NOTES TO THE BASIC FINANCIAL STATEMENTS

September 30, 2017

(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 Home Rule Act. 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

Primary Government

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.

Discretely Presented Component Units

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. 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 four discretely presented component units in its reporting entity: Health Benefit Exchange Authority, Housing Finance Agency, 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 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.)
- **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.

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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
https://www.dchfa.org

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

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

Blended Component Units

Entities which meet any one of the following characteristics, in addition to the criteria for inclusion as a component unit described above, are 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.
- The organization is a not-for-profit corporation, in which the District is the sole corporate member.

District of Columbia Tobacco Settlement Financing Corporation

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.

Not-for-Profit Hospital Corporation

The Not-for-Profit Hospital Corporation (d/b/a United Medical Center), also referred to as "Corporation" or "hospital" was established pursuant to the Not-for-Profit Hospital Corporation Establishment Emergency Amendment Act of 2010, effective July 7, 2010 (D.C. Act 18-476; 57 DCR 6937) to provide community-centered health care east of the Anacostia River. The District of Columbia government is the sole owner of the Not-for-Profit Hospital Corporation; therefore, the District has assumed the obligation to provide financial support to the Corporation to help sustain the hospital's operations, creating a financial benefit/burden relationship between the District and the Corporation. 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. In January 2016, the Governmental Accounting Standard Board (GASB) issued Statement No. 80, *Blending Requirements for Certain Component Units—an amendment of GASB Statement No. 14*, which establishes an additional criterion requiring blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The Not-for-Profit Hospital Corporation is a blended component unit pursuant to GASB Statement No. 80 because: (a) it is organized as a not-for-profit corporation and (b) the District is its sole owner. For this reason, the comparative summary information was restated as shown in Note 1Y on page 77.

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Audited financial statements of each blended component unit are available at the following locations:

District of Columbia Tobacco Settlement Financing Corporation
Office of the Chief Financial Officer
Office of Finance and Treasury
1101 4th Street, S.W., Suite 800
Washington, DC 20024

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

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, because the Mayor, with the consent and advice of the Council, appoints a majority of the voting members of these organizations' governing boards. However, the District's accountability for these organizations does not extend beyond these appointments.

Joint Venture

A joint venture is a legal entity or other organization that results from a contractual arrangement and 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 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 13 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 forfeits; 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

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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.

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. Subsidies from the General Fund and dedicated local tax revenues, such as deed transfers and recordations, are the main sources of revenue for the Housing Production Trust Fund. This 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) Payment in Lieu of Taxes (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 three 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 Office of Lottery and Charitable Games.
- *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 established 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.
- *Not-for-Profit Hospital Corporation* – used to account for revenues from inpatient, outpatient, psychiatric, skilled nursing, and emergency care services for residents of the District, expenses and capital outlays. It is a separate legal entity blended with the proprietary funds of the primary government for financial reporting purposes.

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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 account for refundable deposits required of various licensees and monies held in escrow as an agent for individuals, private organizations or other governments. Those resources which are held by the District in a purely custodial capacity 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, 2016, from which such summarized information was derived.

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 expense 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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Proprietary Funds, Pension and Other Postemployment Benefits (OPEB) Trust Funds, Private Purpose Trust Fund, 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 property the values of which were assessed as of the preceding January 1. Taxes levied are due and collectible in two equal installments on March 31 and September 15. After these dates, the tax bills become 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, 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 Reporting Temporary Act of 2011, effective February 24, 2012 (D.C. Law 19-91; 58 DCR 11209), 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), 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 forfeits 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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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. Congress then actively approves 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 Local Budget Act and Federal Portion Budget Request Act ("appropriations acts") comprise the District's appropriation authority after approval by Congress, and authorize District government expenditures at the function level or by appropriation title, such as Public Safety and Justice, Human Support Services, or Public Education System. In general, after approval by Congress of the District's appropriation, 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 § 47-396.02, 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.

Pursuant to Section 446 of the Home Rule Act (D.C. Code § 1-204.46 and the Reprogramming Policy Act of 1980, as amended (D.C. 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 (appropriation title) level. 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 Antideficiency Act (31 U.S.C. §§ 1341, 1342, 1349, 1351, 1511-1519); the District of Columbia Anti-Deficiency Act (D.C. Code § 47-355.01 et seq.); and Section 446 of the Home Rule Act (D.C. 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 acts specifically identify authorized expenditures but do 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.

The District budgets for the General Fund and 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 76.
- *Entity Differences* – which result from the inclusion or exclusion of certain activities for budgetary purposes as opposed to those included or excluded on a GAAP basis as indicated in Note 1X on page 76.

Budgetary Controls

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

Encumbrances

Encumbrance accounting is used in the governmental funds. Under this method of accounting, purchase orders, contracts, and other commitments for the expenditure of funds are recorded in order to reserve the required portion of an appropriation. Encumbrances outstanding at year-end do not constitute expenditures or liabilities for GAAP or budgetary purposes. Encumbered amounts lapse at year-end in the General Fund and may be re-

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appropriated and re-encumbered as part of the subsequent year's budget. However, encumbered amounts do not lapse at year-end in the Capital Projects Fund or the Special Revenue Fund.

Encumbered amounts at year-end have been included within the fund balances in **Table N60a –** Schedule of FY 2017 Fund Balance found on page 129.

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 Deposits and Investment Act of 2006 (D.C. Code §§ 47-351.01 and 47-351.08), and the District's Investment Policy, as adopted in November 2008. As of September 30, 2017, 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 Postemployment Benefits Fund are 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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 effective 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.

K. TRANSFERS AND OTHER TRANSACTIONS BETWEEN FUNDS

Interfund transactions are categorized as: (a) revenue and expenditure/expense 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 buildings, 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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 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

Debt Limits/Limitations on Borrowing

Pursuant to Section 603 of the Home Rule Act, 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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

Capital Appreciation Bonds

Historically, the District has issued Capital Appreciation Bonds (CABs), which are municipal securities on which the investment return on the initial principal amount is reinvested at a stated compounded interest rate until maturity. At maturity, the investor receives a single payment (maturity value) representing both the initial principal amount and the total investment return. CABs are distinct from traditional zero coupon bonds because the investment return is in the form of compounded interest rather than accreted original issue discount. Typically, only the initial principal amount of a CAB is to be counted against the debt limit of the municipal issuer.

The District began paying principal on its 2002 Mandarin TIF CABs on July 1, 2002, and will make such payments annually until July 1, 2022. 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 scheduled principal payment dates for the 2006 Tobacco CABs 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.

Reporting Long-Term Liabilities

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.

Q. DEFERRED INFLOWS OF RESOURCES

Deferred inflows of resources represent the acquisition of net position by the District that is applicable to a future reporting period. Deferred 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, 2017, the District adopted the following new accounting standards issued by the Governmental Accounting Standards Board (GASB):

- Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, applies to OPEB plans (defined benefit and defined contribution) which are administered through trusts that meet the Statement's specific criteria. This Statement also establishes financial reporting requirements for assets accumulated to provide defined benefit OPEB through plans that are not administered through trusts that meet the specific criteria in the Statement.

- Statement No. 77, *Tax Abatement Disclosures*, 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 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: (1) 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; (2) the gross dollar amount of taxes abated during the period; and (3) commitments made by a government, other than to abate taxes, as part of a tax abatement agreement.

- 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*. 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. Statement 78 amends the scope and applicability of Statement 68 to exclude pensions provided to employees of state or local governmental

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

- Statement No. 80, *Blending Requirements for Certain Component Units—an amendment of GASB Statement No. 14*, 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*.
- 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.

Implementation of Statement Nos. 74, 77, 78 and 82 had no material impact on the District's fiscal year 2017 financial statements. However, implementation of Statement No. 80 materially impacted the financial statements presentation for that year.

More detailed information regarding the requirements contained in these GASB 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 the following new accounting standards issued by GASB by the required effective dates:

- Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, 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 expenditures/expenses. 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.

  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. 81, *Irrevocable Split-Interest Agreements*, requires 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. This Statement 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. 83, *Certain Asset Retirement Obligations*, addresses accounting and financial reporting for certain asset retirement obligations (AROs). This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs and requires that recognition occur when the liability is both incurred and reasonably estimable. The determination of when the liability is incurred should be based on the occurrence of external laws, regulations, contracts, or court judgments, together with the occurrence of an internal event that obligates a government to perform asset retirement activities.

  The requirements of this Statement are effective for financial statements for reporting periods beginning after June 15, 2018, the District's fiscal year 2019.
- Statement No. 84, *Fiduciary Activities*, establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on: (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. This Statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally should report fiduciary activities that are not held in a trust or equivalent arrangement that meets specific criteria.

The requirements of this Statement are effective for financial statements for reporting periods beginning after December 15, 2018, the District's fiscal year 2020.

- Statement No. 85, *Omnibus 2017*, addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits including pensions and other postemployment benefits (OPEB).

  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. 86, *Certain Debt Extinguishment Issues*, establishes standards of accounting and financial reporting for in-substance defeasance transactions in which cash and other monetary assets acquired with only existing resources (resources other than the proceeds of refunding debt) are placed in an irrevocable trust for the purpose of extinguishing debt. This Statement also amends accounting and financial reporting requirements for prepaid insurance associated with debt that is extinguished, whether through a legal extinguishment or through an in-substance defeasance, regardless of how the cash and other monetary assets were acquired. Finally, this Statement establishes an additional disclosure requirement related to debt that is defeased in-substance, regardless of how the cash and other monetary assets were acquired.

  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. 87, *Leases*, establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

  The requirements of this Statement are effective for financial statements for reporting periods beginning after December 15, 2019, the District's fiscal year 2021.

The District has not determined the impact, if any, that the implementation of Statement Nos. 81, 83, 84, 85, and 86 will have on its financial statements. Statement Nos. 75 and 87, however, are anticipated to have a material impact on its financial statements.

More detailed information regarding the requirements contained in these GASB 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 fund, and fiduciary fund statements, and "Fund Balance" in the governmental fund statements. In the government-wide and proprietary fund financial statements, "Net Position" is further categorized as:

- *Net Investment In Capital Assets* – This category groups all capital assets, including infrastructure, into one component of net position. Accumulated depreciation and the outstanding balances of debt, net of unspent proceeds, that are attributable to the acquisition, construction, or improvement of these assets, reduce the balance in this category.
- *Restricted Net Position* – This category presents net position subject to external restrictions imposed by creditors, grantors, contributors, or laws and regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation. Non-expendable restricted net position represents the portion of net position that must be held in perpetuity in accordance with donor stipulations.
- *Unrestricted Net Position* – This category represents net position not restricted for any project or other purpose.

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

- *Nonspendable* – Resources which cannot be spent because they are either: (a) not in spendable form; or (b) legally or contractually required to be maintained intact.
- *Restricted* – Resources with use constraints which are either: (a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.
- *Committed* – Resources which can only be used for specific purposes pursuant to limitations imposed by formal action of the District government's highest level of decision-making authority. Resources can only be committed if the formal action is issued on or before the end of the fiscal

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 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 Section 450A of the Home Rule Act (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, 2017, the District's fund balance included the following categories (see **Table N60a** on page 129).

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 2017 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 may expend the funds. Other revenues include but not limited to resources restricted for Workers' Compensation Program, 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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 Act of 2014, effective February 26, 2015 (D.C. Law 20-155; 62 DCR 3601).

Subsequent Years Expenditures – This portion of the fund balance represents the amount to be used to finance certain policy initiatives and other expenditures included in the fiscal year 2018 budget approved by the District Council. During fiscal year 2017, the Mayor and the Council committed increases in quarterly revenue estimates and 50% of the District-wide local fund underspending for workforce investment initiatives. Moreover, additional resources had to be set aside for increases in the bond escrow, emergency cash and contingency cash reserves, which have not been historically budgeted. As a result of these funding requirements, this portion of fund balance was presented net of the overcommitted amount of approximately $39 million. Increase in the quarterly revenues forecast of December 2017 is sufficient to restore an overcommitment of $39 million.

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., resources collected and administered by the Office of Finance and Treasury's Central Collection Unit (CCU), 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, and resources committed to Renewable Energy Development Fund.

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, 2017 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 Section 450A of the Home Rule Act (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.

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

Committed Fund Balances

Fiscal Stabilization Reserve

The fiscal stabilization reserve may be used by the Mayor for the same purposes for which the contingency reserve was established. 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 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 119.

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 126 through 128.

