SUBSEQUENT EVENTS

Short-Term Debt

On November 7, 2013, the District issued $405,000 in Tax Revenue Anticipation Notes (TRANs) as a means of financing, on a short-term basis, the District's general governmental expenses in anticipation of receiving or collecting revenues for fiscal year 2014. These fixed rate TRANs were issued at an interest rate of 2.00% and mature on September 30, 2014. By law, the District must repay any short-term debt in its entirety by September 30 of the fiscal year of issuance.

General Obligation Bonds

On December 18, 2013, the District issued $495,425 in General Obligation Bonds, Series 2013A, with interest rates ranging from 2.00% to 5.00%. The proceeds of the 2013A Bonds will be used to: (a) finance capital project expenditures; and (b) pay the costs and expenses of issuing and delivering the 2013A Bonds.

Income Tax Secured Revenue Refunding Bonds

On November 26, 2013, the District issued $97,145 in Income Tax Secured Revenue Refunding Bonds, Series 2013A. The proceeds of these bonds will be used to: (a) currently refund $96,545 of the District's Income Tax Secured Revenue Refunding Bonds (Series 2010E, Series 2011B, and Series 2011D), each maturing on December 1, 2013 and (b) pay the costs of issuing and delivering the 2013A Bonds. These bonds bear interest at a variable rate equal to an Adjusted SIFMA Rate.

These and other subsequent events are presented more fully in Note 16, found on pages 127 through 128.

CONTACTING THE DISTRICT'S OFFICE OF THE CHIEF FINANCIAL OFFICER

This CAFR is designed to provide the District's citizens, taxpayers, customers, vendors, investors, and creditors with a general overview of the District's finances and to demonstrate the effectiveness of the District's systems of accountability for the money it receives. If you have any questions regarding this report, suggestions for improvement, or need additional financial information, please contact the following:

The Office of the Chief Financial Officer
The John A. Wilson Building
1350 Pennsylvania Avenue, N.W., Suite 209
Washington, D.C. 20004
(202) 727-2476
www.cfo.dc.gov

BASIC FINANCIAL STATEMENTS

The basic financial statements include the *Government-Wide Financial Statements, Governmental Fund Financial Statements, Propietary Fund Financial Statements, Fiduciary Fund Financial Statements and the Component Unit Financial Statements*. These financial statements present different views of the District.

Following the basic financial statements are the *Notes to the Basic Financial Statements* which explain some of the information in the financial statements and provide more detail.

Exhibit 1-a

District of Columbia
Statement of Net Position
September 30, 2013
(With Comparative Totals at September 30, 2012)
($000s)

	Primary Government				
	Governmental Activities	Business-Type Activities	Totals 2013	Totals 2012 as restated	Component Units
ASSETS					
Cash and cash equivalents (unrestricted)	$ 1,279,409	$ 8,856	$ 1,288,265	$ 989,418	$ 76,096
Investments (unrestricted)	-	-	-	-	100,542
Due from federal government	508,636	10,210	518,846	526,821	-
Taxes receivable, net	384,120	-	384,120	423,309	-
Accounts receivable, net	154,501	17,542	172,043	194,531	20,275
Other receivables	-	-	-	-	93,191
Due from primary government	-	-	-	-	28,067
Due from component units	24,745	-	24,745	34,282	-
Due from fiduciary funds	388	-	388	2,213	-
Internal balances	35,456	(35,456)	-	-	-
Inventories	25,890	-	25,890	23,079	1,249
Other current assets	2,554	7	2,561	1,750	24,701
Cash and cash equivalents (restricted)	1,583,058	311,814	1,894,872	1,122,493	111,602
Investments (restricted)	98,624	10,200	108,824	404,636	317,663
Other long term assets	714,010	-	714,010	647,285	668,541
Depreciable capital assets, net	8,946,855	427	8,947,282	8,279,832	729,107
Non-depreciable capital assets	1,953,084	-	1,953,084	2,145,607	109,057
Total assets	15,711,330	323,600	16,034,930	14,795,256	2,280,091
DEFERRED OUTFLOW OF RESOURCES					
Derivative instrument	50,275	-	50,275	73,597	-
LIABILITIES					
Accounts payable	840,898	58,538	899,436	769,517	34,918
Compensation payable	205,171	838	206,009	182,449	17,518
Due to primary government	-	-	-	-	24,745
Due to component units	28,067	-	28,067	22,827	-
Due to fiduciary funds	-	-	-	35	-
Unearned revenues	661,756	136	661,892	659,133	16,024
Accrued liabilities	425,220	7,598	432,818	439,592	17,279
Accrued interest payable	115,522	-	115,522	116,638	-
Other current liabilities	42,566	-	42,566	10,030	84,616
Derivative instrument liabilities	50,262	-	50,262	73,048	-
Long-term liabilities:					
Due within one year	482,386	4,010	486,396	485,097	41,272
Due in more than one year	9,428,077	6,190	9,434,267	8,695,575	1,470,098
Total liabilities	12,279,925	77,310	12,357,235	11,453,941	1,706,470
NET POSITION					
Net investment in capital assets	2,849,043	427	2,849,470	2,872,752	440,323
Restricted for:					
Expendable					
Debt service	488,201	-	488,201	388,255	-
Benefit payments	-	241,952	241,952	229,930	-
Capital projects	102,434	-	102,434	-	-
Grants and special purposes	170,162	-	170,162	180,921	-
Budget reserves	30,759	-	30,759	29,874	-
Purpose restriction	117,621	-	117,621	99,072	-
Emergency reserves	339,490	-	339,490	339,103	-
Other	16,015	-	16,015	20,357	155,457
Nonexpendable	-	-	-	-	7,568
Unrestricted (deficit)	(632,045)	3,911	(628,134)	(745,352)	(29,727)
Total net position	$ 3,481,680	$ 246,290	$ 3,727,970	$ 3,414,912	$ 573,621

The accompanying notes are an integral part of this statement.

Exhibit 1-b

District of Columbia
Statement of Activities
For the Year Ended September 30, 2013
(With Comparative Totals for the Year Ended September 30, 2012)
($000s)

		Program Revenues			Net (Expense) Revenue and Changes in Net Position				
					Primary Government				
							Totals		
Functions/Programs	**Expenses**	**Charges for Services, Fees, Fines & Forfeits**	**Operating Grants and Contributions**	**Capital Grants and Contributions**	**Governmental Activities**	**Business-type Activities**	**2013**	**2012 as restated**	**Component Units**
Primary government:									
Governmental activities:									
Governmental direction and support	$ 993,774	$ 106,069	$ 48,622	$ 4,454	$ (834,629)		$ (834,629)	$ (870,131)	
Economic development and regulation	460,082	136,436	66,777	576	(256,293)		(256,293)	(145,088)	
Public safety and justice	1,497,016	107,276	529,382	-	(860,358)		(860,358)	(842,617)	
Public education system	2,224,946	2,731	348,622	-	(1,873,593)		(1,873,593)	(1,738,444)	
Human support services	4,086,722	7,893	2,257,582	41,210	(1,780,037)		(1,780,037)	(1,751,352)	
Public works	603,423	170,810	26,133	224,573	(181,907)		(181,907)	(122,105)	
Public transportation	284,851	-	-	-	(284,851)		(284,851)	(221,339)	
Interest on long-term debt	382,530	-	-	-	(382,530)		(382,530)	(397,216)	
Total governmental activities	10,533,344	531,215	3,277,118	270,813	(6,454,198)		(6,454,198)	(6,088,292)	
Business-type activities:									
Lottery and games	173,927	242,460	-	-		$ 68,533	68,533	66,490	
Unemployment compensation	255,645	-	32,790	-		(222,855)	(222,855)	(316,968)	
Total business-type activities	429,572	242,460	32,790			(154,322)	(154,322)	(250,478)	
Total primary government	$ 10,962,916	$ 773,675	$ 3,309,908	$ 270,813	(6,454,198)	(154,322)	(6,608,520)	(6,338,770)	
Component units:									
Health benefit exchange	$ 16,155	$ -	$ 16,155	$ 27,744					$ 27,744
Convention center	229,078	26,505	-	-					(202,573)
Not-for-profit hospital corporation	101,271	89,956	-	-					(11,315)
Housing finance	65,937	5,004	-	-					(60,933)
University	141,338	30,173	23,277	19,960					(67,928)
Total component units	$ 553,779	$ 151,638	$ 39,432	$ 47,704					(315,005)
General revenues:									
Taxes:									
Property taxes					2,012,788	-	2,012,788	1,945,071	-
Sales and use taxes					1,247,374	-	1,247,374	1,218,576	-
Income and franchise taxes					2,094,179	-	2,094,179	1,956,590	-
Gross receipts taxes					345,852	-	345,852	319,036	-
Other taxes					400,308	131,025	531,333	537,684	-
Investment earnings					6,071	7,723	13,794	30,461	45,557
Miscellaneous					580,097	96,161	676,258	693,146	31,992
Subsidy from primary government					-	-	-	-	190,513
Transfer in (out)					68,314	(68,314)	-	-	-
Total general revenues and transfers					6,754,983	166,595	6,921,578	6,700,564	268,062
Change in net position					300,785	12,273	313,058	361,794	(46,943)
Net position at October 1, as restated					3,180,895	234,017	3,414,912	3,053,118	620,564
Net position at September 30					$ 3,481,680	$ 246,290	$ 3,727,970	$ 3,414,912	$ 573,621

The accompanying notes are an integral part of this statement.

