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and individual fund statements and
schedules for the following:*
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Financial Section



YEAR ENDED SEPTEMBER 30 2002

INDEPENDENT AUDITORS' REPORT



2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report

To the Mayor and Council of the Government of the District of Columbia
Inspector General of the Government of the District of Columbia

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Government of the District of Columbia (District), as of and for the year ended September 30, 2002, which collectively comprise the District's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the District, as of September 30, 2002, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the general and federal and private resources funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the City has implemented a new financial reporting model and related disclosures, as of October 1, 2001, as required by the following Governmental Accounting Standards Board (GASB) Pronouncements:

- GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*
- GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*
- GASB Statement No. 37 - *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*
- GASB Statement No. 38 – *Certain Financial Statement Note Disclosures*
- GASB Interpretation No. 6 – *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*



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The Management's Discussion and Analysis on pages 17 to 32 and the schedule of employer contributions on page 86 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated January 24, 2003, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The introductory section, the other supplementary information presented in the financial section as listed in the table of contents, and the statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The statements and schedules described as other supplementary information have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

KPMG LLP

January 24, 2003

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MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2002

(Amounts expressed in thousands)

The following is a discussion and analysis of the District of Columbia's (the District's) financial performance that provides an overview of the activities for the fiscal year ended September 30, 2002. This discussion and analysis should be read in conjunction with the District's financial statements and the notes to the basic financial statements, which begin on pages 33 and 47 respectively.

In June 1999, members of the Governmental Accounting Standards Board (GASB) unanimously approved issuance of the most comprehensive governmental reporting standard ever developed—GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*. GASB 34, as amended by Statements No. 35, 37 and 38, was implemented during the current fiscal year, and impacts on the way the District's financial results and related disclosures will look and read in this year's CAFR and for all subsequent CAFRs. The primary changes affect infrastructure reporting and depreciation of fixed assets, full accrual reporting at the government-wide level and this Management's Discussion and Analysis.

GASB 34 requires that governments include new information and/or change the way that they report certain information: (1) management's discussions & analysis (new); (2) government-wide financial statements (new); (3) fund financial statements, and; (4) notes to financial statements. The District was already reporting many items in compliance with GASB 34 before it was required. These changes have been designed to make the financial statements of governments more consistent in the treatment and application of transactions and balances, in addition to being more easily read and understood by the general public.

The format and content of the CAFR in this transition year are different from previous periods. For this reason, there will be few comparisons with the previous year. However, future reports are required to include extensive comparisons. Prior years' financial reports focused on summarized fund data. The new focus is on both the District as a whole (government-wide), and the major individual funds. The three components of the District's basic financial statements are: 1) *government-wide financial statements*, 2) *fund financial statements*, and 3) *notes to the basic financial statements*. The report also contains other supplementary information that is outside the basic financial statements.

Financial Highlights

- GASB Statement No. 34, as amended by Statements No. 35, 37 and 38 was implemented for this year's financial reports. The statements provide the District's financial information on a government-wide basis for the first time. These changes are aimed at enhancing analysis of short- and long-term operations, and to strengthen accountability for the use of government resources over multiple reporting periods.
- Government-wide total net assets, as shown in Table 2, *Net Assets*, page 21, were \$1,139,845. Governmental activities contributed \$864,999 while business-type activities contributed \$274,846. This is an increase in total net assets from the beginning of fiscal year 2002 of \$22,365, an increase in governmental net assets of \$40,696, and a decrease in business-type activities of (\$18,331), as shown in Table 3, *Change in Net Assets* on page 22.
- Restricted net assets totaled \$1,105,367, and were composed of governmental activities' restricted net assets of \$834,006 and business-type activities' restricted net assets of \$271,361. Unrestricted net assets amounted to (\$623,860) and were composed of negative governmental unrestricted assets of (\$625,850) and positive business-type unrestricted assets of \$1,990 (Table 2, *Net Assets*, page 21). Please refer to the discussion on pages 22 to 23 to more fully understand the issue of negative governmental unrestricted assets.
- The District's governmental fund financial statements report primary sources and amounts of revenue as follows: general taxes and other fees \$3,666,604, federal and private resources of \$1,978,440, general capital improvements of \$214,767 and nonmajor governmental funds of \$60,180 for a combined governmental funds total of \$5,919,991. The general fund revenues were made up of the following items: property taxes of \$804,394, sales and use taxes of

\$750,060, income and franchise taxes of \$1,160,423, gross receipts taxes of \$231,786 and other taxes of \$283,146. Other sources of general revenues amounted to \$436,795. (From Exhibit 2b - *Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds*, page 37).

- Total governmental funds expenditures for the year were \$6,449,625 and the major expenditures were for Human Support - \$2,249,303; Public Education - \$1,143,281; and Public Safety & Justice - \$899,116; with other expenditures making up the remaining \$2,157,925. These expenditures were paid for from resources made available from general, federal and private resources, general capital improvements and nonmajor governmental funds. (From Exhibit 2b - *Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds*, page 37).
- Capital assets from governmental activities amounted to \$3,900,817, while business-type activities provided capital assets of \$1,495 for total capital assets of \$3,902,312. (From Table 2, *Net Assets*, page 21). The District recorded depreciation expense in prior years and will continue to do so going forward. The depreciation expense for governmental activities for the fiscal year was \$155,288. (Please see Note 1-T, *Reconciliation of Government-Wide and Fund Financial Statements*, page 58).
- At September 30, 2002 the District's combined governmental funds reported a total asset balance of \$2,477,449, total liabilities of \$1,610,979 and total fund balances of \$866,470. These fund balances are made up of reserved and unreserved amounts for general and special revenue funds, and capital project expenditures. (From Exhibit 2-a, *Balance Sheet - Governmental Funds*, page 36).

The Proprietary Funds

The District currently has two Proprietary Funds: the D.C. Lottery & Charitable Games Board (Lottery) and the Unemployment Compensation Fund (Unemployment). Proprietary funds are District units that charge customers for the services provided, whether to outside customers or to other units of the District. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities.

Total net assets, as of September 30, 2002, for Lottery and Unemployment were \$3,485 and \$271,361, respectively, for proprietary total net assets of \$274,846. The change in net assets in fiscal year 2002 was an increase of \$111 for Lottery and decrease of (\$18,442) for Unemployment, for a total decrease in proprietary fund net assets of (\$18,331). Net cash provided by (used in) operating activities for Lottery and Unemployment was \$61,652 and (\$53,335), respectively. The total net cash provided by their combined operating activities was \$8,317. Please refer to Exhibit 3-a, *Statement of Net Assets - Proprietary Funds*, Exhibit 3-b, *Statement of Revenues, Expenses and Changes in Fund Net Assets - Proprietary Funds*, and Exhibit 3-c, *Statement of Cash Flows - Proprietary Funds*, pages 40, 41 and 42 respectively for more detailed information.

The Component Units

The District currently has five Component Units: the D.C. Water & Sewer Authority, the Washington Convention Center Authority, the Sports & Entertainment Commission, the Housing Finance Agency and the University of the District of Columbia. Component units are legally separate organizations for which the elected officials of the District are financially accountable. Accountability exists because the Mayor, with the consent of the Council, or other District officials, appoints the governing bodies of all of the component units. In addition, the District has an obligation to provide financial support to the Convention Center, the Sports and Entertainment Commission, and the University of the District of Columbia, and certain tax revenues are dedicated to each of these organizations. All of the component units use proprietary fund accounting. The financial data of the component units are reported separately from the financial data of the primary government.

The five component units had combined total assets of \$3,912,843, combined total liabilities of \$2,675,674 and combined total net assets of \$1,237,169. The component units had combined total operating revenues of \$362,064 and combined total operating expenses of \$378,971 for fiscal year 2002, resulting in a combined operating loss of (\$16,907). Please see Exhibit 5a, *Discretely Presented Component Units - Combining Statement of Net Assets*, page 45, and Exhibit 5b, *Discretely Presented Component Units - Combining Statement of Revenues, Expenses and Changes in Net Assets*, page 46, for more detailed financial information on the component units. Each of the component units prepares its own independently audited financial statements, which are also accompanied by a MD&A.

Short-Term Debt

The District issues short-term debt in order to finance seasonal cash flow needs, when necessary, as the pattern of cash received from taxes, grants and other revenues does not match exactly with the outflow of funds for governmental operations and other required payments. The District did not issue any short-term debt during fiscal year 2002. In the years that the District does issue short-term debt, it must be paid off in its entirety by September 30 of that fiscal year.

Long-Term Debt and Bond Ratings

As of September 30, 2002, the District had \$2,670,573 in serial and long-term general obligation bonds, \$6,900 in tax increment financing (TIF) notes, \$119,645 in TIF bonds, \$514,280 in tobacco bonds and \$3,582 in qualified zone academy bonds outstanding. As of the end of fiscal year 2001, these figures were as follows: \$2,582,018 in serial and long-term general obligation bonds, \$6,900 in TIF notes and \$521,105 in tobacco bonds. Therefore, as of the end of fiscal year 2002, as compared to the end of fiscal year 2001, there was an increase in outstanding general obligation bonds by \$88,555 after debt payments of \$195,315, an increase in TIF obligations by \$119,645, and a decrease in tobacco bonds by \$6,825. (Please see Note 7. Long-Term Liabilities, page 71 for a more detailed discussion).

On December 5, 2001, the District issued \$214,155 in general obligation bonds, scheduled to mature on June 1, 2026 and \$69,715 in general obligation bonds scheduled to mature on June 1, 2029. Both of these bond series were issued as variable rate demand obligations, 4.09% and 4.08%, respectively. Both of these bond series will bear interest from their date of issue at the variable rate unless converted to a fixed interest rate at a later date. Moody's Investors Service, Standard and Poor's Ratings Services and Fitch Ratings have rated the District's insured bonds Aaa, AAA and AAA, respectively. The District's uninsured general obligation bond ratings are Baa1, BBB+ and BBB+, respectively.

Tax Increment Financing

The District participated in the issuance of two new Tax Increment Financing bonds in fiscal year 2002, The Mandarin Oriental Hotel and Gallery Place in the amounts of \$45,995 and \$73,650, respectively. The Mandarin Oriental Hotel TIF bonds were dated April 1, 2002 and are due to be fully paid by July 1, 2022. The interest rate on the Mandarin Oriental Hotel TIF bonds is 5.250%. The Gallery Place Project TIF bonds were dated April 1, 2002, and various amounts are due each July 1, from 2005-22 and also on July 1, 2027 and 2031. The interest rates on the Gallery Place TIF bonds range from 4.000% to 5.500%. Both of the TIF bonds are insured, and carry AAA ratings.