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, 2017, there were 1,498 OPEB Plan participants receiving such benefits. The participants were comprised of 1,156 teachers, police, and firefighters, and 342 general District retirees. During fiscal year 2017, $13.2 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.

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	$ 284,725	$ -
Basis differences:		
Inventory is recorded using the purchase method for budgetary purposes and the consumption method on a GAAP basis	3,337	(2)
Transfers/reclassifications	(860)	(15,099)
Fund balance released from restrictions - a funding source for budgetary purposes but not revenue on a GAAP basis	-	(11,912)
Federal pass-through contributions (D.C. Federal Pension Fund and SNAP)*	-	651,561
Federal pass-through expenditures (D.C. Federal Pension Fund and SNAP)*	-	(651,561)
EXCESS (DEFICIT) REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES - GAAP BASIS	**$ 287,202**	**$ (27,013)**

** The federal pass through contributions/expenditures are comprised of: on-behalf payment to D.C. Federal Pension Fund ($452,201) and payments to eligible low income families under the Supplemental Nutrition Assistance Program (SNAP) ($199,360).*

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Y. RESTATEMENT

The District implemented GASB Statement No. 80, *Blending Requirements for Certain Component Units - An Amendment of GASB Statement No. 14*, in fiscal year 2017. As a result of this implementation, the financial statements of the Not-for-Profit Hospital Corporation, a component unit of the District, are blended into that of the primary government in fiscal year 2017. Implementation of this statement resulted in an increase in net position for the primary government and a decrease in net position for the combined discretely presented component units at October 1, 2016.

The effect of the change in presentation is shown in the table below.

Restatement Table

Dollars in $000s

	October 1, 2016	
	Primary Government	Component Units
Net position, as previously reported	$ 4,815,418	$ 918,340
Presentation change	98,409	(98,409)
Net position, as restated	**$ 4,913,827**	**$ 819,931**

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 $3,984,393 in deposits within the custody of the District as of September 30, 2017, were insured or collateralized with securities held by the District or by its agent in the District's name. As of September 30, 2017, the carrying amount of cash and cash equivalents for the primary government including the fiduciary funds was $3,652,163 and the carrying amount of cash (deposits) for the component units was $332,230.

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 in 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 commercial paper, collateralized certificates of deposits and repurchase agreements.

Table N2a presents the reconciliation of the District's cash and investment balances as of September 30, 2017. **Table N2b** presents the District's cash and investment balances (by category) as of September 30, 2017.

Table N2a – Reconciliation of Cash and Cash Equivalents and Investment Balances

(Dollars in $000s)

	Exhibit 1-a			Exhibit 4-a				
	Primary Government	Component Units	Total	Pension/ OPEB Trust Funds	Private Purpose Trust Fund	Agency Funds	Total	Total Cash and Investment Balances
Cash and cash equivalents	$ 1,338,784	$ 173,282	$ 1,512,066	$ -	$ -	$ -	$ -	$ 1,512,066
Investments	-	215,512	215,512	-	-	-	-	215,512
Cash and cash equivalents (restricted)	2,074,114	158,948	2,233,062	170,274	-	68,991	239,265	2,472,327
Investments (restricted)	92,464	356,174	448,638	8,974,508	533,953	-	9,508,461	9,957,099
Total	**$ 3,505,362**	**$ 903,916**	**$ 4,409,278**	**$ 9,144,782**	**$ 533,953**	**$ 68,991**	**$ 9,747,726**	**$ 14,157,004**

NOTE 2. CASH AND INVESTMENTS

Table N2b – Cash and Investment Balances (by Category)

(Dollars in $000s)

	Primary Government	Fiduciary Funds	Component Units	Total
Cash and cash equivalent balances	**$ 3,412,898**	**$ 239,265**	**$ 332,230**	**$ 3,984,393**
Investments				
U. S. government securities	1,939	-	207,104	209,043
Commercial paper	40,286	-	-	40,286
Certificates of deposit	29,000	-	30,137	59,137
Mortgage-backed securities	5,487	-	-	5,487
Guaranteed investment contracts	2,147	125,925	-	128,072
Repurchase agreements	11,155	-	-	11,155
Exchange traded funds	1,495	-	2,068	3,563
Alternative investments	-	-	4,039	4,039
Commodities	-	42,621	-	42,621
Equity securities	148	5,552,945	40,378	5,593,471
Fixed income securities	-	2,696,118	11,536	2,707,654
Real estate	-	614,886	-	614,886
Private equity	-	470,532	-	470,532
Corporate securities	-	-	3,509	3,509
Investment contracts	-	-	11,104	11,104
Money market	807	-	260,693	261,500
Mutual funds	-	5,434	1,118	6,552
Total Investments	**92,464**	**9,508,461**	**571,686**	**10,172,611**
Total cash and cash equivalents and investment balances	**$ 3,505,362**	**$ 9,747,726**	**$ 903,916**	**$ 14,157,004**

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, cash equivalents and investment pools held in the control of DCRB as of September 30, 2017 and 2016, are presented in **Table N2c.**

Table N2c – Cash and Investment Pools: District Retirement Funds

(Dollars in $000s)

	September 30, 2017	September 30, 2016
Cash and cash equivalents	$ 88,216	$ 51,480
Investments:		
Domestic equity	2,099,359	1,956,019
International equity	2,364,937	2,081,748
Fixed income	2,125,703	1,818,097
Real estate	614,886	479,380
Private equity	470,532	393,368
Total cash and cash equivalents and investments	**$ 7,763,633**	**$ 6,780,092**

NOTE 2. CASH AND INVESTMENTS

District of Columbia Other Postemployment Benefits Fund (OPEB)

During fiscal year 2017, the District's Annuitants' Health and Life Insurance Employer Contribution Fund (OPEB Fund) maintained certain cash and cash equivalents balances. **Table N2d** presents the OPEB Fund's cash and cash equivalents balances as of September 30, 2017 and 2016.

Table N2d – Cash and Cash Equivalents Balances: OPEB Fund

	(Dollars in $000s)	
	September 30, 2017	September 30, 2016
Cash	$ 21,397	$ 5,696
Brandywine large cap value	17,736	7,733
ClearBridge mid cap core	3,995	1,741
Bernstein strategic core plus	17,911	5,814
Bernstein global ex-US plus	2,523	4,798
Farr, miller washington large cap growth	18,496	11,250
Total cash and cash equivalents	**$ 82,058**	**$ 37,032**

Deposit and Investment Risks

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 as follows.

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 of Columbia (Excluding Fiduciary Funds)

To mitigate such risk, 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.

District Retirement Funds

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.

OPEB Fund

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, 2017, 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.

District of Columbia (Excluding Fiduciary Funds)

The District had no custodial credit risk exposure during the fiscal year. All District investments in fiscal year 2017 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.

District Retirement Funds

The District Retirement Funds had no custodial credit risk exposure during fiscal year 2017. Investments

NOTE 2. CASH AND INVESTMENTS

controlled by DCRB in fiscal year 2017 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.

OPEB Fund

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.

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.

District of Columbia (Excluding Fiduciary Funds)

To mitigate such risk, the District's investment policy does not allow for an investment in any single issuer that is in excess of five percent of the District's total investment portfolio with the following exceptions: U.S. Treasury, 100% maximum; each federal agency, 40% maximum; each repurchase agreement counterparty, 25% maximum; and each money market mutual fund, 25% maximum. As of September 30, 2017, the District was in compliance with this policy.

District Retirement Funds

DCRB's investment guidelines do not permit direct investment in any single issuer in excess of five percent 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, 2017, DCRB was in compliance with this policy.

OPEB Fund

The OPEB Fund has no significant concentrations of exposure to credit risk that have not been reduced by collateral and other set-offs.

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.

District of Columbia (Excluding Fiduciary Funds)

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 N3**.

Table N3 – 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	Not applicable	30%
Money Market Mutual Funds	Not applicable	100%
Bank Deposits	Not applicable	100%

District Retirement Funds

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.

OPEB Fund

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.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment.

District of Columbia (Excluding Fiduciary Funds)

As of September 30, 2017, the District had no exposure to foreign currency risk.

NOTE 2. CASH AND INVESTMENTS

District Retirement Funds

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 2017, the District Retirement Funds held investments that were denominated in a currency other than the United States dollar, as presented in **Table N4a**.

Table N4a – District Retirement Funds' Investments Denominated in Foreign Currency

(Dollars in $000s)

	Asset Class			
	Cash	Equities	Private Equity	Total
Canadian Dollar	$ -	$ 4,479	$ -	$ 4,479
Euro	1,582	-	35,101	36,683
Total Foreign Currency	**$ 1,582**	**$ 4,479**	**$ 35,101**	**$ 41,162**

OPEB Fund

The OPEB Fund does not have a formal policy for limiting its exposure to changes in exchange rates.

Table N4b presents the OPEB Fund's investments that were denominated in a currency other than the United States dollar.

Table N4b – OPEB Fund Investments Denominated in Foreign Currency

(Dollars in $000s)

	Short-Term and Cash	Convertible and Fixed Income	Total
Argentine peso	$ (127)	$ 1,271	$ 1,144
Australian dollar	173	1,740	1,913
Brazilian real	265	514	779
British pound sterling	(492)	14,592	14,100
Canadian dollar	(406)	5,358	4,952
Czech koruna	18	3,486	3,504
Danish krone	(5)	828	823
Egyptian pound	31	355	386
Euro	3,339	63,509	66,848
Japanese yen	(210)	45,705	45,495
Malaysian ringgit	17	762	779
Mexican peso	(120)	3,405	3,285
New Israeli shekel	5	238	243
New Taiwan dollar	(14)	18	4
New Zealand dollar	89	(1,672)	(1,583)
Norwegian krone	(6)	332	326
Polish zloty	16	564	580
Russian ruble	54	1,823	1,877
Singapore dollar	-	513	513
South African rand	(124)	1,083	959
South Korean won	(43)	1,857	1,814
Swedish krona	70	1,105	1,175
Swiss franc	(16)	1,879	1,863
Thai baht	(3)	585	582
Turkish lira	(45)	2,053	2,008
Total Foreign Currency	**$ 2,466**	**$ 151,903**	**$ 154,369**

Fair Value of Investments

The District (including the District Retirement Funds and the OPEB Fund) 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

NOTE 2. CASH AND INVESTMENTS

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.

District of Columbia Investments (Excluding Fiduciary Funds)

The District's investments measured at fair value as of September 30, 2017, are presented in **Table N5** in accordance with the GASB Statement No. 72 valuation hierarchy.

Table N5 – District Investments Measured at Fair Value (Excluding Fiduciary Funds)

(Dollars in $000s)

		Fair Value Measurement Using		
	September 30, 2017	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	$ 443	$ 443	$ -	$ -
International equity funds	625	625	-	-
U.S. equity funds	58	58	-	-
Corporate bond funds	252	252	-	-
High yield bond funds	59	59	-	-
Commodity funds	58	58	-	-
Total exchange traded funds	1,495	1,495	-	-
Non exchange traded funds:				
U.S. equity funds	148	148	-	-
Mortgage-backed securities	5,487	-	5,487	-
Repurchase agreements	11,155	-	11,155	-
Guaranteed investment contracts	2,147	-	-	2,147
Total	**$ 20,432**	**$ 1,643**	**$ 16,642**	**$ 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 N5**. 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 throughout the trading day and market price fluctuates throughout the trading day. An ETF 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. Stock ETF's basket of assets that track certain indexes are classified as Level 1 in the fair value hierarchy. Bond ETFs 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 values of these assets were determined using a Level 2 measurement as presented in **Table N5**.
- *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 N5**.
- *Guaranteed investment contracts* – Guaranteed investment contracts are valued at fair value

NOTE 2. CASH AND INVESTMENTS

by discounting the related cash flows based on current yields of similar instruments with 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 N5**.

District Retirement Funds Investments

Table N6a presents the District Retirement Funds' investments measured at fair value as of September 30, 2017, in accordance with the GASB Statement No. 72 valuation hierarchy.

Table N6a – Investments Measured at Fair Value: District Retirement Funds

(Dollars in $000s)

		Fair Value Measurement Using		
	September 30, 2017	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	$ 278,468	$ 278,468	$ -	$ -
Fixed income	304,700	-	304,700	-
Total investments by fair value level	$ 583,168	$ 278,468	$ 304,700	$ -
Investments measured at the net asset value (NAV)				
Domestic equity	$ 1,820,891			
International equity	2,364,937			
Fixed income	1,821,003			
Real assets	614,886			
Private equity	470,532			
Total investments measured at the NAV	7,092,249			
Total investments measured at fair value	**$ 7,675,417**			

- *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 N6b**.