Exhibit 2-a

District of Columbia
Balance Sheet
Governmental Funds
September 30, 2013
(With Comparative Totals at September 30, 2012)
($000s)

	General	Federal & Private Resources	Housing Production Trust	General Capital Improvements	Nonmajor Governmental Funds	Total Governmental Funds 2013	Total Governmental Funds 2012
ASSETS							
Cash and cash equivalents (unrestricted)	$ 1,279,409	$ -	$ -	$ -	$ -	$ 1,279,409	$ 981,411
Due from federal government	364	426,056	2,495	79,721	-	508,636	526,497
Taxes receivable, net	380,360	-	-	-	3,760	384,120	423,309
Accounts receivable, net	91,525	28,418	-	2,039	32,519	154,501	170,561
Due from component units	24,080	-	-	-	665	24,745	34,282
Due from other funds	231,527	35,111	4,420	-	20,700	291,758	238,674
Inventories	16,015	9,875	-	-	-	25,890	23,079
Other current assets	1,603	921	-	-	30	2,554	1,745
Cash and cash equivalents (restricted)	756,091	116,983	130,669	313,886	265,429	1,583,058	812,691
Investments (restricted)	85,322	-	2,147	-	11,155	98,624	388,255
Other long term assets	158,705	289,027	265,778	500	-	714,010	646,985
Total assets	3,025,001	906,391	405,509	396,146	334,258	5,067,305	4,247,489
LIABILITIES							
Accounts payable	491,317	119,574	-	219,920	10,087	840,898	703,299
Compensation payable	184,591	17,668	-	2,749	163	205,171	181,634
Due to other funds	26,445	153,460	-	59,212	16,797	255,914	202,378
Due to component units	10,183	12,188	-	5,696	-	28,067	22,827
Unearned revenue	80,396	309,947	265,778	5,635	-	661,756	604,741
Accrued liabilities	301,091	123,392	-	-	737	425,220	432,270
Other current liabilities	42,565	-	-	-	1	42,566	10,030
Total liabilities	1,136,588	736,229	265,778	293,212	27,785	2,459,592	2,157,179
DEFERRED INFLOW OF RESOURCES							
Unavailable revenues	139,485	-	-	500	1,136	141,121	158,416
FUND BALANCE							
Nonspendable	16,015	-	-	-	-	16,015	20,357
Restricted	976,071	170,162	139,731	102,434	305,337	1,693,735	1,397,919
Committed	659,567	-	-	-	-	659,567	595,008
Assigned	97,275	-	-	-	-	97,275	34,879
Unassigned	-	-	-	-	-	-	(116,269)
Total fund balances	1,748,928	170,162	139,731	102,434	305,337	2,466,592	1,931,894
Total liabilities, deferred inflow of resources and fund balances	$ 3,025,001	$ 906,391	$ 405,509	$ 396,146	$ 334,258		$ 4,247,489

Amounts reported for governmental activities in the statement of net position (Exhibit 1a) are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		10,899,939
Certain long term assets are not available to pay current period expenditures and are therefore not recognized as revenues in the funds.		
Tax revenue related		62,124
Other deferred inflow of resources		64,820
Adjustment for lease agreement - nursing home.		14,177
Net of deferred outflow of resources and derivative instrument liabilities.		13
Certain liabilities (such as bonds payable and accrued expenses) are not due and payable in the current period:		
General obligation bonds	2,245,185	
Income tax revenue bonds	4,457,675	
Tobacco settlement bonds	647,459	
TIF bonds	108,782	
Ballpark bonds	502,255	
QZAB	6,682	
Accrued interest payable	115,522	
Capital leases	11,024	
Other long-term liabilities	1,931,401	
		(10,025,985)
Net position of governmental activities		$ 3,481,680

The accompanying notes are an integral part of this statement.

Exhibit 2-b

District of Columbia
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended September 30, 2013
(With Comparative Totals for the Year Ended September 30, 2012)
($000s)

	General	Federal & Private Resources	Housing Production Trust	General Capital Improvements	Nonmajor Governmental Funds	Total Governmental Funds 2013	Total Governmental Funds 2012
REVENUES							
Taxes:							
Property taxes	$ 2,012,511	$ -	$ -	$ -	$ 27,986	$ 2,040,497	$ 1,934,786
Sales and use taxes	1,194,460	-	-	-	52,914	1,247,374	1,218,576
Income and franchise taxes	2,094,179	-	-	-	-	2,094,179	1,956,590
Gross receipts taxes	305,732	-	-	-	40,120	345,852	319,036
Other taxes	353,754	-	46,554	-	-	400,308	404,066
Fines and forfeitures	178,708	-	-	-	-	178,708	185,771
Licenses and permits	105,081	-	-	-	-	105,081	99,300
Charges for services	243,073	4,309	-	44	-	247,426	252,332
Investment earnings	2,749	667	-	116	3,076	6,608	21,728
Miscellaneous	364,346	56,206	5,761	9,285	75,984	511,582	514,694
Federal contributions	-	555,038	-	-	-	555,038	554,979
Operating grants	-	2,722,080	-	270,813	-	2,992,893	2,896,470
Total revenues	6,854,593	3,338,300	52,315	280,258	200,080	10,725,546	10,358,328
EXPENDITURES							
Current:							
Governmental direction and support	748,634	41,198	-	-	20,971	810,803	787,331
Economic development and regulation	260,700	66,517	55,926	-	-	383,143	318,266
Public safety and justice	982,461	531,008	-	-	-	1,513,469	1,469,727
Public education system	1,681,634	402,979	-	-	-	2,084,613	1,980,384
Human support services	1,783,940	2,258,264	-	-	-	4,042,204	3,881,043
Public works	261,049	26,549	-	-	-	287,598	342,215
Public transportation	284,851	-	-	-	-	284,851	221,339
Debt service:							
Principal	193,504	-	-	4,140	56,668	254,312	217,645
Interest	320,135	20,181	-	4,844	64,860	410,020	375,461
Fiscal charges	8,160	-	-	203	277	8,640	15,447
Capital outlay	-	-	-	1,172,102	36,379	1,208,481	1,152,943
Total expenditures	6,525,068	3,346,696	55,926	1,181,289	179,155	11,288,134	10,761,801
Excess (deficiency) of revenues over (under) expenditures	329,525	(8,396)	(3,611)	(901,031)	20,925	(562,588)	(403,473)
OTHER FINANCING SOURCES (USES)							
Debt issuance	5,353	-	2,032	825,901	-	833,286	439,370
Refunding debt issuance	-	-	-	-	25,005	25,005	608,210
Premium on sale of bonds	-	-	-	150,624	4,057	154,681	124,679
Payment to refunded bond escrow agent	-	-	-	-	(28,929)	(28,929)	(679,843)
Equipment financing program	-	-	-	41,016	-	41,016	49,463
Transfers in	118,362	-	66,931	112,404	66,866	364,563	353,087
Transfers out	(214,446)	(2,363)	-	(10,511)	(68,929)	(296,249)	(286,683)
Sale of capital assets	3,613	-	-	300	-	3,913	450
Total other financing sources (uses)	(87,118)	(2,363)	68,963	1,119,734	(1,930)	1,097,286	608,733
Net change in fund balances	242,407	(10,759)	65,352	218,703	18,995	534,698	205,260
Fund balances at October 1,	1,506,521	180,921	74,379	(116,269)	286,342	1,931,894	1,726,634
Fund balances at September 30	$ 1,748,928	$ 170,162	$ 139,731	$ 102,434	$ 305,337	$ 2,466,592	$ 1,931,894

The accompanying notes are an integral part of this statement.

Exhibit 2-c

District of Columbia
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended September 30, 2013
($000s)

Net change in fund balances - total governmental funds	$ 534,698
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays that are capitalized exceeded depreciation expense in the current period.	474,980
Deferred inflow of resources, including property tax revenues which were earned but whose current financial resources are not available for the purpose of recognition in the governmental funds were recognized in the government-wide financial statements.	
Tax revenue related	(27,709)
Other deferred inflow resources	64,820
Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. This is the amount by which bond proceeds exceeded repayments.	(693,828)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. This is the amount that other long term liabilities decreased in the current period.	(51,226)
Capital assets leased to nursing home	(113)
Payment of loan receivable from sale of capital assets in prior year	(300)
Investment income from investment derivative instrument	(537)
Change in net position of governmental activities	$ 300,785

The accompanying notes are an integral part of this statement.

Exhibit 2-d

District of Columbia
Budgetary Comparison Statement
For the Year Ended September 30, 2013
($000s)

	General Fund				Federal and Private Resources				Totals			
	Budget			Variance	Budget			Variance	Budget			Variance
	Original	Revised	Actual	Positive (Negative)	Original	Revised	Actual	Positive (Negative)	Original	Revised	Actual	Positive (Negative)
Revenues and Sources:												
Taxes:												
Property taxes	$ 2,008,841	$ 1,952,097	$ 1,975,102	$ 23,005	$ -	$ -	$ -	$ -	$ 2,008,841	$ 1,952,097	$ 1,975,102	$ 23,005
Sales and use taxes	1,148,676	1,206,804	1,193,889	(12,915)	-	-	-	-	1,148,676	1,206,804	1,193,889	(12,915)
Income and franchise taxes	1,811,675	2,129,369	2,094,179	(35,190)	-	-	-	-	1,811,675	2,129,369	2,094,179	(35,190)
Other taxes	636,303	666,030	657,522	(8,508)	-	-	-	-	636,303	666,030	657,522	(8,508)
Total taxes	5,605,495	5,954,300	5,920,692	(33,608)	-	-	-	-	5,605,495	5,954,300	5,920,692	(33,608)
Licenses and permits	77,940	69,029	78,857	9,828	-	-	-	-	77,940	69,029	78,857	9,828
Fines and forfeits	178,522	165,122	145,509	(19,613)	-	-	-	-	178,522	165,122	145,509	(19,613)
Charges for services	63,223	68,026	75,416	7,390	-	-	-	-	63,223	68,026	75,416	7,390
Miscellaneous	115,900	106,070	166,268	60,198	-	-	-	-	115,900	106,070	166,268	60,198
Other sources	455,488	433,273	469,143	35,870	-	-	-	-	455,488	433,273	469,143	35,870
Bond proceeds	6,000	6,000	4,079	(1,921)	-	-	-	-	6,000	6,000	4,079	(1,921)
Federal contributions	-	-	-	-	97,020	79,997	59,138	(20,859)	97,020	79,997	59,138	(20,859)
Operating grant	-	-	-	-	2,625,681	2,745,689	2,585,365	(160,324)	2,625,681	2,745,689	2,585,365	(160,324)
Fund balance released from restrictions	51,468	132,587	18,442	(114,145)	-	8,529	8,529	-	51,468	141,116	26,971	(114,145)
Interfund transfer-from lottery and games	63,175	63,175	68,314	5,139	-	-	-	-	63,175	63,175	68,314	5,139
Interfund transfer-others	35,326	46,026	46,168	142	-	-	-	-	35,326	46,026	46,168	142
Total revenues and other sources	6,652,537	7,043,608	6,992,888	(50,720)	2,722,701	2,834,215	2,653,032	(181,183)	9,375,238	9,877,823	9,645,920	(231,903)
Expenditures and Other Uses:												
Governmental direction and support	602,430	587,627	570,726	16,901	29,556	31,490	26,962	4,528	631,986	619,117	597,688	21,429
Economic development and regulation	291,790	329,801	299,942	29,859	87,448	81,457	68,880	12,577	379,238	411,258	368,822	42,436
Public safety and justice	995,574	992,170	981,755	10,415	116,864	158,045	139,246	18,799	1,112,438	1,150,215	1,121,001	29,214
Public education system	1,620,002	1,504,068	1,485,610	18,458	308,107	330,666	278,082	52,584	1,928,109	1,834,734	1,763,692	71,042
Public education AY14 expenditure	-	178,903	178,903	-	-	-	-	-	-	178,903	178,903	-
Human support services	1,643,872	1,698,469	1,675,504	22,965	2,123,249	2,153,224	2,059,777	93,447	3,767,121	3,851,693	3,735,281	116,412
Public works	569,939	576,926	550,524	26,402	31,819	28,203	26,585	1,618	601,758	605,129	577,109	28,020
Presidential inauguration	-	11,286	8,899	2,387	-	-	-	-	-	11,286	8,899	2,387
Workforce investments	-	502	-	502	-	-	-	-	-	502	-	502
Wilson building	4,193	4,193	3,690	503	-	-	-	-	4,193	4,193	3,690	503
Repay bonds and interest	467,424	463,279	459,628	3,651	-	20,181	20,181	-	467,424	483,460	479,809	3,651
Repay revenue bonds and interest	8,222	6,665	6,665	-	-	-	-	-	8,222	6,665	6,665	-
Bond fiscal charges	6,000	6,000	4,420	1,580	-	-	-	-	6,000	6,000	4,420	1,580
Interest on short term borrowing	4,390	2,118	1,581	537	-	-	-	-	4,390	2,118	1,581	537
Certificates of participation	32,542	32,542	31,825	717	-	-	-	-	32,542	32,542	31,825	717
Settlements and judgments fund	21,477	20,977	15,590	5,387	-	-	-	-	21,477	20,977	15,590	5,387
Convention center transfer	106,729	107,041	107,041	-	-	-	-	-	106,729	107,041	107,041	-
Highway trust transfer	36,472	35,111	35,111	-	-	-	-	-	36,472	35,111	35,111	-
Emergency planning and security costs	-	-	-	-	23,408	28,699	16,229	12,470	23,408	28,699	16,229	12,470
Operating lease-equipment	50,036	50,036	49,953	83	-	-	-	-	50,036	50,036	49,953	83
Emergency and contingency reserve	750	144	-	144	2,250	2,250	-	2,250	3,000	2,394	-	2,394
Pay-go capital	35,803	88,202	88,202	-	-	-	-	-	35,803	88,202	88,202	-
Schools modernization fund	8,626	8,626	8,626	-	-	-	-	-	8,626	8,626	8,626	-
District retiree health contribution	107,800	107,800	107,800	-	-	-	-	-	107,800	107,800	107,800	-
Non-departmental agency	34,161	12,079	-	12,079	-	-	-	-	34,161	12,079	-	12,079
Total expenditures and other uses	6,648,232	6,824,565	6,671,995	152,570	2,722,701	2,834,215	2,635,942	198,273	9,370,933	9,658,780	9,307,937	350,843
EXCESS OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES – BUDGETARY BASIS	$ 4,305	$ 219,043	$ 320,893	$ 101,850	$ -	$ -	$ 17,090	$ 17,090	$ 4,305	$ 219,043	$ 337,983	$ 118,940