The District's TIF Program, which is administered jointly by the Office of the Chief Financial Officer and the Office of the Deputy Mayor for Planning and Economic Development is among the District's economic initiatives designed to help stimulate the expansion of commercial development, affordable housing, employment and other economic opportunities in various areas of the District. All, or a portion, of the incremental Real Property Taxes and incremental Sales Taxes within a defined TIF area may be applied to the repayment of TIF bonds used to finance projects within each respective TIF area.

Using This Annual Report

This annual report includes a series of financial statements. The *Statement of Net Assets*, Exhibit 1-a, and the *Statement of Activities*, Exhibit 1-b, on pages 34 to 35, present information about the financial activities of the District as a whole. These two statements provide an overall view of the District's finances. The governmental fund financial statements, Exhibit 2-a, *Balance Sheet – Governmental Funds*, Exhibit 2-b, *Statement of Revenues, Expenditures and Changes in Fund Balances*, Exhibit 2-c, *Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Government Funds*, and Exhibit 2-d, *Budgetary Comparison Statement* on pages 36, 37, 38 and 39, respectively, show how these services were financed through the current year and the balances remaining for future spending. These fund financial statements focus on the most significant District funds and present operations in more detail. The other statements provide details for enterprise activities and other activities for which the District acts exclusively as a trustee or agent for the benefit of the non-governmental citizenry.

Regular readers of the District's CAFR were accustomed to certain reports and statements. For this reason, the following Table 1, *Comparison of Prior Year's CAFRs With the New GASB 34 Reporting Model*, is presented for your review and guidance. It shows the changes to reports and statements and identifies new items that are a result of the GASB 34 implementation.

Table 1 – Comparison of Prior Year's CAFRs With the New GASB 34 Reporting Model

<u>Prior Years – Before GASB 34</u>	<u>Current Year – With GASB 34</u>
Independent Auditors' Report	Independent Auditors' Report
General Purpose Financial Statements:	Management's Discussion & Analysis (New)
	Basic Financial Statements (New):
	Government-wide Financial Statements (New)
	Statement of Net Assets (New)
	Statement of Activities (New)
Fund Financial Statements	Fund Financial Statements (New Emphasis)
Governmental Funds:	Governmental Funds:
Balance Sheet	Balance Sheet (Revised)
	Recon. To Statement of Net Assets (New)
Combined Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental	Statement of Revenues, Expenditures and Changes in Fund Balances (Revised)
	Recon. To the Statement of Activities (New)
Combined Statement of Revenues, Expenditures And Changes in Changes in Fund Balance – Budget and Actual – Governmental	Budgetary Comparison Statement (New Emphasis)
General Fund	General Fund (Revised)
Statement of Revenues, Expenditures And Changes in Retained Earnings – Proprietary Funds	Major Special Revenue and Capital Projects Funds (New)
	Proprietary Funds:
	Statement of Net Assets (Revised)
	Statement of Revenues, Expenses and Changes in Net Assets (Revised)
	Statement of Cash Flows (Revised)
Fiduciary Funds:	Fiduciary Funds:
Combined Statement of Net Assets	Statement of Fiduciary Net Assets (Revised)
Combined Statement of Changes in Net Assets	Statement of Changes in Fiduciary Net Assets
Notes to Financial Statements	Notes to Basic Financial Statements (Revised)

Reporting on the District as a Whole (Government-Wide Financial Statements)

The District, as a whole, now reports all assets and liabilities using the *accrual basis of accounting*. This method is similar to the accounting method used by most private-sector companies. In this way, all of the current year's financial activities are taken into account regardless of when cash is received or paid. The governmental activities and business-type activities are presented in two separate columns and combined to show totals for the primary government. The *Statement of Net Assets* and the *Statement of Activities* are two statements that present information and activities that help the reader determine the overall financial condition of the District. Readers can decide for themselves if the District's financial status has improved or deteriorated as a result of the year's activities.

For the first time the District's current financial resources (short-term spendable resources) are reported along with capital assets and long-term obligations. This data is presented in the *Statement of Net Assets*. This report distinguishes between governmental activities, business-type activities and component units' activities. Total assets less total liabilities equal total net assets. The total net assets are the sum of these three components: 1) *invested in capital assets, net of related debt*, 2) *restricted assets* and 3) *unrestricted assets*. Over time and accounting periods, changes in the District's net assets are an indicator of its financial health. However, changes in population, property tax base, infrastructure deterioration and other non-financial factors must be incorporated in assessing the overall financial well being of the District.

The *Statement of Activities* summarizes both the gross and net cost of the governmental and business-type activities. Governmental activities show the District's basic functional services while business-type activities reflect enterprise

operations where a fee for services is expected to cover all or most of the costs of operations, including depreciation. Program/function expenses are reduced by program specific earned revenues, and by grants, that reduce net expenses for governmental and business-type activities. The District's general revenues (property, sales, income and franchise taxes) offset remaining program/function costs, resulting in an increase or decrease in net assets.

Financial Analysis of the Government as a Whole

Comparative information for assets, liabilities, net assets, and revenues are not available, since this is the first year of GASB 34 implementation. In future CAFRs, comparative reporting will be complete. Table 2, *Net Assets* shows net assets from governmental activities and business-type activities, in addition to the totals amounts for the two. The District has \$6,066,755 in total assets from governmental activities and \$386,233 from its business-type activities, for a total of \$6,452,988. The total liabilities associated with these amounts are \$5,201,756, \$111,387 and \$5,313,143 respectively for governmental activities, business-type activities and the total of the two. By deducting the total liabilities from the total assets, the District is showing net assets of \$864,999 for governmental activities, \$274,846 for business type activities for total net assets of \$1,139,845.

Table 2 - Net Assets as of September 30, 2002

	Governmental activities	Business-type activities	Total
Current and other assets	\$ 2,165,938	\$ 384,738	\$ 2,550,676
Capital assets	3,900,817	1,495	3,902,312
Total assets	6,066,755	386,233	6,452,988
Long-term liabilities outstanding	3,635,149	70,158	3,705,307
Other liabilities	1,566,607	41,229	1,607,836
Total Liabilities	5,201,756	111,387	5,313,143
Net assets:			
Invested in capital assets, net of related debt	656,901	1,495	658,396
Restricted	834,006	271,361	1,105,367
Unrestricted	(625,908)	1,990	(623,918)
Total net assets	\$ 864,999	\$ 274,846	\$ 1,139,845

The District's combined total net assets increased by \$22,365 in fiscal year 2002, which was composed of an increase for governmental activities of \$40,696 and a decrease for business-type activities of (\$18,331). The total net assets of the governmental activities increased 4.94% from the \$824,303 amount at the beginning of the year, and business-type activities experienced a decrease in total net assets of (6.25%) from the \$293,177 amount at the beginning of the fiscal year. The combined net total assets for both governmental activities and business-type activities increased 2.00% from the \$1,117,480 amount that the District started with at the beginning of the 2002 fiscal year on October 1, 2001. Please refer to Table 3, *Change in Net Assets*, on page 22.

The District had \$1,105,367 in total restricted net assets as of September 30, 2002, which is composed of \$834,006 from governmental activities and \$271,361 from its business-type activities. At the same time, the District is showing a negative (\$623,860) in unrestricted net assets, which is the result of negative unrestricted net assets from its governmental activities of (\$625,850) and a positive \$1,990 from business-type activities.

The change in the total net assets for governmental activities includes a significant loss as a direct result of the closure of District's Lorton Correctional Complex in Lorton, Virginia during fiscal year 2002. The property was transferred, without consideration, to the Fairfax County Water Authority of Fairfax, Virginia. The District recognized a loss of (\$171,094) on the disposal of the Lorton Complex. The decrease in total net assets for business-type activities was due to the transfer to the District's governmental activities of (\$63,000) by the D.C. Lottery. Each year, the D.C. Lottery transfers substantially all of its income to the District. Because the \$63,000 transfer from the business-type activities (D.C. Lottery) is shown as a

reduction, and the transfer to governmental activities is shown as an increase, there is no effect on the District's total net assets. The two amounts, on both sides of the same transaction, cancel each other out, as shown in Table 3, *Change in Net Assets*.

Table 3 - Change in Net Assets as of September 30, 2002

	Governmental activities	Business-type activities	Total
Revenues:			-
Program revenues:			
Charges for services	\$ 286,044	\$ 211,151	\$ 497,195
Operating grant and contributions	1,890,544	49,308	1,939,852
Capital grants and contributions	161,450	-	161,450
General revenues:			
Property taxes	809,069	-	809,069
Other taxes	2,425,415	104,945	2,530,360
Other	353,226	18,978	372,204
Total revenues	5,925,748	384,382	6,310,130
Expenses:			
Governmental direction and support	451,863	-	451,863
Economic development and regulation	323,804	-	323,804
Public safety and justice	920,599	-	920,599
Public education system	1,153,719	-	1,153,719
Human support services	2,267,597	-	2,267,597
Public works	279,506	-	279,506
Public transportation	184,883	-	184,883
Interest on long-term debt	175,241	-	175,241
Fiscal charges	19,746	-	19,746
Lottery and games	-	148,670	148,670
Unemployment compensation	-	191,043	191,043
Total expenses	5,776,958	339,713	6,116,671
Increase in net assets before transfers and special items	148,790	44,669	193,459
Transfers from lottery board	63,000	(63,000)	-
Special item --- loss on disposal	(171,094)	-	(171,094)
Increase (decrease) in net assets	40,696	(18,331)	22,365
Net assets - Oct 1, 2001	824,303	293,177	1,117,480
Net assets - Sept 30, 2002	\$ 864,999	\$ 274,846	\$ 1,139,845

Fund balances in the fund financial statements will generally differ from net assets in the government-wide financial statements due to the difference in the measurement focus and basis of accounting used in the respective financial statements. Fund financial statements focus primarily on the sources, uses, and balances of current financial resources and use the modified accrual basis of accounting. The Government-wide financial statements focus on all the economic resources of the District and use the full accrual basis of accounting, which is similar to the accounting method used by most private sector companies. These differences may result in the Government-wide statements reflecting negative unrestricted net assets.

The negative unrestricted net assets of (\$625,850) for governmental activities, shown in Table 2, *Net Assets*, page 21, results mainly from the recording of non-current liabilities such as claims and judgments, compensated absences, general obligation debt, interest on long-term debt, and other unfunded long-term liabilities. These amounts are not included in the governmental funds financial statements. This negative net asset does not imply that the District lacks resources to pay its bills next year. Rather, it is the result of recording long-term obligations that will be liquidated with resources to be provided in the future. Put simply, future liabilities are reported in the current-year Government-wide statements without the matching resources that belong in the budgets of future periods.

