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NOTES TO THE BASIC FINANCIAL STATEMENTS

SEPTEMBER 30, 2006

(Dollar amounts expressed in thousands)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. BACKGROUND AND HISTORY OF GOVERNMENTAL UNIT

General Operations

The District of Columbia (District) was created on March 30, 1791 and became the nation's capital on December 1, 1800, in accordance with Article 1, section 8, clause 17 of the United States Constitution. This portion of the Constitution empowered Congress to establish the seat of government for the United States. 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.

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 disapprove it after it has been adopted. Citizens of the District have the right to vote for the President and Vice-President of the United States but not for members of Congress. The District does, however, have an elected nonvoting Delegate to the United States House of Representatives.

Due to its unique organizational structure (i.e., not a part of any other state government), the District provides a broad range of services to its residents, including those normally provided by a state. 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

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

- The District holds the corporate powers of the organization.
- The District appoints a voting majority of the organization's board.
- The District is able to impose its will on the organization.
- The organization has the potential to impose a financial burden on, or provide financial benefit to the District.
- The organization is fiscally dependent on the District.
- It would be misleading to exclude the organization from the District's financial statements.

Based on the application of the aforementioned criteria, the District's financial statements include six discretely presented component units: Water and Sewer Authority, Washington Convention Center, Sports and Entertainment Commission, Housing Finance Agency, the Anacostia Waterfront Corporation and the University of the District of Columbia. These organizations are presented in a separate column to emphasize that they are legally separate from the District.

The Mayor, with the consent of the Council, appoints the governing bodies of all component units. The District has an obligation to provide financial support to the Housing Finance Agency and the University of the District of Columbia. In addition, the District must approve certain transactions of the Anacostia Waterfront Corporation, the Washington Convention Center and certain tax revenues are dedicated to these two organizations. The Water and Sewer Authority is responsible for the payment of certain District long-term debt, issued before that entity's creation, to finance capital improvements for its predecessor agency. For that reason, in conjunction with the fact that the Water and Sewer Authority is an independent authority under its enabling legislation, this entity is included as a component unit of the District of Columbia.

Information on how to obtain a complete set of financial statements for each discretely presented component unit can be obtained at the following locations:

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

Anacostia Waterfront Corporation
Chief Financial Officer
1100 New Jersey Avenue, S.E.
Suite 700
Washington, D.C. 20003

The District established the District of Columbia Tobacco Settlement Financing Corporation (the "Tobacco Corporation") as a special purpose, independent instrumentality of the District government. The Tobacco Corporation is a blended component unit because it provides services exclusively to the District. The District also appoints all members of the governing body of the Tobacco Corporation. The members have the ability to modify or approve the budget of the organization, appoint, hire, reassign, or dismiss those persons responsible for the day-to-day operations (management) of the organization, and thus the District is able to impose its will.

Separate audited financial statements for the Tobacco Corporation are available from the Office of the Chief Financial Officer, 1275 K Street, N.W., Sixth floor Washington, D.C. 20005.

C. RELATED ORGANIZATIONS

A related organization is one for which the primary government is accountable but not *financially accountable*. The District of Columbia Housing Authority, the National Capital Revitalization Corporation, and the District of Columbia Courts are related organizations because the District is not financially accountable for them. Although the Mayor appoints a voting majority of the governing boards of these organizations (except for the Courts), the District's accountability for the organizations does not extend beyond such appointments. The Mayor does not appoint the members of the Courts' Joint Committee on Judicial Administration; however the Courts are considered a related organization because it provides the judicial services normally associated with municipal and state governments for the District.

D. JOINT VENTURE

The District is a participant with other local jurisdictions in a joint venture to plan, construct, finance and operate a public transit system serving the Metropolitan Washington Area Transit Zone, which includes the District of Columbia; 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 for that purpose. WMATA is governed by a six member Board and six alternates, comprised of two Directors and two alternates each from Maryland, Virginia and the District of Columbia. The Directors and alternates for Virginia are appointed by the Northern Virginia Transportation Commission from among its members; for the District of Columbia, by the Council from its members and mayoral nominees; and for Maryland, by the Washington Suburban Transit Commission from among its members. Further information regarding this joint venture is discussed in Note 11 on page 92.

E. 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. Since by definition,

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 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 support. The government-wide statements are comprised of the following:

- *Statement of Net Assets* – The Statement of Net Assets displays the financial position of the District (governmental and business-type activities) and it's discretely presented component units. The District reports all capital assets, including infrastructure, in the government-wide Statement of Net Assets. The net assets of a government is broken into these three categories – 1) invested in capital assets, net of related debt; 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 aid financial management by segregating transactions related to certain District functions or activities. Each fund is considered to be a separate accounting entity and the transactions in each are summarized by providing a separate set of self-balancing accounts which include its assets, liabilities, fund equity, revenues and expenses/expenditures.

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 enterprise 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 balances of the District's expendable financial resources and the related liabilities (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 and private grants that are legally restricted to expenditure for specified purposes.

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

- *Baseball Project Capital Fund,* used to account for the construction of a new baseball stadium.

Non-Major Governmental Funds include three Special Revenue Funds: (1) Tax Increment Financing (TIF) Program Fund (2) Tobacco Settlement Financing Corporation (TSFC) Fund and (3) Baseball Project Fund. The funds also include Highway Trust Fund, and a Debt Service Fund.

Proprietary Funds are used to account for activities similar to those found in the private sector where the costs (including depreciation) of providing goods or services primarily or solely to the public on a continuing basis are, financed or recovered primarily through user charges, and the determination of net income is necessary or useful for sound financial administration. The District operates only one type of proprietary fund which is an enterprise fund. The District has two major enterprise 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 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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

employees of the District and federal government and of private employers in the District. Resources are contributed by private employers at rates fixed by law, and by the District and federal government on a reimbursable basis. The administrative costs of the program are accounted for in the General Fund.

Non-Major Proprietary Fund is used to account for the operations of the Washington Center for Aging Services, the Washington Center for Aging Services Center Care, and JB Johnson Nursing Center.

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

- *Pension Trust Funds* report the activities of the District's retirement system, which accumulates financial resources for pension benefit payments to qualified District's employees.

- *Private Purpose Trust Fund* is used to report any trust arrangement not reported in pension trust funds "under which principal and income benefit individuals, private organizations, or other governments." The District offers a tax-advantaged 529 College Savings Investment Plan (named after Section 529 of the Internal Revenue Code). The Plan is designed to help families save for the higher education expenses of designated beneficiaries and is available to DC residents as well as non-residents nationwide.

- *Agency Funds* report those resources held by the District in a purely custodial capacity (assets equal liabilities) and do not involve measurement of results of operations.

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

F. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures/expenses are recognized in the accounts and reported in the financial statements. Thus, the accounting and financial reporting treatment applied to a fund or activity is determined by its measurement focus.

Measurement Focus

All governmental funds are accounted for using a flow of current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, generally, only current assets and current liabilities are included in the balance sheet. The operating statements of these funds present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

The proprietary funds, pension and private purpose trust funds, discretely presented component units, and the government-wide financial statements are accounted for on a flow of economic resources measurement focus and the accrual basis of accounting. With this measurement focus, all assets and all liabilities are included on the statement of net assets. Net assets of the government-wide and proprietary funds are segregated into capital assets, net of related debt, restricted and unrestricted components. The related operating statements present increases (revenues) and decreases (expenses) in net assets. Operating statements of pension and private purpose trust funds present additions and deductions in fiduciary net assets.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, are generally followed in both the government-wide and enterprise funds financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board (GASB). The District also has the option of following private-sector guidance issued after November 30, 1989 for its business-type activities and enterprise funds and component units. As allowed by GASB Statement No. 20, the District has elected to follow only those Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARB), issued prior to December 1, 1989.

The effect of interfund activity has been eliminated from the government-wide financial statements.

Enterprise funds distinguish operating revenues and expenses from nonoperating revenues and expenses. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with an enterprise fund's principal ongoing operations.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The District's financial statements are prepared in accordance with generally accepted accounting principles applicable to governmental entities (GAAP) as established by GASB.

All governmental funds use the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (that is when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Property taxes are considered available if they are collected within 60 days after year-end. A one-year availability period is used for revenue recognition for all other governmental fund revenues. Expenditures are recorded when the related fund liability is incurred. GASB Interpretation No. 6 (GASBI 6) requires that expenditures and liabilities such as debt service, compensated absences, claims and judgments, and special termination benefits be recorded in the governmental fund statements only when they mature or become due for payment within the period. However, such activity is recorded in the government-wide financial statements as incurred.

Those revenues susceptible to accrual are taxes, federal contributions and grants, charges for services and investment income. 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 an enforceable lien on property as of October 1 of the year after levy. Sales and use taxes are recognized as revenue when the sales or uses take place. Interest on investments is recognized when earned. Charges for services are recorded as revenues and services are provided.

In the District, the personal property tax is self-assessed. The District requires a personal property tax return for the tax year beginning July 1 - June 30 each year to be filed on or before July 31 of that tax year. The return should report the remaining cost (current value) of all tangible personal property that has taxable sites in the District of Columbia as of July 1. The property taxes become levied once the returns are filed. However, the District does not have a legal claim to a provider's resources that is enforceable through the eventual seizure of the property until after July 31 if the taxpayer fails to pay the property tax when due. The revenue budget for the Personal Property Tax is formulated with the understanding that 25% of collections are to be allocated to the current fiscal year, while the remaining 75% are to be allocated to the immediate subsequent fiscal year.

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

Licenses and permits, fines and forfeitures are not considered susceptible to accrual because they are not both measurable and available to finance expenditures of the current period. Licenses and permits and fines and forfeitures are recorded as revenue when received in cash because they are generally not measurable until received.

The government-wide financial statements, proprietary funds, and pension and private purpose trust funds use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time the liabilities are incurred. The pension trust funds recognize additions to net assets from participants' contributions when due, District contributions when due and a formal commitment for payment has been made, net investment income as earned, and expenditures for benefits and refunds when due and payable. The private purpose trust fund recognizes additions to net assets when participants' contributions are received.

Food Stamps

The District participates in the federal government's food stamp program, which is designed to increase the food purchasing power of economically disadvantaged residents. The District mainly uses the Electronic Benefits Transfer (EBT) system that allows program beneficiaries to charge their qualifying food purchases, thereby eliminating the need for paper stamps. Thus, revenues and expenditures are reported in the federal and private resources fund when the underlying transaction (the food purchase) occurs.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

G. BASIS OF BUDGETING AND BUDGETARY CONTROL POLICIES

Process

About March 20 of each year, the Mayor submits to the Council an all sources budget for the General Operating Fund, for the fiscal year commencing the following October 1. 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. A project-length financial plan is adopted for the General Capital Improvements Fund. About June 1 of each year, the Mayor approves the adopted budget and forwards it to the President of the United States for review. Early in June of each year, the President submits the reviewed budget to Congress which conducts public hearings and enacts the budget through passage of an appropriation bill.

Appropriations Act

The legally adopted budget is the annual appropriation public law (Appropriations Act) enacted by Congress and signed by the President. The Appropriations Act authorizes expenditures at the function level or by appropriation title, such as Public Safety and Justice, Human Support Services or Public Education. Congress must enact a revision that alters the total expenditures of any function. The District may request a revision to the appropriated expenditure amounts in the Appropriations Act by submitting to the President and Congress a request for a supplemental appropriation.

Pursuant to the Reprogramming Policy Act (D. C. Official Code 47-363(2001), as amended), the District may reallocate budget amounts within appropriation title. The appropriated budget amounts in the Budgetary Comparison Statement include all approved reallocations. This statement reflects budget to actual comparisons at the function level (or appropriation title). Appropriated actual expenditures and uses may not legally exceed appropriated budgeted expenditures and uses at the function level as shown on this statement. A negative expenditure variance in the budgetary comparison statement for a particular function is a violation of the Anti-Deficiency Act (31 U.S.C. 1341, 1342, 1349, 1351) and the District of Columbia Anti-Deficiency Act (D.C. Official Code 47-355.01-355.08, 2001). Also, a violation of the D.C. Anti-Deficiency Act exists if there is a negative expenditure variance for a particular purpose or object of expenditure within an appropriation.

The Appropriations Act specifies expenditures and net surplus or deficit of revenues. The Appropriations Act does not specify revenue amounts. The legally adopted revenue budget is based primarily on the revenue estimates submitted to the President and Congress as modified through legislation.

By law, the budgetary general fund includes both the general fund and the federal and private resources fund presented in Exhibit 2-b. Additionally, the budgetary basis of accounting used to prepare the budgetary comparison statement presented in Exhibit 2-d differs from the GAAP – basis general fund and federal and private resources fund due to other basis and entity differences, as follows:

- *Basis Differences* - These are differences that arise because the basis of budgeting differs from the basis of accounting prescribed by GAAP as indicated in Note 1W on page 64.
- *Entity Differences* - This basis relates to inclusion or exclusion of certain activities for budgetary purposes as opposed to those included or excluded on a GAAP basis as indicated in Note 1W on page 64.

Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of funds are recorded in order to reserve that portion of the appropriation, is employed in the governmental funds. Encumbrances outstanding at year-end do not constitute expenditures or liabilities for GAAP or budgetary purposes. All encumbrances lapse in the General Fund at year end, and may automatically be re-appropriated and re-encumbered as part of the subsequent year's budget.

H. CASH AND INVESTMENTS

Cash

Cash from the governmental and proprietary funds and certain component units is pooled unless prohibited by law. The cash management pool is considered to be cash because it is used as a demand deposit account by each participating fund and component unit. If a fund overdraws its share of the pooled cash, that fund reports a liability to the general fund, which is deemed to have loaned the cash to the overdrawn fund. The general fund reports a receivable from the overdrawn fund.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and mature in such a short period of time that their values are

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

effectively immune from changes in interest rates. The District's cash management pool is considered a cash equivalent. For an investment to be considered a cash equivalent, it must mature no more than three months after the date it is purchased.

Investments

Any cash that is not needed for immediate disbursement is used to purchase investments. The District purchases legally authorized investments consistent with the provisions of the "Financial Institutions Deposit and Investment Amendment Act of 1997" (D.C. Law 12-56), which became effective March 18, 1998. At September 30, 2006 the District has invested primarily in investments backed by U.S. government agencies' securities, with the implicit guarantee of the federal government. Such investments are considered to be the equivalents of cash. The Pension Trust Funds are authorized to invest in fixed income, equity securities and other types of investments. Also, the Private Purpose Trust Fund is authorized to invest in eight portfolios which are comprised of equities, balanced fund, and fixed income securities.