The accompanying notes are an integral part of this statement.

Exhibit 3-a

District of Columbia

Statement of Net Position
Proprietary Funds
September 30, 2013
(With Comparative Totals at September 30, 2012)
($000s)

	Lottery and Games	Unemployment Compensation	Totals 2013	Totals 2012
ASSETS				
Current assets:				
Cash and cash equivalents (unrestricted)	$ 8,856	$ -	$ 8,856	$ 8,007
Due from federal government	-	10,210	10,210	324
Accounts receivable, net	6,619	10,923	17,542	23,970
Other current assets	7	-	7	5
Cash and cash equivalents (restricted)	-	311,814	311,814	309,802
Total current assets	15,482	332,947	348,429	342,108
Noncurrent assets:				
Investments (restricted)	10,200	-	10,200	16,381
Capital assets, net	427	-	427	480
Total noncurrent assets	10,627	-	10,627	16,861
Total assets	26,109	332,947	359,056	358,969
LIABILITIES				
Current liabilities				
Accounts payable	2,999	55,539	58,538	66,218
Accrued compensated absences	838	-	838	815
Due to other funds	-	35,456	35,456	34,117
Accrued liabilities	7,598	-	7,598	7,322
Long term liabilities due within one year	4,010	-	4,010	7,306
Total current liabilities	15,445	90,995	106,440	115,778
Noncurrent liabilities				
Long term liabilities due in more than one year	6,190	-	6,190	9,075
Total noncurrent liabilities	6,190	-	6,190	9,075
Total liabilities	21,635	90,995	112,630	124,853
DEFERRED INFLOW OF RESOURCES				
Unavailable revenue	136	-	136	99
NET POSITION				
Invested in capital assets	427	-	427	480
Restricted - expendable	-	241,952	241,952	229,930
Unrestricted	3,911	-	3,911	3,607
Total net position	$ 4,338	$ 241,952	$ 246,290	$ 234,017

The accompanying notes are an integral part of this statement.

Exhibit 3-b

District of Columbia

Statement of Revenues, Expenses, and Changes in Fund Net Position
Proprietary Funds
For the Year Ended September 30, 2013
(With Comparative Totals for the Year Ended September 30, 2012)
($000s)

	Lottery and Games	Unemployment Compensation	Totals 2013	Totals 2012
Operating revenues:				
Employer taxes	$ -	$ 131,025	$ 131,025	$ 133,618
Charges for services	242,460	-	242,460	249,675
Benefit contributions	-	32,790	32,790	27,945
Miscellaneous	-	-	-	289
Total operating revenues	242,460	163,815	406,275	411,527
Operating expenses:				
Benefits	-	255,645	255,645	344,913
Prizes and other expenses	139,934	-	139,934	159,460
Personnel services	6,657	-	6,657	11,765
Contractual services	27,130	-	27,130	11,764
Depreciation	206	-	206	196
Total operating expenses	173,927	255,645	429,572	528,098
Operating income (loss)	68,533	(91,830)	(23,297)	(116,571)
Nonoperating revenues:				
Interest and investment revenue	32	7,691	7,723	8,517
Federal contribution	-	96,161	96,161	178,267
Total nonoperating revenues	32	103,852	103,884	186,784
Income before transfers	68,565	12,022	80,587	70,213
Transfer out	(68,314)	-	(68,314)	(66,404)
Change in net position	251	12,022	12,273	3,809
Net position at October 1	4,087	229,930	234,017	230,208
Net position at September 30	$ 4,338	$ 241,952	$ 246,290	$ 234,017

The accompanying notes are an integral part of this statement.

Exhibit 3-c

District of Columbia
Statement of Cash Flows
Proprietary Funds
For the Year Ended September 30, 2013
(With Comparative Totals for the Year Ended September 30, 2012)
($000s)

	Lottery and Games	Unemployment Compensation	Totals 2013	Totals 2012
Cash flows from operating activities:				
Cash receipts from customers/employers	$ 242,129	$ 160,694	$ 402,823	$ 409,746
Other cash receipts	30	-	30	43
Cash payments to vendors	(21,731)	-	(21,731)	(21,406)
Cash payments to employees/claimants	(6,634)	(262,534)	(269,168)	(362,544)
Other cash payments, including prizes	(144,510)	-	(144,510)	(155,669)
Net cash provided by (used in) operating activities	69,284	(101,840)	(32,556)	(129,830)
Cash flows from noncapital financing activities:				
Intergovernmental grants	-	96,161	96,161	182,552
Interfund transfers out	(68,314)	-	(68,314)	(66,404)
Net cash provided by (used in) noncapital financing activities	(68,314)	96,161	27,847	116,148
Cash flows from capital and related financing activities:				
Acquisition of capital assets	(153)	-	(153)	(198)
Net cash used in capital and related financing activities	(153)	-	(153)	(198)
Cash flows from investing activities:				
Receipts of interest and dividends	32	7,691	7,723	8,517
Net cash provided by investing activities	32	7,691	7,723	8,517
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	849	2,012	2,861	(5,363)
Cash and cash equivalents at October 1	8,007	309,802	317,809	323,172
Cash and cash equivalents at September 30	$ 8,856	$ 311,814	$ 320,670	$ 317,809
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:				
Operating income (loss)	$ 68,533	$ (91,830)	$ (23,297)	$ (116,571)
Depreciation	206	-	206	196
Decrease (increase) in assets:				
Accounts receivable	(337)	6,765	6,428	(1,514)
Other current assets	(2)	(9,886)	(9,888)	178
Increase (decrease) in liabilities:				
Accounts payable	548	(6,889)	(6,341)	(9,917)
Accrued liabilities	513	-	513	(1,952)
Deferred inflows of resources	37	-	37	(109)
Other current liabilities	(214)	-	(214)	(141)
Net cash provided by (used in) operating activities:	$ 69,284	$ (101,840)	$ (32,556)	$ (129,830)

The accompanying notes are an integral part of this statement.

Exhibit 4-a

District of Columbia
Statement of Fiduciary Net Position
Fiduciary Funds
September 30, 2013
($000s)

	Pension/OPEB Trust Funds	Private Purpose Trust Fund	Agency Funds
ASSETS			
Cash and cash equivalents - restricted	$ 247,921	$ -	$ 42,095
Investments - restricted:			
Equities	3,919,810	197,089	-
Fixed income securities	1,617,778	88,183	-
Real estate	356,125	-	-
Private equity	654,901	-	-
Collateral for securities lending transactions	83,478	-	-
Accounts receivable	-	263	-
Due from federal government	1,170	-	-
Benefit contributions receivable	3,580	-	-
Other receivables	-	-	26,634
Other current assets	99,476	-	-
Total assets	6,984,239	285,535	$ 68,729
LIABILITIES			
Accounts payable	65,251	278	$ 1,024
Securities lending collateral	84,142	-	-
Due to other funds	388	-	-
Other current liabilities	145,811	-	67,705
Total liabilities	295,592	278	$ 68,729
NET POSITION			
Held in trust for pension and OPEB benefits and other purposes	$ 6,688,647	$ 285,257	

The accompanying notes are an integral part of this statement.

Exhibit 4-b

District of Columbia
Statement of Changes in Fiduciary Net Position
Fiduciary Funds
For the Year Ended September 30, 2013
($000s)

	Pension/OPEB Trust Funds	Private Purpose Trust Fund
ADDITIONS		
Contributions:		
Employer	$ 210,521	$ -
Plan members	58,999	45,170
Total contributions	269,520	45,170
Investment earnings:		
From investment activities		
Net increase in fair value of investments	639,127	31,915
Other revenue	2,843	-
Interest and dividends	64,124	4,313
Total investment gain	706,094	36,228
Less - investment expenses	(11,157)	(2,465)
Net gain from investing activities	694,937	33,763
From securities lending activities		
Securities lending income	701	-
Less: securities lending expenses	(196)	-
Net income from securities lending activities	505	-
Net investment gain	695,442	33,763
Total additions	964,962	78,933
DEDUCTIONS		
Benefits	142,247	-
Administrative expenses	12,752	648
Distributions to participants	-	16,593
Total deductions	154,999	17,241
Change in net position	809,963	61,692
Net position at October 1	5,878,684	223,565
Net position at September 30	$ 6,688,647	$ 285,257

The accompanying notes are an integral part of this statement.