NOTE 2. CASH AND INVESTMENTS

Table N6b – Investments Measured at the Net Asset Value (NAV): District Retirement Funds

(Dollars in $000s)

	Fair Value as of September 30, 2017	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Investments measured at the NAV				
Domestic equity	$ 1,820,891	$ -	Daily	None
International equities	2,364,937	-	Daily	None
Fixed income	1,821,003	-	Daily, Monthly	3-30 days
Real assets	614,886	407,670	None	N/A
Private equity	470,532	442,602	None	N/A
Total Investments measured at the NAV	**$ 7,092,249**	**$ 850,272**		

Domestic and international equities – DCRB has investments in three 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 six funds, including corporate bonds, and U.S. Treasury obligations, with redemption notifications not greater than 30 days.

Real assets 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 N6b**, the unfunded commitments totaled $850,272, as of September 30, 2017. This represents global investments in 35 real asset (real estate) and 29 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 asset program includes investments in a broad range of real estate strategies (i.e., core, value-added, opportunistic), infrastructure and natural resources funds.

OPEB Fund Investments

Table N7a presents the OPEB Fund's investments measured at fair value as of September 30, 2017, in accordance with GASB Statement No. 72 valuation hierarchy.

NOTE 2. CASH AND INVESTMENTS

Table N7a – Investments and Derivative Instruments Measured at Fair Value: OPEB Fund

(Dollars in $000s)

		Fair Value Measurement Using		
	September 30, 2017	**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	$ 81,926	$ 81,926	$ -	$ -
Consumer retail	122,975	122,975	-	-
Information technology	79,394	79,394	-	-
Financial institutions	91,280	91,280	-	-
Healthcare	72,375	72,375	-	-
Other	2,020	2,020	-	-
International equities (by industry)			-	-
Consumer retail	5,748	5,748	-	-
Information technology	4,190	4,190	-	-
Industrials	4,004	4,004	-	-
Real estate investment trust securities	6,515	-	-	6,515
Mutual funds	98,979	98,979	-	-
Total equity securities	**569,406**	**562,891**	**-**	**6,515**
Debt securities				
U.S. government issues	80,577	-	80,577	-
International government issues	105,681	-	105,681	-
Corporate bonds	83,334	-	82,948	386
Mortgage-backed securities	322	-	-	322
Credit card/automotive receivables	14,410	-	14,410	-
Mutual funds	112,498	-	56,492	56,006
U.S. state and local government bonds	10,018	-	10,018	-
Total debt securities	**406,840**	**-**	**350,126**	**56,714**
Commodity investments				
Gresham commodities fund	42,621	-	-	42,621
Total investments by fair value level	**$ 1,018,867**	**$ 562,891**	**$ 350,126**	**$ 105,850**
Investments measured at the net asset value (NAV)				
SSgA emerging markets equity index	$ 96,779			
Baillie Gifford international growth equity	86,392			
Artisan international growth fund	71,900			
Blue Bay emerging markets debt fund	25,153			
Total investments measured at the NAV	**280,224**			
Total investments measured at fair value	**$ 1,299,091**			
Investment derivative instruments				
Interest rate swaps	$ (142)	$ -	$ (142)	$ -
Credit defaults swaps	(725)	-	(725)	-
Foreign exchange forwards	1,396	-	1,396	-
Total investments derivative instruments	**$ 529**	**$ -**	**$ 529**	**$ -**

NOTE 2. CASH AND INVESTMENTS

The following provides a summary of investments measured at fair value as presented in **Table N7a.**

- *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 Collateralized 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 objective of the fund is 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 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 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.

Investments measured at the NAV: This investment category consists of four funds that include funds or products that employ dynamic trading strategies aimed at achieving absolute returns. These investment funds 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. Additional information about the nature of investments measured at the net asset value per share is presented in **Table N7b**.

Table N7b – Investments Measured at the Net Asset Value (NAV): OPEB Fund

(Dollars in $000s)

	Fair Value as of September 30, 2017	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Investments measured at the NAV				
SSgA emerging markets equity index	$ 96,779	$ -	Monthly	5 days
Baillie Gifford international growth equity	86,392	-	Monthly	5 days
Artisan international growth fund	71,900	-	Monthly	5 days
Blue Bay emerging markets debt fund	25,153	-	Monthly	30 days
Total investments measured at the NAV	**$ 280,224**	**$ -**		

NOTE 2. CASH AND INVESTMENTS

- *SSgA emerging markets* equity index: The fund is managed using a "passive" or "indexing" investment approach, by which SSgA attempts to match, before expenses, the performance of the MSCI Emerging Markets Index, which is a free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets. Equity securities may include common stocks, preferred stocks, depository receipts, or other securities convertible into common stock. Equity securities held by the fund may be denominated in foreign currencies and may be held outside the United States. In some cases, it may not be possible or practicable to purchase all the securities comprising the Index, or to hold them in the same weightings as they represent in the Index. In those circumstances, SSgA may employ a sampling or optimization technique to construct the portfolio.
- *Artisan international growth fund*: The fund's investment team seeks to invest in companies with histories of generating strong, free cash flow, improving returns on capital and strong competitive positions in their industries. The team also believes that investing in companies with strong balance sheets helps to reduce the potential for capital risk and provides company management the ability to build value when attractive opportunities are available.
- *Baillie Gifford international growth equity*: The fund is designed to pursue long-term capital appreciation by investing in high-quality, attractively valued, non-U.S. growth companies of all market capitalizations. Their investment process is based on a highly analytical research-driven process, and builds portfolios from the bottom-up. The strategy invests primarily in developed markets, but also may invest up to 20% of the Fund's net assets at market value, at the time of purchase, in emerging markets. Currency hedging is used for defensive purposes, and are only used under certain conditions.
- *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 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.

NOTE 2. CASH AND INVESTMENTS

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, 2017, classified by type, and the changes in fair value of such derivative instruments for the year then ended.

Table N8 – Derivative Instruments Outstanding as of September 30, 2017

(Dollars in $000s)

	Changes in Fair Value		Fair Value at September 30, 2017		
	Classification	**Amount**	**Classification**	**Amount**	**Notional**
Governmental Activities:					
Cash flow hedges:					
Floating to fixed interest rate swaps:					
2016C (formerly Series 2002-2008C, then 2014B) Swap*	Deferred outflows	$ 14,055	Swap	$ (31,904)	$ 224,300
2007 AWC Swap	Deferred outflows	2,029	Swap	(3,162)	46,475
2004B Swap	Deferred outflows	272	Swap	(384)	9,460
Derivative instrument liabilities, at end of year				**$ (35,450)**	
Floating to floating interest rate swaps:					
2001C/D Basis Swap	Investment revenue	$ 42	Swap	$ 555	143,375
Derivative instrument assets, at end of year				**$ 555**	

* Combines two interest rate swap transactions

District of Columbia (Excluding Fiduciary Funds)

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*. 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.

GASB issued Statement No. 72, *Fair Value Measurement and Application*, which addresses accounting and financial reporting issues related to fair value measurements. The District engaged an independent party to perform the required tests and valuation 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, 2017, 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, 2017

(Dollars in $000s)

Type	Objective	Notional Amount	Effective Date	Maturity Date	Terms	Counterparty Credit Rating
Pay-Fixed Interest Rate Swaps:						
2016C Swap (formerly Series 2002-2008C, then 2014B)*	Hedge of changes in cash flows on the Series 2016C Bonds (formerly 2014B 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	46,475	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)	A3/A-/A+
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	143,375	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-

** Combines two interest rate swap transactions*

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 when hedging derivative instruments 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, 2017, were as presented in **Table N9**.

As of September 30, 2017, the District was not exposed to credit risk because each of the hedging derivative instruments had a negative mark-to-market value, all totaling $35,450. However, should interest rates change and the mark-to-market value of any of the swaps become positive, the District would be exposed to credit risk in the amount of the derivative's mark-to-market value. The negative mark-to-market value 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, 2017, the fair value of the investment in derivative instruments subject to interest rate risk was $555 (thousand). This investment has a maturity of more than 10 years.

The District entered into a floating-to-floating 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, 2017, the notional amount of the 2001C/D Swap was

$143,375. 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, 2017, this interest rate swap had a fair value of $555 (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 of 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 2016C 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, 2017, 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 when 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 2017.

District of Columbia Fiduciary Funds

District of Columbia Retirement Funds' Derivatives

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, may invest in various derivative instruments either to increase potential earnings or to hedge against potential losses.

The District's Retirement Funds may also hold derivative instruments indirectly by participating in pooled, commingled, or short-term funds that hold derivatives. There were no derivative holdings as of September 30, 2017.

Additional information regarding the Retirement Funds' practices regarding 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: https://dcrb.dc.gov.

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 2017, OPEB invested directly in forward currency contracts.

At September 30, 2017, OPEB had two types of off-balance-sheet derivative financial instruments outstanding: swaps, and forwards. The interest rate swaps and credit default swaps 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

NOTE 2. CASH AND INVESTMENTS

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, 2017, the aggregate fair value of all hedging derivative instruments with these collateral posting provisions was $300 (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, 2017. The net unrealized gain on foreign currency spot and forward contracts for the years ended September 30, 2017, was $563 (thousand). **Table N10** presents a list of the OPEB Fund's derivatives aggregated by type as of September 30, 2017.

Additional information regarding the OPEB Fund's derivative holdings is presented in the Fund's separately issued audited financial statements which may be obtained from the Office of Finance and Treasury, 1101 4th Street, S.W., Suite 800 W, Washington, DC 20024.

Table N10 – Derivative Investments Aggregated by Type: OPEB

(Dollars in $000s)

	Changes in Fair Value		Fair Value at September 30, 2017		
Type of Derivative	**Classification**	**Amount**	**Classification**	**Amount**	**Notional**
Credit Default Swaps Bought	Investment Revenue	$ (22)	Swaps	$ (29)	$ 395
Credit Default Swaps Written	Investment Revenue	32	Swaps	(696)	4,355
Fixed Income Futures Long	Investment Revenue	(621)	Futures	-	33,472
Fixed Income Futures Short	Investment Revenue	332	Futures	-	(19,763)
Fixed Income Futures Bought	Investment Revenue	(24)	Options	-	-
Fixed Income Futures Written	Investment Revenue	18	Options	-	-
Foreign Exchange Forwards	Investment Revenue	(2,031)	Forwards	1,396	209,859
Pay Fixed Interest Rate Swaps	Investment Revenue	628	Swaps	41	41,578
Receive Fixed Interest Rate Swaps	Investment Revenue	(223)	Swaps	(183)	16,178
Total		**$ (1,911)**		**$ 529**	

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 2017, the District Retirement Funds did not participate in any security lending transactions.

NOTE 3. RESTRICTED ASSETS

As of September 30, 2017, restricted assets of the primary government, component units, and fiduciary funds totaled $12,429,426 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	$ 542,081	$ -	$ -	$ -	$ -	$ 542,081
Capital project	-	-	-	113,830	58,801	172,631
Emergency cash reserve	137,967	-	-	-	-	137,967
Contingency cash reserve	275,934	-	-	-	-	275,934
Other	35,686	114,559	231,054	-	211,997	593,296
Total	**$ 991,668**	**$ 114,559**	**$ 231,054**	**$ 113,830**	**$ 270,798**	**$ 1,721,909**

	Proprietary Funds/Business-Type Activities				
	Lottery & Games	Unemployment Compensation	Total	Fiduciary Funds	Component Units
Bond escrow accounts	$ -	$ -	$ -	$ -	$ 240,325
Unpaid prizes	1,939	-	1,939	-	-
University endowment	-	-	-	-	27,221
Benefits	-	442,730	442,730	9,747,726	-
Purpose restrictions	-	-	-	-	222,985
Other	-	-	-	-	24,591
Total	**$ 1,939**	**$ 442,730**	**$ 444,669**	**$ 9,747,726**	**$ 515,122**

The Not-for-Profit Hospital is a proprietary fund and in fiscal year 2017 there were no restricted assets.