Chart 1 shows contributions as they were applied for the fiscal year. This chart is a visual presentation of the numbers that were just discussed in Table 3, *Change in Net Assets*.

Chart 1 - Revenues by Source - Governmental Activities

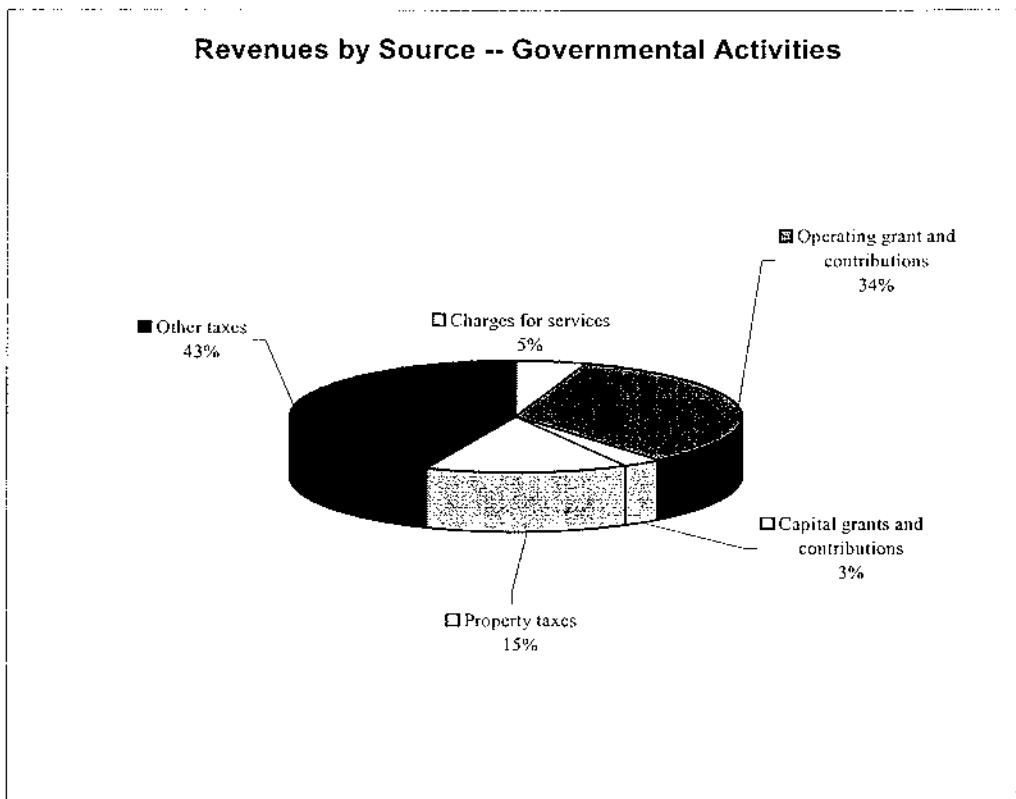
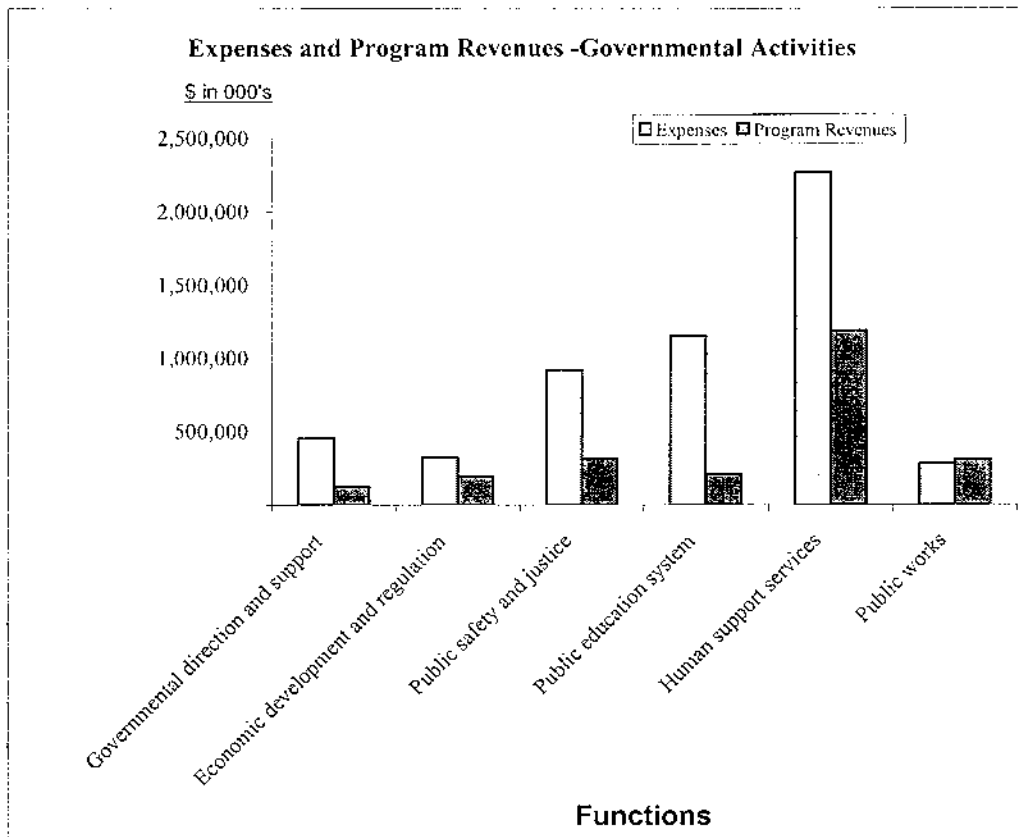


Chart 2 displays both expenses and program revenues of selected governmental activities for the fiscal year. The governmental activities are governmental direction and support, economic development and regulation, public safety and justice, public education system, human support services and public works.

Chart 2 - Expenses and Program Revenues – Governmental Activities



Reporting the District's Most Significant Funds

The fund financial statements presentation will be more familiar to regular readers of the traditional CAFR. Starting this year, the focus will be on major funds and not on fund types. Major funds, as defined by established District guidelines, are presented individually, with nonmajor governmental funds combined in a single column. Sources and uses of resources assigned through the financial planning and budgeting process measure the District's ability to fund operations in the short-term.

District laws, bond covenants, and other legal stipulations cause funds to be established for specific purposes and to report on the activities related to supplies and services that they provide to the general public. A fund is a fiscal and accounting entity with a self-balancing set of accounts that the District uses to keep track of specific sources of funding and spending for a particular purpose. The District's funds are presented in three categories or groups – governmental, proprietary and fiduciary.

Governmental Funds

The governmental fund financial statements relate to the governmental activities column in the government-wide statements. The focus is on a shorter-term basis and measures how money flows into and out of these funds and determines the balances left at year-end for future spending. Most basic services are found in this fund category and are reported as General, Federal

and Private Resources, General Capital Improvements, and Nonmajor Governmental Funds. These funds are reported using the *modified accrual accounting basis*, which measures cash and other financial assets that can be readily converted to cash.

The District reported the following total assets in its governmental funds balance sheet: \$1,616,535 in its general fund, \$519,473 in federal & private resources, \$166,626 in general capital improvements, and \$174,815 in nonmajor governmental funds, for total governmental fund assets of \$2,477,449 as of September 30, 2002. The District reported the following liabilities in its governmental funds balance sheet: \$751,207 in its general fund, \$283,674 in federal & private resources, \$556,156 in general capital improvements, and \$19,942 in nonmajor governmental funds, for total governmental fund liabilities of \$1,610,979. Please see Exhibit 2-a, *Balance Sheet – Governmental Funds*, page 36, for more detailed information.

The District reported the following revenue amounts in its governmental funds: \$3,666,604 in its general fund, \$1,978,440 in federal & private resources, \$214,767 in general capital improvements, and \$60,180 in nonmajor governmental funds, for a total of \$5,919,991 for the year ended September 30, 2002. The District reported the following expenditure amounts in its governmental funds: \$3,668,559 in its general fund, \$1,783,501 in federal & private resources, \$814,129 in general capital improvements, and \$183,436 in nonmajor governmental funds, for a total of \$6,449,625 in governmental fund expenditures for the year ended September 30, 2002. This resulted in a combined deficiency of total revenues over total expenditures of (\$529,634). Please see Exhibit 2-b, *Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds*, page 37, for more detailed information.

Federal and private resources had an excess of revenues over expenditures of \$194,939. This was primarily the result of the federal government appropriating \$155,900 for the District for various purposes related to emergency preparedness as a result of the September 11 attacks and the continuing threat of terrorist attacks in the District. While this appropriation was recorded as revenues in fiscal year 2002, most of the related expenditures will be incurred in fiscal year 2003. The majority of the revenues from federal and private resources are from federal contributions of \$490,616 and operating grants of \$1,399,928. The largest expenditure, \$1,168,574, paid for out of federal and private resources was for human support services.

General capital improvements expenditures of \$814,129 exceeded the general capital improvements revenues of \$214,767 by (\$599,362), which created the deficiency shown. Basically, what this means is that the District is investing more in capital improvements than associated revenues were available. The District is rapidly investing in infrastructure and other improvements to encourage residents to stay in the District and for new residents to move into the District. Please see Exhibit 2-b, *Statement of Revenues, Expenditures and Changes in Fund Balances*, page 37, for more detailed information.

The net change in the general capital improvements fund for fiscal year 2002 was a reduction of (\$346,309) once other financing sources of \$253,053 was added to the (\$599,362) deficit mentioned above. It is the District's financial policy to issue general obligation bonds to support the expenditures associated with its Capital Improvements Program. In order to minimize the cost of carrying debt, the District has instituted the practice of issuing bonds based on actual expenditures as opposed to the amount budgeted on an annual basis. Therefore, the District authorizes agencies to spend their annual appropriated budget in advance of financing. The general fund advances the amount of the funding, which is then repaid with the proceeds of the bonds when the debt is issued. This allows the District to control when it will enter the market to issue bonds based upon cash flow needs, favorable market rates and the number of municipal deals and the types of credits that are in the market, thus minimizing its borrowing cost and maximizing the number of potential investors of the District's bonds.