Exhibit 5-a

District of Columbia
Discretely Presented Component Units
Combining Statement of Net Position
September 30, 2013
(With Comparative Totals at September 30, 2012)
($000s)

	Health Benefit Exchange	Washington Convention and Sports Authority	Not-for-Profit Hospital Corporation	Housing Finance Agency	University	Totals 2013	Totals 2012 as restated
ASSETS							
Current assets:							
Cash and cash equivalents (unrestricted)	$ -	$ 12,506	$ 5,082	$ 29,858	$ 28,650	$ 76,096	$ 64,894
Investments (unrestricted)	-	66,649	-	3,361	30,532	100,542	96,083
Receivables, net:							
Accounts	-	2,335	13,238	-	4,702	20,275	20,873
Other	-	72,008	-	16,295	4,888	93,191	22,363
Due from primary government	10,915	8,224	-	-	8,928	28,067	19,672
Inventories	-	-	1,249	-	-	1,249	1,520
Other current assets	-	324	627	23,394	356	24,701	24,988
Restricted cash	-	7,600	1,687	101,582	733	111,602	112,485
Restricted investments	-	147,073	-	163,348	7,242	317,663	579,593
Total current assets	10,915	316,719	21,883	337,838	86,031	773,386	942,471
Noncurrent assets:							
Loans receivable	-	-	-	656,822	800	657,622	652,720
Other	-	9,039	341	127	1,412	10,919	11,373
Total long term assets	-	9,039	341	656,949	2,212	668,541	664,093
Capital assets, net							
Property and equipment	-	569,434	44,646	1,878	113,149	729,107	740,118
Non-depreciable capital assets	27,744	47,535	8,873	573	24,332	109,057	79,346
Total assets	**38,659**	**942,727**	**75,743**	**997,238**	**225,724**	**2,280,091**	**2,426,028**
LIABILITIES							
Current liabilities:							
Payables:							
Accounts	6,401	6,394	7,987	2,656	11,480	34,918	32,178
Compensation	-	665	5,170	268	11,415	17,518	13,907
Due to primary government	4,272	1,886	-	-	18,587	24,745	32,618
Accrued liabilities	242	17,037	-	-	-	17,279	21,282
Unearned revenue	-	3,442	-	-	12,582	16,024	16,357
Current maturities	-	15,625	628	25,019	-	41,272	40,423
Other current liabilities	-	11,849	460	63,730	8,577	84,616	124,654
Total current liabilities	10,915	56,898	14,245	91,673	62,641	236,372	281,419
Noncurrent liabilities:							
Long term debt:							
Bonds payable	-	629,474	-	816,578	-	1,446,052	1,491,759
Other long-term liabilities	-	12,601	9,380	-	-	21,981	30,042
Refundable advances	-	1,081	-	-	984	2,065	2,244
Total long term liabilities	-	643,156	9,380	816,578	984	1,470,098	1,524,045
Total liabilities	**10,915**	**700,054**	**23,625**	**908,251**	**63,625**	**1,706,470**	**1,805,464**
NET POSITION							
Net investment in capital assets	27,744	221,110	52,327	1,661	137,481	440,323	379,341
Restricted - expendable	-	112,162	-	43,108	187	155,457	212,657
Restricted - nonexpendable	-	-	-	-	7,568	7,568	7,568
Unrestricted	-	(90,599)	(209)	44,218	16,863	(29,727)	20,998
Total net position	**$ 27,744**	**$ 242,673**	**$ 52,118**	**$ 88,987**	**$ 162,099**	**$ 573,621**	**$ 620,564**

The accompanying notes are an integral part of this statement.

Exhibit 5-b

District of Columbia
Discretely Presented Component Units
Combining Statement of Activities
For the Year Ended September 30, 2013
(With Comparative Totals for the Year Ended September 30, 2012)
($000s)

	Health Benefit Exchange Authority	Washington Convention and Sports Authority	Not-for-Profit Hospital Corporation	Housing Finance Agency	University	Totals 2013	Totals 2012 as restated
Expenses	$ 16,155	$ 229,078	$ 101,271	$ 65,937	$ 141,338	$ 553,779	$ 458,521
Program revenues:							
Charges for services, fees, fines & forfeits	-	26,505	89,956	5,004	30,173	151,638	151,087
Operating grants and contributions	16,155	-	-	-	23,277	39,432	26,061
Capital grants and contributions	27,744	-	-	-	19,960	47,704	26,036
Net (expense) revenue	27,744	(202,573)	(11,315)	(60,933)	(67,928)	(315,005)	(255,337)
General revenues:							
Investment earnings	-	614	(360)	42,588	2,715	45,557	53,829
Miscellaneous	-	3,085	1,103	14,123	13,681	31,992	30,206
Subsidy from primary government	-	104,108	11,000	-	75,405	190,513	182,088
Total general revenues	-	107,807	11,743	56,711	91,801	268,062	266,123
Change in net position	27,744	(94,766)	428	(4,222)	23,873	(46,943)	10,786
Net position at October 1 (as restated)	-	337,439	51,690	93,209	138,226	620,564	609,778
Net position at September 30	$ 27,744	$ 242,673	$ 52,118	$ 88,987	$ 162,099	$ 573,621	$ 620,564

The accompanying notes are an integral part of this statement.

NOTES TO THE BASIC FINANCIAL STATEMENTS

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NOTES TO THE BASIC FINANCIAL STATEMENTS

September 30, 2013

(Dollar amounts expressed in thousands)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. BACKGROUND AND HISTORY OF THE GOVERNMENTAL UNIT

General Operations

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

On January 2, 1975, Congress granted the District a Home Rule charter, which became effective through the enactment of the District of Columbia Self-Government and Governmental Reorganization Act, Public Law 93-198. Pursuant to its charter, the District is a municipal corporation, which operates under an elected Mayor-Council form of government. Accordingly, an Act of the Council, other than a Budget Request Act, becomes law unless Congress and the President of the United States disapprove it after it has been adopted. Citizens residing in the District have the right to vote for the President and Vice-President of the United States but not for members of Congress. The District does, however, have an elected non-voting Delegate to the United States House of Representatives.

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

B. FINANCIAL REPORTING ENTITY

Component Units

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

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

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

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

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

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 (e.g., 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 (e.g., contracts valued at $1 million or more.)

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

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

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

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

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

Health Benefit Exchange Authority
Executive Director
1100 15th Street, N.W., 8th Floor
Washington, D.C. 20005

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

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

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

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

Related Organizations

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

Prior to fiscal year 2013, WASA was reported as a discretely presented component unit of the District because WASA was responsible for certain debt issued by the District. Before WASA's establishment as an independent entity in 1996, the District issued general obligation bonds to fund improvements to the water and wastewater system. Although WASA was not directly liable for the general obligation bonds, its enabling legislation required WASA to transfer to the District the funds necessary to pay a portion of the debt service on the general obligation bonds. Consistent with the agreement executed by WASA and the District, WASA transferred funds to the District annually for debt service payments. In fiscal year 2012, WASA made its final debt service payment on these bonds and the associated debt was retired. Consequently, a financial benefit/burden relationship no longer exists between the District and WASA. As a result, in fiscal year 2013 WASA is considered a related organization rather than a discretely presented component unit of the District.

Historically, D.C. Courts has been disclosed as a related organization. However, it has been determined that D.C. Courts does not meet the related organization criteria. The District does not appoint any of the members of the Joint Committee on Judicial Administration (the body responsible for the administration of the D.C. Court System). In addition, financial and administrative responsibility for the D.C. Courts transitioned to the federal government in the late 1990s. For these reasons, the District is not accountable for D.C. Courts and D.C. Courts is not a related organization for financial reporting purposes.

Joint Venture

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

The District participates with other local jurisdictions in a joint venture to plan, construct, finance and operate a public transit system serving the Metropolitan Washington Area Transit zone, which includes the District of Columbia; the cities of Alexandria, Falls Church, Fairfax, Manassas, and Manassas Park and the counties of Arlington, Fairfax, Loudoun, and Prince William in Virginia; and 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-

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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. Further information regarding this joint venture is discussed in Note 12 on page 123.

C. BASIS OF PRESENTATION

Government-wide Financial Statements – The government-wide financial statements report information on all of the non-fiduciary activities of the primary government and its component units. Because assets of fiduciary funds are held for the benefit of a third party and cannot be used to address activities or obligations of the District, these funds are not incorporated into the government-wide financial statements. Governmental activities of the primary government, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for services. The government-wide financial statements are comprised of the following:

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

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

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

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

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

The District reports the following major governmental funds:

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

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

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 or debt proceeds.

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

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

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

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

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

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

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

- *Pension Trust Funds* – used to report the activities of the District's retirement systems, which accumulate financial resources for pension benefit payments to eligible District employees.

  Other Postemployment Benefits (OPEB) Trust Fund – used to report assets that are accumulated and benefits that are paid for postemployment healthcare and life insurance.

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

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

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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, 2012, from which such summarized information was derived.

D. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

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

Government-Wide Financial Statements

The government-wide financial statements are reported using the flow of economic resources measurement focus and the accrual basis of accounting. Therefore, the Statement of Net Position reports all assets, including receivables regardless of when collected, and capital assets, such as heavy trucks and infrastructure (i.e., highways and bridges), deferred outflows of resources, all liabilities regardless of when payment is due, deferred inflows of resources, and net position.

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

Fund Financial Statements

Governmental Funds

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

Operating statements of these funds present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

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

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

Proprietary Funds, Pension and OPEB Trust Funds, and Component Units

The proprietary funds, pension and OPEB trust funds, private purpose trust fund, and discretely presented component units are accounted for on a flow of economic resources measurement focus and the accrual basis of accounting. Under this measurement focus, all assets, deferred outflows of resources, liabilities, and deferred inflows of resources associated with the operation of these funds are included on the Statement 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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(revenues) and decreases (expenses) in net position. Operating statements of pension and private purpose trust funds present additions and deductions in fiduciary net position.

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

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

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

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

Revenue Recognition (by Type or Source)

Property Taxes

Property taxes are recognized as revenue in the tax year for which they are levied, provided they are available.

Real property taxes are levied as of October 1 on property values assessed as of the preceding January 1. The tax levy is due and collectible in two equal installments on March 31 and September 15. After these dates, the bill becomes delinquent and the District may assess penalties and interest. Real property taxes attach as enforceable liens on property as of October 1 of the year after levy.

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

Other Taxes and Revenues

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

Intergovernmental Revenues

Intergovernmental revenues are amounts derived through agreements with other governments. In general, these revenues are comprised of contributions and grants made by the federal government to the District. Contributions are recognized as revenue when received. Generally, entitlements and shared revenues are recognized as revenue at the time of receipt or earlier, if measurable and available. Resources arising from grants are usually subject to certain eligibility requirements; therefore, most grant revenues are recognized as revenue only when the conditions of the grant are met. Grant funds received with all eligibility requirements met except for the timing requirement are recorded as deferred inflows of resources.