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	Not-for-Profit Hospital Corporation	Fiduciary Funds
Gross receivables:									
Taxes	$ 454,439	$ -	$ -	$ -	$ 4,003	$ -	$ -	$ -	$ -
Accounts and other	345,875	9,098	271	1,121	30,810	4,116	32,946	35,824	22,033
Federal	4,347	417,858	-	76,903	-	-	1,125	-	22,924
Total gross receivables	804,661	426,956	271	78,024	34,813	4,116	34,071	35,824	44,957
Less: allowance for doubtful accounts	131,958	-	-	-	-	257	22,753	11,584	-
Total net receivables	**$ 672,703**	**$ 426,956**	**$ 271**	**$ 78,024**	**$ 34,813**	**$ 3,859**	**$ 11,318**	**$ 24,240**	**$ 44,957**

B. INTERFUND TRANSFERS

Other than the transfers between the Office of Lottery and Charitable Games 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, 2017.

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	$ 26,099
Lottery and Games	General Fund	DC Lottery excess revenues, after operating costs	45,600
General Fund	Capital Improvements Fund	PAYGO - projects financed by the General Fund	88,203
General Fund	Capital Improvements Fund	PAYGO - Capital projects financed by Local Transportation Fund	45,244
Capital Improvements Fund	General Fund	Unspent Capital Paygo transferred back to the General Fund	19,442
PILOT Special Revenue Fund	General Fund	Excess collections above PILOT debt service requirements	1,518
Tax Increment Financing Fund	General Fund	Excess collections above TIF debt service requirements	18,936
Federal and Private Resources Fund	General Fund	Revenues generated from indirect cost recovery	500
Federal and Private Resources Fund	General Fund	Federal reimbursement for January snow storm	12,491
Baseball Special Revenue Fund	Baseball Debt Service Fund	Funds for baseball debt service payments	57,237
General Fund	Housing Production Trust Fund	Funds for housing projects and services	42,732
		Total Interfund Transfers	**$ 358,002**

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, 2017, 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	$ 8,937	$ 13,766	$ 810,478	$ 21,469
Federal & Private Resources	-	1,649	21,819	203,265
Housing Production Trust	-	-	5,663	-
General Capital Improvements	-	873	-	603,104
Nonmajor - Baseball Special Revenue	665	-	5,749	-
Nonmajor - PILOT Special Revenue	-	-	3,510	2,833
Nonmajor - Tax Increment Financing	1,000	1,974	6,117	1,039
Unemployment Compensation	-	-	430	22,056
Health Benefit Exchange Authority	642	726	-	-
Washington Convention and Sports Authority	12,909	2,991	-	-
Housing Finance Agency	1,432	-	-	-
University of the District of Columbia	3,279	6,885	-	-
Total	**$ 28,864**	**$ 28,864**	**$ 853,766**	**$ 853,766**

The above balances represent the impact of transactions among the funds and component units, which will be settled during fiscal year 2018.

NOTE 5. CAPITAL ASSETS

Capital Outlays

Capital outlays reported in the General Capital Improvements and Highway Trust Funds totaled $1,233,004 during the fiscal year ended September 30, 2017. 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, 2016	Additions	Transfers	Dispositions	Transfers from CIP	Balance September 30, 2017
Non-depreciable:						
Land	$ 948,412	$ 20,667	$ -	$ (5,807)	$ 744	$ 964,016
Construction in progress	1,219,908	975,708	-	-	(922,493)	1,273,123
Total non-depreciable	**2,168,320**	**996,375**	**-**	**(5,807)**	**(921,749)**	**2,237,139**
Depreciable:						
Infrastructure	6,177,662	-	-	-	296,512	6,474,174
Buildings	8,379,592	15,966	-	(995)	415,644	8,810,207
Equipment	1,618,230	18,924	(2,159)	(33,973)	209,593	1,810,615
Total depreciable	**16,175,484**	**34,890**	**(2,159)**	**(34,968)**	**921,749**	**17,094,996**
Less accumulated depreciation for:						
Infrastructure	(2,654,579)	(166,207)	-	-	-	(2,820,786)
Buildings	(1,954,445)	(167,366)	-	-	-	(2,121,811)
Equipment	(1,302,891)	(101,708)	2,045	33,385	-	(1,369,169)
Total accumulated depreciation	**(5,911,915)**	**(435,281)**	**2,045**	**33,385**	**-**	**(6,311,766)**
Total depreciable, net	**10,263,569**	**(400,391)**	**(114)**	**(1,583)**	**921,749**	**10,783,230**
Net governmental activities capital assets	**$ 12,431,889**	**$ 595,984**	**$ (114)**	**$ (7,390)**	**$ -**	**$ 13,020,369**

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, 2016	Additions	Transfers	Dispositions	CIP Transfers in (out)	Balance September 30, 2017
Governmental direction and support	$ 2,538,266	$ 4,049	$ -	$ (372)	$ 48,741	$ 2,590,684
Economic development and regulation	569,024	38,374	-	(8,017)	7,354	606,735
Public safety and justice	1,167,053	10,217	(1,721)	(13,534)	42,719	1,204,734
Public education system	4,313,956	2,628	-	(12,080)	352,128	4,656,632
Human support services	1,523,072	6	(438)	(6,424)	170,365	1,686,581
Public works	7,012,525	283	-	(348)	301,186	7,313,646
Construction in progress	1,219,908	975,708	-	-	(922,493)	1,273,123
Total	**$ 18,343,804**	**$ 1,031,265**	**$ (2,159)**	**$ (40,775)**	**$ -**	**$ 19,332,135**

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, 2016	Additions	Transfers	Dispositions	Balance September 30, 2017
Governmental direction and support	$ 1,049,654	$ 53,938	$ -	$ (190)	$ 1,103,402
Economic development and regulation	50,272	6,838	-	(1,020)	56,090
Public safety and justice	491,272	48,393	(1,690)	(12,965)	525,010
Public education system	892,877	94,960	-	(12,445)	975,392
Human support services	442,256	42,604	(355)	(6,417)	478,088
Public works	2,985,584	188,548	-	(348)	3,173,784
Total	**$ 5,911,915**	**$ 435,281**	**$ (2,045)**	**$ (33,385)**	**$ 6,311,766**

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, 2016, as restated	Additions	(Dispositions) / Adjustments	Balance September 30, 2017
Non-depreciable:				
Land	$ 8,100	$ -	$ -	$ 8,100
Construction in progress	6,444	1,818	-	8,262
Total non-depreciable	14,544	1,818	-	16,362
Depreciable:				
Buildings and improvements	55,641	11,175	-	66,816
Equipment	41,098	7,869	-	48,967
Total depreciable	**96,739**	**19,044**	**-**	**115,783**
Less accumulated depreciation for:				
Buildings and improvements	(16,969)	(3,516)	-	(20,485)
Equipment	(25,839)	(6,084)	-	(31,923)
Total accumulated depreciation	(42,808)	(9,600)	-	(52,408)
Total depreciable, net	53,931	9,444	-	63,375
Net capital assets	**$ 68,475**	**$ 11,262**	**$ -**	**$ 79,737**

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, 2016, as restated	Additions	Transfers/ (Dispositions)	CIP Transfers in (out)	Balance September 30, 2017
Non-depreciable:					
Land	$ 12,814	$ -	$ -	$ -	$ 12,814
Artwork	3,183	-	-	-	3,183
Construction in progress	5,573	19,095	-	(3,633)	21,035
Total non-depreciable	**21,570**	**19,095**	**-**	**(3,633)**	**37,032**
Depreciable:					
Buildings and improvements	1,248,719	9,251	-	3,633	1,261,603
Equipment	169,151	32,350	(26,249)		175,252
Total depreciable	**1,417,870**	**41,601**	**(26,249)**	**3,633**	**1,436,855**
Less accumulated depreciation for:					
Buildings and improvements	(550,076)	(36,973)	-	-	(587,049)
Equipment	(80,952)	(13,569)	26,249	-	(68,272)
Total accumulated depreciation	**(631,028)**	**(50,542)**	**26,249**	**-**	**(655,321)**
Total depreciable, net	**786,842**	**(8,941)**	**-**	**3,633**	**781,534**
Net capital assets	**$ 808,412**	**$ 10,154**	**$ -**	**$ -**	**$ 818,566**

NOTE 5. CAPITAL ASSETS

Table N20 – Capital Assets by Component Unit

(Dollars in $000s)

	Capital Assets				Accumulated Depreciation				Net Capital Assets	
Component Units	October 1, 2016, as restated	Additions	Transfers/ (Dispositions)	September 30, 2017	October 1, 2016, as restated	Additions	Transfers/ (Dispositions)	September 30, 2017	Balance October 1, 2016, as restated	Balance September 30, 2017
University of the District of Columbia	$ 362,025	$ 11,603	$ (26,249)	$ 347,379	$ (154,549)	$ (7,915)	$ 26,249	$ (136,215)	$ 207,476	$ 211,164
Washington Convention and Sports Authority	985,466	22,012	-	1,007,478	(455,574)	(32,543)	-	(488,117)	529,892	519,361
Health Benefit Exchange Authority	85,579	26,461	-	112,040	(16,477)	(9,943)	-	(26,420)	69,102	85,620
Housing Finance Agency	6,370	620	-	6,990	(4,428)	(141)	-	(4,569)	1,942	2,421
Total	**$ 1,439,440**	**$ 60,696**	**$ (26,249)**	**$ 1,473,887**	**$ (631,028)**	**$ (50,542)**	**$ 26,249**	**$ (655,321)**	**$ 808,412**	**$ 818,566**

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, 2016	Additions/ Adjustments	Transfers from CIP/ (Dispositions)	Balance September 30, 2017
PRIMARY GOVERNMENT				
Governmental Direction and Support				
Finance	$ 23,983	$ 15,379	$ -	$ 39,362
Legislative	1,377	1,716	(117)	2,976
Administrative	145,904	55,727	(56,461)	145,170
Executive	857	335	(86)	1,106
Total	172,121	73,157	(56,664)	188,614
Economic Development and Regulation				
Community Development	46,508	28,181	(4,094)	70,595
Economic Regulation	3,334	(74)	(3,260)	-
Employment Services	888	671	-	1,559
Total	50,730	28,778	(7,354)	72,154
Public Safety and Justice				
Police	9,968	8,391	(12,526)	5,833
Fire	17,481	15,805	(22,139)	11,147
Corrections	3,616	3,184	-	6,800
Protection	-	229	-	229
Total	31,065	27,609	(34,665)	24,009
Public Education System				
Schools	262,557	391,888	(342,639)	311,806
Culture	14,540	45,305	(9,489)	50,356
Total	277,097	437,193	(352,128)	362,162
Human Support Services				
Health and Welfare	141,030	28,636	(130,879)	38,787
Recreation	42,539	36,181	(39,486)	39,234
Human Relations	194	235	(429)	-
Total	183,763	65,052	(170,794)	78,021
Public Works				
Environmental	505,132	343,919	(300,888)	548,163
Total	505,132	343,919	(300,888)	548,163
Totals	**$ 1,219,908**	**$ 975,708**	**$ (922,493)**	**$ 1,273,123**

NOTE 6. CONDUIT DEBT AND OTHER FINANCING PROGRAMS

This section discloses financing programs through which limited obligations and other similar debt instruments are administered in support of third parties. Such obligations and debt instruments provide capital financing for third parties that are not part of the District's reporting entity. The District has no obligation for these obligations and instruments beyond the repayment of resources provided by the associated 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, 2017, the aggregate outstanding principal amount for these conduit debt obligations was approximately $4.4 billion. Such amounts are not reflected as liabilities of the District in the accompanying government-wide statement of net position as of September 30, 2017.

B. ENTERPRISE ZONE FACILITY BONDS

Since January 1, 1998, businesses located in the District of Columbia Enterprise Zone have been 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 District has no obligation for this debt beyond resources that may have been provided by related leases or loans. As of September 30, 2017, the aggregate outstanding principal amount for Enterprise Zone Facility Bonds was $14.6 million. Such amounts are not reflected as liabilities of the District in the accompanying government-wide statement of net position as of September 30, 2017.

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.

Downtown Retail Priority Area: Forever 21 and Clyde's

Since March 2006, the Mayor has executed several TIF Notes under the Downtown Retail Priority Area Program. The Clyde's TIF Note was fully repaid on June 1, 2017.

Table N22 presents the original loan amount of the Downtown Retail Priority Area TIF Note which remained outstanding as of September 30, 2017.

Table N22 – Downtown Retail Priority Area TIF Note

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%

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.

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

NOTE 6. CONDUIT DEBT AND OTHER FINANCING PROGRAMS

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, 2017.