Money market investments that have a remaining maturity at the time of purchase of one year or less are reported at amortized cost, which approximates fair value. Other investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Asset-backed securities are valued on the basis of future principal and interest payments and are discounted at prevailing interest rates for similar investments. Investment purchases and sales are recorded as of the trade date. These transactions are not finalized until the settlement date. Cash received as collateral on securities lending transactions and investments made with such are reported as assets and as related liabilities for collateral received.

I. NEW ACCOUNTING STANDARDS ADOPTED

In fiscal year 2005, the Governmental Accounting Standards Board (GASB) issued a new accounting standard, Statement No. 47, *Accounting for Termination Benefits*. This Statement, *an amendment of various paragraphs of certain statements issued by NCGA and GASB,* addresses termination benefits that are provided by employers to employees as an inducement to hasten the termination of services or as a result of a voluntary early termination. Termination benefits include early-retirement incentives, severance benefits, and termination-related benefits, e.g. healthcare. The District did not provide termination benefits in the fiscal year ended September 30, 2006.

Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues,* was issued in September 2006. This Statement establishes criteria that governments will use to ascertain whether the proceeds should be reported as revenue or as a liability. It also includes guidance to be used for recognizing other assets and liabilities arising from a sale of specific receivables or future revenue, including residual interests and recourse provisions. The requirements of this Statement improve financial reporting by establishing measurement, recognition, and disclosure requirements that apply to both governmental and business-type activities. The implementation of this Statement is effective for financial statements for periods beginning after December 15, 2006, the District's fiscal year 2008. The District is already in compliance with this Statement.

J. RESTRICTED ASSETS

Certain governmental and proprietary funds, component units, and all fiduciary fund assets are restricted as to use by legal or contractual requirements. Any excess of restricted assets over liabilities payable from restricted assets is reported as part of the restricted net assets in the government-wide, proprietary, and fiduciary financial statements and as "reserved" fund balance in the governmental fund financial statements, to indicate the portion of the net assets or fund balance that is available for restricted purposes, only. Restricted assets also represent cash deposited in bank accounts legally restricted for certain purposes such as the payment of bond principal and interest or the payment of fiscal charges on long-term debt.

K. PREPAID ITEMS AND DEFERRED CHARGES

Prepaid items are for 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 discounts and issuance costs are recognized in the current period as interest and fiscal charges, respectively. In the government-wide financial statements, long-term debt discounts and issuance costs are capitalized and amortized as fiscal charges over the term of the related debts using the outstanding balance method.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

L. 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.

M. TRANSFERS AND OTHER TRANSACTIONS BETWEEN FUNDS

Interfund transactions are categorized as (a) revenues and expense/expenditure transactions consisting of temporary interfund transactions which include reimbursements and quasi-external transactions or (b) reallocation of resources, transactions including temporary interfund loans, 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 are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any remaining balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances." Short-term amounts owed between the primary government and a discretely presented component unit are classified as "Due to/from primary government" and "Due to/from component unit" on the statement of net assets.

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 (governmental funds) and in the "Transfers" section in the statement of revenues, expenses, and changes in net assets (proprietary funds).

N. CAPITAL ASSETS

Capital assets, which include property, plant, equipment, and land improvements (infrastructure) such as 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. In the case of the initial capitalization of general infrastructure acquired prior to fiscal years ended after June 30, 1980, the District elected to include all such items regardless of their acquisition date.

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 asset lives is not capitalized. Betterments are capitalized over the remaining useful lives of the related capital assets. Capital assets utilized in the governmental funds 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.

Interest is capitalized in the government-wide financial statements for business-type activities and proprietary funds on assets constructed with long-term debt. The amount of interest to be capitalized is calculated by offsetting interest expense incurred on tax-exempt debt from the date of borrowing until completion of the project with interest earned on invested proceeds over the same period.

Capitalization and Depreciation Policies

Assets capitalized have an original cost of $5 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 1** by category.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Table 1 – Estimated Useful Lives (by Asset Category)

	Useful Life
Sewer Lines	45 years
Buildings	50 years
Equipment	5-12 years
Land Improvements	30-40 years

O. CAPITAL LEASES

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 minimum lease payments payable during the remaining term of the leases, are also recorded in these financial statements.

P. COMPENSATED ABSENCES

Benefit Accumulation Policies

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

Accrual

The District records vacation as an expenditure and related liability in the governmental fund financial statements only to the extent that they 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. 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 and in the District Retirement Program.

The employees of the District earn sick leave credits that are considered termination payments at time of retirement rather than be taken as absences due to illness or other contingencies. The District estimates the sick leave liability based on the sick leave accumulated at fiscal year end by employees who are currently eligible for retirement and to receive sick leave payments upon separation, or who are expected to become eligible in the future to receive such payments. Accumulated compensatory leave is reported in the government-wide financial statements and in the proprietary funds.

Q. LONG-TERM LIABILITIES

Under 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 local revenues of the then-current fiscal year in which the debt is issued. The legal debt limitation is calculated annually by dividing maximum annual principal and interest by current-year total local-source revenues (excluding revenue and debt of the Water and Sewer Authority, pursuant to the Home Rule Act.)

General obligation bonds, revenue bonds and other long-term liabilities directly related to and intended to be paid from 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 pays principal on its 1994B Capital Appreciation Bonds (CABs) annually. 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 6.00 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 pays principal on its 2002 Mandarin TIF Capital Appreciation Bonds (CABs) annually. 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 4.26 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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

bonds is the current value, plus the interest that has been accumulating on the bonds.

The District pays principal on its 2006 Tobacco Capital Appreciation Bonds (CABs) annually. 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.

R. RESTRICTED NET ASSETS AND FUND BALANCE RESERVATIONS AND DESIGNATIONS

The government-wide and proprietary fund financial statements utilize a net assets presentation. Net assets are categorized as:

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

- *Restricted Net Assets* - This category presents net assets 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 assets represent the portion of net assets that must be held in perpetuity in accordance with donor stipulations.

- *Unrestricted Net Assets* - This category represents net assets of the District not restricted for any project or other purpose.

It is the policy of the District to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

In the governmental fund financial statements, reserves and designations segregate portions of fund balance that are either not available or have been earmarked for specific purposes. The amount of fund balance that is available for future operations is presented as "unreserved." Reservations of fund balance represent amounts that are legally or statutorily identified for specific purposes or portions that are not appropriable for expenditure. Designations of fund balance represent management's intent to fund future projects, but do not represent a legal or statutory requirement to do so.

As of September 30, 2006, the District had established the following fund balance reservations and designations and restricted net assets (see **Tables 34a and 34b** on pages 91 and 92):

Reservations

Reserve for Long-Term Assets - This portion of fund balance represents those long-term assets that are not available for appropriation and expenditure.

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

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

Reserve for Capital Lease Payment - This portion of fund balance is reserved for the purpose of making lease payments on Saint Elizabeth and DMV Facilities.

Reserve for Paygo Capital - This portion of fund balance represents amounts to be used to supplement the District's bond financing activity, to the extent feasible, with resources from the general fund.

Reserve for Other Post Employment Benefits - This portion of reserved fund balance is set aside to fund the District's share of retirees' health and life insurance costs.

Reserve for Subsequent Year's Expenditures - This portion of fund balance represents amounts to be used to finance certain non-recurring policy initiatives (referred to as "Resident Dividends"), which were approved by the District Council and Congress for FY2006 and dedicated gross sales taxes.

Reserve for Inventory - This portion of fund balance represents that portion of inventories that is not available for appropriation and expenditure.

Reserve for Budget - This portion of fund balance represents unused FY 2006 Budget Reserve amounts that are available until expended.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Reserve for Charter School Enrollment Expansion - This portion of fund balance is restricted for the purpose of providing start-up costs for new charter schools.

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

Reserve for Tobacco Settlement (TSFC) - This portion of the District's fund balance represents the fund balance reserved for the purpose of paying future debt service and related expenses associated with TSFC's issuance of Tobacco Settlement Asset-Backed Bonds in FYs 2001 and 2006.

Reserve for Tax Increment Financing Program - This portion of fund balance is restricted for debt service on Tax Increment Financing Bonds and Notes.

Reserve for Baseball - This portion of fund balance represents the resource that is available for constructing the baseball stadium.

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

Designations

Designation for Other Post Employment Benefits - This designation of unreserved fund balance is set aside to fund the District's share of retirees' health and life insurance costs.

Designation for School Modernization - This designation of unreserved fund balance is for reconstruction and modernization of public schools.

Designation for Other Special Purposes - This designation of unreserved fund balance is for activities financed by fees and charges for services.

Restricted Net Assets

Restricted for Workers' Compensation - This portion of fund balance is restricted for the purpose of paying restitution under Workers' Compensation Claims.

Restricted for Future Benefits - This portion of fund balance represents the resource that is available for benefit payments from the Pension and Private Purpose Trust Funds.

S. POST-EMPLOYMENT BENEFITS

In addition to the pension benefits described in Note 9, employees may receive post-retirement health care and life insurance benefits. As of September 30, 2006, there were 5,491 pre-87 (Civil Service) and 12,151 post-87 (DC Defined Contribution) employees who are eligible for such benefits. The cost of providing such benefits to employees hired prior to October 1, 1987 is borne by the federal government and the District has no liability for this cost. Employees hired after September 30, 1987, pursuant to the D.C. Code 1-622, who subsequently retire may be eligible to continue their health care benefits. Furthermore, in accordance with D.C. Code 1-623, these employees may convert their group life insurance to individual life insurance. The District therefore bears responsibility for the cost relating to employees hired after September 30, 1987. The District does not record a liability for its portion of the cost of post-retirement benefits but rather records such cost as expenses/expenditures when premiums are paid.

T. OTHER POST-EMPLOYMENT BENEFITS

The District provides health and life insurance benefits to retirees first employed by the District after September 30, 1987. The expense of providing such benefits to employees hired prior to October 1, 1987 is defrayed by the federal government and the District has no liability for those employees. The District pays 75% of the cost of health insurance, and 33% of the cost of life insurance, for eligible retirees. The District also pays 75% of the premium for retirees' spouse and dependent health insurance coverage. The District has recognized $1,112 for post-retirement health and life insurance premiums paid during fiscal year 2006, and as of September 30, 2006, there were 421 retirees that received these benefits. The District has funded the Plan on pay-as-you-go basis, but will start funding on an actuarial basis in its fiscal year beginning October 1, 2007. The District is in the process of conducting an actuarial study of its obligations under the Plan.

U. USE OF ESTIMATES

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the basic financial statements and the reported amounts of revenues, expenses and

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

expenditures during the reporting period. Actual results could differ from those estimates.

V. 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 assets

The governmental funds balance sheet includes reconciliation between fund balances - total governmental funds, and net assets - governmental activities as reported in the government-wide statement of net assets. One element of that reconciliation explains that certain liabilities are not reported under the modified accrual accounting basis including deferred revenue, but are reported in the government-wide financial statements. The difference in deferred revenue of $37,632 between the two statements is a reconciling item.

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 – total governmental funds and changes in net assets of governmental activities as reported in the government-wide statement of activities.

The details of the $527,803 difference related to capital outlay are as follows:

Capital outlay capitalized	$	705,872
Less: Depreciation expense		(225,809)
Equipment additions		65,196
Transfers/Dispositions		(17,456)
Net adjustment	**$**	**527,803**

Deferred property tax revenues which were earned but which current financial resources are not available for the purpose of recognition in the governmental funds were recognized in the government-wide financial statements. Such revenue increased by $7,216 from fiscal year 2005 as a result of a change in the amount deferred in the governmental funds between 2005 and 2006.

The details of the $(1,117,206) difference related to capital debt are as follows:

Bonds proceeds	$	(1,247,407)
Equipment financing program		(30,167)
COPs proceeds		(211,680)
Premium on long term debt		(39,944)
Less:		
G.O. bonds advance refunding		117,925
Principal payments on G.O. bonds		188,095
Principal payments on other long-term liabilities		14,750
Principal payments on capital lease		8,448
Principal payments on equipment financing program		23,458
Fiscal charges		59,316
Net adjustment	**$**	**(1,117,206)**

The details of the $64,890 difference related to the change in accrued liabilities are as follows:

Annual leave	$	(21,036)
Future disability benefits		117,505
Capital Appreciation Bond (CAB) interest accretion		(13,324)
Accrued interest		(10,113)
Claims and judgments		(8,142)
Net adjustment	**$**	**64,890**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

W. BUDGETARY COMPARISON STATEMENT – RECONCILIATION OF BUDGETARY BASIS TO GAAP BASIS

The following presents a GAAP basis reconciliation of the budgetary basis operating results as shown in the Budgetary Comparison Statement.

	GENERAL FUND	FEDERAL AND PRIVATE RESOURCES
EXCESS OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES - BUDGETARY BASIS	$ 325,162	$ 2,255
Basis differences:		
Inventory is recorded using the purchase method for budgetary purposes and the consumption method on a GAAP basis	(1,973)	2,120
Proceeds from debt issuance - certificate of participation, a financing source that was not included on a budgetary basis	16,822	-
Contingency reserve replenishment - an interfund transfer not included on a budgetary basis	14,187	-
Revenue accrual adjustments	24,905	-
Expenditure accrual adjustments	20,997	38,988
Fund balance released from restrictions - a funding source for budgetary purposes but is not revenue on a GAAP basis	(528,432)	-
Entity differences:		
Operating cost from enterprise funds that are excluded on a budgetary basis	(21,209)	-
EXCESS OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES - GAAP BASIS	$ **(149,541)**	$ **43,363**

X. RESTATEMENT

Certain errors were discovered in the prior year financial statement of the Housing Finance Agency, a component unit. The errors were related to the calculation of the outstanding mortgage note. As a result of these errors, the net assets of the component unit were restated as follows:

October 1, 2005, as previously reported	$ 1,399,713
Overstatement of loan receivable and revenue	(1,275)
October 1, 2005, as restated	**$ 1,398,438**

NOTE 2. CASH AND INVESTMENTS

A. CASH

The District of Columbia follows the practice of pooling cash and cash equivalents for some of its governmental funds and component units in order to provide better physical custody and control of cash, to enhance operating efficiency and to maximize investment opportunities. Of $3,510,385 within the custody of the District, in accordance with District policies, substantially all deposits as of September 30, 2006 were insured or collateralized with securities held by the District or by its agent in the District's name. At September 30, 2006, the carrying amounts of cash for the primary government and fiduciary funds were $3,263,058 and the bank balances were $2,253,113. The carrying amount of cash (deposits) for the component units was $247,327 and the bank balance was $246,832.