Supplemental Nutrition Assistance Program (SNAP)

The District participates in the federal government's Supplemental Nutrition Assistance Program (SNAP) (food stamp program), which is designed to increase the food purchasing power of economically disadvantaged residents. The District uses the electronic benefits transfer (EBT) system that allows program beneficiaries to charge their qualifying food purchases, thereby eliminating the need for paper stamps. Revenues and expenditures are reported in the federal and private resources fund when the underlying transaction (the food purchase) occurs. SNAP expenditures totaled $235,567 and $234,768 in fiscal years 2013 and 2012, respectively.

Revenues Susceptible To Accrual

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

Revenues Not Susceptible To Accrual

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

E. BASIS OF BUDGETING AND BUDGETARY CONTROL POLICIES

Process

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

Appropriations Act

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

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

The Appropriations Act specifically identifies expenditures and net operating results but does not specify revenue amounts. The legally adopted revenue budget is based primarily on the revenue estimates submitted to the President and Congress as modified through legislation.

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

- *Basis Differences* – which arise because the basis of budgeting differs from the basis of accounting prescribed by GAAP as indicated in Note 1X on page 77.

- *Entity Differences* – which result from the inclusion or exclusion of certain activities for budgetary purposes as opposed to those included or excluded on a GAAP basis as indicated in Note 1X on page 77.

Budgetary Controls

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

Encumbrances

Encumbrance accounting is used in the governmental funds. Under this method of accounting, purchase orders, contracts, and other commitments for the expenditure of funds are recorded in order to reserve the required portion of an appropriation. Encumbrances outstanding at year-end do not constitute expenditures

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

or liabilities for GAAP or budgetary purposes. Encumbered amounts lapse at year-end in the General Fund and may be re-appropriated and re-encumbered as part of the subsequent year's budget. However, encumbered amounts do not lapse at year-end in the Capital Projects Fund, Special Revenue Funds, or Federal and Private Resources Fund.

Encumbered amounts at year-end have been included within the restricted fund balance in **Table N53a** – Schedule of FY 2013 Fund Balance found on page 122.

F. CASH AND INVESTMENTS

Cash

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.

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

Investments

Cash that is not needed for immediate disbursement is invested to generate investment income. The District purchases legally authorized investments consistent with the provisions of the Financial Institutions Deposit and Investment Act of 1997 (D.C. Law 12-56, D.C. Official Code §47-351.01, et seq.), which became effective March 18, 1998, and the District's Investment Policy, adopted November 2008. At September 30, 2013, the District invested primarily in securities backed by the U.S. government which included obligations of Government Sponsored Entities (GSEs) that have the explicit and implicit guarantee of the U.S. federal government. Such investments are considered to be cash equivalents if they mature within 90 days after the date of purchase. The Pension Trust Funds are authorized to invest in fixed income, equity securities and other types of investments. Also, the Private Purpose Trust Fund is authorized to invest in eight portfolios which are comprised of equities, balanced funds, and fixed income securities.

Money market investments must be in compliance with the requirements of Rule 2a-7 (17 CFR 270.2a-7) under the Investment Company Act of 1940 (15 U.S.C. 80a-1 et seq.). Money market investments that have a maturity at the time of purchase of one year or less are reported at amortized cost, which approximates fair value. Other investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Investment purchases and sales are recorded as of the trade date. These transactions are not finalized until the settlement date. Cash received as collateral on securities lending transactions and investments made are reported as assets and related liabilities for collateral received.

G. INVENTORY

Inventory reported in the governmental funds consists of materials and supplies held for consumption. Inventory on hand at year-end is stated at cost (generally using the weighted average method). The District utilizes the consumption method to account for inventory whereby materials and supplies are recorded as inventory when purchased and as expenditures/ expenses when they are consumed.

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

H. RESTRICTED ASSETS

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

I. PREPAID ITEMS

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

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

J. RECEIVABLES AND PAYABLES

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

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

K. TRANSFERS AND OTHER TRANSACTIONS BETWEEN FUNDS

Interfund transactions are categorized as: (a) revenue and expense/expenditure transactions consisting of temporary interfund transactions which include reimbursements and quasi-external transactions; or (b) reallocation of resources, transactions including temporary interfund loans, advances or operating transfers. Reimbursements between funds occur when expenditures/expenses made from one fund are properly applicable to another fund.

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

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

L. CAPITAL ASSETS

Capital assets, which include property, land, equipment, land improvements, and infrastructure (i.e., roads, bridges, streets and sidewalks, drainage systems, lighting systems, and similar items), are reported in the applicable governmental or business-type activities or component units columns in the government-wide financial statements and proprietary fund financial statements. All purchased capital assets are stated at cost when historical records are available and at estimated historical cost when no historical records exist.

Assets acquired through capital leases are stated at the lesser of the present value of the lease payments or the fair value of the asset at the date of lease inception. Donated capital assets are stated at their estimated fair market value on the date received. The cost of maintenance and repairs that does not add to the value of the assets or materially extend their useful lives is not capitalized. Betterments are capitalized as separate assets. Capital asset purchases are recorded as expenditures in the governmental fund financial statements. Depreciation expense is recorded in the government-wide financial statements, as well as the proprietary funds and component units' financial statements.

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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Capitalization and Depreciation Policies

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

Table N1 – Estimated Useful Lives (by Asset Class)

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

M. DEFERRED OUTFLOWS OF RESOURCES

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

N. CAPITAL LEASES

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

- The lease transfers ownership of the property to the lessee at the end of the lease term.
- The lease contains an option to purchase the leased property at a bargain price.
- The lease term is equal to or greater than 75% of the estimated life of the leased property.
- The present value of rental and other minimum lease payments equals or exceeds 90% of the fair value of the leased property less any investment tax credit 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 (vacation) leave may be accumulated up to 240 hours, regardless of the employee's length of service, while there is no limit to the amount of compensatory leave (leave granted to eligible employees in lieu of paid overtime) that may be accumulated.

Recording of Accrual for Accumulated Leave

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

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

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

P. LONG-TERM LIABILITIES

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

year in which the debt is issued. The legal debt limitation is calculated annually by dividing maximum annual principal and interest by current-year total general fund revenues.

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

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

The District began paying principal on its 1994B Capital Appreciation Bonds (CABs) in June 2012, and will make such payments annually through June 2014. There are no periodic interest payments due. The CABs accrete to their full value at maturity. Interest is accreted and recorded annually using rates ranging from 6.60% to 6.65%. Accreted interest is calculated throughout the maturity periods of the bonds and is recorded in the government-wide financial statements. The accreted value of such bonds is the current value, plus the interest that has been accumulating on the bonds.

The District began paying principal on its 2002 Mandarin TIF CABs on July 1, 2002, and will make such payments annually until July 1, 2021. The CABs accrete to their full value at maturity. Interest is accreted and compounded semi-annually using rates ranging from 5.22% to 5.91%. Accreted interest is calculated throughout the maturity periods of the bonds and is recorded in the government-wide financial statements. The accreted value of such bonds is the current value, plus the interest that has been accumulating on the bonds.

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

Q. DEFERRED INFLOWS OF RESOURCES

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

R. NEW ACCOUNTING STANDARDS ADOPTED

During the fiscal year ended September 30, 2013, the District adopted the following new accounting standards issued by the Governmental Accounting Standards Board (GASB):

Statement No. 60, Accounting and Financial Reporting for Service Concession Arrangements

Issued in November 2010, this statement addresses issues related to service concession arrangements (SCAs) between a transferor (a government) and an operator (governmental or non-governmental entity) in which: (1) the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset (a "facility") in exchange for significant consideration; and (2) the operator collects and is compensated by fees from third parties. This statement applies only to those arrangements in which specific criteria determining whether a transferor has control over the facility are met.

This statement requires disclosures about an SCA including a general description of the arrangement and information about the associated assets, liabilities, and deferred inflows; the rights granted and retained; and guarantees and commitments.

Implementation of this statement had no material impact on the District's fiscal year 2013 financial statements.

Statement No. 61, The Financial Reporting Entity: Omnibus-An Amendment of GASB Statements No. 14 and No. 34

Issued in November 2010, this statement modifies

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certain requirements for inclusion of component units in the financial reporting entity. For organizations that were previously required to be included as component units by meeting the fiscal dependency criterion, a financial benefit or burden relationship also needs to be present between the primary government and that organization for it to be included in the reporting entity as a component unit. Further, for organizations that do not meet the financial accountability criteria for inclusion as component units but that, nevertheless, should be included because the primary government's management determines that it would be misleading to exclude them, this statement clarifies the manner in which that determination should be made and the types of relationships that generally should be considered in making the determination.

This statement also amends the criteria for reporting component units as if they were part of the primary government (that is blending) in certain circumstances. For component units that currently are blended based on the "substantively the same governing body" criterion, this statement additionally requires that: (1) the primary government and the component unit have a financial benefit or burden relationship; or (2) management (below the level of elected officials) of the primary government have operational responsibility for the activities of the component unit. New criteria require blending of component units whose total debt outstanding is expected to be repaid entirely or almost entirely with resources of the primary government. The blending provisions are amended to clarify that funds of a blended component unit have the same financial reporting requirements as a fund of the primary government. Additional guidance is provided for blending a component unit if the primary government is a business-type activity that uses a single column presentation for financial reporting.

This statement also clarifies the reporting of equity interests in legally separate organizations. It requires a primary government to report its equity interest in a component unit as an asset.

Implementation of this statement had no material impact on the District's fiscal year 2013 financial statements.

Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements

Issued in December 2010, this statement incorporates into GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements, issued on or before November 30, 1989, which do not conflict with or contradict GASB pronouncements:

- Financial Accounting Standards Board (FASB) Statements and Interpretations;
- Accounting Principles Board Opinions; and
- Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedures.

This statement also supersedes Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, thereby eliminating the election provided in paragraph 7 in that statement for enterprise funds and business-type activities to apply post-November 30, 1989 FASB Statements and Interpretations that do not conflict with or contradict GASB pronouncements. However, those entities can continue to apply, as other accounting literature, post November 30, 1989 FASB pronouncements that do not conflict with or contradict GASB pronouncements.

Implementation of this statement had no material impact on the District's fiscal year 2013 financial statements.

Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position

Issued in June 2011, this statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined those elements as a consumption of net position by the government that is applicable to a future period, and an acquisition of net position by the government that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities.

Concepts Statement No. 4 also identifies net position as the residual of all other elements presented in a statement of financial position. This statement amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure, and

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by renaming that measure "net position," rather than net assets.

Implementation of this statement had no material impact on the District's fiscal year 2013 financial statements.

Statement No. 65, Items Previously Reported as Assets and Liabilities

Issued in March 2012, this statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities, and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. Statement No. 65 amends the financial statement element classification of certain items previously reported as assets and liabilities to be consistent with the definitions in Concepts Statement 4.

This statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term deferred in financial statement presentations.

Implementation of this statement had no material impact on the District's fiscal year 2013 financial statements. However, see Note 1Y on page 77 for further discussion of the impact of implementation of this statement.