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

- Rental payments to the District began 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. As of September 30, 2017, the monthly installments were $46,823 (not in thousands). The installment will increase to $280,939 (not in thousands) in June 2018.
- Rental payments to WCSA 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, 2017, the monthly installment was $209,439 (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, 2017, the total outstanding guaranteed amount under credit enhancement facility agreements was $5.5 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 2017, the District did not make any payments in connection with the credit enhancement facility agreements. In addition, as of September 30, 2017, 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 Terms/Date	Outstanding Amount at 9/30/2017 (in $000s)
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
Mamie D. Lee, LLC	Guarantee to facilitate funding for the costs of renovation and construction of the 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
Paul Public Charter School	Guarantee to refinance certain debt and to finance the renovation and construction costs of the property located at 5800 8th Street, NW, Washington, DC	EagleBank	1,000	6/21/2017	Five years from the date of the credit enhancement closing	1,000
			Total Outstanding Guaranteed Amount			**$ 5,500**

NOTE 6. CONDUIT DEBT AND OTHER FINANCING PROGRAMS

Incremental Tax Revenue from Downtown TIF Area

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

Table N25 presents the projects, the TIF arrangements, and the estimate of future outflows as of September 30, 2017, under each TIF.

Table N25 – 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 9/30/2017* (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 loan proceeds to purchase equipment and inventory, fund expansion and renovation costs, start-up costs, leasehold improvements and refinancing, and fulfill other approved business needs.

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 2017, the District did not make any payments in connection with the District of Columbia Collateral Support Program. In addition, as of September 30, 2017, 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, 2017, the total outstanding guaranteed amount under cash collateral agreements by DCCSP was $6.2 million.

NOTE 6. CONDUIT DEBT AND OTHER FINANCING PROGRAMS

Table N26 presents additional information regarding these guarantees.

Table N26 – 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 9/30/2017 (in $000s)
Brougton Construction Company, LLC	Line of Credit	$ 750	4/1/2013	Industrial Bank	Ongoing	$ 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	Ongoing	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	Ongoing	150
Absolute Builders	Term Loan	72	7/1/2014	United Bank	Ongoing	47
Baked by Yael, LLC	Term Loan	188	9/15/2014	Revere Bank	9/15/2021	183
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 of DC	Ongoing	88
Savage and Associates Law Group, PC	Line of Credit	125	4/13/2015	United Bank	Ongoing	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	25
First Choice Masonry, Inc.	Line of Credit	982	8/13/2015	United Bank	Ongoing	982
Jubilee Housing, Inc.	Line of Credit	450	8/27/2015	United Bank	Ongoing	225
Union Kitchen, LLC	Line of Credit	75	10/23/2015	Revere Bank	Ongoing	75
Hot Yoga Ivy City, LLC	Term Loan	66	11/9/2015	Washington Area Community Investment, Inc.	Ongoing	66
Solar Solution, LLC	Line of Credit	1,250	6/10/2016	First National Bank	Ongoing	1,250
SwatchRoom, LLC	Line of Credit	150	6/20/2016	Colombo Bank	Ongoing	150
Union Kitchen, LLC	Line of Credit	275	6/22/2016	Revere Bank	Ongoing	275
David's Stars Child Development Center, Inc.	Term Loan	25	9/6/2016	Latino Economic Development Corporation	Ongoing	25
Ice Cream Jubilee, LLC	Term Loan	75	9/6/2016	Revere Bank	Ongoing	75
VOW Transportation, LLC	Term Loan	21	2/28/2017	City First Bank of DC	09/01/2020	21
Lydia's House in South East	Line of Credit	75	4/3/2017	Industrial Bank	04/03/2018	75
			Total outstanding guaranteed amount			**$ 6,155**

NOTE 7. SHORT-TERM LIABILITIES

TAX REVENUE ANTICIPATION NOTES

Tax Revenue Anticipation Notes (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. When issued, operational and other costs are covered by the proceeds from the TRANs until periodic taxes, grants, and other revenues are received. The District did not issue any Tax Revenue Anticipation Notes in fiscal year 2017.

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, 2017 are presented in **Table N27**.

Table N27 – Summary of Long-Term Liabilities Outstanding as of September 30, 2017

(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, 2026; interest rates ranging from 4.50% to 6.00%	$	37,005
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%		5,530
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, 2037; interest rates ranging from 3.00% to 4.75%		21,080
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%		100,240
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%		107,940
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%		91,305
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%		424,355
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, 2038; interest rates ranging from 3.00% to 5.00%		379,255
Series 2014D, issued on October 23, 2014, in the amount of $136,190, to refund all 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, 2033; interest rates ranging from 1.00% to 5.00%		115,230
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 rates ranging from 4.00% to 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, 2041; interest rates ranging from 1.75% to 5.00%		431,815
Series 2016B, issued on November 18, 2016, in the amount of $190,145, of which $99,985 was to refund all the District's outstanding Multimodal General Obligation Refunding Bonds Series 2014A; and $90,160 to refund Income Tax Secured Revenue Refunding Bonds Series 2015A; final maturity date: June 1, 2039; variable rate bonds bearing interest at varying monthly rates (LIBOR Index rate)		190,140
Series 2016C, issued on November 18, 2016, in the amount of $224,315, to refund all the District's outstanding Multimodal General Obligation Refunding Bonds Series 2014B; final maturity date: June 1, 2039; variable rate bonds bearing interest at varying monthly rates (LIBOR Index rate)		224,310
Series 2016D, issued on December 20, 2016, in the amount of $398,910, to finance capital projects 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, 2041; interest rates ranging from 3.00% to 5.00%		398,910

NOTE 8. LONG-TERM LIABILITIES

Series 2016E, issued on December 20, 2016, in the amount of $190,635, to advance refund a portion of the District's outstanding general obligation bond 2007C series and pay the costs and expenses of issuing and delivering the Bonds; final maturity date: June 1, 2033; interest rate: 5.00%		190,635
Series 2017A, issued on June 1, 2017, in the amount of $563,520, to refund a portion of the District's general obligation bonds Series 2007A and Series 2007B, and pay the costs and expenses of issuing and delivering the Bonds; final maturity date: June 1, 2037; interest rates ranging from 3.00% to 5.00%		563,520
Total General Obligation Bonds	**$**	**4,078,160**
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)	$	710
Qualified Zone Academy Bonds, issued on May 29, 2008, in the amount of $2,360; final maturity date: December 1, 2017 (non-interest bearing)		236
Qualified Zone Academy Bonds, issued on June 30, 2010, in the amount of $4,143; final maturity date: December 1, 2024 (non-interest bearing)		2,209
Total Qualified Zone Academy Bonds	**$**	**3,155**
Income Tax Secured Revenue Bonds:		
Series 2009A, issued on March 19, 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%	$	408,010
Series 2009B, issued on March 19, 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%		231,120
Series 2009C, issued on September 3, 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%		96,190
Series 2009D, issued on December 22, 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%		21,160
Series 2009E, issued on December 22, 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; final maturity date: December 1, 2034; interest rates ranging from 4.34% to 5.59%		501,290
Series 2010A, issued on March 25, 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 on March 25, 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 on June 3, 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 on December 22, 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 on September 29, 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%		119,615
Series 2011B-E, issued on November 30, 2011, in the amount of $241,735 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. Series 2011B, 2011C and 2011D were paid off in fiscal year 2016. The outstanding balance is related to the Series 2011E, which has a final maturity of December 1, 2026; interest rates: variable equal to an adjusted SIFMA rate (1.69% as of September 30, 2017)		56,525
Series 2011F-G, issued on December 22, 2011, in the amount of $400,720, to pay for costs of capital projects and costs and expenses of issuing and delivering the Series 2011F-G Bonds; final maturity date: December 1, 2036; interest rates ranging from 2.00% to 5.00%		354,560
Series 2012A-B, issued on May 16, 2012, in the amount of $314,110, 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%		281,050
Series 2012C-D, issued on November 28, 2012, in the amount of $775,770, 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%		704,060

NOTE 8. LONG-TERM LIABILITIES

Series 2014A, issued on September 10, 2014, in the amount of $155,665, to currently refund the District's outstanding Series 2003 Certificates of Participation, and to advance refund the District's outstanding Series 2006 Certificates of Participation, 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%		122,190
Series 2014B, issued on November 25, 2014, in the amount of $60,875 to currently refund the District's Series 2013A Income Tax Secured Revenue Refunding Bonds, and pay the costs and expenses of issuing and delivering the Series 2014B Bonds; final maturity date: December 1, 2033; interest rates: variable equal to an adjusted SIFMA rate (1.24% as of September 30, 2017)		51,025
Total Income Tax Secured Revenue Bonds	**$**	**4,030,695**
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%	$	335,170
Series 2006, issued on August 30, 2006, in the amount of $248,264; final maturity on June 15, 2055; interest rates ranging from 6.25% to 7.25%		248,264
Total Tobacco Settlement Asset-Backed Bonds	**$**	**583,434**
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%	$	42,680
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 5.91%		11,876
City Market at O Street TIF Bonds, issued on November 17, 2011, in the amount of $38,650; final maturity: June 1, 2041; interest rates ranging from 3.00% to 5.13%		38,130
Total Tax Increment Financing (TIF) Bonds	**$**	**92,686**
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%	$	148,690
Series 2006B-1, issued on May 15, 2006, $354,965 (Tax-Exempt) to finance a portion of the cost of construction of the District's baseball stadium; final maturity date: February 1, 2035; interest rates ranging from 4.63% to 5.00%		185,315
Total Ballpark Revenue Bonds	**$**	**334,005**
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, 2025; interest rates ranging from 2.00% to 5.25%	$	56,170
Series 2012, issued on October 10, 2012, in the amount of $42,935, to: (a) finance Phase II of the 11th Street Bridge Project, and (b) pay costs of issuing the Series 2012 Bonds; maturity date: December 1, 2027; interest rates ranging from 2.00% to 5.00%		34,000
Total Federal Highway Grant Anticipation Revenue Bonds (GARVEE)	**$**	**90,170**
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%	$	27,560
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 3.39% to 5.00%		46,590
Series 2012A-B, issued on December 6, 2012, in the amount of $39,585 to: (a) fund portions of the New Communities Projects, (b) fund a deposit to the Debt Service Reserve Fund, and (c) pay cost of issuing the Series 2012 Bonds; final maturity date: June 1, 2042; interest rates ranging from 3.00% to 5.00%		36,090
Total Deed Tax Revenue Bonds (Housing Production Trust Fund Program)	**$**	**110,240**

NOTE 8. LONG-TERM LIABILITIES

PILOT Revenue Bonds and Notes:		
Anacostia Waterfront Corporation (AWC) PILOT Revenue Bonds, issued on September 20, 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%	$	46,475
Southeast Federal Center PILOT Revenue Note (The Yards Project) Series 2014, issued on December 18, 2014, in the amount of $34,800, to reimburse Forest City SEFC, LLC for the costs of 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, 2017 is $20,330		13,776
Southwest Waterfront Project Revenue Bonds (The Wharf Project) Series 2015 issued on September 3, 2015, in the amount of $145,445, to finance construction of public infrastructure at the Southwest Waterfront (the Wharf), a 24-acre mixed use project in Southwest Washington; final maturity date: June 1, 2040; interest rates ranging from 2.82% to 5.04%		145,445
Total PILOT Revenue Bonds and Notes	**$**	**205,696**
Total Bonds and Notes	**$**	**9,528,241**
Other Long-Term Liabilities:		
225 Virginia Avenue lease	$	86,198
Premium on long-term debt		690,729
Equipment financing program		34,742
Accreted interest		265,801
Long-term tax refunds		168,241
Long-term payroll accrual		1,288
Annual leave		182,472
Disability compensation		121,186
Grant disallowances		11,970
Claims and judgments		121,825
Net pension liabilities		89,748
Total Other Long-Term Liabilities	**$**	**1,774,200**
Total Long-Term Liabilities – Governmental Activities	**$**	**11,302,441**

Business-Type Activities		**Outstanding**
Obligation for unpaid prizes	$	1,939
Compensated absences		446
Obligations under capital leases		36
Estimated third party settlements		4,683
Malpractice loss reserves		2,016
Total Long-Term Liabilities – Business-Type Activities	**$**	**9,120**

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, 2017.