B. INVESTMENTS

District of Columbia laws authorize the Treasurer to invest funds in a manner that will provide preservation of principal and meet anticipated daily cash requirements of the District, 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), which became effective March 18, 1998. The District's current 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 money market funds and/or obligations backed by United States government or its agencies. The Retirement Board is authorized to 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 Board may not invest in debt instruments of the District, the Commonwealth of Virginia or 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.

The District and its discretely presented component units' investments are subject to interest rate, credit, custodial credit, and foreign currency risks as described below:

- *Interest Rate Risk* - The District limits exposure to fair value losses arising from rising interest rates. During the fiscal year, the District's investments, other than those held by the Retirement Board, were limited to U.S. government and agency securities and money market funds with original maturities of 90 days or less. The Retirement Board's fixed income managers must construct and actively manage a portfolio of fixed income and related securities that maintains a weighted average duration within +/-2 years of the duration of the fixed income benchmark.

- *Credit Risk* - The District invests in obligations of the United States government and agencies securities, prime commercial paper rated A-1 by Standard and Poor's Corporation or P-1 by Moody's, banker's acceptances, and repurchase agreements. During the fiscal year, the District's investments (other than those held by the Retirement Board) were limited to U.S. government and agency securities and money market funds with original maturities of 90 days or less. For the Retirement Board, fixed income managers are permitted to invest in eligible long-term instruments rated investment grade (top four ratings) by nationally recognized rating organizations.

- *Custodial Credit Risk* – Custodial credit risk occurs in the event that investment securities are uninsured and/or not registered in the name of the government, and there is failure of the counterparty. In such a case, 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. The District collateralized all required investments during fiscal year 2006. 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.

- *Foreign Currency Risk* - As a general policy of the Retirement Board, the Board managers, with authority to invest in a portfolio consisting primarily of non-U.S. securities, structure optional currency positions which minimize tracking error and enhance risk-adjusted returns relative to the benchmark.

In connection with its Public Charter Schools Credit Enhancement and Direct Loan Program, the District invested a net amount of approximately $9.7 million with Geneva Capital Partners, LLC. Geneva subsequently executed an agreement with the District through which it pledged certain mortgage notes with a total face value of approximately $15.3 million as collateral for the District's investment. However, based on certain on-going legal proceedings

NOTE 2. CASH AND INVESTMENTS

involving Geneva, the disposition of the District's assets owned by or in the custody of Geneva is uncertain, and the market value, negotiability and liquidity of the notes pledged by Geneva as collateral for the District's investment are uncertain. The District has recorded this investment as a long term investment.

- *Concentration of credit risk* – The District's investment policy does not allow for an investment in any one institution that is in excess of five percent of the District's total investment.

Table 2a – Cash and Investments Details

	Total Carrying Value	
INVESTMENTS		
Primary Government:		
U. S. government securities	$ 311,862	
Corporate securities	3,279	
Mutual funds	22,918	
Total Primary Government		338,059
Fiduciary Funds:		
Pension trust funds investments held by Board's agent in Board's name:		
Equities (of which $304,375 is on securities loan with securities and other collateral)	2,557,081	
Fixed income securities (of which $102,106 is on securities loan with securities and other collateral)	505,903	
Pension trust funds investments held by broker-dealer under securities loans with cash collateral:		
Equity securities	304,366	
Fixed income securities	102,106	
Securities lending collective investment pool	428,228	
Private purpose trust funds investments	72,495	
Total Fiduciary Funds		3,970,179
Component Units:		
U. S. government securities	213,171	
Corporate securities	337,000	
Investment contracts	265,004	
Mutual funds	304,277	
Total Component Units		1,119,452
Total reporting entity investments		$ 5,427,690
CASH BALANCES		
Primary government		$ 2,836,378
Fiduciary Funds		426,680
Component units		247,327
Total cash balances		**$ 3,510,385**

NOTE 2. CASH AND INVESTMENTS

Table 2b – Reconciliation of the District's deposit and investment balances

Total investments per Table 2a	$	5,427,690
Total cash balances		3,510,385
Total	$	**8,938,075**

		Exhibit 1-a		Exhibit 4-a		Total
Cash and cash equivalents	$	519,414	$	-	$	519,414
Investments		192,099		-		192,099
Cash and cash equivalents (restricted)		2,564,291		426,680		2,990,971
Investments (restricted)		1,265,412		3,970,179		5,235,591
Total	$	**4,541,216**	$	**4,396,859**	$	**8,938,075**

Derivative Financial Instruments

In accordance with the policies of the Retirement Board and pursuant to D. C. Code Section 1-741(a)(2)(C), during 2006, the Pension Trust Funds held certain derivative investments to increase potential earnings or to hedge against potential losses. Derivative investments are defined as financial instruments, the values of which depend on or are derived from the value of an underlying asset, reference rate, or index. Derivative investments often contain exposure to market risk resulting from fluctuations in interest and currency exchange rates or changes in the price or principal value of a security. The investment credit risk results from the creditworthiness of the counterparties to the contracts and, for asset backed securities and collateralized mortgage obligations, the creditworthiness of the related consumers and mortgages. The Retirement Board maintains that all contracts are legally permissible in accordance with its policy.

In fiscal year 2006, these derivatives included asset-backed securities (ABS), collateralized mortgage-backed securities (CMOs), mortgage-backed pools and securities, floating rate notes, structured notes, stripped/zero coupon bonds, inflation index bonds, forward mortgage-backed security contracts (TBAs), foreign currency forward and futures contracts, equity index futures, bond futures, bond options, currency options, and warrants.

The Pension Trust Funds used asset backed securities (ABS), collateralized mortgage obligations (CMOs,) mortgage-backed pools and securities, structured notes, stripped/zero coupon bonds, inflation index bonds, mortgage backed security forward contracts, foreign currency futures/forward contracts, and options primarily to increase potential returns. ABS and mortgage-backed pools and securities offer higher potential yields than comparable duration U. S. Treasury Notes with higher credit and market risks. CMOs also offer higher potential yields than comparable duration U. S. Treasury Notes, with higher market risks, although the market risks may be higher or lower than comparable mortgage-backed pools. Market risk for asset backed and mortgage backed pools and securities are managed by monitoring the duration of the investments. Credit risk is managed by monitoring credit ratings, the underlying collateral for each security and any related guarantee.

The Pension Trust Funds invest in structured notes with step-up coupons that offer higher yields than comparable U. S. Treasury Notes in exchange for higher market and/or credit risks. Securities with step-up coupons pay interest according to a pre-set series of interest rates, which start at one rate and then step-up to higher rates on specific dates. The Funds also contain stripped/zero coupon bonds, which are purchased at a discount and do not pay an interest rate.

Foreign currency forward and futures contracts and foreign currency options are used by the Retirement Funds for defensive purposes. These contracts hedge a portion of the Retirement Funds' exposure to particular currencies on occasion when significant adverse short-term movement in exchange rate levels are expected. Foreign currency forward and futures contracts can pose market risk when the maximum potential loss on a particular contract is greater than the value of the underlying investment. Market risks arise due to movements in the foreign exchange rates underlying the contracts used by the Retirement Funds. Credit risk is managed by limiting transactions to counterparties with short-term credit ratings of A1 or P1 or by trading on organized exchanges. Market risk for currency options is limited to the purchase cost. Credit risk is managed by limiting transactions to counterparties with investment grade ratings or by trading on organized exchanges.

Exchange-traded and over-the-counter bond futures and options are used by the Retirement Funds to gain exposure to fixed income markets in a more efficient and

NOTE 2. CASH AND INVESTMENTS

liquid manner than by purchasing the underlying bonds. Market risk for these options is limited to purchase cost. Credit risk is managed by limiting transactions to counterparties with investment grade ratings or by trading on organized exchanges.

The Pension Trust Funds also hold derivative investments indirectly by participating in pooled, commingled, mutual or short-term funds that hold derivatives. Information regarding any risks associated with these holdings is not generally available.

At September 30, 2006, the Pension Trust Funds' portfolio included $416,584 of derivative investments, or 10.32% of the pension investment portfolio. The proportion of derivative investments varied at times throughout the year.

Derivative investments by type at September 30, 2006 are shown in **Table 3.**

Table 3 – Derivative Investments by Type

Derivative Instrument Type		
Asset-backed securities	$	68,137
Collateralized mortgage obligations		89,973
Mortgage-backed security pools and securities		177,289
Inflation index bonds		82,351
Mortgage-backed security forward contracts		1,332
Foreign currency futures/forward contracts, net		(3,150)
Interest rate swaps		660
Options		(8)
Total Derivatives	$	**416,584**

C. SECURITIES LENDING

During the fiscal year 2006, the master custodian, at the direction of the Retirement Board, lent the Retirement Funds equity and fixed income securities and received collateral in the form of cash (United States and foreign currency), securities issued or guaranteed by the United States government, the sovereign debt of Organization of Economic Cooperation and Development countries and irrevocable letters of credit issued by a bank insured by the FDIC. The collateral could not be pledged or sold unless the borrower defaulted on the loan. Borrowers delivered collateral for each loan equal to (i) at least 102% of the market value of the loaned securities if these securities were sovereign debt issued by a foreign government denominated in U.S. dollars or their primary trading market was located in the United States; or (ii) 105% of the market value of the loaned securities in the case of loaned securities not denominated in United States dollars or whose primary trading market was not located in the United States.

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

Because the Quality Fund does not meet the requirements of Securities and Exchange Commission Rule 2a-7 of the Investment Company Act of 1940, the master custodian has valued the Fund's investments at fair value for reporting purposes.

The Quality Fund is not registered with the Securities and Exchange Commission. The master custodian, and consequently the investment vehicles it sponsors (including the Quality Fund), are subject to the oversight of the Federal Reserve Board and the Massachusetts Commissioner of Banks. The fair value of the Funds' position in the Quality Fund is not the same as the value of the Retirement Funds' shares.

There was no involuntary participation in an external investment pool by the Quality Fund and there was no income from one fund that was assigned to another fund by the master custodian during fiscal year 2006.

During fiscal year 2006, the Board did not restrict the amount of the loans that the master custodian made on its behalf. There were no failures by any borrowers to return loaned securities or pay distributions thereon and there

NOTE 2. CASH AND INVESTMENTS

were no losses resulting from a default of the borrowers or the master custodian during 2006.

The Quality Fund invests qualified cash collateral from loans of U.S. and non-U.S. equities, U.S. corporate fixed income securities, U.S. Government securities and sovereign debt. Its average effective duration is restricted to 120 days or less. The average duration of the investment pool as of September 30, 2006 was 446 days. The maximum remaining effective maturity of any instrument is two years. The average weighted maturity of the investment pool as of September 30, 2006 was 52 days. Because the loans were terminable at will, their duration did not generally match the duration of the investments made with cash collateral.

Investments are restricted to issuers with a short-term credit rating not lower than A1/P1, or long-term ratings not lower than A-/A3, or the equivalent thereof. The Quality Fund may invest in other investment vehicles managed by the master custodian provided they conform to fund guidelines. On September 30, 2006, the Board had no credit risk exposure to borrowers. The collateral held and the market value of securities on loan for the Board was $428,228 and $413,922, respectively, as of September 30, 2006.

The collateral held is included in cash and investments shown in Table 2a and Exhibit 4-a, and the securities on loan are reported at their carrying amounts also in Table 2a and Exhibit 4-a.

During fiscal year 2006, the Master Trust's gross earnings from securities lending transactions totaled $21,017. The income (net of amortization and accretion), the net realized/unrealized gain attributable to discount and premium, and the net increase in net assets resulting from operations totaled $22,099, $962, and $3,062 respectively, in 2006. The Fund's share of the net earnings on securities lending transactions totaled $607 in fiscal year 2006.

NOTE 3. RESTRICTED ASSETS

At September 30, 2006, restricted assets of the primary government, component units, and fiduciary funds totaled $8,226,562 as summarized in **Table 4**.

Table 4 – Summary of Restricted Assets

	Governmental Funds/Governmental Activities					
	General	Federal & Private Resources	General Capital Improvements	Baseball	Non-Major	Total
Bond Escrow Accounts	$ 279,462	$ -	$ -	$ -	$ -	$ 279,462
Public Transportation	-	-	843,293	-	6,174	849,467
Emergency Cash Reserves	293,649	-	-	-	14,220	307,869
Others	239,376	18,301	-	529,514	114,300	901,491
Total	$ 812,487	$ 18,301	$ 843,293	$ 529,514	$ 134,694	$ 2,338,289

	Proprietary Funds/Business-Type Activities					
	Lottery & Games	Unemployment Compensation	Nonmajor	Total	Fiduciary Funds	Component Units
Bond Escrow Accounts	$ -	$ -	$ -	$ -	$ -	$ 1,021,988
Unpaid Prizes	52,584	-	-	52,584	-	-
University Endowment	-	-	-	-	-	34,382
Benefits	-	380,248	-	380,248	4,396,859	-
Other	-	-	2,212	2,212	-	-
Total	$ 52,584	$ 380,248	$ 2,212	$ 435,044	$ 4,396,859	$ 1,056,370

The bond escrow account includes bond escrow for capital lease payment of $16,822.

NOTE 4. COMPONENT UNITS AND RECEIVABLES AND INTERFUND BALANCES

A. RECEIVABLES AND PAYABLES BETWEEN FUNDS AND COMPONENT UNITS

Due to/due from and interfund receivable and payable balances for each fund and individual component unit at September 30, 2006 are shown in **Table 5**.