S. NEW ACCOUNTING PRONOUNCEMENTS TO BE IMPLEMENTED IN THE FUTURE

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

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

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

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

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

The requirements of this statement are effective for periods beginning after December 15, 2012, the District's fiscal year 2014.

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

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

The requirements of this statement are effective for fiscal years beginning after June 15, 2013, the District's fiscal year 2014.

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

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

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

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

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

This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources,

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

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

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

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

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

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Issued in April 2013, the objective of this Statement is to improve accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees.

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

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

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

The requirements of this statement are effective for fiscal years beginning after June 15, 2013, the District's fiscal year 2014.

T. NET POSITION AND FUND BALANCE

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

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

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

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

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

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

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

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

- *Assigned* – resources neither restricted nor committed for which the District has a stated

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intended use as established by the Mayor, Council, or a body or official to which the Mayor or Council has delegated the authority to assign amounts for specific purposes. These are resources where the constraints/restrictions are less binding than that for committed resources.

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

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

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

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

As of September 30, 2013, the District's fund balance included the following categories (see **Table N53a** on page 122.)

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

Debt Service – Bond Escrow – This portion of fund balance represents that portion of investments held in escrow that are available for future debt service obligations or requirements.

Budget – This portion of fund balance represents unused FY 2013 budget reserve amounts that are restricted for specific purposes and available for such purposes until expended.

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

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

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

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

Housing Production Trust Fund – This portion of fund balance is restricted to provide financial assistance to developers for the planning and production of low, very low, and extremely low income housing and related facilities.

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Capital Projects – This portion of fund balance is restricted for the purpose of executing capital projects.

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 (except for cash flow management purposes).

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

Integrated Service Fund – This portion of fund balance is committed to fund interdisciplinary programs and services designed to meet the needs of at-risk children, youth and their families.

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.

Fixed Cost Commodity 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.

Youth Jobs Fund – This portion of fund balance is committed for programs to provide in-school, out-of-school, and year-round employment programs for youth to work at least ten hours per week.

Healthcare Forfeiture – This portion of fund balance represents 401(a) Defined Contribution Pension Plan contribution amounts which have been forfeited by former employees who have separated from District service before the vesting period expires. Such forfeited contributions may be used to reduce the aggregate amount of plan contributions or fund retirees' health and life insurance benefits.

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

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

Assigned Fund Balance/Unassigned Fund Balance

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

Subsequent Years' Expenditures – This portion of fund balance represents amounts to be used to finance certain non-recurring policy initiatives and other expenditures included in the FY 2014 budget approved by the District Council.

Minimum Fund Balance Policies

<u>Restricted Fund Balances</u>

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

Contingency Reserve

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

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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% required balance, whichever is less, must be replenished by the end of the second fiscal year following each such allocation.

Emergency Reserve

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

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

<u>Committed Fund Balances</u>

Fiscal Stabilization Reserve

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

Cash Flow Reserve

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

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

U. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

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

The District utilizes a graded contribution schedule whereby District contributions to the plan are based on the employee's years of creditable District service. District contributions are limited such that the District pays no more than 75% of the cost of health insurance, and 30% of the cost of life insurance for eligible retirees. The District also pays no more than 60% of the premium for a retiree's spouse and dependent health insurance coverage. More information regarding the OPEB contribution policy is presented in Note 10 on page 119.

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

As of September 30, 2013, there were 646 OPEB Plan participants receiving such benefits. The participants

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

were comprised of 475 teachers, police, and firefighters, and 171 general District retirees. During fiscal year 2013, $4.5 million was paid from the OPEB plan for the associated insurance carrier premiums and other administrative costs.

V. USE OF ESTIMATES

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

W. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

The governmental funds balance sheet includes reconciliation between fund balances - total governmental funds versus net position - governmental activities as reported in the government-wide statement of net position. One element of that reconciliation explains that certain deferred inflows of resources under the modified accrual basis of accounting, are reported as revenues in the government-wide financial statements. The difference in deferred inflows of resources of $126,944 between the two statements is a reconciling item, which is attributable to the modified accrual basis of accounting having been used to recognize property tax revenues and other unavailable revenues in the governmental funds as this amount is not currently available for use in fiscal year 2013. The accrual basis of accounting is used to record revenues in the government-wide financial statements.

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

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

The details of the $474,980 difference related to capital outlay are as follows:

Capital outlay capitalized	$	905,413
Less:		
Depreciation expense		(389,885)
Capital asset additions		19,640
Transfer and dispositions		(60,188)
Net Adjustment	$	**474,980**

Deferred inflows of resources derived from property taxes and other unavailable revenues were earned but not currently available financial resources for the purpose of recognition in the governmental funds and were recognized in the government-wide financial statements. Such net adjustments were $37,111 more in the statement of activities than in the statement of revenues, expenditures and changes in fund balances.

The details of the ($693,828) difference related to long-term liabilities are as follows:

Bonds issued	$	(858,291)
Equipment financing program		(41,016)
Premium on long-term debt		(154,681)
Less:		
Bonds refunding		28,929
Principal payments on G.O. bonds		50,040
Principal payments on other long-term debt		253,511
Amortization of premium		27,680
Net Adjustment	$	**(693,828)**

The details of the $51,226 difference related to the change in accrued liabilities are as follows:

Annual leave	$	(3,725)
Accreted interest		3,538
Accrued interest		1,116
Claims and judgments		(72,397)
Grant disallowances		(7,853)
Accrued disability compensation		5,795
Net OPEB liability		22,300
Net Adjustment	$	**(51,226)**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

X. RECONCILIATION OF BUDGETARY BASIS TO GAAP BASIS

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

	GENERAL FUND	FEDERAL AND PRIVATE RESOURCES
EXCESS OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES - BUDGETARY BASIS	$ 320,893	$ 17,090
Basis differences:		
Inventory is recorded using the purchase method for budgetary purposes and the consumption method on a GAAP basis	3,880	(926)
Transfers/Reclassifications of loan	(37,199)	1,667
Fund balance re-allocation	(26,725)	-
Fund balance released from restrictions - a funding source for budgetary purposes but not revenue on a GAAP basis	(18,442)	(8,529)
State education loan program	-	(20,061)
Federal pass-through contribution (D.C. Federal Pension Fund and SNAP)*	-	731,466
Federal pass-through contribution (D.C. Federal Pension Fund and SNAP)*	-	(731,466)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES - GAAP BASIS	**$ 242,407**	**$ (10,759)**

The federal pass through contribution/expenditures are comprised of: on behalf payment to D.C. Federal Pension Fund ($495,900) and payments to eligible low income families under the Supplemental Nutrition Assistance Program (SNAP) ($235,566).

Y. RESTATEMENT

Primary Government

Change in Accounting Policy/Implementation of New Accounting Standard – Due to the implementation of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, beginning net position was decreased by $147,675. This change represents a restatement of bond issuance costs that were amortized as required by prior standards, but expensed in the period incurred under GASB Statement No. 65.

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

October 1, 2012, net position, as previously reported	$ 3,562,587
Accounting Policy Change	(147,675)
October 1, 2012, net position, restated	**$ 3,414,912**

Component Units

The Housing Finance Agency implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities,* during fiscal year 2013. As a result, the agency eliminated in its financial statements unamortized debt issuance costs, except any portion that related to prepaid insurance costs, which is to be recorded as an expense in the period incurred. HFA also eliminated loan origination fees, which, except any portion related to points, should be recognized as revenue in the period received. Points received by a lender in relation to a loan origination should be reported as a deferred inflow of resources and recognized as revenue over the duration of the related loan. Direct loan origination costs should be recognized as an expense in the period incurred. Accounting changes adopted to conform to the provisions of this statement were applied retroactively by restating financial statements for all periods presented and the cumulative effect of applying this statement resulted in a restatement of beginning net position for the earliest period reported.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

October 1, 2012, net position, as previously reported	$ 93,823
Accounting Policy Change	(614)
October 1, 2012, net position, restated	**$ 93,209**

As indicated in Note 1B, Financial Reporting Entity, after re-evaluating the District of Columbia Water and Sewer Authority (WASA) using the criteria contained in GASB Statement No. 61, *The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34*, it has been determined that WASA no longer qualifies as a discretely presented component unit. Beginning in fiscal year 2013, the District reports WASA as a related organization. Consequently, the beginning balances for the District's discretely presented component units as presented in the fiscal year 2013 financial statements have been restated.

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 $3,660,851 in deposits within the custody of the District at September 30, 2013, were insured or collateralized with securities held by the District or by its agent in the District's name. At September 30, 2013, the carrying amount of cash for the primary government including the fiduciary funds was $3,473,153 and the carrying amount of cash (deposits) for the component units was $187,698.

B. INVESTMENTS

The Treasurer is authorized by District laws to invest funds in a manner that will preserve principal and meet the District's anticipated daily cash requirements, while maximizing investment earnings. The District purchases legally authorized investments consistent with the provisions of the Financial Institutions Deposit and Investment Act of 1997 (D.C. Law 12-56) and the District's Cash and Investment Management Policy, adopted November 2008. The District's investment policy limits investments to obligations of the United States and agencies thereof, prime commercial paper, bankers' acceptances and repurchase agreements fully collateralized in obligations of the United States government and agency securities. During the fiscal year, the District's investments (other than those held by the Retirement Board) consisted primarily of equities and bonds. See **Table N7a** on page 83 for details.

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

The fair values of the investments held in the control of the Retirement Board as of September 30, 2013 are presented in **Table N2**.

NOTE 2. CASH AND INVESTMENTS

Table N2 – Fair Values of Investments: Retirement Board

	(Dollars in $000s) 2013	2012
Cash and short-term investments	$ 96,058	$ 74,516
Investments at fair value:		
Domestic equity	1,372,613	1,256,317
International equity	1,773,661	1,572,788
Fixed income	1,617,778	1,399,703
Real estate	356,125	253,621
Private equity	654,901	682,583
Total cash and investments at fair value	**$ 5,871,136**	**$ 5,239,528**

The District's Annuitants' Health and Life Insurance Employer Contribution Trust Fund (OPEB Trust Fund) also held investments at September 30, 2013. Cash and cash equivalents are maintained in eight investment accounts. **Table N3** presents the Fund's cash and cash equivalents that were held in investment accounts as of September 30, 2013. **Table N4** presents the aggregate fair values of the Fund's investments based on quoted market prices as of September 30, 2013.