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

Year Ending September 30	Principal (Dollars in $000s)	Interest	Total
2018	$ 125,900	$ 193,010	$ 318,910
2019	145,055	186,629	331,684
2020	192,845	179,466	372,311
2021	178,440	170,213	348,653
2022	178,505	161,686	340,191
2023-2027	845,710	690,646	1,536,356
2028-2032	894,740	498,199	1,392,939
2033-2037	1,070,395	252,616	1,323,011
2038-2041	446,570	40,800	487,370
Total	**$ 4,078,160**	**$ 2,373,265**	**$ 6,451,425**

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

Year Ending September 30	Principal (Dollars in $000s)
2018	$ 690
2019	454
2020	454
2021	454
2022	276
2023-2025	827
Total	**$ 3,155**

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

Year Ending September 30	Principal (Dollars in $000s)	Interest	Total
2018	$ 154,505	$ 195,697	$ 350,202
2019	176,485	188,222	364,707
2020	153,815	180,795	334,610
2021	170,690	173,357	344,047
2022	197,610	164,577	362,187
2023-2027	1,277,260	650,061	1,927,321
2028-2032	1,121,205	334,532	1,455,737
2033-2037	727,340	90,818	818,158
2038	51,785	1,112	52,897
Total	**$ 4,030,695**	**$ 1,979,171**	**$ 6,009,866**

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

Year Ending September 30	Principal (Dollars in $000s)	Interest	Total
2018	$ 41,120	$ 22,255	$ 63,375
2019	25,755	19,582	45,337
2020	28,070	17,908	45,978
2021	30,530	16,083	46,613
2022	31,225	14,099	45,324
2023-2026	178,470	34,816	213,286
2043-2046	159,733	1,697,592	1,857,325
2053-2055	88,531	2,478,469	2,567,000
Total	**$ 583,434**	**$ 4,300,804**	**$ 4,884,238**

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

Year Ending September 30	Principal (Dollars in $000s)	Interest	Total
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	2,645	1,665	4,310
2023-2027	15,360	6,199	21,559
2028-2031	15,285	1,957	17,242
Total	**$ 42,680**	**$ 17,682**	**$ 60,362**

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

Year Ending September 30	Principal (Dollars in $000s)	Interest	Total
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	**$ 11,876**	**$ 10,655**	**$ 22,531**

NOTE 8. LONG-TERM LIABILITIES

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

(Dollars in $000s)

Year Ending September 30	Principal	Interest	Total
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	725	1,792	2,517
2023-2027	6,115	8,308	14,423
2028-2032	8,265	6,620	14,885
2033-2037	10,530	4,352	14,882
2038-2041	10,520	1,383	11,903
Total	**$ 38,130**	**$ 29,821**	**$ 67,951**

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

(Dollars in $000s)

Year Ending September 30	Principal	Interest	Total
2018	$ 2,245	$ 18,343	$ 20,588
2019	10,875	17,989	28,864
2020	3,055	17,610	20,665
2021	3,510	17,409	20,919
2022	3,995	17,178	21,173
2023-2027	82,915	76,069	158,984
2028-2032	136,505	45,353	181,858
2033-2036	90,905	8,941	99,846
Total	**$ 334,005**	**$ 218,892**	**$ 552,897**

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

(Dollars in $000s)

Year Ending September 30	Principal	Interest	Total
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	9,060	2,705	11,765
2023-2027	44,870	6,195	51,065
2028	3,890	97	3,987
Total	**$ 90,170**	**$ 23,731**	**$ 113,901**

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

(Dollars in $000s)

Year Ending September 30	Principal	Interest	Total
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	3,440	4,387	7,827
2023-2027	19,855	19,258	39,113
2028-2032	24,705	14,410	39,115
2033-2037	30,630	8,486	39,116
2038-2042	19,355	2,184	21,539
Total	**$ 110,240**	**$ 67,776**	**$ 178,016**

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

(Dollars in $000s)

Year Ending September 30	Principal	Interest	Total
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	**$ 46,475**	**$ 5,753**	**$ 52,228**

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

(Dollars in $000s)

Year Ending September 30	Principal	Interest	Total
2018	$ -	$ 363	$ 363
2019	-	363	363
2020	13,776	61	13,837
Total	**$ 13,776**	**$ 787**	**$ 14,563**

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

(Dollars in $000s)

Year Ending September 30	Principal	Interest	Total
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	4,705	6,380	11,085
2023-2027	26,820	29,126	55,946
2028-2032	33,000	22,942	55,942
2033-2037	41,795	14,144	55,939
2038-2040	30,445	3,121	33,566
Total	**$ 145,445**	**$ 102,135**	**$ 247,580**

NOTE 8. LONG-TERM LIABILITIES

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

Year Ending September 30	Principal (Dollars in $000s)	Interest	Total
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	4,666	4,608	9,274
2023-2027	28,679	17,689	46,368
2028-2032	37,035	6,243	43,278
Total	**$ 86,198**	**$ 49,816**	**$ 136,014**

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

Year Ending September 30	Principal (Dollars in $000s)	Interest	Total
2018	$ 18,690	$ 564	$ 19,254
2019	11,614	230	11,844
2020	4,438	48	4,486
Total	**$ 34,742**	**$ 842**	**$ 35,584**

Table N43 presents aggregate debt service requirements and net receipts/payments on the associated hedging derivative instruments as of September 30, 2017. 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 89.

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

Year Ending September 30	Principal (Dollars in $000s)	Interest	Hedging Derivatives, Net	Total
2018	$ 8,570	$ 3,841	$ 7,656	$ 20,067
2019	8,960	3,711	7,442	20,113
2020	43,270	3,568	7,106	53,944
2021	34,860	2,789	6,059	43,708
2022	36,400	2,293	5,006	43,699
2023-2027	148,175	5,686	12,701	166,562
Total	**$ 280,235**	**$ 21,888**	**$ 45,970**	**$ 348,093**

NOTE 8. LONG-TERM LIABILITIES

C. LONG-TERM DEBT ACTIVITY DURING FISCAL YEAR

Table N44 presents long-term debt activity for the year ended September 30, 2017:

Table N44 – Long-Term Debt Activity

	(Dollars in $000s)				
	September 30, 2016	Additions	Reductions	September 30, 2017	Due Within One Year
Governmental activities:					
General obligation bonds	$ 3,829,305	$ 1,567,525	$ (1,318,670)	$ 4,078,160	$ 125,900
QZAB	3,845	-	(690)	3,155	690
Income tax secured revenue bonds	4,240,155	-	(209,460)	4,030,695	154,505
Tobacco settlement asset-backed bonds	600,974	-	(17,540)	583,434	41,120
Tax increment financing bonds	96,822	-	(4,136)	92,686	4,180
Ballpark revenue bonds	371,305	-	(37,300)	334,005	2,245
Federal highway grant anticipation revenue bonds (GARVEE)	97,420	-	(7,250)	90,170	7,550
Deed tax revenue bonds (housing production trust fund program)	112,965	-	(2,725)	110,240	2,850
PILOT revenue bonds	214,213	2,263	(10,780)	205,696	8,570
225 Virginia Avenue lease	89,531	-	(3,333)	86,198	3,565
Premium on long-term debt	580,293	177,403	(66,967)	690,729	63,299
Equipment financing program	61,139	-	(26,397)	34,742	18,690
Accreted interest	235,721	30,080	-	265,801	-
Capital leases	1,837	-	(1,837)	-	-
Long-term tax refunds	135,566	36,075	(3,400)	168,241	-
Long-term payroll accrual	10,538	-	(9,250)	1,288	-
Annual leave	170,205	12,836	(569)	182,472	180,264
Disability compensation	130,438	12,383	(21,635)	121,186	-
Grant disallowances	15,189	-	(3,219)	11,970	-
Claims and judgments	145,974	53,999	(78,148)	121,825	-
Net pension liabilities	242,189	-	(152,441)	89,748	-
Total long-term liabilities - Governmental activities	**$ 11,385,624**	**$ 1,892,564**	**$ (1,975,747)**	**$ 11,302,441**	**$ 613,428**
Business-Type activities:					
Obligation for unpaid prizes	$ 2,336	$ -	$ (397)	$ 1,939	$ 410
Compensated absences	443	447	(444)	446	18
Capital lease obligations	36	-	-	36	36
Estimated third party settlements	8,949	4,736	(9,001)	4,683	-
Malpractice loss reserves	2,204	941	(1,130)	2,016	-
Total long-term liabilities - Business-Type activities	**$ 13,968**	**$ 6,124**	**$ (10,972)**	**$ 9,120**	**$ 464**

NOTE 8. LONG-TERM LIABILITIES

NEW BOND ISSUANCE

General Obligation Bonds

In December 2016, the District issued $398,910 Series 2016D General Obligation Bonds. The proceeds of the Series 2016D Bonds were used to finance capital project expenditures under the District's capital improvements plan, and pay the costs and expenses of issuing the Bonds. 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 interest rate pertaining to the Series 2016D Bonds ranges from 3.00% to 5.00%.

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 4.98% in fiscal year 2017. The weighted average interest rate on the District's variable rate bonds for fiscal year 2017 was 1.21%.

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

During fiscal year 2017, the District collected $2,512,522 in Income and Business Franchise Taxes. Of this amount, $366,876, or 14.60%, was held in the General Fund for the payment of debt service on outstanding Income Tax Secured Revenue Bonds in fiscal year 2018. The anticipated debt service amount for fiscal year 2018 is $350,202. Therefore, total available tax revenues collected and set aside in the General Fund in fiscal year 2017 cover the total amount of anticipated debt service for fiscal year 2018 as presented in **Table N45:**

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

Available Tax Revenues Collected in FY 2017
(Dollars in $000s)

Individual Income		$ 1,958,277
Business Franchise		554,245
Total		**$ 2,512,522**
Amount Held in Escrow for FY 2018 Debt Service	(a)	366,876
FY 2018 Debt Service Amount	(b)	350,202
Rate of Coverage (c)=(a)/(b)		**105%**

In fiscal year 2017, debt service on the Income Tax Secured Revenue Bonds totaled $319,842. The debt service coverage ratio was 7.86 to 1: Total available taxes of $2,512,522, divided by FY 2017 debt service of $319,842.

REFUNDINGS AND BOND DEFEASANCES

In November 2016, the District issued $190,145 Series 2016B and $224,315 Series 2016C Multimodal General Obligation Refunding Bonds (new variable rate bonds). The Series 2016B Bonds were issued to current refund/replace Series 2014A Multimodal General Obligation Refunding Bonds and Series 2015A Income Tax Secured Revenue Refunding Bonds (Adjusted SIFMA Rate). The Series 2016C Bonds were used to current refund/replace the Series 2014B Multimodal General Obligation Refunding Bonds. The District completed these transactions to establish a new mandatory tender date (November 2021) with the 2016B and 2016C bonds as they replaced the prior amortization schedules of the Series 2014A Bonds, Series 2014B Bonds and Series 2015A Bonds. In this situation, the refunding/replacement of the original variable rate bonds with new variable rate bonds at the time of refunding produced no economic gain or loss as well as no estimated aggregate difference in debt service.

In December 2016, the District issued $190,635 Series 2016E General Obligation Refunding Bonds. The proceeds of the Series 2016E Bonds were placed in an irrevocable escrow account to pay, when due, principal and interest on the refunded bonds, Series 2007C. The advance refunding produced an aggregate difference in debt service of $25,608 and an economic gain of $20,230.

In June 2017, the District issued $563,520 Series 2017A General Obligation Refunding Bonds. The proceeds of the bonds were used to current refund a portion of the District's Series 2007A General Obligation Bonds outstanding and all the Series 2007B General Obligation Refunding Bonds. The current refunding produced an aggregate difference in debt service of $147,020 and an economic gain of $103,366.

As of September 30, 2017, the total amount of defeased debt outstanding held by the escrow agent was $207,920. This amount has been removed from the government-wide financial statements.

REDEMPTION: BALLPARK REVENUE BONDS

In fiscal year 2017, the District paid $37,300 of principal on the outstanding Ballpark Revenue Bonds, Series 2006A-1, 2006A-2 and 2006B-1. The payments include the redemption of $35,420 of principal prior to its scheduled maturity. The additional payments were possible because the Series 2006B-1 Bonds became callable in 2017. The additional payments were made from surplus revenues dedicated to the payment of 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. 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 current 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 current 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 bonds.

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
2016B	$ 190,140	6/1/2039	LIBOR Reset / Monthly Pay	Bank of America, N.A.	11/18/2016	11/12/2021
2016C	224,310	6/1/2039	LIBOR Reset/ Monthly Pay	Bank of America, N.A.	11/18/2016	11/12/2021
Total	**$ 414,450**					

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, 2017, the District had financed approximately $537 million of its capital equipment needs through the Master Equipment Lease Purchase Program since inception, and had approximately $34.74 million in principal outstanding. Payments are made on a quarterly basis. The average interest rate used to finance equipment through this program from inception was 3.93%. The final payment associated with this program is due on June 5, 2020. The capital improvement plan for fiscal years 2017 through 2022 initiates a short-term financing program that will replace the current equipment financing program.