Table 5 – Summary of Due To /Due From and Interfund Balances

	Primary Government/ Component Units		Interfund	
Fund or Component Unit	**Receivables**	**Payables**	**Receivables**	**Payables**
General	$ 4,762	$ 20,535	$ 645,351	$ 11,668
Federal & Private Resources	-	-	13,278	72,541
General Capital Improvements	1,561	-	4,649	374,813
Capital Projects, Highway	-	-	9,711	3,538
Capital Projects, Baseball Fund	1,723	-	-	202,700
Baseball Fund	490	-	2,170	-
Unemployment Compensation	-	-	766	13,629
Nursing Homes	-	-	155	-
Pension Trust	-	-	170	-
Agency	-	-	2,639	-
Water and Sewer Authority	9,119	1,192	-	-
Washington Convention Center	6,832	-	-	-
Sports and Entertainment Commission	-	5,780	-	-
University of the District of Columbia	4,344	1,561	-	-
Anacostia Waterfront	240	3	-	-
Total	$ **29,071**	$ **29,071**	$ **678,889**	$ **678,889**

The above balances represent the impact of transactions among the funds and component units which will be settled during fiscal year 2007.

B. RECEIVABLES

Receivables are valued at their estimated collectible amount. These receivables are presented in various funds as shown in **Table 6.**

Table 6 - Receivables

	General	Federal & Private Resources	General Capital Improvements	Nonmajor Governmental Funds	Lottery & Games	Unemployment Compensation	Nonmajor Proprietary Fund	Fiduciary Funds
Gross Receivable:								
Taxes	$ 381,583	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Interest	-	-	-	108	-	-	-	33
Accounts	213,012	6,107	8,077	30,820	5,094	15,795	4,659	3,131
Federal	9,966	598,901	46,749	-	-	-	-	-
Total gross receivable	**604,561**	**605,008**	**54,826**	**30,928**	**5,094**	**15,795**	**4,659**	**3,164**
Less-allowance for uncollectibles	223,151	128,585	6,136	-	-	7,030	214	-
Total net receivable	$ **381,410**	$ **476,423**	$ **48,690**	$ **30,928**	$ **5,094**	$ **8,765**	$ **4,445**	$ **3,164**

NOTE 4. COMPONENT UNITS AND RECEIVABLES AND INTERFUND BALANCES

C. INTERFUND TRANSFERS

Table 7 shows a summary of interfund transfers for the fiscal year ended September 30, 2006.

Table 7 – Summary of Interfund Transfers

TRANSFER FROM (OUT)	TRANSFER TO (IN)	PURPOSE	AMOUNT
General Fund	Highway Trust Fund	Motor fuel taxes dedicated to the Highway Trust Fund	$ 24,960
DC Lottery & Games	General Fund	DC Lottery & Games excess revenues, after operating cost, to the general fund	73,800
Tobacco Corporation	Capital Projects	Tobacco Settlement asset backed bonds	245,260
Tobacco Corporation	General Fund	Funds to pay the QZAB issuance costs	3,004
General Fund	Capital Projects	PAYGO-Capital projects financed by the general fund	266,353
General Fund	Baseball Fund	Taxes imposed for the baseball stadium project	37,026
General Fund	Federal and Private Resources	Federal Payment monies transferred from local source funds	685
General Fund	Tax Increment Financing Program	Tax imposed to pay bonds on economic development tasks	13,214
Baseball Fund	General Fund	Replenishment of the Contingency Fund	14,871
Baseball Fund	Baseball Debt Services	Funds for debt service payments	6,033
		TOTAL INTERFUND TRANSFERS	**$685,206**

NOTE 5. CAPITAL ASSETS

Capital Outlays

Capital outlays totaled $901,204 for the fiscal year ended September 30, 2006, which are reported in the General Capital Improvements, Baseball Capital Project and Other Nonmajor Governmental Funds. As construction progresses, the cumulative expenditures are capitalized as construction in progress in the Governmental Activities column of the Government-Wide Financial Statements. Upon completion of the project, the balance in the Construction in Progress account is transferred to an appropriate descriptive capital asset account such as building, equipment or infrastructure.

Impaired Capital Assets

As of September 30, 2006, the public schools permanently closed some schools. The carrying amount of the impaired assets that are idle at year-end was $11,543.

A. GOVERNMENTAL ACTIVITIES CAPITAL ASSETS BY CLASS

Table 8 presents the changes in the governmental activities capital assets by category for the primary government:

Table 8 - Changes in the Governmental Activities Capital Assets by Asset Class

Asset Class	Balance October 1, 2005	Additions	Transfers/ Dispositions	Transfers from CIP	Balance September 30, 2006
Non-depreciable:					
Land	$ 220,004	$ -	$ (66)	$ -	$ 219,938
Construction in progress	1,126,609	705,872	(14,468)	(497,530)	1,320,483
Total non-depreciable	**1,346,613**	**705,872**	**(14,534)**	**(497,530)**	**1,540,421**
Depreciable:					
Infrastructure	3,055,854	-	-	218,744	3,274,598
Buildings	2,537,950	-	(201)	138,475	2,676,224
Equipment	791,129	65,196	(28,068)	140,311	968,568
Total depreciable	**6,384,933**	**65,196**	**(28,269)**	**497,530**	**6,919,390**
Less accumulated depreciation for:					
Infrastructure	1,402,096	79,575	-	-	1,481,671
Buildings	928,515	46,547	-	-	975,062
Equipment	381,997	99,687	(25,347)	-	456,337
Total accumulated depreciation	**2,712,608**	**225,809**	**(25,347)**	**-**	**2,913,070**
Total depreciable, net	**3,672,325**	**(160,613)**	**(2,922)**	**497,530**	**4,006,320**
Net governmental activities capital assets	**$ 5,018,938**	**$ 545,259**	**$ (17,456)**	**$ -**	**$ 5,546,741**

NOTE 5. CAPITAL ASSETS

B. GOVERNMENTAL ACTIVITIES CAPITAL ASSETS BY FUNCTION

Table 9 presents the changes in the governmental activities capital assets by function for the primary government:

Table 9- Governmental Activities Capital Assets by Function

Function	Balance October 1, 2005	Additions	Transfers/ Dispositions	CIP Transfers in (out)	Balance September 30, 2006
Governmental direction and support	$ 512,852	$ 5,192	$ (24,923)	$ 205,090	$ 698,211
Economic development and regulation	95,045	1,051	(3,405)	2,722	95,413
Public safety and justice	604,110	21,900	17,183	2,826	646,019
Public education system	1,155,133	21,122	(12,600)	56,236	1,219,891
Human support services	630,158	3,293	(1,306)	6,595	638,740
Public works	3,607,639	12,638	(3,284)	224,061	3,841,054
Construction in progress (CIP)	1,126,609	705,872	(14,468)	(497,530)	1,320,483
Total	$ **7,731,546**	$ **771,068**	$ **(42,803)**	$ -	$ **8,459,811**

C. GOVERNMENTAL ACTIVITIES CAPITAL ASSETS ACCUMULATED DEPRECIATION BY FUNCTION

A summary of changes in governmental activities capital assets depreciation by function for the primary government is shown in **Table 10**.

Table 10 – Governmental Activities Capital Assets Accumulated Depreciation By Function

Function	Balance October 1, 2005	Additions	Transfers/ Dispositions	Balance September 30, 2006
Government direction and support	$ 135,798	$ 56,196	$ (1,688)	$ 190,306
Economic development and regulation	23,600	2,638	(1,820)	24,418
Public safety and justice	255,492	26,376	(6,836)	275,032
Public education system	453,798	28,533	(10,590)	471,741
Human support services	265,980	14,041	(1,133)	278,888
Public works	1,577,940	98,025	(3,280)	1,672,685
Total	$ **2,712,608**	$ **225,809**	$ **(25,347)**	$ **2,913,070**

NOTE 5. CAPITAL ASSETS

D. BUSINESS-TYPE ACTIVITIES CAPITAL ASSETS

Business-Type Activities Capital Assets are presented in **Table 11**.

Table 11 - Business-Type Activities Capital Assets

Asset Class	Balance October 1, 2005	Additions	Transfers/ Dispositions	Balance September 30, 2006
Lottery:				
Depreciable:				
Equipment	$ 4,178	$ -	$ (936)	$ 3,242
Total	**4,178**	**-**	**(936)**	**3,242**
Nonmajor business-type				
Non-depreciable:				
Land	1,264	-	-	1,264
Depreciable:				
Building	41,521	3,222	-	44,743
Equipment	4,574	347	-	4,921
Total Depreciable, nonmajor business-type	**46,095**	**3,569**	**-**	**49,664**
Total Business-Type	**51,537**	**3,569**	**(936)**	**54,170**
Less accumulated depreciation for:				
Equipment	(7,047)	(389)	936	(6,500)
Building	(28,307)	(1,972)	-	(30,279)
Total accumulated depreciation	(35,354)	(2,361)	936	(36,779)
Net capital assets	**$ 16,183**	**$ 1,208**	**$ -**	**$ 17,391**

E. DISCRETELY PRESENTED COMPONENT UNITS CAPITAL ASSETS

A summary of capital assets by class for the discretely presented component units is shown in **Tables 12 and 13**.

Table 12 - Capital Assets by Class for the Discretely Presented Component Units

Asset Class	Balance October 1, 2005	Additions	Transfers/ Dispositions	CIP Transfers in (out)	Balance September 30, 2006
Land	$ 12,890	$ -	$ -	$ -	$ 12,890
Utility plant	1,927,428	4,878	-	398,052	2,330,358
Buildings	963,080	8,448	-	1,288	972,816
Equipment	146,099	2,052	(3,275)	8,783	153,659
Artwork	2,725	-	-	-	2,725
Construction in progress	736,573	229,998	-	(408,123)	558,448
Total	**3,788,795**	**245,376**	**(3,275)**	**-**	**4,030,896**
Less-accumulated depreciation for					
Utility plant	(640,246)	(34,947)	-	-	(675,193)
Buildings	(173,020)	(33,835)	(82)	-	(206,937)
Equipment	(107,738)	(14,409)	2,715	-	(119,432)
Total accumulated depreciation	(921,004)	(83,191)	2,633	-	(1,001,562)
Net Capital Assets	**$ 2,867,791**	**$ 162,185**	**$ (642)**	**$ -**	**$ 3,029,334**

NOTE 5. CAPITAL ASSETS

Table 13 - Capital Assets by Component Unit

Component Units	Balance October 1, 2005	Additions	Transfers/ Dispositions	Balance September 30, 2006
University of the District of Columbia	$ 166,755	$ 5,982	$ (1,754)	$ 170,983
Washington Convention Center	810,827	34,647	-	845,474
Water and Sewer Authority	2,743,340	203,843	(1,521)	2,945,662
Sports and Entertainment Commission	62,548	833	-	63,381
Anacostia Waterfront Corporation	183	31	-	214
Housing Finance Agency	5,142	40	-	5,182
Total capital assets	**3,788,795**	**245,376**	**(3,275)**	**4,030,896**
Less-accumulated depreciation for:				
University of the District of Columbia	(101,109)	(5,724)	1,224	(105,609)
Washington Convention Center	(75,677)	(27,999)	-	(103,676)
Water and Sewer Authority	(710,288)	(44,149)	1,409	(753,028)
Sports and Entertainment Commission	(31,475)	(5,014)	-	(36,489)
Anacostia Waterfront Corporation	(15)	(56)	-	(71)
Housing Finance Agency	(2,440)	(249)	-	(2,689)
Total accumulated depreciation	(921,004)	(83,191)	2,633	(1,001,562)
Net component units capital assets	**$ 2,867,791**	**$ 162,185**	**$ (642)**	**$ 3,029,334**

NOTE 5. CAPITAL ASSETS

F. CONSTRUCTION IN PROGRESS

Construction in progress by function for governmental activities capital assets is shown in **Table 14**.

Table 14 – Construction in Progress by Function

Function and Subfunction	Number of Projects	Authorizations	Expenditures: Prior Year	Expenditures: Current Year	Expenditures: Transfers from CIP/Disposition	Expenditures: Total	Unexpended Balance
PRIMARY GOVERNMENT							
Governmental Direction and Support							
Finance	3	$ 29,238	$ 16,312	$ 2,535	$ (16,103)	$ 2,744	$ 26,494
Personnel	1	8,833	7,947	258	-	8,205	628
Legislative	2	31,705	15	1,846	-	1,861	29,844
Administrative	55	873,989	202,817	322,352	(198,736)	326,433	547,556
Total	61	943,765	227,091	326,991	(214,839)	339,243	604,522
Public Safety and Justice							
Police	7	23,710	2,588	2,723	(4,728)	583	23,127
Fire	26	71,864	22,950	12,243	(687)	34,506	37,358
Correction	4	7,699	7,518	1,402	-	8,920	(1,221)
Courts	3	1,048	-	78	-	78	970
Medical Examiner	2	18,822	1,136	480	-	1,616	17,206
Total	42	123,143	34,192	16,926	(5,415)	45,703	77,440
Economic Development and Regulation							
Zoning	1	350	207	109	-	316	34
Housing and Comm. Dev.	5	48,468	15,162	7,422	-	22,584	25,884
Planning & Econ. Dev.	8	75,260	280	2,902	(2,722)	460	74,800
Total	14	124,078	15,649	10,433	(2,722)	23,360	100,718
Public Education System							
Libraries	11	50,999	3,594	300	-	3,894	47,105
Public Education System	54	920,713	277,394	84,142	(56,237)	305,299	615,414
Total	65	971,712	280,988	84,442	(56,237)	309,193	662,519
Human Support Services							
Health and Welfare	28	79,396	40,000	4,515	(4,788)	39,727	39,669
Human Services	12	10,904	8,394	1,537	(2,176)	7,755	3,149
Mental Health Services	11	79,990	42,368	13,235	-	55,603	24,387
Recreation	19	255,232	49,738	25,052	(1,745)	73,045	182,187
Youth Rehabilitation Services	1	34,193	-	792	-	792	33,401
Aging	10	22,562	3,587	3,701	(14)	7,274	15,288
Total	81	482,277	144,087	48,832	(8,723)	184,196	298,081
Public Works							
Environmental	115	1,391,169	424.602	218,248	(224,062)	418,788	972,381
Total	115	1,391,169	424,602	218,248	(224,062)	418,788	972,381
Totals	378	$ 4,036,144	$ 1,126,609	$ 705,872	$ (511,998)	$ 1,320,483	$ 2,715,661

NOTE 6. CONDUIT DEBT TRANSACTIONS

A. INDUSTRIAL REVENUE BOND PROGRAM

The District has issued, under its Industrial Revenue Bond Program, private activity bonds for which the principal and interest are payable solely from defined revenues of private entities, such as non-profit organizations. The District has no obligation for this debt beyond resources that may have been provided by related leases or loans. Organizations participating in the Industrial Revenue Bond Program are allowed to borrow at the prevailing municipal bond rate. These private activity bonds provide economic incentive to construct, modernize or enhance private entity facilities in the District, thereby supporting the District's economic base. As of September 30, 2006, the aggregate outstanding principal amount for these conduit debt obligations was approximately $4.2 billion.