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

Fund	(Dollars in $000s) 2013	2012
Brandywine Large Cap	$ 4,896	$ 3,998
ClearBridge Mid Cap	4,758	1,763
Bernstein Strategic Core	21,257	9,482
Cash Account	109,401	110,372
Bernstein Global Plus	2,963	764
FMW Large Cap Growth	8,588	2,919
Bernstein Strategic Value	-	1
Bernstein US EQ Strategic Growth	-	4
Total cash and cash equivalents held in investment accounts	**$ 151,863**	**$ 129,303**

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

Funds	Aggregate Fair Market Value 2013	2012
Bernstein Strategic Core	$ 131,080	$ 105,126
Brandywine Large Cap Value	137,959	86,246
FMW Large Cap Growth	115,545	82,878
Bernstein Global Plus	72,789	64,956
ClearBridge Mid Cap - PRI	89,285	57,926
SSgA Bond Index	71,984	65,398
Barclays International	77,465	53,682
Royce FD	62,271	40,990
Access Capital ETI - PRI	15,158	10,433
Total Aggregate Fair Value	**$ 773,536**	**$ 567,635**

Table N5 presents the debt instruments which were held by the Retirement Board's Investment Pool as of September 30, 2013.

Table N5 – Debt Instruments Held by the Retirement Board Investment Pool at September 30, 2013

Investment Type	(Dollars in $000s) Fair Value	% of Segment	Duration	Rating
US Agency	$ 26,395	1.63%	4.30	AA
Asset Backed	4,794	0.30%	1.86	AA
Bank Loans	81,451	5.03%	5.92	NR
CMBS	812	0.05%	0.67	AAA
CMO	9,907	0.61%	7.51	AAA
Corporate	327,275	20.23%	4.92	BBB-
Euro	679	0.04%	0.66	BB+
Foreign	296,174	18.31%	5.23	A
Mortgage Pass-Through	222,258	13.74%	4.57	AA+
Municipal	15,066	0.93%	9.92	AA
Unclassified	20,493	1.27%	6.77	NR
US Treasury	587,426	36.31%	6.44	AA+
Yankee	15,491	0.96%	4.87	AA
Other	9,557	0.59%	N/A	NR
Total Fixed Income	$ 1,617,778	100.00%		

N/A - Not Available
NR - Not Rated

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

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

NOTE 2. CASH AND INVESTMENTS

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

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

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

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

  The Retirement Board monitors the interest rate risk inherent in its portfolio by measuring the weighted average duration of its portfolio. Duration is a measure of a debt instrument's exposure to fair value changes arising from changing interest rates. It uses the present value of cash flows, weighted for those cash flows as a percentage of the investment's full price. Duration measures the sensitivity of the price of a fixed income investment to a change to interest rates expressed as a number of years. As a general rule, the risk and return of the Retirement Board's fixed income segment of the portfolio is compared to the Barclays Capital US Universal Index. To mitigate interest rate risk, the fixed income segment is expected to maintain a weighted average duration (sensitivity to interest rate changes) within +/-2 years of the duration of this Index.

  The OPEB Trust Fund addresses interest rate risk through a process that focuses on the review of investment managers and fund returns. The Fund also uses an independent consultant to review assets and recommend any appropriate changes. The average duration for Sanford Bernstein US Core Plus was 5.56 years and Global XUS Plus was 6.22 years for the fiscal year ended September 30, 2013. The average duration for Access Capital was 4.51 years as of September 30, 2013 and the duration of the SSgA Bond Index Fund was 5.49 years as of September 30, 2013.

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

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

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

  The average quality of the OPEB Trust Fund's bond

NOTE 2. CASH AND INVESTMENTS

holdings in each investment manager's portfolio should be maintained at "A" or better. The OPEB Trust Fund does not invest more than 15% of the Fund's assets in securities rated below "A". As of September 30, 2013, the average quality rating of the SSgA was Aa2, Access Capital was AAA, and Sanford Bernstein portfolios were AA-.

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

  Custodial credit risk occurs when investment securities are uninsured and/or not registered in the name of the government, and there is failure of the counterparty. In such cases, the government will not be able to recover the value of its investments or collateral securities held in the possession of an outside party. The District had no custodial credit risk exposure during the fiscal year. All District investments in fiscal year 2013 were collateralized. All collateral for investments is held in the District's name by the Federal Reserve in a custodial account. Any funds not invested at the end of the day are placed in overnight investments in the District's name.

  The Retirement Board had no custodial credit risk exposure during the fiscal year. All Retirement Board investments in fiscal year 2013 were collateralized. Investments held by the custodian on behalf of the Retirement Board were held in an account in the Retirement Board's name. Any funds not invested at the end of the day are placed in overnight investments in the Retirement Board's name.

- *Concentration of Credit Risk* – The District's investment policy does not allow for an investment in any one institution that is in excess of twenty-fivepercent of the District's total investments. At September 30, 2013, the District was in compliance with this policy.

- *Foreign Currency Risk* – Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair values of an investment.

  As a general policy of the Retirement Board, 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 September 30, 2013, the District had exposure to foreign currency risk with respect to investments held by the Retirement Board and the OPEB Trust Fund. At the end of fiscal year 2013, the Retirement Board held investments that were denominated in a currency other than the United States dollar, as presented in **Table N6a**.

  The OPEB Trust Fund does not have a formal policy for limiting its exposure to changes in exchange rates. **Table N6b** presents the OPEB Trust Fund's investments that were denominated in a currency other than the United States dollar.

Table N6a – Retirement Board Investments Denominated in Foreign Currency

	Asset Class (in $000s)					
	Cash	Equities	Fixed Income	Private Equity	Swaps	Total
Australian Dollar	$ 1	$ 1,134	$ -	$ -	$ 87	$ 1,222
Brazilian Real	-	-	-	-	(493)	(493)
Canadian Dollar	207	-	2,159	-	21	2,387
Euro	7,287	54,663	11,153	26,836	(95)	99,844
Hong Kong Dollar	-	6,848	-	-	-	6,848
Japanese Yen	101	31,300	-	-	(68)	31,333
Pound Sterling	-	4,722	1,516	-	-	6,238
South Korean Won	-	1,265	-	-	-	1,265
Swedish Krona	-	6,763	-	-	-	6,763
Swiss Franc	-	10,057	-	-	-	10,057
Total Foreign Currency	$ 7,596	$ 116,752	$ 14,828	$ 26,836	$ (548)	$ 165,464

NOTE 2. CASH AND INVESTMENTS

Table N6b – OPEB Trust Fund Investments Denominated in Foreign Currency

	(Dollars in $000s)		
	Short Term and Cash	**Convertible and Fixed Income**	**Total**
Australian Dollar	$ -	$ 2,622	$ 2,622
Canadian Dollar	52	3,302	3,354
Czech Koruna	38	-	38
Euro Currency	122	27,830	27,952
Pound Sterling	44	12,055	12,099
Japanese Yen	88	16,923	17,011
Mexican Peso	-	1,066	1,066
Norwegian Krone	-	724	724
Peruvian Nouveau Sol	-	213	213
Polish Zloty	-	381	381
Swedish Krona	-	332	332
Singapore Dollar	-	171	171
Total Foreign Currency	**$ 344**	**$ 65,619**	**$ 65,963**

NOTE 2. CASH AND INVESTMENTS

Table N7a – Cash and Investments Detail

		Total Carrying Value
INVESTMENTS		
Primary Government:		
U. S. government securities	$ 10,200	
Certificates of deposit	75,000	
Mortgage-backed securities	10,362	
Guaranteed investment contracts	2,147	
Repurchase agreements	11,115	
Total Primary Government		$ 108,824
Fiduciary Funds:		
Pension trust funds' investments held by Board's agent in Board's name and Private Purpose Trust Fund:		
Equity securities	4,116,899	
Fixed income securities	1,705,961	
Real estate	356,125	
Private equity	654,901	
Total Fiduciary Funds		6,833,886
Component Units:		
U. S. government securities	225,587	
Fixed income securities	9,595	
Corporate securities	2,281	
Investment contracts	35,720	
Alternative investments	145,022	
Total Component Units		418,205
Total reporting entity investments		**$ 7,360,915**
CASH BALANCES		
Primary government		$ 3,183,137
Fiduciary Funds		290,016
Component units		187,698
Total cash balances		**$ 3,660,851**
Total Cash and Investment Balances		**$ 11,021,766**

NOTE 2. CASH AND INVESTMENTS

Table N7b – Reconciliation of the District's Cash and Investment Balances

	(Dollars in $000s)							
	Exhibit 1-a			Exhibit 4-a				
	Primary Government	Component Units	Total (Exhibit 1-a)	Pension/OPEB Trust Funds	Private Purpose Trust Fund	Agency Funds	Total (Exhibit 4-a)	Total Cash and Investment Balances
Cash and cash equivalents	$ 1,288,265	$ 76,096	$ 1,364,361	$ -	$ -	$ -	$ -	$ 1,364,361
Investments	-	100,542	100,542	-	-	-	-	100,542
Cash and cash equivalents (restricted)	1,894,872	111,602	2,006,474	247,921	-	42,095	290,016	2,296,490
Investments (restricted)	108,824	317,663	426,487	6,548,614	285,272	-	6,833,886	7,260,373
Total	**$ 3,291,961**	**$ 605,903**	**$ 3,897,864**	**$ 6,796,535**	**$ 285,272**	**$ 42,095**	**$ 7,123,902**	**$ 11,021,766**

Asset Impairment

At September 30, 2013, the District recognized an impairment loss totaling $1.67 million related to its investment in certain mortgage-backed securities (MBS), in the aggregate. Impairment was also recognized on these assets in fiscal years 2009 and 2010.

The purchase cost and market value of these securities, in the aggregate, were $14,474 and $11,074 respectively. The total value of the MBS portfolio is less than 1% of the total investment holdings. Market values for the MBS portfolio are based on pricing provided by an independent valuation service. The District has determined this impairment to be other than temporary because the decline in value has existed for an extended period of time, and is directly related to adverse conditions that are specific to these securities. Various dynamics in the credit-market environment and the illiquidity of some MBS have resulted in declines in the market values of these securities. The District has no current plans to sell these securities. The District expects to continue to receive timely principal and interest payments on these securities, and most of them are rated in the highest rating category (AAA). As such, the District may recoup some or all of the impairment amount. Mortgage-Backed Securities are prohibited by the District's current investment policy; however, all existing MBS positions were "grandfathered" into the overall investment portfolio.

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 at September 30, 2013, classified by type, and the changes in fair value of such derivative instruments for the year then ended as reported in the fiscal year 2013 financial statements.

NOTE 2. CASH AND INVESTMENTS

Table N8 - Derivative Instruments Outstanding at September 30, 2013

	(Dollars in $000s)				
	Changes in Fair Value		Fair Value at September 30, 2013		
	Classification	**Amount**	**Classification**	**Amount**	**Notional**
Governmental Activities:					
Cash flow hedges:					
Floating to fixed interest rate swaps:					
2008C Swap	Deferred inflow	$19,167	Debt	($39,443)	$224,300
2007 AWC Swap	Deferred inflow	$4,019	Debt	(9,278)	$77,210
2004B Swap	Deferred inflow	$136	Debt	(1,554)	$38,250
Deferred outflow of resources, at end of year				**($50,275)**	
Floating to floating interest rate swaps:					
2001C/D Basis Swap	Investment Revenue	($537)	Investment	$13	$186,480
Derivative instrument liabilities, at end of year				**($50,262)**	

The fair values of the interest rate swaps were provided by the counterparty to each respective swap and confirmed by the District's financial advisor. The fair values take into consideration the prevailing interest rate environment and the specific terms and conditions of each swap. The fair values of the interest rate swaps were estimated using the zero coupon discounting method. This method calculates the future payments required by the swap, assuming that the current forward rates implied by the yield curve are the market's best estimate of future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve. The current swap and the new swap payments are present valued at the LIBOR spot rates. The difference in the present value of the cash flows will equal the fair value.