Historically, the District issues its debt in the last quarter of the fiscal year. In fiscal year 2002, the District initiated its capital borrowing in August for an amount of \$367 million and it also included a refunding of outstanding bonds. This issuance was to cover the capital expenditures that were incurred in fiscal year 2002. However, the bond sale was not completed until October of fiscal year 2003, and consequently, the general fund was not reimbursed until after the close of fiscal year 2002, resulting in the general capital improvements fund deficit in fiscal year 2002.

Proprietary Funds

Proprietary funds use *accrual accounting* for reporting purposes. Enterprise funds provide supplies and services to the general public. The District shows Lottery and Games (Lottery) and Unemployment Compensation (Unemployment) in this classification. The Proprietary Funds are discussed in more detail on page 18. The following two charts, Chart 3, *Expense and Program Revenues – Business-Type Activities* and Chart 4, *Revenues by Source – Business-Type Activities*, give a visual presentation of the comparisons between Lottery and Unemployment and the elements displayed in these two charts.

The relative comparisons in Charts 3 and 4 are based upon information from Exhibit 3-a, *Statement of Net Assets – Proprietary Funds*, page 40, and Exhibit 3-b, *Statement of Revenues, Expenses and Changes in Fund Net Assets – Proprietary Funds*, page 41. Please refer to these exhibits and the discussion on page 18 of the MD&A for more detailed financial information on proprietary funds.

Chart 3 – Expenses and Program Revenues – Business-type Activities

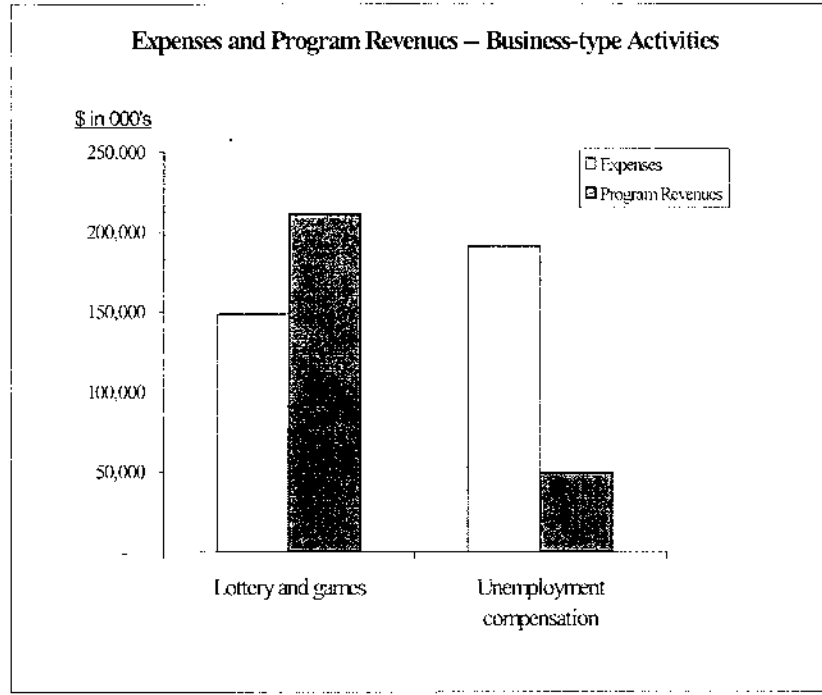
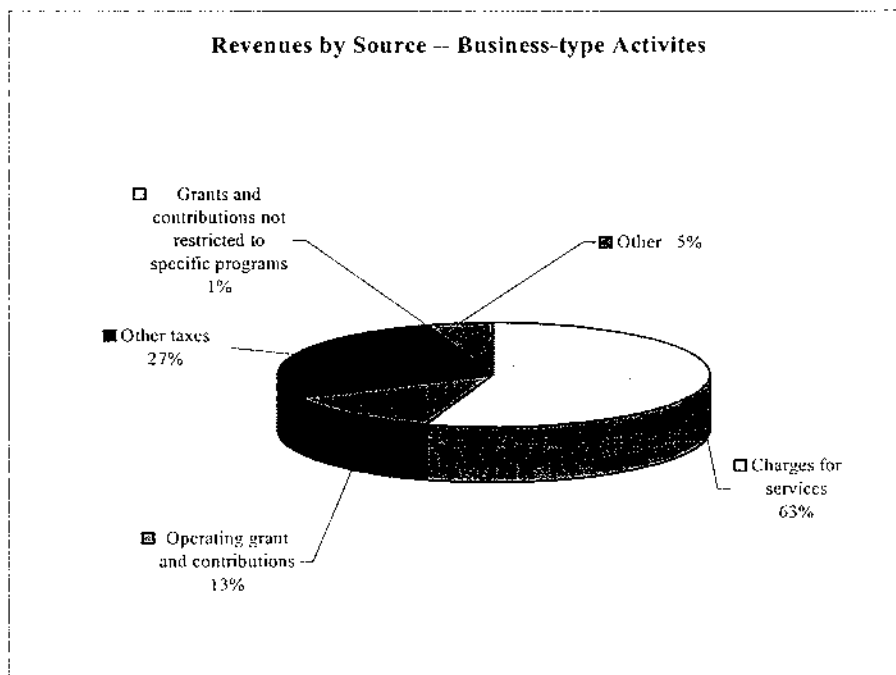


Chart 4 – Revenues by Source – Business-type Activities



Fiduciary Funds

The District is the *trustee* or *fiduciary* for its employees' pension plans. The *Trust and Agency Funds* are used to account for assets held by the District as trustee for individuals, private organizations, or other governments. All fiduciary activities are reported in the Exhibit 4-a, *Statement of Fiduciary Net Assets* and Exhibit 4-b, *Statement of Changes in Fiduciary Net Assets* on pages 43 and 44, respectively. These activities are excluded from the District's other financial statements because these resources are restricted and are therefore not available for financing other operations. Fiduciary funds use *accrual accounting*.

The District's fiduciary funds show total assets of \$1,959,996 for its pension trust funds, and agency funds of \$114,253 as of September 30, 2002. The fiduciary funds show total liabilities of \$143,053 and \$114,253 respectively for pension trust funds and agency funds. Agency funds show a zero net asset balance because these are funds that are being held by the District for the benefit of outside parties and consequently are not available to support District operations. The net assets restricted for pension benefits are \$1,816,943.

General Fund Budget

The originally formulated general fund budget estimated total revenues and other sources of \$3,785,835 and total expenditures and other uses of \$3,875,477, resulted in a projected budgetary deficit of (\$89,642). This deficit was the result of the District advancing \$107,497 in fiscal year 2003 funds to the D.C. Public School System (DCPS). These monies were advanced to DCPS in order to purchase goods and services during the summer of 2002, prior to the start of fiscal year 2003 and the new school year. The District obtained approval for the advance from the U.S. Congress. Without the DCPS advance, the general fund fiscal year 2002 budget would have had a surplus of \$17,855. Please refer to Table 4, *Fiscal Year 2002 – General Fund Budgetary Highlights* on page 28 for more details.

The District's budget is always subject to revision and/or veto by the U.S. Congress and the President. As the budget moves through the federal budgetary process, the budget is subject to additions, deletions and changes in both the amounts and the purposes included in the budget. In addition, as the District's CFO prepares new revenue estimates, the District must revise the budget submission to conform to the new estimates, and also to make sure that the budget is balanced, as required by U.S. and District Law.

Fiscal year 2002 was no different, and the total general fund budgeted revenues and other sources were revised to \$3,688,421, a reduction of (\$97,414). The major reason for this was that other taxes were decreased by (\$87,197). This decrease was the result of sales and use taxes that were reduced by (\$74,603) and income and franchise taxes that were decreased by (\$51,276), which were partially offset by increases in other taxes of \$38,682. Please refer to the discussion on General Fund Taxes and Revenues following Table 4. Total general fund budgeted expenditures were also revised to \$3,693,797, a reduction of (\$181,680), which was caused primarily by the shifting of undesignated budget reserves to specific expenditure uses. These revisions resulted in a budgetary deficit of (\$5,376), which was technically a deficit, but essentially a balanced budget. This was acceptable because the U.S. Congress had approved and allowed the District to advance fiscal year 2003 funds to the D.C. Public schools in fiscal year 2002.

The actual results for fiscal year 2002 for the general fund are total revenues of \$3,676,978, and was (\$11,443) less than what was projected. Total actual expenditures and other uses was \$3,629,431, and was (\$64,366) less than what the District had budgeted for. In this case, less is actually more on a budgetary basis, and the overall result was that the District actually ended up with a general fund budgetary excess, or surplus, of \$47,547, which turned out to be \$52,923 more than what was projected in the revised general fund budget.

It must be mentioned that the financial statements in this CAFR look at the District in various ways so that the reader can get a much better view of how each major part of the District functions. In addition, the CAFR gives new presentations of the entire District as a single organization, which is really what most citizens, think of when they hear the term "District of Columbia Government." Most readers do not care whether we talk about general government and funds, proprietary activities and funds, or fiduciary activities and funds. To the public, we are the District Government. These new statements and the MD&A is an important step in presenting the District as a single entity, as opposed to a collection of individual entities, or organizations.

Table 4 - Fiscal Year 2002 General Fund Budgetary Highlights

	Budget			Actual	Variance
	Original	Revisions	Revised		Over(under)
Revenues and Other Sources:					
Property taxes	\$ 746,031	35,361	781,392	803,389	21,997
Other taxes	2,497,524	(87,197)	2,410,327	2,344,193	(66,134)
Charges for services	225,334	3,677	229,011	272,759	43,748
Grants and contribution	209,545	(49,255)	160,290	156,236	(4,054)
All other sources	107,401	-	107,401	100,401	(7,000)
Total revenues and other sources	<u>3,785,835</u>	<u>(97,414)</u>	<u>3,688,421</u>	<u>3,676,978</u>	<u>(11,443)</u>
Expenditures and Other Uses:					
Governmental direction and support	278,407	(16,284)	262,123	265,939	3,816
Economic development and regulation	141,526	(2,761)	138,765	116,791	(21,974)
Public safety and justice	632,241	13,685	645,926	636,160	(9,766)
Public education system	905,461	4,659	910,120	901,009	(9,111)
FY03 public school expenditure	107,497	(75,558)	31,939	31,939	-
Human support services	732,130	31,015	763,145	755,081	(8,064)
Public works	298,505	11,028	309,533	305,361	(4,172)
Receiverships	251,200	47,795	298,995	331,100	32,105
Other	528,510	(195,259)	333,251	286,051	(47,200)
Total expenditures and other uses	<u>3,875,477</u>	<u>(181,680)</u>	<u>3,693,797</u>	<u>3,629,431</u>	<u>(64,366)</u>
Excess – budgetary basis	<u>\$ (89,642)</u>	<u>84,266</u>	<u>(5,376)</u>	<u>47,547</u>	<u>52,923</u>

Total taxes collected in FY 2002 were (\$44,137) less than expected in the District's revised FY 2002 budget. This difference is accounted for primarily by positive variances (taxes we received that were more than what we had budgeted for) of \$105,240, while we experienced negative variances (taxes we received that were less than what we had budgeted for) of (\$149,377). Please see Exhibit 2-d, page 39, *Budget Comparison Statement*.