B. ENTERPRISE ZONE FACILITY BONDS

Beginning January 1, 1998, businesses located in the District of Columbia Enterprise Zone (D.C. Zone) are eligible to obtain up to $15 million of tax-exempt financing. Similar to Industrial Revenue Bonds, the principal and interest are payable solely from defined revenues of private entities, including non-profit and for-profit organizations. The District has no obligation for this debt beyond resources that may have been provided by related leases or loans. As of September 30, 2006, the aggregate outstanding principal amount for Enterprise Zone Facility Bonds was $125 million.

NOTE 7. SHORT-TERM LIABILITIES

TAX REVENUE ANTICIPATION NOTES

The District issued $250,000 in Tax Revenue Anticipation Notes (TRANs) on December 14, 2005. This is a short term financing method used to provide for seasonal cash flow needs. The proceeds of the TRANs were used to finance general governmental expenses of the District in anticipation of the collection or receipt of revenues for fiscal year 2006. The TRANs are general obligations of the District, secured by the District's full faith and credit, and payable from available revenues, including tax revenues, of the District. The TRANs were issued as fixed-rate notes with an interest rate of 4% and priced to yield 3.27%-3.28%. Operational and other disbursement costs are covered by the TRANs proceeds until periodic taxes, grants and other revenues are received. The FY 2005 TRANs, as prescribed by law, were repaid in the current year on September 29, 2006.

Table 15 - Changes in Short-Term Liabilities

Account	Balance October 1, 2005	Additions	Deductions	Balance September 30, 2006
Governmental Activities				
Tax Revenue Anticipation Notes	$ -	$ 250,000	$ 250,000	$ -

Notes to the Financial Statements (Dollars in Thousands)

NOTE 8. LONG-TERM LIABILITIES

A. LONG-TERM DEBT

In the government-wide financial statements and proprietary funds, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, and proprietary funds statement of net assets. Long term debt premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the debt using the outstanding principal method. Long term debt payable is reported separately from the applicable premium or discount. The issuance cost for long term debt is reported as deferred charge.

Governmental funds recognize premiums and discounts, as well as issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

General Obligation Bonds

The District's general obligation bonds are authorized and issued primarily to provide funds for certain capital projects and improvements. The average interest rate on the District's outstanding fixed-rate bonds is 5.27%. The average interest rate on the District's variable-rate bonds for fiscal year 2006 is 3.25%. All general obligation bonds are backed by the full faith and credit of the District. In addition, the bonds are secured by a security interest in and lien on the funds derived from a Special Real Property Tax levied annually by the District on portions of certain real property. These tax revenues have been dedicated for the payment of bond principal and interest. Amounts collected are deposited in banks and held in escrow for payment of bond principal and interest when due. A summary of the outstanding debt totaling $3,773,863 at September 30, 2006 is shown in **Table 16**.

Table 16- Changes in Governmental Activities Long-Term Debt of Primary Government

	General Obligation Bonds	TIF Notes	TIF Bonds	Tobacco Bonds	Ballpark Bonds	COPs	QZAB	Total
Debt payable at October 1, 2005	**$ 3,632,198**	**$ 2,822**	**$ 114,703**	**$ 498,740**	**$ -**	**$ 68,975**	**$ 2,815**	**$ 4,320,253**
Bond and note proceeds:								
Series 2005A	331,210	-	-	-	-	-	-	331,210
Series 2005B	116,475	-	-	-	-	-	-	116,475
TIF - Woodies	-	2,996	-	-	-	-	-	2,996
TIF - Embassy Suites	-	11,000	-	-	-	-	-	11,000
Tobacco Series 2006	-	-	-	248,264	-	-	-	248,264
Ballpark Series 2006A1	-	-	-	-	78,425	-	-	78,425
Ballpark Series 2006A2	-	-	-	-	76,410	-	-	76,410
Ballpark Series 2006B1	-	-	-	-	354,965	-	-	354,965
Ballpark Series 2006B2	-	-	-	-	25,000	-	-	25,000
COPs	-	-	-	-	-	211,680	-	211,680
QZAB Series 2005	-	-	-	-	-	-	2,662	2,662
Total	**4,079,883**	**16,818**	**114,703**	**747,004**	**534,800**	**280,655**	**5,477**	**5,779,340**
Debt payments:								
Principal matured	188,095	-	4,808	4,720	-	2,555	256	200,434
Principal defeased	117,925	2,411	-	-	-	-	-	120,336
Debt payable at September 30, 2006	**$ 3,773,863**	**$ 14,407**	**$ 109,895**	**$ 742,284**	**$ 534,800**	**$ 278,100**	**$ 5,221**	**$ 5,458,570**

NOTE 8. LONG-TERM LIABILITIES

On December 15, 2005 the District issued its Series 2005A General Obligation Bonds in the principal amount of $331,210 (the "2005A Bonds"). The proceeds of these bonds will be used to finance capital project expenditures in the District's capital improvements program and to pay the costs and expenses of issuing and delivering the bonds. Also, on December 15, 2005, the District issued its 2005B General Obligation Refunding Bonds in the principal amount of $116,475 (the "2005B Bonds"). The proceeds of these bonds are being used to redeem or defease a portion of the Districts' outstanding general obligation bonds at a savings to the District and to pay the costs and expenses of issuing and delivering the bonds.

The 2005A and 2005B bonds together with other outstanding general obligation bonds and bonds to be issued in the future are general obligations of the District, secured by the Districts' full faith and credit and further secured by the Special Real Property Tax, and are issued under Section 461 of the Home Rule Act. The 2005A Bonds were issued as fixed-rate bonds with a weighted average interest rate yield of 4.60%. The 2005B Bonds were issued as fixed-rate bonds with a weighted average interest rate yield of 4.48%. The final maturities of the 2005A and 2005B bonds are June 1, 2030 and 2027, respectively.

Prior to the creation of the Water and Sewer Authority as an independent entity, the District issued general obligation bonds to fund improvements to the water and wastewater system. The Water and Sewer Authority is responsible for this debt. While the Water and Sewer Authority is not directly liable for the general obligation bonds, it is required by enabling legislation to transfer to the District the funds necessary to pay its portion of the debt service on these bonds. Accordingly, District general obligation bonds totaling $22,300 are reflected in the financial statements of the Water and Sewer Authority.

Advance Refunding

On December 15, 2005 the District issued $116,475 in General Obligation Refunding Bonds with a weighted average interest rate yield of 4.5% to advance refund $117,925 of outstanding 1994, 1997A, 1998A, 1998B, and 2001B bonds with a weighted average interest rate yield of 5.3%. The general obligation bonds were issued at par with a premium of $7,437 and after paying issuance costs of $1,771, the net proceeds were $122,141. The net proceeds from the issuance of the general obligation bonds were used to purchase U.S. Treasury Securities (State and Local Government Series) and those securities were deposited in an irrevocable trust with an escrow agent to provide debt service payments until the bonds are fully called on 6/1/2010. The District completed the advance refunding to reduce its total debt service payment over the next 22 years by approximately $4,187.

TIF Notes and Bonds

The Tax Increment Financing (TIF) Notes and Bonds are special limited obligations of the District. In 2001, the District promised to pay an aggregate principal amount of $6,900 to the House on F Street Development Sponsor. The interest rate on this TIF note ranges from 2.13% to 6.26%. The sole source of repayment of the TIF Notes is the incremental sales and real property tax revenues from the Project, and the District has no obligation to make any payments on the TIF Notes other than through the remittance of the incremental revenues to the Paying Agent. If the incremental revenues are insufficient to pay the principal and interest due on the TIF Notes when due, the payment shortfall does not constitute a default under the TIF agreement. When the incremental revenues are sufficient, the District must pay the amount of any previous shortfall to the Development Sponsor without any penalty interest or premium thereon.

In 2002, the District promised to pay an aggregate principal amount of $73,650 to the Gallery Place Development Sponsor and $45,995 to the Mandarin Hotel Development Sponsor. Two Tax Increment Financing (TIF) Bonds were issued pursuant to the District of Columbia Tax Increment Financing Authorization Act of 1998, as amended, and the Trust Indenture dated as of April 1, 2002. Interest rate yields on the Gallery Place and Mandarin Hotel TIF Bonds range from 3.28% to 5.43%. These two bond issuances are supported by the pledge of incremental sales and real property tax revenues from the respective projects and secondarily by incremental tax revenues from a Downtown TIF Area.

In 2006, the District used TIF to finance the Embassy Suites Hotel and the H&M retail development. The $11,000 Embassy Suites Hotel TIF Notes has an interest rate of 5%. Similar to the House on F Street Notes, the sole source of repayment of the TIF Notes is the incremental sales and real property tax revenues from the Project and any repayment shortfalls do not constitute a default. The Woodies retail development TIF Notes are approximately $2,996 with an 8% interest rate. The TIF Notes are a pledge of the incremental sales tax revenue only. If the incremental revenue is insufficient to pay the principal and interest due on the TIF Notes when due, the payment shortfall does not constitute a default. When the incremental revenues are sufficient, the District must pay the amount of any previous shortfall to the Development Sponsor without any penalty interest or premium thereon.

NOTE 8. LONG-TERM LIABILITIES

Table 17 - Summary of Debt Service Requirements for Gallery Place TIF Bond

Year Ending September 30	GALLERY PLACE Principal	Interest	Total
2007	$ 1,425	$ 3,779	$ 5,204
2008	1,495	3,708	5,203
2009	1,570	3,633	5,203
2010	1,655	3,551	5,206
2011	1,740	3,464	5,204
2012-2016	10,220	15,796	26,016
2017-2021	13,350	12,671	26,021
2022-2026	17,225	8,788	26,013
2027-2031	22,285	3,730	26,015
Total	$ 70,965	$ 59,120	$ 130,085

Table 18 - Summary of Debt Service Requirement for Mandarin Oriental Hotel TIF Bond

Year Ending September 30	MANDARIN ORIENTAL HOTEL Principal	Interest	Total
2007	$ 3,241	$ 1,263	$ 4,504
2008	3,070	1,439	4,509
2009	2,897	1,612	4,509
2010	2,735	1,769	4,504
2011	2,583	1,921	4,504
2012-2016	10,767	11,764	22,531
2017-2021	9,357	13,174	22,531
2022-2026	4,280	225	4,505
Total	$ 38,930	$ 33,167	$ 72,097

Table 19 - Summary of Debt Service Requirement for Embassy Suites Hotel TIF Note

Year Ending September 30	EMBASSY SUITES HOTEL Principal	Interest	Total
2007	$ -	$ 266	$ 266
2008	582	507	1,089
2009	760	470	1,230
2010	799	432	1,231
2011	839	391	1,230
2012-2016	4,877	1,274	6,151
2017-2021	2,314	146	2,460
Total	$ 10,171	$ 3,486	$ 13,657

Tobacco Bonds

In November 1998, the District (along with a number of other States and various jurisdictions) signed a Master Settlement Agreement with the major U.S. tobacco companies that ended litigation over health care treatment costs incurred for smoking-related illnesses. Under the settlement, the District is scheduled to receive total annual payments aggregating an estimated $1.2 billion by 2025. There are a number of potential adjustments to this schedule, including an inflation adjustment and a cigarette volume adjustment. In addition, there are numerous risks regarding whether the District will receive the full amount to which it is entitled under the terms of the Master Settlement Agreement, including various lawsuits outside the District alleging that the Master Settlement Agreement is void or voidable.

In 2001, the Tobacco Corporation issued $521,105 principal amount of its Tobacco Settlement Asset-Backed Bonds, Series 2001, of which $494,020 was outstanding as of September 30, 2006.

In 2006, the Tobacco Corporation issued $248,264 principal amount of its Tobacco Settlement Asset-Backed Bonds, Series 2006. Since no payment was made in 2006, the amount outstanding as of September 30, 2006 was $248,264. The payment of these bonds is secured by the distribution under the Master Settlement Agreement. Payments received by the Tobacco Corporation under the Master Settlement Agreement in excess of the annual debt service requirements for the Tobacco Bonds may revert to the General Fund. There was no transfer of funds from Tobacco proceeds to the General Fund in fiscal year 2006. The Tobacco Bonds are neither general nor moral obligations of the District and are not secured by a pledge of the full faith and credit of the District.

As of September 30, 2006, the total outstanding balance for all Tobacco bonds as shown in **Table 20** was $742,284.

NOTE 8. LONG-TERM LIABILITIES

Summary of debt service requirements for general obligation and tobacco bonds to maturity is shown in **Table 20**.

Table 20 - Summary of Debt Service Requirements for General Obligation and Tobacco Bonds to Maturity

Year Ending	General Obligation Bonds		Tobacco Bonds		
September 30	Principal	Interest	Principal	Interest	Total
2007	$ 202,805	$ 180,551	$ 5,215	$ 31,928	$ 420,499
2008	213,640	169,687	12,585	31,603	427,515
2009	221,255	158,501	13,245	30,877	423,878
2010	237,005	146,654	14,305	30,112	428,076
2011	191,055	133,930	15,450	29,278	369,713
2012 - 2016	752,853	595,255	92,830	130,998	1,571,936
2017 - 2021	658,830	380,007	130,695	97,284	1,266,816
2022 - 2026	826,360	215,786	209,695	48,914	1,300,755
2027 - 2031	404,035	53,341	-	-	457,376
2032 - 2035	66,025	5,351	-	-	71,376
2042 - 2046	-	-	159,733	1,697,592	1,857,325
2052 - 2056	-	-	88,531	2,478,469	2,567,000
Total	**$ 3,773,863**	**$ 2,039,063**	**$ 742,284**	**$ 4,607,055**	**$ 11,162,265**

Defeased Bonds

In prior years, the District has defeased certain bond issues by issuing refunding bonds. As of September 30, 2006, the total amount of defeased debt outstanding but removed from the government-wide financial statement was $489,197.

