation as to rate or amount, in amounts sufficient to pay the principal of and interest on the Bonds and any other outstanding general obligation parity bonds when due.

The proceeds of the Series 2016D Bonds will be used to: (1) finance capital project expenditures under the District's capital improvements plan, and (2) pay the costs and expenses of issuing and delivering the Series 2016D Bonds. The proceeds of the Series 2016E Bonds will be used to: (1) advance refund a portion of the District's outstanding General Obligation Bonds, Series 2007C and (2) pay the costs and expenses of issuing and delivering the Series 2016E Bonds. The assumed interest rate pertaining to the Series 2016D is 3.00% at the first maturity date of June 1, 2019, then 5.00% to the end of the bond term. The interest rate related to the Series 2016E Bonds is 5.00%.

B. GENERAL OBLIGATION DIRECT PURCHASE BONDS

On November 18, 2016, the District issued $190,145 in Multimodal General Obligation Refunding Bonds, Series 2016B and $224,315 in Series 2016C. The Series 2016B Bonds were issued to currently refund the Multimodal General Obligation Bonds, Series 2014A and the Income Tax Secured Revenue Bonds (SIFMA Notes), Series 2015A. The Series 2016C Bonds were issued to currently refund the Multimodal General Obligation Refunding Bond, Series 2014B. The Series 2016B and 2016C Multimodal General Obligation refunding Bonds were issued in the LIBOR Index Mode as authorized under the Ninth Supplemental Indenture by and between the District of Columbia and Wells Fargo Bank, N.A. as trustee dated as of November 1, 2016. The interest on the bonds is payable monthly on the first business day of each month, commencing December 1, 2016.

The Series 2016B and 2016C Bonds were purchased by Bank of America, N.A and the Final Initial Index Rate Mandatory Repurchase Date is November 12, 2021 for both Series of bonds. **Table N65** provides an overview of each direct purchase obligation refunding(s).

Table N65 - Overview of Direct Purchase Obligation Refunding(s)

Series	Par Outstanding	Final Maturity	Reset Mode/ Payment Frequency	Direct Purchase Bank	Direct Purchase Agreement Date	Direct Purchase Expiration Date
2016B	$ 190,145	06/01/2039	LIBOR Reset/ Monthly Pay	Bank of America, N.A.	11/18/2016	11/12/2021
2016C	224,315	06/01/2039	LIBOR Reset/ Monthly Pay	Bank of America, N.A.	11/18/2016	11/12/2021
Total	**$ 414,460**					

C. COMPONENT UNITS

District of Columbia Housing Finance Agency

Subsequent to the end of fiscal year 2016, the following events occurred at the District of Columbia Housing Finance Agency (DCHFA):

McKinney Act Loan Program:

- On October 27, 2016, $1,000 of the District of Columbia Housing Finance Agency McKinney Act Loan for Deanwood Hills were redeemed through prepayments.
- On October 27, 2016, $16,830 of District of Columbia Housing Finance Agency Multifamily Revenue Bonds, Series 2016 were issued in a draw down mode to finance the Deanwood Hills Apartments Project.

Multifamily (Conduit Bond) Program:

- Between October 1, 2016 and December 22, 2016, $26,052 in multifamily mortgage revenue bonds were issued through draws on the draw down bonds.

Multifamily New Issuance Bond Program Redemptions and Maturities:

- Between October 1, 2016 and December 22, 2016, $130 in Multifamily NIBP mortgage revenue bonds were redeemed.

NOTE 16. SUBSEQUENT EVENTS

Multifamily (Conduit Bond) Program, Redemptions and Maturities:

- Between October 1, 2016 and December 22, 2016, $28,016 in multifamily mortgage revenue bonds were redeemed or matured.