Obligation for Unpaid Prizes

The Office of Lottery and Charitable Games (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, 2017, MUSL purchased for the Lottery, U.S. government securities totaling $2,010 to fund future installment payments to winners. The market value of these securities as of September 30, 2017, was $1,939. 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 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 bonds were extinguished. The aggregate difference in debt service between the refunded debt and the refunding debt was $10,000.

NOTE 8. LONG-TERM LIABILITIES

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 were 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. 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 defeased and therefore has been removed as a liability from WCSA's financial statements. The amount was fully paid by the Trustee on October 1, 2016.

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
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	25,725	25,608	51,333
2023-2027	152,020	107,052	259,072
2028-2032	172,565	62,626	235,191
2033-2037	71,970	31,685	103,655
2038-2040	70,635	6,337	76,972
Subtotal	**583,140**	**347,814**	**930,954**
Add:			
Unamortized bond Premium - net	9,791	-	9,791
Total	**$ 592,931**	**$ 347,814**	**$ 940,745**

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) investment 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 2017</u>

During fiscal years 2010 through 2017, 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 2017, 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.

NOTE 8. LONG-TERM LIABILITIES

Table N48 – Housing Finance Agency Debt Service Requirements to Maturity

(Dollars in $000s)

Year Ending September 30	Principal	Interest	Total
2018	$ 21,569	$ 42,334	$ 63,903
2019	70,193	41,058	111,251
2020	14,206	40,177	54,383
2021	12,380	39,607	51,987
2022	13,446	39,013	52,459
2023-2027	77,082	184,851	261,933
2028-2032	109,293	165,990	275,283
2033-2037	202,002	124,124	326,126
2038-2042	115,899	98,780	214,679
2043-2047	278,769	75,189	353,958
2048-2052	193,330	20,038	213,368
2053-2057	24,276	1,299	25,575
Subtotal	**1,132,445**	**872,460**	**2,004,905**
Add:			
Unamortized Bond Premium - Net	1,532		1,532
Total	**$ 1,133,977**	**$ 872,460**	**$ 2,006,437**

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 (CSRS)

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. As of September 30, 2017, there were 1,504 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, 2017, 2016, and 2015, were $9,167, $9,594, and $10,240, 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 $127,200 (not in thousands) for 2017, 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, 2017, 2016 and 2015, were $97,599, $89,350, and $81,295, respectively. In addition, District contributions for Medicare for fiscal years 2017, 2016 and 2015 were $37,771, $35,670, and $32,470, 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: https://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 applies.

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, 2017 and 2016.

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

TRF *	2017	2016
Inactive plan members (Retirees and survivors receiving benefits - post June 30, 1997)	3,899	3,882
Active plan members	5,199	5,141
Vested terminations	1,330	1,176
Total	**10,428**	**10,199**

POFRF *	2017	2016
Inactive plan members (Retirees and survivors receiving benefits - post June 30, 1997)	3,215	3,003
Active plan members	5,312	5,359
Vested terminations	340	293
Total	**8,867**	**8,655**

** 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 Police Officers, Firefighters, and Teachers Retirement Benefit Replacement Plan Act of 1998. The amount of the District contributions for fiscal years 2017 and 2016 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 2017 and 2016. 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, 2017	$ 56,781	$ 145,631
September 30, 2016	44,469	136,115

Net Pension Liability

The District's net pension liability was measured as of September 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of October 1, 2016. **Table N50** presents the aggregate amounts of the District Retirement Funds as of September 30, 2017.

Table N50 – District Retirement Funds' Aggregate Amounts

	(in $000s)	
Description	**TRF**	**POFRF**
Total pension liabilities	$ 2,160,347	$ 4,957,340
Pension net position	2,070,599	5,684,442
Deferred outflows of resources	81,938	245,427
Deferred inflows of resources	149,237	555,339
Pension expense	43,194	108,966
Net pension liabilities (assets)	89,748	(727,102)

Actuarial Assumptions: The total pension liability was determined based on an actuarial valuation as of October 1, 2016, then updated using actuarial assumptions presented in **Table N51**, applied to all periods included in the measurement and rolled forward to the measurement date as of September 30, 2017. **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, 2017

	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 RPH 2014 Blue Collar Mortality Table generationally projected with Scale BB, set back 1 year for males. Post-disability mortality rates were based on the RPH 2014 Disabled Mortality Table set back 6 years for males and set forward 1 year for females.	Pre-retirement and post-retirement mortality rates were based on the RPH 2014 Blue Collar Mortality Table generationally projected with Scale BB, set back 1 year for males.

The actuarial assumptions used in the October 1, 2016 valuation were based on the results of the most recent actuarial experience investigation for the period October 1, 2011 to September 30, 2015, dated July 18, 2017.

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 geometric 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	20.00%	5.50%
Foreign Equity (Developed)	16.00%	5.30%
Foreign Equity (Emerging)	10.00%	7.80%
Investment Grade Bonds	11.00%	1.50%
Treasury Inflation-Protected Securities (TIPS)	6.00%	1.50%
High Yield Bonds	4.00%	4.00%
Bank Loans	3.00%	3.50%
Foreign Bonds (Developed)	2.00%	0.40%
Emerging Markets Debt (Local)	4.00%	3.90%
Real Estate	6.00%	4.90%
Natural Resources (Private)	2.00%	6.40%
Infrastructure	3.00%	5.40%
Private Equity	9.00%	7.20%
Hedge Funds	4.00%	3.30%
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

NOTE 9. RETIREMENT PROGRAMS

made at the current contribution rate and that the District contributions will be made in accordance with 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 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, 2017.

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 9/30/2016	$ 2,064,138	$ 1,821,949	$ 242,189	$ 4,675,562	$ 4,954,631	$ (279,069)
Changes for the year						
Service cost	65,911	-	65,911	196,629	-	196,629
Interest	131,657	-	131,657	300,626	-	300,626
Difference between expected and actual experience	(37,230)	-	(37,230)	(188,549)	-	(188,549)
Changes of assumptions	14,106	-	14,106	67,256	-	67,256
Contributions - employer	-	56,781	(56,781)	-	145,631	(145,631)
Contributions - employees	-	34,364	(34,364)	-	33,424	(33,424)
Net investment income	-	239,554	(239,554)	-	655,310	(655,310)
Benefit payments including refunds of employee contributions	(78,235)	(78,235)	-	(94,184)	(94,184)	-
Administrative expenses	-	(4,721)	4,721	-	(12,838)	12,838
Other income	-	907	(907)	-	2,468	(2,468)
Net changes	96,209	248,650	(152,441)	281,778	729,811	(448,033)
Balances at 9/30/2017	**$ 2,160,347**	**$ 2,070,599**	**$ 89,748**	**$ 4,957,340**	**$ 5,684,442**	**$ (727,102)**

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)	$ 442,350	$ 89,748	$ (190,869)
Police Officers' and Firefighters' Plan's Net Pension Liability (Asset)	215,463	(727,102)	(1,467,631)

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, 2017, the District recognized pension expense of $43,194 and $108,966 for TRF and POFRF, respectively. **Table N55** presents deferred outflows of resources and deferred inflows of resources related to pensions as of September 30, 2017.

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	$ 392	$ 22,459	$ -	$ 209,154
Changes of assumptions	8,052	-	52,210	-
Net difference between projected and actual earnings on plan investments	73,494	126,778	193,217	346,185
Total	**$ 81,938**	**$ 149,237**	**$ 245,427**	**$ 555,339**

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
2018	$ (8,000)	$ (46,582)
2019	(534)	(46,582)
2020	(34,006)	(136,116)
2021	(24,759)	(80,406)
2022	-	(225)

Payable to the Pension Plans

The District's contributions for fiscal years 2017, 2016, and 2015 were equal to the fund's independent actuary's recommendation; therefore, there were no outstanding amounts due to the plans as of September 30, 2017.

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. As of September 30, 2017, there were 17,837 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, 2017, 2016, and 2015, District's contributions to the plan were $65,133, $60,382, and $54,174, 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 2017. 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 2017. As of September 30, 2017, there were 3,346 employees participating in the Section 403(b) plan. District employees contributed $21,377 to this annuity plan in fiscal year 2017. 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 2017. 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, 2017, there were 13,007 employees participating in the Section 457 plan. District employees contributed $61,479 to this plan in fiscal year 2017. 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. As of September 30, 2017, the Plan had 1,359 members. 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 was performed as of September 30, 2016. The purpose of the valuation was to provide an estimate of the actuarial accrued liabilities of the plan and the Annual Required Contribution (ARC) in accordance with GASB Statement No. 43. The District pays contributions based on an actuarially determined valuation using the parameters of GASB Statement No. 45, as presented in the Schedule of Employer Contributions.

   For fiscal year 2017, the District contributed $31 million to the plan and retiree (participant) contributions totaled $521,466 (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

NOTE 10. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

family members of an annuitant with 30 or less 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 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 Officer or Firefighter 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 Officer 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, 2016
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percent of pay, closed
Remaining Amortization Period	19 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	5.90% (grading down to 3.90% in 2040, using the Society of Actuaries 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 2017 (in $000s)	FY 2016 (in $000s)	FY 2015 (in $000s)
Annual required contribution	$ 31,000	$ 29,000	$ 91,400
Interest on net OPEB obligation	700	700	700
Adjustment to annual required contribution	(700)	(10,706)	(700)
Annual OPEB cost (expense)	31,000	18,994	91,400
Contributions made	31,000	29,000	91,400
Change in net OPEB obligation	-	10,006	-
Net OPEB obligation – beginning of year	-	(10,006)	(10,006)
Net OPEB obligation – end of year*	**$ -**	**$ -**	**$ (10,006)**

** No net OPEB obligations in fiscal years 2016 and 2017 because OPEB was overfunded per the actuarial report for those years*

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2017 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 2015 through 2017)

Fiscal Year Ended	Annual OPEB Cost (millions)	% of Annual OPEB Cost Contributed	Net OPEB Obligation (millions)*
09/30/17	$ 31.00	100%	$ -
09/30/16	19.00	100%	-
09/30/15	91.40	100%	(10.00)

** No net OPEB obligations in fiscal years 2016 and 2017 because OPEB is overfunded per the actuarial report for those years*

e) ***Funded Status and Funding Progress:*** Using the most recent (September 30, 2016) actuarial valuation results, the September 30, 2016 estimated actuarial liability is $1,115,800 and the actuarial value of plan assets is $1,248,300 resulting in an estimated funding excess of $132,500. The estimated covered payroll is $1,771,335 and the ratio of the excess funding to covered payroll is 7.48%. The Plan is 111.87% 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, 2016, 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 5.90% grading down to 3.90% in 2040, using the Society of Actuaries Getzen Medical Trend Model. 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, 2017, was 19 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 11.98% with net investment income of $150,516 during fiscal year 2017.

NOTE 11. FUND BALANCE/NET POSITION

Fund balances as of September 30, 2017, are shown in **Table N60a**.

Table N60a – Schedule of FY 2017 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	$ 14,969	$ -	$ -	$ -	$ -	$ 14,969
Total Nonspendable Fund Balance	14,969	-	-	-	-	14,969
Restricted for:						
Emergency and Contingency Cash Reserves	413,901	-	-	-	-	413,901
Debt Service - Bond Escrow	542,081	-	-	-	-	542,081
Budget	40,063	-	-	-	-	40,063
Purpose Restrictions	95,661	133,129	-	-	-	228,790
Payment-in-Lieu of Taxes	-	-	-	-	70,941	70,941
Tobacco Settlement	-	-	-	-	78,603	78,603
Tax Increment Financing Program	28,362	-	-	-	48,711	77,073
Housing Production Trust	-	-	236,988	-	-	236,988
Highway Projects	-	-	-	-	53,710	53,710
Baseball Special Revenue	-	-	-	-	53,743	53,743
Total Restricted Fund Balance	1,120,068	133,129	236,988	-	305,708	1,795,893
Committed to:						
Fiscal Stabilization Reserve	185,763	-	-	-	-	185,763
Cash Flow Reserve	592,346	-	-	-	-	592,346
Budget Support Act	41,994	-	-	-	-	41,994
Commodities Cost Reserve	4,205	-	-	-	-	4,205
Soccer Stadium	21,206	-	-	-	-	21,206
Dedicated Taxes	19,233	-	-	-	-	19,233
WMATA Operations Fund	35,777	-	-	-	-	35,777
Subsequent Years Expenditures	438,607	-	-	-	-	438,607
Other Special Purposes	202,123	-	-	-	-	202,123
Total Committed Fund Balance	1,541,254	-	-	-	-	1,541,254
Unassigned	-	-	-	(642,032)	-	(642,032)
Total Fund Balance	**$ 2,676,291**	**$ 133,129**	**$ 236,988**	**$ (642,032)**	**$ 305,708**	**$ 2,710,084**

NOTE 11. FUND BALANCE/NET POSITION

The net position of the proprietary and fiduciary funds as of September 30, 2017 is shown in **Table N60b**.