The positive variances were made up primarily by the following increases in tax category amounts: Property Taxes of \$21,997; Sales and Use taxes of \$4,933; and other taxes, which increased by \$78,310 more than the District budgeted for.

Real property revenue increased due to an increase in property assessments on existing properties and also on new construction. The inheritance and estate taxes increased significantly due primarily to a large tax payment from one estate, and on increased collections from estates remitting more than \$1,000. Deed recordation fees were increased due to lower mortgage interest rates, which prompted an increase in the refinancing of mortgage loans.

The negative variances are primarily from several tax category amounts. Income and franchise taxes were (\$149,377) less than the District's revised budget had amount. Individual and corporate income tax collections were down as a result of a weaker economy resulting from the after-effects of September 11th. This has resulted in overall job employment and local economic weaknesses throughout the last fiscal year, and a significant reduction in the amount of earnings received by individuals from their stock market transactions and employment bonuses.

The majority of the Districts funds come from the collection of taxes, along with other local sources, such as licenses and permits, fines and forfeitures and charges for services. The two other main sources of revenues are federal and private resources, which include both contributions and operating grants. In fiscal year 2002, the District originally budgeted for \$17,000 in federal contributions, revised its budgeted amount to \$240,430 and received that amount. The majority of this increased federal contribution was from federal payments of \$155,900 for various purposes related to emergency preparedness. Because of the importance of the U.S. Government, and Washington, D.C. as potential terrorist targets, and as a result of the events of September 11th, the District received these additional funds to increase public safety readiness of its police, fire, emergency medical service and emergency management.

Capital Assets

As of September 30, 2002 the District had \$3,902,312 invested in total capital assets, \$3,900,817 from governmental activities and \$1,495 from business-type activities. These capital assets include, but are not limited to, land, buildings, police and fire equipment, park facilities, roads and bridges. The governmental activities depreciation charges for the current fiscal year totaled \$155,288. The general capital improvements fund is used to account for the purchase or construction of capital assets financed by transfers, capital grants or debt. Please see Table 5, *Net Capital Assets*, on this page for more details.

The District installed, and began using, a Fixed Asset Module (FAS) to its financial management system for fiscal year 2002. FAS is intended to allow for more accurate and consistent information on the District's capital assets, by requiring agencies that purchase such assets to update the system with type of asset (e.g., land, buildings, equipment, vehicles, etc.) acquisition date, acquisition and/or construction cost, useful life, location, etc.

Table 5 – Net Capital Assets As of September 30, 2002

	Governmental activities	Business- type activities	Total
Land	\$ 219,076	\$ -	\$ 219,076
Buildings	1,300,191	-	1,300,191
Infrastructure	1,172,384	-	1,172,384
Equipment	202,734	1,495	204,229
Construction in progress	1,006,432	-	1,006,432
Total net capital assets	\$ 3,900,817	\$ 1,495	\$ 3,902,312

Outstanding Bonds and Notes

At September 30, 2002 the District had a total of \$3,314,980 in general obligation bonds, TIF Notes and Bonds, Qualified Zone Academy Bonds (QZAB), and Tobacco Bonds outstanding. Please refer to Table 6, *Outstanding Debt*, below. This is an increase of \$205,957 over last year's figure of \$3,110,023. This is the result of the District issuing new general obligation, TIF and QZAB bonds, offset by payments against matured debt and debt that was defeased, or refinanced, during the year. The District had \$7,820 of general obligation debt per capita (D.C. resident) as of September 30, 2002, an increase of \$3,138 from the amount on September 30, 2001 of \$4,682 per resident. Please refer to Exhibit S-12, *Percent of General Obligation Debt to Assessed Value and General Obligation Debt Per Capita* on page 118.

Table 6 – Outstanding Bonds and Notes at September 30, 2002

	Governmental activities
General Obligation Bonds	\$ 2,670,573
TIF Bonds and Notes	126,545
Qualified Zone Academy Bonds	3,582
Tobacco Bonds	514,280
Total	\$ 3,314,980

Currently Known Facts, Decisions or Conditions**Proposed Fiscal Year 2003 Budget**

The District submitted its original fiscal year 2003 budget to the President on June 4, 2002. Please refer to Table 7, *Proposed Fiscal Year 2003 Budget – Revenues and Expenditures by Function*, below. Based upon a revised revenue estimate that was done in September 2002, the Mayor, the CFO and the Council made changes in the budget to reflect the revenue estimate which was \$322,700 less than the estimate used for the original budget submission to the U.S. Congress four months earlier. The revised fiscal year 2003 budget requests a total of \$5,562,308 for District general fund operations. This is made up of \$3,638,411 from local funds, \$1,712,498 from federal funds, and \$211,399 from private and other funds. After including the enterprise and other funds total of \$873,313 to the private and other funds total above, the grand total for the entire District is \$6,435,621.

It is extremely important to note that this budget has not yet been approved and signed into law, and as such, is still subject to revision. In addition, throughout the current fiscal year, both the District, and the federal government, may seek, and obtain, modifications to the fiscal year 2003 budget. As a result, the budget that we propose is not the same budget that is enacted, and that approved budget at the beginning of the fiscal year is not always the same budget that we will complete the fiscal year under. Two examples of this are the following situations where the District was given additional money by the federal government during fiscal year 2002: (1) an advance to the D.C. Public Schools, and: (2) funds for emergency preparedness.

The U.S. House of Representatives (House) and the U.S. Senate (Senate) must first approve the District's budget before it is sent to the President for his approval and signature. The District is required to submit a balanced budget that is based upon current revenue estimates that must be periodically updated by the District's Chief Financial Officer (CFO). After the District's budget is submitted, it is reviewed and voted upon by both the House and Senate's Budget Committees, in addition to their respective Appropriations Committees. This year, the District's budget was not approved and signed into law before the start of the 2003 fiscal year, and the District is therefore required to spend at last year's approved levels until the budget is finally approved and signed into law.

Table 7 – Proposed Fiscal Year 2003 Budget - Revenues and Expenditures by Function

Government Function	Local	Federal	Private & Other	Total
Governmental Direction and Support	\$ 207,971	36,554	18,348	\$ 262,873
Economic Development and Regulation	56,872	97,796	89,690	244,358
Public Safety and Justice	602,678	11,329	8,524	622,531
Public Education System	939,174	188,470	31,525	1,159,169
Human Support Services	1,052,151	1,373,680	52,987	2,478,818
Public Works	304,363	4,669	10,325	319,357
Financing and Other	475,202	-	-	475,202
Total General Fund - Operating	3,638,411	1,712,498	211,399	5,562,308
Enterprise and Other Funds	-	-	873,313	873,313
Grand Total, District Government	\$ 3,638,411	1,712,498	1,084,712	\$ 6,435,621

Possible Change in U.S. Congressional Oversight Of the District

On Friday, January 10, 2003, U.S. Representative Thomas M. Davis announced that he intends to abolish the House Government Reform subcommittee on the District of Columbia, and to assume oversight of the District as the incoming chairman of the full Government Reform Committee, which also oversees U.S. civil servants, federal contractors, governmental investigations, and the U.S. Postal Service. If this abolishment of the District subcommittee actually takes place, it could result in increased autonomy for the District over its budget and spending decisions.

Fiscal Year 2003 Debt Issuances

On October 15, 2002, the District issued General Obligation Bonds in the aggregate amount of \$374,200, with two maturity dates, June 1, 2019 and June 1, 2027. The proceeds of these bonds are being used to fund a portion of the District's fiscal year 2002 Capital Improvement program. On October 31, 2002, the District issued General Obligation Refunding bonds in the aggregate amount of \$163,170, with two maturity dates, June 1, 2014 and June 1, 2031. The proceeds of these bonds were used to repay a portion of the District's outstanding general obligation bonds at a savings to the District. On October 30, 2002, the District issued General Obligation Tax Revenue Anticipation Notes in the aggregate amount of \$150,000. The proceeds of these notes are being used to fund the District's seasonal cash flow needs. These notes were issued as fixed-rate notes, and mature on September 30, 2003.

January 1, 2003 Tax Increases

On January 1, 2003, various District taxes increased as a result of actions taken by the D.C. Mayor, Chief Financial Officer and D.C. Council in September 2002 to close a projected \$322,700 budget deficit for fiscal year 2003. Cigarette taxes rose from 65 cents per pack to \$1. The recordation tax rose from 1.1% of the purchase value for properties in the District to 1.5% of the purchased value. Wholesale liquor taxes are now 9% instead of the previous 8%. Public utility taxes on items such as gas and electricity are now 11% instead of 10%. These tax increases are projected to raise about \$78,000 in fiscal year 2003.

New U.S. Department of Homeland Security Headquarters

The decision to locate the permanent Homeland Security headquarters, in the Washington Metropolitan Area, has been made, but it has not yet been determined which jurisdiction it will be located in. This is one example of the influence of national and international events that will have a direct impact on the District economy, in addition to the economies of the surrounding jurisdictions. Regardless of where the permanent Homeland Security headquarters is located, it will affect retail sales, employment, traffic patterns, and school populations, both public and private, among others, within the District. On January 22, 2003, Homeland Security Secretary Tom Ridge announced that agency headquarters would be located in the District for the foreseeable future. District officials, and congressional staff members, have estimated that locating the Homeland Security Headquarters in Washington, D.C. would provide about \$171 million in economic benefits to the District over the next five years.

Thirteen-Week Extension Of Unemployment Compensation Benefits

The Job Creation and Worker Assistance Act of 2002 (Act), referred to as the Temporary Extended Unemployment Compensation (TEUC) provides up to 13 additional weeks of benefits for eligible, unemployment claimants who exhaust their regular Unemployment Insurance benefits. The TEUC benefits are entirely federally funded and employers are not charged for claims paid out under the extension. The TEUC program that ended December 28, 2002 has been extended. This extension means that unemployed workers that exhausted regular benefits and could not file TEUC claims on, or after, December 28, 2002 may now file claims. The District's unemployment rate for October 2002 was 6.0% and some District residents will be eligible to file TEUC claims.