Table 21 - Summary of Defeased Bonds in FY 2006

SUMMARY OF DEFEASED BONDS IN FY2006
Defeased by Refunding Bond 2005B

Bond Series Refunded	Interest Rate	Refunded Amount
1994B	6%	$ 5
1997A	5.3%-5.5%	46,350
1998A	5.0%-5.25%	38,330
1998B	5.25%	20,165
2001B	5.0%-5.5%	13,075
		$ 117,925

Ballpark Revenue Bonds

On May 15, 2006, the District issued Ballpark Revenue Bonds in the principal amount of $534,800. This offering includes the issuance of Taxable Series 2006A-1 in the principal amount of $78,425 and the issuance of Taxable Series 2006A-2 bonds in the principal amount of $76,410 (the "Series 2006A-1 Bond and together with the Series 2006A-2 bond, the "Series 2006A Bonds").

This offering also includes the issuance of Series 2006B-1 in the principal amount of $354,965 and Series 2006B-2 (Auction Rate Securities) in the principal amount of $25,000 (the "Series 2006B-1 Bond and together with the Series 2006B-2 bond, the "Series 2006B Bonds"). Series 2006B is tax-exempt.

The weighted average interest rate yield on 2006A and 2006B Bonds is 5.35%.

The proceeds of the Series 2006 Ballpark Bonds will be used to finance a portion of the cost of construction of a new baseball stadium. The stadium will be owned by the District of Columbia.

NOTE 8. LONG-TERM LIABILITIES

Table 22 - Summary of Debt Service Requirements for Ballpark Revenue Bonds

Year Ending	BALLPARK BONDS		
September 30	Principal	Interest	Total
2007	$ 6,310	$ 28,040	$ 34,350
2008	2,075	27,828	29,903
2009	4,665	27,672	32,337
2010	4,360	27,455	31,815
2011	4,540	27,242	31,782
2012-2016	33,665	131,862	165,527
2017-2021	58,340	119,987	178,327
2022-2026	90,850	100,656	191,506
2027-2031	135,165	70,941	206,106
2032-2036	194,830	27,212	222,042
Total	$ 534,800	$ 588,895	$ 1,123,695

Qualified Zone Academy Bond

The District issued the Qualified Zone Academy Bond (QZAB) as a taxable general obligation bond without incurring interest expense. The District received $4,665 and is obligated to deposit a total amount of $3,583 into a sinking fund in fourteen equal amounts of $256 beginning December 1, 2002.

On December 28, 2005, the District issued the Qualified Zone Academy Bond (QZAB) as a taxable general obligation bond without incurring interest expense. The District received $3,191 and is obligated to deposit a total amount of $2,662 into a sinking fund in fifteen equal amounts of $177 beginning December 1, 2006.

A summary of Debt Service Requirements to Maturity for QZAB is shown in **Table 23.**

Table 23 - Summary of Debt Service Requirements for QZAB

Year Ending	Qualified Zone Academy Bond (QZAB)		
September 30	Principal	Interest	Total
2007	$ 433	$ 48	$ 481
2008	433	64	497
2009	434	81	515
2010	433	98	531
2011	434	115	549
2012-2016	2,167	829	2,996
2017-2021	887	305	1,192
Total	**$ 5,221**	**$ 1,540**	**$ 6,761**

NOTE 8. LONG-TERM LIABILITIES

COMPONENT UNITS

Water and Sewer Authority

The Water and Sewer Authority (WASA) derives its funding for future capital projects from the issuance of revenue bonds, notes payable to the federal government and various other non-debt sources of financing. The public utility revenue bonds and notes payable to the federal government for the Washington Aqueduct are considered senior debt. Notes payable to the federal government for the Washington Aqueduct are specifically secured by user charges assessed on retail customers. During the year ended September 30, 2006, the highest rate on these notes was 6.75% and the lowest rate was 3.25%. Debt outstanding at September 30, 2006 totaling $776,028 included net unamortized bond premiums and discounts of ($4,486) and a remaining principal balance of $771,542.

Commercial Paper Note Payable

The Board of Directors of the Authority approved WASA's commercial paper program on November 1, 2001, with the Series A and B notes, not to exceed $50,000 each at any one time. Proceeds from the sale of the notes are used to finance costs incurred in connection with the construction of capital improvements to WASA's wastewater treatment collection and disposal system, its water distribution system and capital equipment.

Series A and B notes are secured by separate letters of credit, issued by Westdeutsche Landesbank Gironzentrale (WestLB) and are rated P1, A1+ and F1+ by Moody's, S&P and Fitch respectively. The letter of credit expires on November 30, 2015. WASA had no balance payable in Commercial paper.

Table 24 – Water and Sewer Authority Debt Service Requirements to Maturity

Year Ending September 30	Principal	Interest	Total
2007	$ 7,555	$ 37,576	$ 45,131
2008	13,956	36,981	50,937
2009	14,002	36,145	50,147
2010	17,446	39,397	56,843
2011	16,783	39,670	56,453
2012 - 2017	91,475	189,205	280,680
2018 - 2021	115,873	167,901	283,774
2022 - 2026	150,586	137,175	287,761
2027 - 2031	191,407	147,884	339,291
2032 - 2036	153,903	101,767	255,670
2037 - 2041	3,042	303	3,345
Sub-total	**776,028**	**934,004**	**1,710,032**
Less: Unamortized Net Bond Discount	(4,486)	-	(4,486)
Total	**$ 771,542**	**$ 934,004**	**$ 1,705,546**

NOTE 8. LONG-TERM LIABILITIES

Washington Convention Center Authority

On September 1, 1998, the Washington Convention Center Authority (WCCA) issued $524 million in senior lien dedicated tax revenue serial and term bonds at various rates ranging from 4.5% to 5.25%.

The bond proceeds were used to construct and equip the new convention center. The 1998 bonds are special obligations of the WCCA. The 1998 Bonds are payable solely from dedicated tax receipts and pledged funds established under the Trust Agreement.

The WCCA Act authorized the pledge of the dedicated taxes to secure the repayment of the 1998 bonds. Pursuant to the WCCA Act, the District has also pledged not to limit or alter any rights vested in the WCCA to fulfill agreements made with holders of the 1998 Bonds, or in any way impair rights and remedies of bondholders until the 1998 bonds and the interest thereon are paid in full.

A summary of WCCA's debt service requirements to maturity for principal and interest is shown in **Table 25**.

Table 25 – Washington Convention Center Authority Debt Service Requirements to Maturity

Year Ending September 30	Principal	Interest	Total
2007	$ 11,720	$ 24,452	$ 36,172
2008	12,310	23,866	36,176
2009	12,925	23,251	36,176
2010	13,600	22,572	36,172
2011	14,315	21,858	36,173
2012 - 2016	83,675	97,196	180,871
2017 - 2021	107,690	73,179	180,869
2022 - 2026	137,145	43,723	180,868
2027 - 2028	98,980	9,549	108,529
Sub-total	**492,360**	**339,646**	**832,006**
Less: Unamortized Bond Discount	(5,131)	-	(5,131)
Total	**$ 487,229**	**$ 339,646**	**$ 826,875**

NOTE 8. LONG-TERM LIABILITIES

Housing Finance Agency

Bonds payable consists of term and serial bonds which are subject to redemption at the option of the Housing Finance Agency, in accordance with the terms of the respective bond indenture and bond resolution, in whole or in part, on various dates at prescribed redemption prices. Interest rates on these bonds range from 3.84% to 7.75%. Included in certain bond issues are capital appreciation bonds. The principal amount of these bonds appreciates either annually or semi-annually, compounding on the original principal balance. These bonds are recorded in the financial statements at their current appreciated amounts.

Bonds have been issued to provide financing for the Housing Finance Agency's housing programs and are collateralized by: (a) mortgage loans made on the related developments or single-family residential mortgage loans purchased, (b) substantially all revenues, mortgage payments, and recovery payments received by the agency from mortgage loans made on related developments or (c) certain accounts, generally debt service reserve funds, established pursuant to the indenture authorizing issuance of the bonds.

A summary of Housing Finance Agency's debt service requirements to maturity for principal and interest is shown in **Table 26**.

Table 26 - Housing Finance Agency Debt Service Requirements to Maturity

Year Ending September 30	Principal	Interest	Total
2007	$ 33,315	$ 58,717	$ 92,032
2008	43,507	56,640	100,147
2009	14,950	55,511	70,461
2010	5,165	55,174	60,339
2011	4,428	54,981	59,409
2012-2016	38,910	268,439	307,349
2017-2021	41,720	258,950	300,670
2022-2026	114,520	240,251	354,771
2027-2031	65,309	210,972	276,281
2032-2036	169,809	180,279	350,088
2037-2041	95,498	137,757	233,255
2042-2046	135,204	105,359	240,563
2047-2051	52,028	78,684	130,712
2051-2056	280,974	61,439	342,413
Subtotal	**1,095,337**	**1,823,153**	**2,918,490**
Unamortized Bond Premium, net	8,412	-	8,412
Total	**$ 1,103,749**	**$ 1,823,153**	**$ 2,926,902**

NOTE 8. LONG TERM LIABILITIES

B. OTHER LONG-TERM LIABILITIES

Certificates of Participation

In 2002, the Certificates of Participation (COPs) obligations were issued under an Indenture of Trust between Wells Fargo Delaware Trust Company (the "Lessor") and Wells Fargo Bank Minnesota, N.A. (the "Trustee"). The District agreed in the Lease Agreement to make lease payments (the "Lease Payments"), which are expected to be sufficient to pay the principal of and interest on the Certificates. The District has approximately $46.4 million of outstanding Certificates of Participation issued by a trust in 2002 with a final maturity of 2013. The 2002 COPs were used to finance the acquisition of certain real property located at 441 Fourth Street, N.W., in the District. The debt service requirements on these COPs are included in capital leases payable (See Note 13C).

In 2003, the Certificates of Participation (COPs) obligations were issued under an Indenture of Trust between Wells Fargo Delaware Trust Company (the "Lessor") and Wells Fargo Bank Minnesota, N.A. (the "Trustee"). The District has approximately $66.4 million of outstanding Certificates of Participation issued by a trust in 2003 with a final maturity of 2023, as shown in **Table 27A**. The 2003 COPs were used to provide funds to finance a portion of the design and construction of a public safety and emergency preparedness communications and command center and a portion of the design, construction and installation of a high-speed telecommunications network. In each case, the District's payment obligations are subject to and dependent upon both inclusion of sufficient funds in annual District budgets and annual appropriations being made by the United States Congress for such purpose.

In 2006, a COPs obligation was issued under an Indenture of Trust between M&T Trust Company of Delaware (the "Lessor") and Manufacturers and Traders (the "Trustee"). The aggregate principal amount of this issuance was $211.7 million which will be used to fund the Saint Elizabeth and DMV Projects' as shown in Table 26B. The proceeds of the certificates will be used to fund a portion of the cost of the design and construction of the Hospital, which is estimated to cost approximately $208 million. Of this amount, $184.2 million will be financed with the proceeds of the certificates and interest earning thereon. In addition, the certificates will be used to fund the purchase of the DMV Building from its current owner for approximately $15.3 million and approximately $3.1 million of improvements to include: improved parking, window replacement, elevators, a loading dock and providing access to the adjacent inspection facility.

The weighted average interest rate yield on these COPs is 4.97%.

Table 27A - Summary of Debt Service Requirements for COP- Public Safety Communications Center

Emergency Preparedness Communications Center & Related Technology (COP)

Year Ending September 30	Principal	Interest	Total
2007	$ 2,635	$ 3,168	$ 5,803
2008	2,735	3,063	5,798
2009	2,850	2,949	5,799
2010	2,960	2,840	5,800
2011	3,100	2,703	5,803
2012-2016	17,855	11,149	29,004
2017-2021	23,215	5,785	29,000
2022-2023	11,070	532	11,602
Total	$ 66,420	$ 32,189	$ 98,609

Table 27B - Summary of Debt Service Requirements for COP- St Elizabeth/DMV Building

St Elizabeth/DMV Building (COP)

Year Ending September 30	Principal	Interest	Total
2007	$ 4,685	$ 12,133	$ 16,818
2008	6,670	10,149	16,819
2009	7,010	9,807	16,817
2010	7,370	9,447	16,817
2011	7,750	9,069	16,819
2012-2016	45,240	38,853	84,093
2017-2021	58,500	25,604	84,104
2022-2026	74,455	9,642	84,097
Total	$ 211,680	$ 124,704	$ 336,384

NOTE 8. LONG-TERM LIABILITIES

A summary of changes in other long-term liabilities for governmental activities is shown in **Table 28**.

Table 28 - Changes in Other Long-Term Liabilities

Account	Balance October 1, 2005	Additions	Deductions	Balance September 30, 2006
Governmental Activities:				
Accrued disability compensation (Note 14)	$ 210,670	$ 50,046	$ (167,551)	$ 93,165
Accumulated annual leave	110,497	23,511	(2,475)	131,533
Claims & judgments (Note 14)	50,734	34,425	(26,283)	58,876
Equipment financing program (Note 13)	53,844	30,167	(23,458)	60,553
Accreted interest	25,669	14,040	(717)	38,992
Capital leases payable (Note 13)	76,390	-	(8,448)	67,942
Total	**$ 527,804**	**$ 152,189**	**$ (228,932)**	**$ 451,061**
Business-Type Activities:				
Obligation for unpaid prizes	**$ 59,449**	**$ -**	**$ (6,865)**	**$ 52,584**

C. CURRENT & LONG-TERM PORTIONS OF LONG-TERM LIABILITIES

Table 29 presents the current and long-term portions of long-term liabilities.

Table 29 – Current & Long-Term Portions of Long-Term Liabilities

Type of Liability	Current Portion	Long-Term Portion	Total
Government-Wide Activities:			
General Obligation Bonds	$ 202,805	$ 3,571,058	$ 3,773,863
Premium on long-term debt	5,484	69,528	75,012
TIF Bonds and Notes	5,115	119,187	124,302
QZAB	433	4,788	5,221
Capital Leases	8,615	59,327	67,942
Tobacco Bonds	5,215	737,069	742,284
Baseball Bonds	6,310	528,490	534,800
Annual leave	76,542	54,991	131,533
Disability compensation	34,035	59,130	93,165
Equipment financing program	19,187	41,366	60,553
Accreted interest	914	38,078	38,992
Claims and judgements	-	58,876	58,876
COPs	7,320	270,780	278,100
Total	**$ 371,975**	**$ 5,612,668**	**$ 5,984,643**
Business-Type Activities:			
Obligation for unpaid prizes	**$ 8,631**	**$ 43,953**	**$ 52,584**

NOTE 8. LONG-TERM LIABILITIES

Obligation for Unpaid Prizes

The Lottery is a member of the Multi-State Lottery Association (MUSL), responsible for payments to Lotto-America and Powerball winners. MUSL is responsible for providing cash to the Lottery for funding these installment payments. As of September 30, 2006, MUSL purchased for the Lottery, U.S. government securities totaling $62,875 to fund future installment payments to winners.