Table N60b – Schedule of FY 2017 Net Position, Proprietary and Fiduciary Funds

(Dollars in $000s)

Net Position	Lottery & Games	Unemployment Compensation Fund	Not-for-Profit Hospital Corporation	Fiduciary Funds
Invested in capital assets	$ 350	$ -	$ 79,350	$ -
Restricted	-	397,252	19,121	9,655,767
Unrestricted	4,247	-	6,938	-
Total Net Position	**$ 4,597**	**$ 397,252**	**$ 105,409**	**$ 9,655,767**

NOTE 12. TAX ABATEMENTS

GASB Statement No. 77, *Tax Abatement Disclosures*, defines tax abatement as a reduction in tax revenues that results from an agreement between one or more governments and an individual or entity in which: (a) one or more governments promise to forgo tax revenues to which they are otherwise entitled and (b) the individual or entity promises to take a specific action after the agreement has been entered into that contributes to economic development or otherwise benefits the governments or the citizens of those governments.

GASB Statement No. 77 identified three features that, in combination, set tax abatements apart from tax expenditures in general: 1) the purpose of the tax abatements; 2) the type of revenue they reduce; and 3) the existence of an agreement with a specific individual or entity as the basis for the abatement. This agreement must precede the reduction of taxes and the fulfillment by the individual or entity of the promise to act.

Many tax expenditure programs exhibit the features of tax abatement programs. For instance, they reduce taxes, encourage beneficial actions by individuals or entities, and may be based on agreements. Nevertheless, these programs are excluded from the scope of GASB Statement No. 77 because although the District commits to abating tax, such commitment is made after the individual or entity has performed the required activity associated with the requested tax abatement. Most of the tax expenditure programs require individuals or entities to perform certain activities and subsequently apply for the tax reduction. The District then approves or denies the application. Such programs, even when an agreement exists, are not classified as tax abatement programs in accordance with GASB Statement No. 77.

The District of Columbia provides tax abatements through its Special Tax Incentives Program. The program provides real property tax abatements and possessory interest tax abatements which are both administered by the Office of the Deputy Mayor for Planning and Economic Development (DMPED) in coordination with the OCFO's Office of Tax and Revenue (OTR). The real property tax abatements are designed to encourage construction, improvement, and development of housing units including affordable housing units, commercial and retail centers in the District. The real property tax abatements also encourage developers to enter into First Source Agreements with the Department of Employment Services, comply with local, small, and disadvantaged business enterprise commitments, and provide additional job opportunities and job training to the District residents. The possessory interest tax abatements are designed to provide support for construction, maintenance, and operating activities of major project developments in the District.

For the real property tax abatements, the District may: (a) abate the entire real property tax for a certain number of years (for example, 10 or 20 years), (b) abate the real property tax in excess of a certain amount for a certain number of years, or (c) put a cap on the annual real property tax for a certain number of years. For the possessory interest tax abatements, the District enters into ground lease agreements that either provide abatement of the possessory interest tax for a number of years and gradually increase this tax thereafter, or return paid possessory interest tax as a grant to the developer.

The special tax incentives program is established under the D.C. Code, Title 2, Government Administration; Chapter 12, Business and Economic Development, and D.C. Code, Title 47, Taxation, Licensing, Permits, Assessments, and Fees; Chapter 10 Property Exempt from Taxation, and Chapter 46, Special Tax Incentives.

For the fiscal years ended September 30, 2016 and 2017, the District abated taxes (real property taxes and possessory interest taxes) totaling $7.6 million and $6.7 million, respectively. **Table N61** presents the aggregate amounts of taxes abated during fiscal years 2016 and 2017.

Table N61 - Tax Abatement Programs

	(Dollars in $000s)	
Tax Abatement Programs	**Fiscal Year 2017**	**Fiscal Year 2016**
Special Tax Incentives Program		
Real Property Tax	$ 6,575	$ 6,891
Possessory Interest tax	158	725
Total	**$ 6,733**	**$ 7,616**

NOTE 13. 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, 2017, is shown in **Table N62a.**

Table N62a – Summary of Grants Provided to WMATA

	(Dollars in $000s)	
Type	**Local**	**Capital**
Operating grants	$ 349,414	$ -
School Transit Subsidy	18,600	-
Capital grants	-	126,784
Total	**$ 368,014**	**$ 126,784**

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 N62b** 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 N62b – Summary of Financial Statements for WMATA as of and for the Year Ended June 30, 2017

Financial Position (in $000s)	
Total assets	$ 13,512,926
Total deferred outflows of resources	449,516
Total liabilities	(3,470,513)
Total deferred inflows of resources	(140,573)
Net position	**$ 10,351,356**
Operating Results (in $000s)	
Operating revenues	$ 788,813
Operating expenses	(2,756,894)
Nonoperating revenues, net	1,072,155
Revenue from capital contributions	722,213
Change in net position	**$ (173,713)**
Change in Net Position (in $000s)	
Net position, beginning of year	$ 10,525,069
Change in net position	(173,713)
Net position, end of year	**$ 10,351,356**

B. SIGNIFICANT TRANSACTIONS WITH COMPONENT UNITS

During fiscal year 2017, 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, $138,128; and the University of the District of Columbia, $87,298. The District did not provide subsidies to the Health Benefit Exchange Authority and the Housing Finance Agency.

NOTE 14. 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, 2017, totaled $535,131, which comprised of $452,201 in on-behalf payments to the DC Federal Pension fund and $82,930 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 30, 2017, 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 responses to potential terrorist threats or other attacks. Since 2002, the District has expended a total of $152,262 or 98% of the federal funding received for purposes of emergency preparedness with no amounts being expended for such purposes during fiscal year 2017.

C. SUPPLEMENTAL NUTRITION ASSISTANCE PROGRAM

The District participates in the federal government's Supplemental Nutrition Assistance Program (SNAP), which is designed to increase the food purchasing power of economically disadvantaged residents. SNAP expenditures totaled $199,360 in fiscal year 2017.

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 15. 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 $1,837 in FY 2017.

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 $147,982 in FY 2017.

C. SCHEDULE OF FUTURE MINIMUM LEASE COMMITMENTS

The District liquidated all of its capital leases in FY 2017, and as such, there are no outstanding capital lease commitments. **Table N63** shows the future minimum lease payments for all operating leases having non-cancelable terms in excess of one year as of September 30, 2017.

Table N63 – Schedule of Future Minimum Lease Commitments

	(Dollars in $000s)	
	Primary Government	
	Operating Leases	
Year Ending September 30	**Facilities**	**Equipment**
2018	$ 91,714	$ 3,901
2019	84,291	3,482
2020	80,655	943
2021	71,358	536
2022	63,795	45
2023-2027	234,554	-
2028-2032	49,881	-
2033-2037	8,006	-
2038-2042	890	-
2043-2047	1,032	-
2048-2049	496	-
Minimum lease payments	**$ 686,672**	**$ 8,907**

NOTE 16. 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, 2017. 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, 2017, probable cumulative expenditures that may be disallowed by grantor agencies totaled $11,970. 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, 2017, the aggregate fair value of all hedging derivative instruments with these collateral posting provisions was ($35,450) 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, 2017.

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, 2017.

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 $34,800.

In fiscal year 2017, there was a $930 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 N64.**

Table N64 - Summary of Changes in Claims and Judgments Accrual

	(Dollars in $000s)	
Description	**Fiscal Year 2017**	**Fiscal Year 2016**
Liability at October 1	**$ 145,974**	**$ 201,309**
Add: Claims incurred		
Lawsuits	21,961	55,300
Property tax appeals	32,038	34,747
Less: Claims payments/ adjustments		
Lawsuits	(47,040)	(135,589)
Property tax appeals	(31,108)	(9,793)
Liability at September 30	**$ 121,825**	**$ 145,974**

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

NOTE 16. COMMITMENTS AND CONTINGENCIES

A summary of changes in this accrual is shown in **Table N65**.

Table N65 – Summary of Changes in Disability Compensation Accrual

(Dollars in $000s)

Description	Fiscal Year 2017	Fiscal Year 2016
Liability at October 1	**$ 130,438**	**$ 127,537**
Claims incurred/adjustments	12,383	20,130
Less-benefit payments	(21,635)	(17,229)
Liability at September 30	**$ 121,186**	**$ 130,438**

NOTE 17. SUBSEQUENT EVENTS

A. GENERAL OBLIGATION BONDS

In December 2017, the District issued $521,705 in General Obligation Bonds, Series 2017D. These Bonds are a general obligation 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 and interest on the Bonds and any other outstanding general obligation parity bonds when due.

The proceeds of the Series 2017D Bonds will be used to: (1) pay or reimburse the District for capital project expenditures under the District's capital improvements plan, and (2) pay the costs and expenses of issuing and delivering the Series 2017D Bonds. The interest rate pertaining to the Series 2017D Bonds range from 4.00% to 5.00%.

B. GENERAL OBLIGATION DIRECT PURCHASE BONDS

In November 2017, the District issued $100,000 in Multimodal General Obligation Bonds, Series 2017B and $99,935 in Multimodal General Obligation Refunding Bonds, Series 2017C Bonds. These Bonds are a general obligation 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 and interest on the Bonds and any other outstanding general obligation parity bonds when due.

The proceeds of the Series 2017B Bonds will be used to pay or reimburse the District for capital project expenditures under the District's capital improvements plan. The proceeds of the Series 2017C Bonds will be used to refund the Series 2011E Income Tax Secured Revenue Refunding Bonds, and the Series 2014B Income Tax Secured Revenue Refunding Bonds. The Series 2017B Multimodal General Obligation Bonds and Series 2017C Multimodal General Obligation Refunding Bonds were issued in the SIFMA Index Mode.

The Series 2017B and Series 2017C Bonds were purchased by Royal Bank of Canada Municipal Products, LLC and the Final Index Rate Mandatory Repurchase date is December 1, 2022 for both series of bonds. **Table N66** provides an overview of each direct purchase obligation.

Table N66 - Overview of Direct Purchase Obligation Refunding(s)

Series		Par Outstanding	Final Maturity	Index	Payment Frequency	Direct Purchase Bank	Direct Purchase Agreement Date	Direct Purchase Expiration Date
2017B	$	100,000	06/01/2042	SIFMA	Monthly Pay	RBC Municipal Products , LLC	11/21/2017	12/1/2022
2017C		99,935	06/01/2033	SIFMA	Monthly Pay	RBC Municipal Products , LLC	11/21/2017	12/1/2022
Total	**$**	**199,935**						

NOTE 17. SUBSEQUENT EVENTS

C. DISTRICT OF COLUMBIA TAX INCREMENT REVENUE BOND

On November 30, 2017, the District issued $3,000 in Tax Increment Revenue Bond, Series 2017 for the City Market at O Street Phase II Project. Series 2017 Bond is a special obligation of the District, secured by the Downtown TIF, that is without recourse to the District, and payable solely from the available tax increment, the debt service fund and any other property constituting the trust estate pledged for the Series 2017 Bond. The proceeds of Series 2017 Bond will be used to reimburse the project developer for amounts expended to pay for a portion of eligible costs associated with the mixed-used development known as City Market at O Street. This was the second phase of a two-phase issuance, with the first issuance in November of 2011 in the amount of $38,650. Interest on the Series 2017 Bond is 2.35% with a maturity date of November 1, 2027.

D. GENERAL OBLIGATION BOND ANTICIPATION NOTES

In December 2017, the District issued $200,000 in General Obligation Bond Anticipation Notes, Series 2017 (Notes). These Notes are a general obligation 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 Notes when due. The Notes 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, premium, if any, and interest on the Notes and any other outstanding general obligation parity bonds when due.

The proceeds of the Series 2017 Notes will be used to finance capital project expenditures under the District's capital improvements plan. The Notes were issued in the Libor Index Mode as described in the Revolving Credit Agreement between the District of Columbia and U.S. Bank National Association and mature March 31, 2021.