Bankruptcy of Greater Southeast Community Hospital

In late October 2002, the bonds of National Century Financial Enterprises (National) subsidiaries were downgraded by debt rating services because they were not sufficiently backed by required cash reserves. National is a major health-care industry financier that buys the accounts receivables of various hospitals. National then bundles these receivables into groups, which it then issues bonds to the general financial community. One of the hospitals that were dependent upon National was the Greater Southeast Community Hospital (Greater Southeast), the prime contractor for the District's indigent health care system.

On November 18, 2002, National filed for bankruptcy, creating a great deal of public concern about the viability of Greater Southeast to remain in operation, and to effectively provide quality health care services to its patients. Two days later, the Greater Southeast's parent corporation, Doctors Community HealthCare Corporation and Greater Southeast also filed for bankruptcy. As a result of the financial crises, Greater Southeast had to lay off some of its administrative and health care staff.

The District, the U.S. Center for Medicare and Medicaid services, and the U.S. Bankruptcy Court (Court) have made recent decisions that have temporarily allowed Greater Southeast to continue operations by releasing funds, or expediting payments, to Greater Southeast to pay essential employees, contractors and vendors, at least through late January 2003. The Court will then have another hearing on Greater Southeast's bankruptcy situation. The resulting decisions, and the subsequent outcome, will have a tremendous impact on the near-term future and effectiveness of the District's indigent health care system and its cost over the next few years, and will also impact other private acute care hospitals located in the District.

It is not yet known how the financial situation of Greater Southeast will be resolved, but, because of the uncertainty, the District is currently reevaluating its overall strategy to provide medical and health care services to the indigent. It is possible that, if Greater Southeast were forced to close, the District might have to consider either reopening D.C. General Hospital (D.C. General) or to contracting all medical and health care for its covered indigent citizens to the District's remaining private acute care hospitals. Due to the volume of patients that were treated at the former D.C. General in its emergency room, acute care and outpatient facilities, this would have a significant impact on the cost and availability of health care for all patients in the District, and could cost the District considerably more than it has budgeted for indigent health care.

Contacting the District's Office of the Chief Financial Officer

This CAFR is designed to provide the District's citizens, taxpayers, customers, vendors, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. For additional information on the District's component units, the D.C. Water & Sewer Authority, the Washington Convention Center Authority, the Sports & Entertainment Commission, the Housing Finance Agency and the University of the District of Columbia, please refer to page 51 of the notes to the basic financial statements that has contact information for those organizations. If you have any questions about this report, the District's Fiscal year 2002 CAFR, suggestions for improvement, or need additional financial information, please contact:

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

BASIC FINANCIAL STATEMENTS

The basic financial statements include two kinds of financial statements that present different views of the District: *Government-Wide Financial Statements* and *Fund Financial Statements*.

These financial statements also include the Notes to the Basic Financial Statements that explain some of the information in the financial statements and provide more detail.

Exhibit 1-a

District Of Columbia
Statement of Net Assets
September 30, 2002
(\$000s)

	Primary Government			Component Units
	Governmental Activities	Business-Type Activities	Total	
ASSETS				
Cash and cash equivalents (unrestricted)	\$ 55,433	\$ 8,309	\$ 63,742	\$ 178,112
Investments (unrestricted)	531,141	8,631	539,772	28,099
Accrued interest receivable	722	-	722	-
Due from federal government	427,436	3,910	431,346	38,312
Taxes receivable, net	234,244	-	234,244	-
Accounts receivable, net	177,466	21,510	198,976	59,257
Other receivables	65,461	-	65,461	29,652
Due from primary government	-	-	-	28,107
Due from component units	11,895	-	11,895	-
Due from fiduciary funds	620	-	620	-
Internal balances	27,323	(27,323)	-	-
Inventories	12,154	683	12,837	7,758
Other current assets	23,612	5	23,617	647
Cash and cash equivalents (restricted)	598,431	298,855	897,286	50,696
Investments (restricted)	-	70,158	70,158	926,377
Notes and loans receivable, net	-	-	-	342,350
Deferred charges	-	-	-	49,664
Capital assets, net	3,900,817	1,495	3,902,312	2,158,759
Other noncurrent assets	-	-	-	15,053
Total assets	<u>6,066,755</u>	<u>386,233</u>	<u>6,452,988</u>	<u>3,912,843</u>
LIABILITIES				
Accounts payable	661,685	23,471	685,156	114,181
Compensation payable	145,499	726	146,225	11,087
Due to primary government	-	-	-	11,895
Due to component units	28,107	-	28,107	-
Deferred revenue	189,461	131	189,592	51,046
Accrued liabilities	198,041	7,792	205,833	79,396
Accrued interest payable	45,316	-	45,316	-
Other current liabilities	30,940	9,109	40,049	33,232
Noncurrent liabilities:				
Due within one year	267,558	-	267,558	126,233
Due in more than one year	3,635,149	70,158	3,705,307	2,248,604
Total liabilities	<u>5,201,756</u>	<u>111,387</u>	<u>5,313,143</u>	<u>2,675,674</u>
NET ASSETS				
Invested in capital assets, net of related debt	656,901	1,495	658,396	724,395
Restricted - expendable	834,006	271,361	1,105,367	286,990
Restricted - non-expendable	-	-	-	9,432
Unrestricted	(625,908)	1,990	(623,918)	216,352
Total net assets	<u>\$ 864,999</u>	<u>\$ 274,846</u>	<u>\$ 1,139,845</u>	<u>\$ 1,237,169</u>

The accompanying notes are an integral part of this statement.

District Of Columbia
Statement of Activities
For the Year Ended September 30, 2002
(\$000s)

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			Component Units
		Charges for Services, Fees Fines & Forfeitures	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Primary Government Business-type Activities	Totals	
Primary government:								
Governmental direction and support	\$ 451,863	\$ 14,890	\$ 109,435	\$ -	\$ (327,538)	\$ -	\$ (327,538)	
Economic development and regulation	323,804	60,636	135,973	-	(127,193)		(127,193)	
Public safety and justice	920,599	40,595	271,639	-	(608,365)		(608,365)	
Public education system	1,153,719	794	207,814	-	(945,111)		(945,111)	
Human support service	2,267,597	39,688	1,140,396	7,140	(1,080,373)		(1,080,373)	
Public works	279,506	129,441	35,287	154,310	29,532		29,532	
Public transportation	184,883	-	-	-	(184,883)		(184,883)	
Interest on long-term debt	175,241	-	-	-	(175,241)		(175,241)	
Fiscal charges	19,746	-	-	-	(19,746)		(19,746)	
Total governmental activities	5,776,958	286,044	1,890,544	161,450	(3,438,920)		(3,438,920)	
Business-type activities:								
Lottery and games	148,670	211,151	-	-	62,481		62,481	
Unemployment compensation	191,043	-	49,308	-	(141,735)		(141,735)	
Total business-type activities	339,713	211,151	49,308	-	(79,254)		(79,254)	
Total primary government	\$ 6,116,671	\$ 497,195	\$ 1,939,852	\$ 161,450	(3,438,920)		(3,518,174)	
Component units:								
Water and sewer	\$ 240,652	\$ 248,729	\$ -	\$ 18,848	-		26,925	
Convention center	26,662	9,071	-	-	-		(17,591)	
Sports commission	11,646	9,678	-	-	-		(1,968)	
Housing finance	73,285	46,099	19,301	-	-		(7,885)	
University	83,722	16,945	20,832	2,953	-		(42,992)	
Total component units	\$ 435,967	\$ 330,522	\$ 40,133	\$ 21,801			(43,511)	
General revenues:								
Taxes:								
Property taxes					809,069		809,069	
Sales and use taxes					750,060		750,060	
Income and franchise taxes					1,160,423		1,160,423	
Gross receipts taxes					231,786		231,786	
Other taxes					283,146	104,945	388,091	
Investment earnings					19,283	18,978	38,261	19,899
Miscellaneous					333,943	-	333,943	13,774
Subsidy from primary government					(171,094)	-	(171,094)	99,942
Special item -- loss on disposal					63,000	(63,000)	-	-
Transfers					3,479,616	60,923	3,540,539	133,615
Total general revenues and special items					40,696	(18,331)	22,365	90,104
Change in net assets					824,303	293,177	1,117,480	1,147,065
Net assets at October 1					864,999	274,846	1,139,845	1,277,169
Net assets at September 30					\$ -	\$ -	\$ -	\$ -

The accompanying notes are an integral part of this statement.

Exhibit 2-a

District Of Columbia
Balance Sheet
Governmental Funds
September 30, 2002
(\$000s)

	General	Federal & Private Resources	General Capital Improvements	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents (unrestricted)	\$ 47,936	\$ 7,293	\$ -	\$ 204	\$ 55,433
Investments (unrestricted)	439,996	1,404	8,381	81,360	531,141
Accrued interest receivable, net	693	-	-	29	722
Due from federal government	4,248	365,450	57,738	-	427,436
Taxes receivable, net	234,242	-	-	-	234,242
Accounts receivable, net	116,051	117,298	6,375	3,203	242,927
Due from component units	177	-	-	11,718	11,895
Due from other funds	292,258	25,765	9,990	11,443	339,456
Inventories	9,891	2,263	-	-	12,154
Other current assets	23,612	-	-	-	23,612
Cash and cash equivalents (restricted)	447,431	-	84,142	66,858	598,431
Total assets	\$ 1,616,535	\$ 519,473	\$ 166,626	\$ 174,815	\$ 2,477,449
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	308,845	120,381	232,367	92	661,685
Compensation payable	132,371	11,662	1,466	-	145,499
Due to other funds	11,443	-	280,330	19,740	311,513
Due to component units	28,107	-	-	-	28,107
Deferred revenue	110,535	83,033	36,686	-	230,254
Accrued liabilities	134,273	68,598	-	110	202,981
Other liabilities	25,633	-	5,307	-	30,940
Total liabilities	751,207	283,674	556,156	19,942	1,610,979
Fund balances:					
Reserved for:					
General fund	545,414	-	-	-	545,414
Special revenue funds	-	235,799	-	57,137	292,936
Capital project expenditures	-	-	82,775	65,985	148,760
Unreserved, reported in:					
General fund	319,914	-	-	-	319,914
Special revenue funds	-	-	-	31,751	31,751
Capital projects funds	-	-	(472,305)	-	(472,305)
Total fund balances	865,328	235,799	(389,530)	154,873	866,470
Total liabilities and fund balances	\$ 1,616,535	\$ 519,473	\$ 166,626	\$ 174,815	

Amounts reported for governmental activities in the statement of net assets (Exhibit 1a) are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	3,900,817
Adjustments for deferred revenues and other accrued liabilities	(4,581)
Long-term liabilities, including bonds and notes payable, compensated absences, claims and judgments, are not due and payable in the current period and therefore are not reported in the funds.	(3,897,707)
Net assets of governmental activities	<u>\$ 864,999</u>

The accompanying notes are an integral part of this statement.