The market value of these securities at September 30, 2006 was $52,584. The Lottery has reflected the market value of the securities as restricted investments and as corresponding obligations for unpaid prizes on the statement of net assets.

NOTE 9. RETIREMENT PROGRAMS

A. DEFINED BENEFIT PENSION PLANS

District full-time employees receive pension benefits either through the federally administered Civil Service Retirement System or the District's Retirement Programs and the Social Security System.

Plan Descriptions

Civil Service Retirement and Social Security Systems

The Civil Service Retirement System (5 U.S.C. 8331), a cost sharing multiple employer public employee retirement system, covers permanent full-time employees hired before October 1, 1987 (except those covered by the District Retirement Program).

The Balanced Budget Act of 1997 (P. L. 105-33) mandated an increase in the District's contribution for most Civil Service covered employees from 7% to 8.51% (9.01% for law enforcement officers and firefighters.) This increase became effective for the first pay period ended on or after October 1, 1997.

District contributions to the pension plans administered by the federal government, for the years ended September 30, 2006, 2005, and 2004, were as shown in **Table 30**. Financial statements for the Civil Service Plan are available from the U.S. Office of Personnel Management at www.opm.gov.

Table 30 - Summary of District Contributions to Federally Administered Pension Plans

Plan	Rate	Employees		2006		2005		2004
Civil Service	7%	5,491	$	22,568	$	24,011	$	23,363
Social Security	7.65%	25,086		67,772		63,966		56,406
Total			**$**	**90,340**	**$**	**87,977**	**$**	**79,769**
Total Payroll			**$**	**1,906,173**	**$**	**1,861,771**	**$**	**1,719,073**

The District has no further liability to the plans.

District Retirement Programs

The Retirement Board administers the District's Retirement Programs (D.C. Code 4-601, 11-1561, 31-120), which are single employer defined benefit pension plans, one established for police and firefighters and the other for teachers.

Each of the two plans provides retirement, death and disability benefits, and annual cost of living adjustments to plan members and beneficiaries. Each pension trust fund issues a publicly available financial report that includes financial statements and required supplementary information. These reports can be obtained from the District of Columbia Retirement Board, Executive Director, 900 7th Street, N.W., 2nd Floor, Washington, D.C. 20001.

(Dollars in Thousands) Notes to the Basic Financial Statement

NOTE 9. RETIREMENT PROGRAMS

Funding Policy

The Retirement Board establishes, for each pension trust fund, the contribution requirements of plan members and the District government. The Retirement Board, when deemed necessary, may amend these requirements. A summary of the actuarial assumptions is shown in **Table 31**.

Members contribute by salary deductions on the basis of a normal rate of contributions, which is assigned by the Fund at membership. Members contribute 7% (or 8% for teachers hired on or after November 16, 1996) of annual pay minus any pay received for summer school. Members may also contribute up to 10% of annual pay toward an annuity in addition to any vested pension.

The District is required to contribute the remaining amounts necessary to finance the coverage of its employees through periodic contributions at actuarially determined amounts in accordance with the provisions of the Replacement Act. The Replacement Act defines the eligibility and the calculation of the amount of the benefit payment for covered District employees for service accrued after June 30, 1997. The District's contributions for fiscal years 2006, 2005 and 2004 were equal to the Fund's independent actuary's recommendation.

Under P. L. 105-33, the federal government makes annual contributions to the Police and Firefighters' Plan and to the Teachers' plan on behalf of District employees and retirees. These on-behalf payments totaled $285,400 for the year ended September 30, 2006 and have been reported as intergovernmental revenue. Related expenditures of $225,466 and $59,934 have been reported in the public safety and justice and the public education systems functions, respectively.

Table 31 - Actuarial Assumptions

	Police and Fire	Teachers
Contribution rates plan members	7% - 8%	7% - 8%
Actuarial valuation date	10/01/04	10/01/04
Actuarial cost method	Aggregate*	Aggregate*
Asset valuation method	Market value	Market value
Actuarial assumptions:		
Investment rate of return	7.25%	7.25%
Projected salary increases	5%	5%
Inflation rate	5%	5%
Cost of living adjustments	5%	5%

*The aggregate actuarial cost method does not identify or separately amortize unfunded actuarial liabilities.

NOTE 9. RETIREMENT PROGRAMS

Actuarially Required Contributions

The District made its actuarially required contribution of $117.5 million to the Police and Fire Pension Plan **(Table 32)** and $15.5 million to the Teachers Pension Plan **(Table 33)** during the year ended September 30, 2006.

Table 32 – Police and Fire Pension Plan

Year Ended	Annual Pension Cost (APC) (millions)	Percentage of APC Contributed	Net Pension Obligation
09/30/06	$ 117.5	100%	$ 0
09/30/05	112.1	100%	0
09/30/04	96.7	100%	0

Table 33 – Teachers Pension Plan

Year Ended	Annual Pension Cost (APC) (millions)	Percentage of APC Contributed	Net Pension Obligation
09/30/06	$ 15.5	100%	$ 0
09/30/05	9.2	N/A	0
09/30/04	0	N/A	0

B. DEFINED CONTRIBUTION PENSION PLANS

District of Columbia

Under the provisions of D. C. Code 1-627, the District sponsors a defined contribution pension plan with a qualified trust under Internal Revenue Code section 401(a) for permanent full-time employees covered under the Social Security System. Employees do not contribute to the plan and are eligible to participate after one year of service. The District contributes 5% of base salaries for eligible employees each pay period. This contribution rate is 5.5% of base salaries for detention officers. Contributions and earnings vest fully after four years of service following a one-year waiting period. Contributions and earnings are forfeited if separation occurs before five years of credited service. These contributions are not considered assets of the District, and the District has no further liability to this plan. For the fiscal year ended September 30, 2006, District contributions to the plan were $28,691. This plan also covers employees of the Sports and Entertainment Commission, D. C. Housing Authority and Water and Sewer Authority, while the employees of the Housing Finance Agency, Washington Convention Center and the University are covered under their own separate defined contribution plans.

C. DEFERRED COMPENSATION PLANS

Internal Revenue Code Section 403 Plan

The District sponsors an annuity purchase plan (D. C. Code 31-1252) with insurance companies and other issuers in accordance with IRC Section 403 for public teachers covered by the District Retirement Program. The District does not contribute to this plan and has no liability to the plan. Under this annuity purchase plan, eligible employees were able to defer up to $15 of their annual compensation for calendar year 2006. Employees with more than fifteen years of service may defer up to $18 for the calendar year 2006. Also an additional deferral of $5 was available to participants who were at least 50 years old before the end of the calendar year. Contributions vest immediately and are not assets of the District.

Internal Revenue Code Section 457 Plan

The District offers its employees a deferred compensation plan (D. C. Code 47-3601) created in accordance with Internal Revenue Code Section 457. Employees, including teachers, were able to defer the lesser of $15 or 100% of includable compensation in calendar year 2006. Also, an additional deferral of $5 was available to participants who were at least 50 years old before the end of the calendar year. Compensation deferred and income

(Dollars in Thousands) Notes to the Basic Financial Statements

NOTE 9. RETIREMENT PROGRAMS

earned are taxable when paid, or made available to the participant or beneficiary, upon retirement, death, termination, or unforeseeable emergency. Contributions are not assets of the District, which has no further liability to the plan.

NOTE 10. FUND BALANCE/NET ASSETS

Reserved and unreserved at September 30, 2006 are shown in **Table 34a**.

Table 34a - Schedule of FY 2006 Reserved and Unreserved Fund Balance

	General Fund	Federal & Private Resources	General Capital Improvement	Baseball Capital Project	Nonmajor Governmental Funds
Reserved					
Long term assets	$ 8,177	$ 13,444	$ -	$ -	$ -
Emergency/contingency cash	293,649	-	-	-	-
Bond escrow	262,640	-	-	-	-
Capital Lease Payment	16,822	-	-	-	-
PAYGO Capital	87,987	-	-	-	-
Other Post Employment Benefits	5,000	-	-	-	-
Subsequent year's expenditures	88,343	-	-	-	-
Inventory	9,640	4,982	-	-	-
Budget	51,670	-	-	-	-
Purpose restrictions	216,632	142,884	-	-	-
Charter School Enrollment Expansion	5,000	-	-	-	-
Capital projects	-	-	396,820	328,581	-
Tobacco settlement	-	-	-	-	95,350
Tax increment financing	-	-	-	-	15,245
Baseball	-	-	-	-	49,973
Highway projects	-	-	-	-	7,201
Total Reserved Fund Balances	**$ 1,045,560**	**$ 161,310**	**$ 396,820**	**$ 328,581**	**$ 167,769**
Unreserved					
Designated:					
Other post employment benefits	$ 41,473	$ -	$ -	$ -	$ -
School Modernization	73,784	-	-	-	-
Other Special purposes	136,320	-	-	-	-
Undesignated	138,005	-	-	-	-
Total Unreserved Fund Balances	**$ 389,582**	**$ -**	**$ -**	**$ -**	**$ -**
Total Fund Balances	**$ 1,435,142**	**$ 161,310**	**$ 396,820**	**$ 328,581**	**$ 167,769**

NOTE 10. FUND BALANCE/NET ASSETS

Net assets at September 30, 2006 are shown in **Table 34b**.

Table 34b - Schedule of FY 2006 Net Assets

	Unemployment Compensation Fund	Lottery & Games	Nonmajor Proprietary Fund	Fiduciary Funds
Net Assets				
Invested in capital assets	$ -	$ 382	$ 17,009	$ -
Restricted for worker's compensation	347,938	-	-	-
Restricted for future benefits	-	-	-	3,661,860
Unrestricted	-	3,319	25,681	-
Total Net Assets	**$ 347,938**	**$ 3,701**	**$ 42,690**	**$ 3,661,860**

NOTE 11. JOINT VENTURE

Washington Metropolitan Area Transit Authority

The Washington Metropolitan Area Transit Authority (WMATA) was created by Interstate Compact by and between Maryland, Virginia and the District of Columbia, pursuant to Public Law 89-774. The District's commitment or obligation to provide financial assistance to WMATA is established by annual appropriations, as approved by Congress. The District supports the Transit Authority through operating, debt service and capital grants. The District places the amounts to be provided to WMATA in an escrow account until such time when the funds are drawn down for use by WMATA. Operating grants may be in the form of operating and interest subsidies. WMATA records the District's operating grants as advanced contributions when received and as nonoperating revenues when the related expenses are incurred. WMATA recognizes the District's capital grants as additions to construction in progress and investment in capital assets when the grant resources are expended for capital acquisitions. A summary of the grants provided to WMATA during the year ended September 30, 2006 is shown in **Table 35.**

Table 35 - Summary of Grants Provided to WMATA

Account		Amount
Operating grants		$ 173,521
Debt service grants		14,093
Capital grants		44,579
	Total	$ 232,193

The WMATA issues separate audited financial statements that can be requested from the Washington Metropolitan Area Transit Authority, General Manager, 600 5th Street, NW, Washington, D. C. 20001. WMATA is accumulating significant financial resources and it is not experiencing fiscal stress that could cause additional financial benefits to or burden to the District and other participating government in the future.

NOTE 12. TRANSACTIONS WITH THE FEDERAL GOVERNMENT

A. FEDERAL CONTRIBUTION

In accordance with the National Capital Revitalization and Self-Government Improvement Act of 1997 (Public Law 105-33), the annual federal payment was repealed and replaced with a federal contribution to cover special purpose and other unusual costs imposed on the District by the federal government. Federal contributions to the District for the year ended September 30, 2006 totaled $362,075.

B. EMERGENCY PREPAREDNESS

The District, as the nation's capital, serves as the command post and the source of first response to any national threat or terrorist act against the nation. The District did not receive any federal payment for emergency preparedness in fiscal year 2006. In prior years, these funds were made available to assist the District to prepare itself and its citizens to more effectively respond to any threat or possible terrorist attack. Of the $155,900 received in fiscal year 2002, $2,614 was spent in fiscal year 2006. As of September 30, 2006, a total amount of $151,030 has been spent.

C. GRANTS

The District participates in a number of federal award programs, which are funded through formula and project grants, direct payments for specified and unrestricted use, food stamps and other pass-through grants and direct and guaranteed loans.

The federal government also provides capital grants, which are used for the purchase or construction of fixed assets. Capital grants are recorded as intergovernmental revenue in the General Capital Improvements Fund. Federal grants and contributions are shown by function on the government-wide financial statements.

D. WATER AND SEWER SERVICES

The District exercises no oversight responsibility over the Washington Aqueduct, which is owned by the Federal government and operated by the U. S. Army Corps of Engineers. Historically, the District issued long-term debt to finance most of the Aqueduct's capital facilities and the Water and Sewer Authority recorded this debt and related capital costs in its financial statements. In 1997, the Water and Sewer Authority and the other Northern Virginia customers entered into an agreement with the federal government, which provides for the funding of the Washington Aqueduct's capital improvement program directly through borrowings. The Water and Sewer Authority is now responsible for funding only its portion of this debt, other related capital projects, and operating costs calculated as the pro rata share of water purchased. The Water and Sewer Authority records payments for capital costs related to the Washington Aqueduct as purchased capacity. Such costs, which are allocable to other jurisdictions, but funded by the Water and Sewer Authority prior to April 1, 1997, are reported as due from other jurisdictions.

Capital outlays are capitalized and depreciated over 60-years by the Water and Sewer Authority. Total capital outlays including capitalized interest from the U.S. Treasury draw-downs and pay-as-you-go financing were $4,895 for the fiscal year ended September 30, 2006.

NOTE 13. LEASES

A. CAPITAL LEASES

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

Capital lease payments are classified as current expenditures in the governmental funds. Such expenditures totaled $12,679 in fiscal year 2006.

Equipment Financing Program

The District began its Master Equipment Lease Purchase Program (the "Program") in 1998 to provide tax-exempt financing for assets with short-term to intermediate-term useful lives.

As of September 30, 2006, the District has financed approximately $158 million of its capital equipment needs through the Program, and has approximately $61 million in principal outstanding. During the year, the average interest rate used to finance equipment through the Program was 4.5%. Payments on the liability are made on a quarterly basis.