Objective and Terms of Hedging Derivative Instruments

Table N9 presents the objective and terms of the District's hedging derivative instruments outstanding at September 30, 2013, along with the credit rating of the associated counterparty.

NOTE 2. CASH AND INVESTMENTS

Table N9 – Objectives and Terms of Hedging Derivative Instruments Outstanding at September 30, 2013

(Dollars in $000s)

Type	Objective	Notional Amount	Effective Date	Maturity Date	Terms	Counterparty Credit Rating
Pay-fixed interest rate swaps:						
2008 C Swap	Hedge of changes in cash flows on the Series 2008C Bonds (formerly 2002 A/B Bonds)	$ 224,300	10/15/02	06/01/27	Pay fixed rate of 3.615%; receive 67% of 1-month LIBOR	Baa1/A-/A
2007 AWC Swap	Hedge of changes in cash flows on the Series 2007 AWC PILOT Revenue Bonds	$ 77,210	09/20/07	12/01/21	Pay fixed rate of 4.463%; receive the rate that matches the rate paid on the underlying bonds (SIFMA)	Aa3/AA-/AA-
2004 B Swap	Hedge of changes in cash flows on the Series 2004B General Obligation Bonds	$ 38,250	12/03/04	06/01/20	Pay fixed rates of 4.598%, 4.701%, 4.794% and 5.121%; receive the rate that matches the rate on the underlying bonds (CPI Muni Index)	A2/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	$ 186,480	06/02/03	06/01/29	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+/A+

Risks

Credit Risk

The fair market values of the interest rate swaps represent the District's obligation to the respective counterparties if the swap agreements were terminated. The District is exposed to credit risk on hedging derivative instruments that have positive fair 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, 2013 were as presented in **Table N9**.

The District was exposed to minimal credit risk because most of the interest rate swaps had negative fair values. The aggregate fair value of hedging derivative instruments in asset positions at September 30, 2013, was $13. This represents the maximum loss that would be recognized at the reporting date if all counterparties failed to perform as contracted. In each of the District's swap agreements, the payments are netted against the obligations within each swap. As such, if the District is owed any payment due to an event of default by the counterparty that payment can be netted against any outstanding obligations within that specific swap agreement.

Interest Rate Risk

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

As of September 30, 2013, the fair value of the investments in derivative instruments subject to interest

NOTE 2. CASH AND INVESTMENTS

rate risk was $13 ($13 thousand). These investments had maturities of more than 10 years.

The District invested in a floating-to-fixed rate swap in connection with its $214,155 Multimodal General Obligation Bonds, Series 2001C and its $69,715 Multimodal General Obligation Refunding Bonds, Series 2001D (2001C/D Swap). At September 30, 2013, the notional amount of the 2001C/D Swap was $186,480. 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. At September 30, 2013, this interest rate swap had a fair value of $13.

Basis Risk

The District is exposed to basis risk on its pay-fixed interest rate swap and rate cap hedging derivative instruments because the variable-rate payments received by the District on these hedging derivative instruments are based on a rate or index other than interest rates the District pays on its hedged variable-rate debt, which is remarketed every 7 days. In order to mitigate basis risk, the District typically executes a basis swap which pays the District a higher percentage of LIBOR as interest rates decrease. As of September 30, 2013, the weighted-average interest rate on the District's hedged variable–rate debt was approximately 0.19%, while the SIFMA swap index rate was 0.18% and 67% of LIBOR was 0.14%.

Termination Risk

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

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

Rollover Risk

The District is exposed to rollover risk on hedging derivative instruments that are hedges of debt that mature or may be terminated prior to the maturity of the hedged debt. When these hedging derivative instruments terminate, or in the case of a termination option, if the counterparty exercises its option, the District will be re-exposed to the risks being hedged by the hedging derivative instrument. In order to mitigate this risk, the District matches the maturity of each fixed to floating rate swap with the maturity date of the underlying bonds. The District was not exposed to rollover risk during fiscal year 2013.

<u>Retirement Board Derivatives</u>

During fiscal year 2013, the District's Retirement Funds, in accordance with the policies of the Retirement Board, and through the District's Retirement Funds' investment managers who have full discretion over investment decisions, invested in various derivative instruments either to increase potential earnings or to hedge against potential losses.

To-be-announced market trades (TBAs) (sometimes referred to as "dollar rolls") are used by the District's Retirement Funds as an alternative to holding mortgage-backed securities outright to raise the potential yield and to reduce transaction costs. The selected TBAs are used because they are expected to behave the same in duration and convexity as mortgage-backed securities with identical credit, coupon and maturity features. Credit risk is managed by limiting these transactions to primary dealers. Market risk for this type of security is not significantly different from the market risk for mortgage-backed securities.

Foreign currency forwards, futures contracts and foreign currency options are generally used by the District's Retirement Funds for defensive purposes. These contracts hedge a portion of the District's Retirement Funds' exposure to particular currencies on occasion when significant adverse short-term movement in exchange rate levels is expected.

Foreign currency forward and futures contracts can pose market risk when the maximum potential loss on a particular contract is greater than the value of the underlying investment. Market risks arise due to movements in the foreign exchange rates underlying the contracts used by the District's Retirement Funds. Credit risk is managed by limiting transactions to counterparties

NOTE 2. CASH AND INVESTMENTS

with short-term credit ratings of Al or Pl or by trading on organized exchanges. Market risk for currency options is limited to the purchase cost. Credit risk is managed by limiting transactions to counterparties with investment-grade ratings or by trading on organized exchanges.

Equity index futures were also used by the District's Retirement Funds in order to gain exposure to equity markets in a more efficient and liquid manner than directly investing in all of the underlying equity securities. Equity index futures may pose market risk when the maximum potential loss on a particular contract is greater than the value of the underlying investment. Market risks arise due to movements in the equities markets underlying the contracts used by the District's Retirement Funds. The notional amounts of the contracts are not included in the derivatives holdings disclosed. Credit risk is managed by dealing with member firms of the futures exchanges.

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

Warrants are used by the District's Retirement Funds to gain equity exposure and to enhance performance. Warrants are often distributed by issuers to holdings of common stock and bonds, and are held for the same fundamental reasons as the original common stock and/or bond holdings. Rights are a security that gives the holder the entitlement to purchase new shares issued by a corporation at a predetermined price in proportion to the number of shares already owned. Market risk for warrants and rights is limited to the purchase cost. Credit risk for warrants and rights is similar to the underlying equity and/or bond holdings. All such risks are monitored and managed by the District's Retirement Funds' external investment managers who have full discretion over such investment decisions.

Swaps represent an agreement between two or more parties to exchange a sequence of cash flows during a predetermined timeframe. The District's Retirement Funds utilize swaps for several different reasons: to manage interest rate fluctuations, to protect against a borrower default, and to gain market exposure without having to actually own the asset. The District's Retirement Funds may manage credit exposure through the use of credit default swaps. A credit default swap (CDS) is a contract whereby the credit risk associated with an investment is transferred by entering into an agreement with another party who, in exchange for periodic fees, agrees to make payments in the event of a default or other predetermined credit event. One of the main advantages of a CDS is that it allows for exposure to credit risk while limiting exposure to other risks such as interest rate and currency risk.

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

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Table N10 presents a list of the District's Retirement Funds' derivatives aggregated by type as of September 30, 2013.

Table N10 – Retirement Board Derivative Investments Aggregated by Type

	(Dollars in $000s)				
	Changes in Fair Value (4)		Fair Value at September 30, 2013		
Type of Derivative	**Classification**	**Amount (1)**	**Classification**	**Amount (2)**	**Notional (3)**
Credit Default Swaps Bought	Investment Income	$ (847)	Swaps	$ 646	$ 36,312
Credit Defaut Swaps Written	Investment Income	(6)	Swaps	227	13,500
Fixed Income Futures Long	Investment Income	121	Futures	-	33,250
Fixed Income Futures Short	Investment Income	(4)	Futures	-	(11,080)
Fixed Income Options Bought	Investment Income	(11)	Options	304	2,100
Fixed Income Options Written	Investment Income	501	Options	(335)	(42,610)
Foreign Currency Futures Long	Investment Income	-	Futures	-	-
Foreign Currency Futures Short	Investment Income	-	Futures	-	-
Foreign Currency Options Bought	Investment Income	(22)	Options	-	-
Foreign Currency Options Written	Investment Income	49	Options	-	-
Futures Options Bought	Investment Income	4	Options	-	-
Futures Options Written	Investment Income	21	Options	-	-
FX Forwards	Investment Income	(226)	LT Instruments	(68)	46,440
Pay Fixed Interest Rate Swaps	Investment Income	1,619	Swaps	1,234	26,892
Received Fixed Interest Rate Swaps	Investment Income	(748)	Swaps	(385)	27,595
Rights	Investment Income	223	Common Stock	-	-
Warrants	Investment Income	(31)	Common Stock	-	2,142
Grand Totals		$ 643		$ 1,623	

(1) Negative values (in brackets) refer to losses
(2) Negative values refer to liabilities
(3) Notional may be a dollar amount or size of underlying futures and options contracts; negative values refer to short positions
(4) Excludes futures margin payments

C. SECURITIES LENDING

District statutes and the Retirement Board's policies permit the District's Retirement Funds to participate in securities lending transactions by relying on a Securities Lending Authorization Agreement, which authorizes the master custodian to lend the Retirement Board's securities to qualified broker-dealers and banks pursuant to a form of loan agreement.

During fiscal year 2013, the master custodian, at the direction of the Retirement Board, loaned a portion of the District's Retirement Funds' equity and fixed income securities secured by collateral in the form of United States and foreign currency cash, securities issued or guaranteed by the United States government, the sovereign debt of foreign countries and irrevocable bank letters of credit. This collateral could not be pledged or sold unless the borrower defaulted on the loan. Borrowers were required to deliver and maintain collateral for each loan in an amount equal to (i) at least 102% of the market value of the loaned securities in the United States; or (ii) 105% of the market value of the loaned securities in the case of loaned securities not denominated in United States dollars or whose primary trading market was not located in the United States.

The Retirement Board and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested, together with the cash collateral of other qualified tax-exempt plan lenders, in a collective investment pool (the Quality D Fund).

Because the Quality D Fund does not meet the requirements of Securities and Exchange Commission