District Of Columbia
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended September 30, 2002
(S000s)

	General	Federal & Private Resources	General Capital Improvements	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES					
Taxes:					
Property taxes	\$ 804,394	\$ -	\$ -	\$ -	\$ 804,394
Sales and use taxes	750,060	-	-	-	750,060
Income and franchise taxes	1,160,423	-	-	-	1,160,423
Gross receipts taxes	231,786	-	-	-	231,786
Other taxes	283,146	-	-	-	283,146
Fines and forfeits	88,495	-	-	-	88,495
Licenses and permits	52,003	-	-	-	52,003
Charges for services	106,242	39,304	-	-	145,546
Investment earnings	10,550	-	3,204	5,529	19,283
Miscellaneous	179,505	48,592	50,113	54,651	332,861
Federal contributions	-	490,616	161,450	-	652,066
Operating grants	-	1,399,928	-	-	1,399,928
Total revenues	3,666,604	1,978,440	214,767	60,180	5,919,991
EXPENDITURES					
Current:					
Governmental direction and support	339,819	26,804	-	358	366,981
Economic development and regulation	115,695	108,065	-	-	223,760
Public safety and justice	634,867	264,249	-	-	899,116
Public education system	929,988	213,293	-	-	1,143,281
Human support service	1,080,729	1,168,574	-	-	2,249,303
Public works	146,786	2,516	-	-	149,302
Public transportation	148,493	-	36,390	-	184,883
Debt Service:					
Principal	131,750	-	-	6,825	138,575
Interest and other charges	140,432	-	-	48,574	189,006
Capital outlay	-	-	777,739	127,679	905,418
Total expenditures	3,668,559	1,783,501	814,129	183,436	6,449,625
Excess (deficiency) of revenues over expenditures	(1,955)	194,939	(599,362)	(123,256)	(529,634)
OTHER FINANCING SOURCES (USES)					
Proceeds from sale of bonds	72,525	-	216,010	119,645	408,180
Payment to refunded bond escrow agent	(69,487)	-	-	-	(69,487)
Capital lease proceeds	-	-	51,944	-	51,944
Transfers in	63,000	-	-	-	63,000
Internal transfer in (out)	(36,628)	13,181	(14,901)	38,348	-
Total other financing sources (uses)	29,410	13,181	253,053	157,993	453,637
Net change in fund balances	27,455	208,120	(346,309)	34,737	(75,997)
Fund balances at October 1, as restated	837,873	27,679	(43,221)	120,136	942,467
Fund balances at September 30	\$ 865,328	\$ 235,799	\$ (389,530)	\$ 154,873	\$ 866,470

The accompanying notes are an integral part of this statement.

Exhibit 2-c

District of Columbia
 Reconciliation of the Statement of Revenues, Expenditures
 and Changes in Fund Balances of Government Funds
 to the Statement of Activities
 For the Year Ended September 30, 2002
 (\$000s)

Net change in fund balances - total governmental funds	\$	(75,997)
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.		
This is the amount by which capital outlays exceeded depreciation in the current period.		343,061
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
		5,757
Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount by which proceeds exceeded repayments.		
		(206,096)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
		(26,029)
Change in net assets of governmental activities	\$	40,696

The accompanying notes are an integral part of this statement.

District Of Columbia
 Budgetary Comparison Statement
 Year Ended September 30, 2002
 (\$000s)

	General Fund						Federal and Private Resources						Total						
	Budget		Actual	Variance -			Budget		Actual	Variance -			Budget		Actual	Variance -			
	Original	Revised		(Unfavorable)	Favorable		Original	Revised		(Unfavorable)	Favorable		Original	Revised		(Unfavorable)	Favorable		
Revenues and Other Sources:																			
Taxes:																			
Property taxes	\$ 746,031	\$ 781,392	\$ 803,389	\$ 21,997	-	-	-	-	746,031	781,392	803,389	21,997	-	-	-	746,031	781,392	803,389	21,997
Sales and use taxes	738,307	663,904	668,837	4,933	-	-	-	738,307	663,904	668,837	4,933	-	-	-	738,307	663,904	668,837	4,933	
Income and franchise taxes	1,361,077	1,309,801	1,160,424	(149,377)	-	-	-	1,361,077	1,309,801	1,160,424	(149,377)	-	-	-	1,361,077	1,309,801	1,160,424	(149,377)	
Other taxes	397,940	436,622	514,932	78,310	-	-	-	397,940	436,622	514,932	78,310	-	-	-	397,940	436,622	514,932	78,310	
Total taxes	3,243,555	3,191,719	3,147,582	(44,137)	-	-	-	3,243,555	3,191,719	3,147,582	(44,137)	-	-	-	3,243,555	3,191,719	3,147,582	(44,137)	
Licenses and permits	43,336	47,907	50,195	2,288	-	-	-	43,336	47,907	50,195	2,288	-	-	-	43,336	47,907	50,195	2,288	
Fines and forfeits	60,040	78,835	86,539	7,704	-	-	-	60,040	78,835	86,539	7,704	-	-	-	60,040	78,835	86,539	7,704	
Charges for services	49,928	31,919	55,472	17,553	-	-	-	49,928	31,919	55,472	17,553	-	-	-	49,928	31,919	55,472	17,553	
Miscellaneous	72,030	64,530	80,553	16,023	-	-	-	72,030	64,530	80,553	16,023	-	-	-	72,030	64,530	80,553	16,023	
Other sources	209,545	160,290	156,216	(4,054)	-	-	-	209,545	160,290	156,216	(4,054)	-	-	-	209,545	160,290	156,216	(4,054)	
Federal contributions	-	-	-	-	17,000	-	-	17,000	240,430	240,430	240,430	-	-	-	17,000	240,430	240,430	-	
Operating grants	37,401	37,401	37,401	-	-	-	-	37,401	37,401	37,401	-	-	-	-	37,401	37,401	37,401	-	
Fund balance released from restrictions	70,000	70,000	63,000	(7,000)	-	-	-	70,000	70,000	63,000	(7,000)	-	-	-	70,000	70,000	63,000	(7,000)	
Interfund transfer	3,785,835	3,688,421	3,676,978	(11,443)	-	-	-	3,785,835	3,688,421	3,676,978	(11,443)	-	-	-	3,785,835	3,688,421	3,676,978	(11,443)	
Total revenues and other sources	7,850,310	7,850,310	7,850,310	-	1,593,768	-	-	7,850,310	7,850,310	7,850,310	-	1,593,768	-	-	7,850,310	7,850,310	7,850,310	-	
Expenditures and Other Uses:																			
Governmental direction and support	278,407	262,123	265,939	(3,816)	38,850	-	-	278,407	262,123	265,939	(3,816)	38,850	-	-	278,407	262,123	265,939	(3,816)	
Economic development and regulation	141,526	135,765	116,791	(18,974)	96,786	-	-	141,526	135,765	116,791	(18,974)	96,786	-	-	141,526	135,765	116,791	(18,974)	
Public safety and justice	632,241	645,926	616,160	(29,766)	8,338	-	-	632,241	645,926	616,160	(29,766)	8,338	-	-	632,241	645,926	616,160	(29,766)	
Public education system	905,461	910,120	901,009	(9,111)	179,842	-	-	905,461	910,120	901,009	(9,111)	179,842	-	-	905,461	910,120	901,009	(9,111)	
FY03 public school expenditure	107,497	31,939	31,939	-	-	-	-	107,497	31,939	31,939	-	-	-	-	107,497	31,939	31,939	-	
Human support services	232,130	763,145	755,081	(8,064)	1,078,701	-	-	232,130	763,145	755,081	(8,064)	1,078,701	-	-	232,130	763,145	755,081	(8,064)	
Public works	298,505	309,533	303,361	(6,172)	4,395	-	-	298,505	309,533	303,361	(6,172)	4,395	-	-	298,505	309,533	303,361	(6,172)	
Recreational services	251,200	298,995	331,160	(32,105)	153,798	-	-	251,200	298,995	331,160	(32,105)	153,798	-	-	251,200	298,995	331,160	(32,105)	
Workforce investments	42,896	501	501	459	606	-	-	42,896	501	501	459	606	-	-	42,896	501	501	459	
Emergency planning and security costs	8,859	7,195	5,945	(1,250)	16,058	-	-	8,859	7,195	5,945	(1,250)	16,058	-	-	8,859	7,195	5,945	(1,250)	
Wilson Building	33,254	33,254	-	-	-	-	-	33,254	33,254	-	-	-	-	-	33,254	33,254	-	-	
Tobacco fund	120,000	-	-	-	-	-	-	120,000	-	-	-	-	-	-	120,000	-	-	-	
Reserve	247,902	239,952	233,251	(6,701)	-	-	-	247,902	239,952	233,251	(6,701)	-	-	-	247,902	239,952	233,251	(6,701)	
Repay bonds and interest	39,300	39,300	38,931	(369)	-	-	-	39,300	39,300	38,931	(369)	-	-	-	39,300	39,300	38,931	(369)	
Interest on short term borrowing	500	-	-	-	-	-	-	500	-	-	-	-	-	-	500	-	-	-	
Certificates of participation	30,000	7,950	7,924	(26)	-	-	-	30,000	7,950	7,924	(26)	-	-	-	30,000	7,950	7,924	(26)	
Reserve relief	5,799	4,799	-	(999)	-	-	-	5,799	4,799	-	(999)	-	-	-	5,799	4,799	-	(999)	
Non-departmental agency	3,873,477	3,693,797	3,629,431	(64,566)	1,576,768	-	-	3,873,477	3,693,797	3,629,431	(64,566)	1,576,768	-	-	3,873,477	3,693,797	3,629,431	(64,566)	
Total expenditures and other uses	8,900,422	8,900,422	8,900,422	-	17,000	-	-	8,900,422	8,900,422	8,900,422	-	17,000	-	-	8,900,422	8,900,422	8,900,422	-	
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES -- BUDGETARY BASIS	\$ (89,642)	\$ (5,376)	\$ 47,547	\$ 52,923	\$ 1,593,768	\$ -	\$ -	\$ (89,642)	\$ (5,376)	\$ 47,547	\$ 52,923	\$ 1,593,768	\$ -	\$ -	\$ (89,642)	\$ (5,376)	\$ 47,547	\$ 52,923	
Reconcile Budgetary to GAAP Basis:																			
Changes in:																			
Inventory	-	-	862	-	-	-	-	-	-	-	862	-	-	-	-	-	-	-	862
Net proceeds from financing	-	-	(3,037)	-	-	-	-	-	-	-	(3,037)	-	-	-	-	-	-	-	(3,037)
Medicaid Allowance	-	-	648	-	-	-	-	-	-	-	648	-	-	-	-	-	-	-	648
Housing loans	-	-	(1,516)	-	-	-	-	-	-	-	(1,516)	-	-	-	-	-	-	-	(1,516)
Accounts receivable allowance	-	-	9,250	-	-	-	-	-	-	-	9,250	-	-	-	-	-	-	-	9,250
Residual revenue from tobacco settlement distributions	-	-	15,867	-	-	-	-	-	-	-	15,867	-	-	-	-	-	-	-	15,867
All other net	-	-	(7,543)	-	-	-	-	-	-	-	(7,543)	-	-	-	-	-	-	-	(7,543)
Operating cost from enterprise funds	-	-	(37,401)	-	-	-	-	-	-	-	(37,401)	-	-	-	-	-	-	-	(37,401)
Fund balance released from restrictions	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
EXCESS OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES -- GAAP BASIS	\$ -	\$ -	\$ 27,455	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 27,455	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 27,455

The net operating assets are an integral part of this statement.