NOTE 13. LEASES

Equipment procured under this program include such items as fire apparatus (trucks) and other emergency medical services equipment (ambulances); trucks and cranes used by the Department of Public Works; vehicles used by the Metropolitan Police Department; and other heavy equipment items.

Table 36 shows the schedule of equipment financing program payments.

Table 36 – Schedule of Equipment Financing Program Payments

Year Ending September 30	Principal	Interest	Total
2007	$ 19,187	$ 2,343	$ 21,530
2008	15,054	1,607	16,661
2009	12,810	1,001	13,811
2010	9,095	476	9,571
2011	4,407	114	4,521
Total	**$ 60,553**	**$ 5,541**	**$ 66,094**

B. OPERATING LEASES

Operating leases are not recorded in the statement of net assets. These leases contain various renewal options, the effects of which are reflected in the minimum lease payments only if it is considered that the option will be exercised. Certain other operating leases contain escalation clauses and contingent rentals that are not included in the calculation of the future minimum lease payments. Operating lease expenditures recorded in governmental funds were $107,221 in 2006.

C. SCHEDULE OF FUTURE MINIMUM LEASE COMMITMENTS

The present value of future minimum lease payments under capital leases and minimum lease payments for all operating leases having non-cancelable terms in excess of one year at September 30, 2006 are shown in **Table 37**.

Table 37 - Schedule of Future Minimum Lease Payments

	Primary Government		
		Operating Leases	
Year Ending September 30	Capital Leases	Facilities	Equipment
2007	$ 12,443	$ 95,622	$ 2,282
2008	10,720	83,701	1,647
2009	10,718	52,345	1,107
2010	10,715	35,953	368
2011	10,714	25,169	25
2012-2016	31,199	50,605	-
2017-2021	-	114	-
Minimum lease payments	**86,509**	**$ 343,509**	**$ 5,429**
Less - imputed interest	18,567		
Present value of payments	**$ 67,942**		

(Dollars in Thousands) Notes to the Basic Financial Statements

NOTE 14. COMMITMENTS AND CONTINGENCIES

A. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District pays all claim settlements and judgments out of its General Fund resources and reports all of its risk management activities as governmental activities in the government-wide financial statements. There are no non-incremental claims adjustment expenses included in the liability for claims and judgments. Claims expenditures and liabilities are reported in the government-wide financial statements when it is probable that loss has occurred and the amount of that loss can be reasonably estimated and in the General Fund when due and payable. These losses include an estimate of claims that have been incurred but not reported.

B. GRANTS AND CONTRACTS

The District has received federal grants for specific purposes that are subject to review and audit by the grantor agencies. Claims against these resources are generally conditional upon compliance with the terms and conditions of grant agreements and applicable federal regulations, including the expenditure of resources for allowable purposes. Any disallowance resulting from an audit may become a liability of the District. The audits of these federally assisted programs have not been conducted for the year ended September 30, 2006. As such, the District's compliance with applicable grant and federal requirements will be assessed and established at some future date. No accrual has been provided in the government-wide financial statements because there was no estimate of the probable cumulative expenditures that may be disallowed by the granting agencies.

C. LITIGATION

The District is named as a party in legal proceedings and investigations that occur in the normal course of governmental operations. Although the ultimate outcome of these legal proceedings and investigations is unknown, the District is vigorously defending its position in each case. All amounts in connection with lawsuits in which a loss is probable have been included in the liability for claims and judgments at September 30, 2006.

The accrued liability is based on estimates of the payments that will be made upon judgment or resolution of the claim. This accrued amount is the minimum amount in the range of estimates that have the same probability of occurrence. The sum of excess of the range of probable losses and the minimum range of losses that are reasonably possible which are not accrued is estimated to be $39,533.

A summary of the changes in the accrued liability for claims and judgments in the government-wide financial statements is shown in **Table 38**.

Table 38 - Summary of Changes in Claims and Judgments Accrual

Description	2006	2005
Liability at October 1	**$ 50,734**	**$ 55,513**
Incurred claims	34,425	38,340
Less:		
claims payments/adjustments	(26,283)	(43,119)
Liability at September 30	**$ 58,876**	**$ 50,734**

D. DISABILITY COMPENSATION

The District, through its risk management department, administers a disability compensation program under Title XXIII of the District of Columbia Comprehensive Merit Personnel Act of 1978 (CMPA). This program, which covers all District employees hired under the authority of CMPA, provides compensation for lost wages, medical expenses, and other limited rehabilitation expenses to eligible employees and/or their dependents, where a work-related injury or illness results in disability or death. The benefits are funded on a pay-as-you-go basis. The present value discounted at 3% of projected disability compensation is accrued in the government-wide financial statements.

A summary of changes in this accrual is shown in **Table 39**.

Table 39 – Summary of Changes in Disability Compensation Accrual

Description	2006	2005
Liability at October 1	**$ 210,670**	**$ 266,898**
Claims incurred	50,046	23,491
Less-benefit payments/adjustments	(167,551)	(79,719)
Liability at September 30	**$ 93,165**	**$ 210,670**

NOTE 14. COMMITMENTS AND CONTINGENCIES

E. INTEREST RATE SWAP AGREEMENTS

Objectives:

Part of the District's debt strategy is to have a diversified portfolio of fixed-rate and variable-rate debt to take advantage of market fluctuations. In order to manage its exposure to interest rates, the District has executed Interest Rate Swap Agreements in connection with existing or proposed debt issuances as discussed below.

Terms

2004B Swap

On December 8, 2004, the District entered into a series of floating-to-fixed rate swaps in connection with its $38,250 million General Obligation Bonds, Series 2004B ("2004B Swap"). The original total notional amount of the swaps was $38,250 million. Under the terms of the swaps, scheduled to terminate in 2014, 2015, 2016 and 2020, the District pays fixed-rates of 4.598%, 4.701%, 4.794% and 5.121%, respectively and receives variable rate payments equivalent to the Consumer Price Index published monthly by the Bureau of Labor Statistics of the U.S. Department of Labor (CPI Index). The notional value of the swap and the principal amount of the associated debt service begins to decline in fiscal year 2014.

2002D Swap

On October 31, 2002, the District entered into a floating-to-fixed rate swap in connection with its $124,995 Multimodal General Obligation Refunding Bonds, Series 2002D ("2002D Swap"). The original notional amount of the swap was $124,995. Under the terms of the swap, scheduled to terminate in 2031, the District pays a fixed-rate of 3.617% and receives variable rate payments equivalent to the Bond Market Association Municipal Swap Index (BMA) until December 1, 2004 and at 67% of LIBOR thereafter. The notional value of the swap and the principal amount of the associated debt service begins to decline in fiscal year 2015.

2002B Swap

On October 15, 2002, the District entered into a floating-to-fixed rate swap in connection with its $224,300 Multimodal General Obligation Bonds, Series 2002B ("2002B Swap"). The original notional amount of the swap was $224,300. Under the terms of the swap, scheduled to terminate in 2027, the District pays a fixed-rate of 3.615% and receives variable rate payments equivalent to BMA until December 1, 2004 and at 67% of LIBOR thereafter. The notional value of the swap and the principal amount of the associated debt service begins to decline in fiscal year 2020.

2001C/D Swap

On December 6, 2001, the District entered into 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"). The original notional amount of the swap was $283,870. Two firms, Bear, Stearns & Co. Inc. ("Bear Stearns") and UBS PaineWebber, Inc. ("UBS PaineWebber"), negotiated the split of this swap transaction. As a result, Bear Stearns and UBS PaineWebber received 62.5% and 37.5% of the notional amount of the swap, respectively. Under the terms of the swap, scheduled to terminate in 2029, the District pays a fixed-rate of 4.004% and receives variable rate payments equivalent to BMA until June 2, 2003 and at 67% of LIBOR thereafter. The notional value of the swap and the principal amount of the associated debt service began to decline in fiscal year 2003.

On June 2, 2003, the District entered into an enhanced interest rate swap agreement for the 2001C/D Bond issue ("2001C/D Enhanced Swap"). Based on the 2001C/D Enhanced Swap, 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 purpose of this swap is to reduce the basis risk to the District by providing a closer match between the District underlying variable rate bonds and the variable rate swap receipt from the counterparty. Only the net difference in interest payments is actually exchanged between the counterparties.

1992A/2001A Swap

On March 26, 1992, the District entered into a floating-to-fixed rate swap in connection with its $299,800 General Obligation Variable Rate Refunding Bonds, Series 1992A ("1992A/2001A Swap"). The 1992A Bonds were refunded by the District's $114,150 Multimodal General Obligation Refunding Bonds, Series 2001A. The original notional amount of the swap was $299,800. Under the terms of the swap, scheduled to terminate in 2007, the District pays a fixed-rate of 6.02% and receives variable rate payments equivalent to the J.J. Kenny Index. The notional value of the swap and the principal amount of the associated debt service began to decline in fiscal year 1992.

NOTE 14. COMMITMENTS AND CONTINGENCIES

Fair Market Value

As of September 30, 2006, the 2004B, 2002D, 2002B, 2001C/D and 1992A/2001A Swaps ("Swaps") had fair market values as shown in **Table 40**:

Table 40 – Swap Fair Market Values

Swaps Fair Market Values	
2004B Swaps	$ (931)
2002D Swap	(2,385)
2002B Swap	(3,075)
2001C/D (Enhanced Swap)	(3,598)
2001C/D (Bear Stearns)	(8,080)
2001C/D (UBS PaineWebber)	(4,928)
2001A	(173)
Total	**$ (23,170)**

The market value was provided by the counterparty to each respective swap and confirmed by the District's Financial Advisor, Phoenix Capital Partners, LLP.

Credit Risk

The swaps' fair market value represents the District's obligation to the counterparties if the swaps were terminated. As of September 30, 2006, the District is not exposed to any credit risk because the swaps have a negative fair value. Should the counterparty to these transactions fail to perform according to the terms of the swaps' contracts, the District faces a maximum possible loss equivalent to the swaps' fair market value $(23,170) in aggregate. Standard & Poor's and Moody's rated counterparty to each swap as of September 30, 2006 is presented in **Table 41.**

Table 41 – Swaps Counterparty Credit Ratings

Swap	Counterparty	Credit Rating
2004B	Bear Stearns Capital Markets	A/A1
2002D	Lehman Brothers	A/A2
2002B	Morgan Stanley	A+/Aa3
2001C/D	Bear Stearns Financial Products	AAA/Aaa
2001C/D	UBS Paine Webber	AA+/Aa2
2001C/D	Bear Stearns Financial Products	AAA/Aaa
2001A	Merrill Lynch	A+/Aa3

Basis Risk

The District is subject to basis risk if the variable payment received from the counterparty does not equal the rate on the bonds.

Termination Risk

The District or the counterparty may terminate the swap if the other party fails to perform under the terms of the contract. The swap uses the International Swap Dealers Association Master Agreement, which includes standard termination events. The Schedule to the Master Agreement defines an "additional termination event." That is, the swap may be terminated if the 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, A Division of the McGraw-Hill Companies, Inc. or (iii) an equivalent investment grade rating determined by a nationally recognized rating service acceptable to both parties.

Swap Payments and Associated Debt

Using interest rates as of September 30, 2006, principal and interest requirements of the fixed-rate debt and net swap payments are shown in **Table 42**. As rates vary, net swap payments will vary. As the principal on the variable rate bonds mature, the swaps' notional amount likewise diminishes, or amortizes as well.

NOTE 14. COMMITMENTS AND CONTINGENCIES

Table 42 – Swaps Interest Requirements

	Governmental Activities			
	General Obligation			
Primary Government	**Principal**	**Interest**	**Interest Rate Swaps, Net**	**Total**
Year Ending September 30				
2007	$ 12,385	$ 23,843	$ 1,508	$ 37,736
2008	13,040	23,385	1,346	37,771
2009	7,350	23,021	1,246	31,617
2010	7,635	22,759	1,214	31,608
2011	7,945	22,487	1,181	31,613
2012-2016	99,255	103,809	5,048	208,112
2017-2021	163,975	83,671	3,796	251,442
2022-2026	286,690	42,555	1,789	331,034
2027-2031	60,135	3,844	147	64,126
Total	**$ 658,410**	**$ 349,374**	**$ 17,275**	**$ 1,025,059**

F. DEBT SERVICE DEPOSIT AGREEMENTS

The District entered into debt service deposit agreements effective through 2014 that exchanged future cash flows of certain special tax fund escrow accounts for a fixed amount received by the District upon entering into the agreements, thus increasing the predictability of cash flows from the earnings on escrow account investments.

Upon early termination of an agreement and depending upon the then current interest rates, a termination amount may be owed by the District. At September 30, 2006, unearned revenue of $3,015 related to this agreement is recorded in the government-wide financial statements.

NOTE. 15. SUBSEQUENT EVENTS

A. TAX REVENUE ANTICIPATION NOTES

The District issued $300,000 in Tax Revenue Anticipation Notes (TRANs) on December 21, 2006. The note is a short term financing method used to provide for seasonal cash flow needs, and the proceeds were used to finance general governmental expenses of the District in anticipation of the collection or receipt of revenues for fiscal year 2007.

The TRANs are general obligations of the District, secured by the District's full faith and credit, and payable from available revenues, including tax revenues, of the District. Operational and other disbursement costs are covered by the TRANs proceeds until periodic taxes, grants and other revenues are received. The notes were issued as fixed-rate notes with an interest rate of 4.25%, priced to yield 3.5%, and will mature on September 28, 2007.

B. CAPITOL HILL TOWERS TIF NOTE

On December 20, 2006, the District released the tax increment financing (TIF) note of the Capitol Hill Towers from escrow. Henceforth, the District will assume the debt and thus record it as its obligation. The face amount of the note is $10 million. The note matures on January 1, 2029 with interest rate of 7.5% compounded semiannually on unpaid principal.

C. HOUSING FINANCE AGENCY

On November 9, 2006, the agency issued single family revenue bonds Series 2006 D, E & F for $102.1 million. On November 12, 2006, the agency issued multifamily housing revenue bonds of $4.13 million for Azeeze Bates Apartments. On December 11, 2006, the agency issued multifamily housing revenue bonds of $11 million for Eastgate family. On December 14, 2006, the agency issued multifamily housing revenue bonds of $10.34 million for Wesley House.