Exhibit 3-a

District Of Columbia
Statement of Net Assets
Proprietary Funds
For the Year Ended September 30, 2002
(\$000s)

	Lottery and Games	Unemployment Compensation	Total
ASSETS			
Current assets:			
Cash and cash equivalents (unrestricted)	\$ 8,309	\$ -	\$ 8,309
Investments (unrestricted)	8,631	-	8,631
Accounts receivable, net	4,577	16,933	21,510
Due from other funds	-	989	989
Due from federal government	-	3,910	3,910
Inventories	683	-	683
Restricted cash and cash equivalents	-	298,855	298,855
Other current assets	5	-	5
Total current assets	22,205	320,687	342,892
Noncurrent assets:			
Restricted investments	70,158	-	70,158
Capital assets, net	1,495	-	1,495
Total noncurrent assets	71,653	-	71,653
Total assets	93,858	320,687	414,545
LIABILITIES			
Current liabilities:			
Accounts payable	2,935	20,536	23,471
Compensated absences	726	-	726
Due to other funds	-	28,312	28,312
Accrued liabilities	7,792	-	7,792
Deferred revenue	131	-	131
Other current liabilities	8,631	478	9,109
Total current liabilities	20,215	49,326	69,541
Noncurrent liabilities:			
Prize annuities payable	70,158	-	70,158
Total noncurrent liabilities	70,158	-	70,158
Total liabilities	90,373	49,326	139,699
NET ASSETS			
Invested in capital assets, net of related debt	1,495	-	1,495
Restricted for unemployment benefits	-	271,361	271,361
Unrestricted	1,990	-	1,990
Total net assets	\$ 3,485	\$ 271,361	\$ 274,846

The accompanying notes are an integral part of this statement.

Exhibit 3-b

District Of Columbia
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended September 30, 2002
(S000s)

	Lottery and Games	Unemployment Compensation	Total
Operating revenues:			
Employer taxes	\$ -	\$ 104,945	\$ 104,945
Charges for services	211,151	-	211,151
Benefit contributions	-	17,360	17,360
Total operating revenues	<u>211,151</u>	<u>122,305</u>	<u>333,456</u>
Operating expenses:			
Benefits	-	191,043	191,043
Prizes	123,548	-	123,548
Personnel services	5,727	-	5,727
Contractual services	11,310	-	11,310
Materials and supplies	69	-	69
Occupancy	2,357	-	2,357
Depreciation	191	-	191
Miscellaneous	5,468	-	5,468
Total operating expenses	<u>148,670</u>	<u>191,043</u>	<u>339,713</u>
Operating income (loss)	<u>62,481</u>	<u>(68,738)</u>	<u>(6,257)</u>
Nonoperating revenues (expenses)			
Interest and investment revenue	630	18,348	18,978
Intergovernmental	-	31,948	31,948
Total nonoperating revenue (expenses)	<u>630</u>	<u>50,296</u>	<u>50,926</u>
Income (loss) before transfers	63,111	(18,442)	44,669
Transfers out	(63,000)	-	(63,000)
Change in net assets	<u>111</u>	<u>(18,442)</u>	<u>(18,331)</u>
Total net assets at October 1, as restated	3,374	289,803	293,177
Total net assets at September 30	<u>\$ 3,485</u>	<u>\$ 271,361</u>	<u>\$ 274,846</u>

The accompanying notes are an integral part of this statement.

Exhibit 3-c

District Of Columbia
Statement of Cash Flows
Proprietary Funds
For the Year Ended September 30, 2002
(\$000s)

	Lottery and Games	Unemployment Compensation	Total
Operating Activities:			
Cash receipts from customers/employers	\$ 210,522	113,942	\$ 324,464
Cash payments to vendors	(19,208)	-	(19,208)
Cash payments to employees/claimants	(5,642)	(167,277)	(172,919)
Other cash payments, including prizes	(124,020)	-	(124,020)
Net cash provided by (used for) operating activities	<u>61,652</u>	<u>(53,335)</u>	<u>8,317</u>
Capital and Related Financing Activities:			
Acquisitions of capital assets	(358)	-	(358)
Net cash used by capital & related financing activities	<u>(358)</u>	<u>-</u>	<u>(358)</u>
Noncapital Financing Activities:			
Inergovernmental grants	-	31,948	31,948
Interfund transfers out	(63,000)	-	(63,000)
Net cash provided by (used for) noncapital financing activities	<u>(63,000)</u>	<u>31,948</u>	<u>(31,052)</u>
Investing Activities:			
Receipts of interest and dividends	630	18,348	18,978
Net cash provided by investing activities	<u>630</u>	<u>18,348</u>	<u>18,978</u>
DECREASE IN CASH	(1,076)	(3,039)	(4,115)
Cash and cash equivalents at October 1	<u>9,385</u>	<u>301,894</u>	<u>311,279</u>
Cash and cash equivalents at September 30	<u>\$ 8,309</u>	<u>\$ 298,855</u>	<u>\$ 307,164</u>
Reconciliation of Operating Income to Net Cash Provided by (used for) Operating Activities:			
Operating income (loss)	\$ 62,481	\$ (68,738)	\$ (6,257)
Depreciation	191	-	191
Decrease (increase) in assets:			
Receivables	(647)	(8,363)	(9,010)
Inventories	(126)	-	(126)
Increase (decrease) in liabilities:			
Payables	204	23,483	23,687
Accrued liabilities	(472)	-	(472)
Deferred revenue	18	-	18
Other current liabilities	3	283	286
Net Cash Provided by (used for) Operating Activities:	<u>\$ 61,652</u>	<u>\$ (53,335)</u>	<u>\$ 8,317</u>

The accompanying notes are an integral part of this statement.

Exhibit 4-a

District Of Columbia
Statement of Fiduciary Net Assets
Fiduciary Funds
September 30, 2002
(\$000s)

	Pension Trust Funds	Agency Funds
ASSETS		
Cash and cash equivalents - restricted	\$ 325,956	\$ 105,022
Investments - restricted	1,631,327	-
Receivables	2,635	-
Due from other funds	78	-
Other current assets	-	9,231
Total assets	<u>1,959,996</u>	<u>114,253</u>
LIABILITIES		
Accounts payable	7,908	44,010
Securities lending	134,534	-
Other current liabilities	-	70,156
Due to other funds	611	87
Total liabilities	<u>143,053</u>	<u>\$ 114,253</u>
NET ASSETS		
Restricted for pension benefits	\$ <u>1,816,943</u>	

The accompanying notes are an integral part of this statement.

Exhibit 4-b

District Of Columbia
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
September 30, 2002
(\$000s)

	<u>Pension Trust Funds</u>
ADDITIONS	
Contributions:	
Employer	\$ 74,600
Plan Members	44,764
Total contributions	<u>119,364</u>
Investment earnings:	
Net decrease in fair value of investments	(216,361)
Interest	59,468
Total investment earnings	<u>(156,893)</u>
Less investment expense	8,647
Net investment earnings	<u>(165,540)</u>
Total additions	<u>(46,176)</u>
DEDUCTIONS	
Benefits payments	7,022
Administrative expenses	2,434
Total deductions	<u>9,456</u>
Change in net assets	(55,632)
Net assets at October 1	1,872,575
Net assets at September 30	\$ <u><u>1,816,943</u></u>

The accompanying notes are an integral part of this statement.

Exhibit 5-a

**DISTRICT OF COLUMBIA
DISCRETELY PRESENTED COMPONENT UNITS
COMBINING STATEMENT OF NET ASSETS**

September 30, 2002
(S000s)

	Water and Sewer	Convention Center	Sports Commission	Housing Finance	Univer- sity	Totals
ASSETS						
Current Assets:						
Cash and cash equivalents	\$ 132,391	\$ 11,005	\$ 384	\$ 21,191	\$ 13,141	\$ 178,112
Investments	4,900	7,323	7,313	-	8,563	28,099
Receivables, net:						
Accounts	49,285	878	579	253	7,962	59,257
Other	28,075	551	259	618	149	29,652
Due from federal government	33,932	-	-	-	4,380	38,312
Due from primary government	17,948	4,536	-	-	5,623	28,107
Inventories	2,758	-	-	-	-	2,758
Other current assets	5	-	578	-	64	647
Restricted cash	49,295	631	-	249	521	50,696
Restricted investments	-	256,563	-	660,903	8,911	926,377
Total current assets	<u>323,889</u>	<u>281,487</u>	<u>9,113</u>	<u>683,214</u>	<u>49,314</u>	<u>1,347,017</u>
Noncurrent assets:						
Loans receivable	-	-	-	341,780	570	342,350
Other	-	-	-	15,053	-	15,053
Deferred charges	24,707	9,257	-	15,700	-	49,664
Total long term assets	<u>24,707</u>	<u>9,257</u>	<u>-</u>	<u>372,533</u>	<u>570</u>	<u>407,067</u>
Capital assets, net:						
Property and equipment	1,457,973	624,835	15,165	3,094	57,692	2,158,759
Total assets	<u>1,806,569</u>	<u>915,579</u>	<u>24,278</u>	<u>1,058,841</u>	<u>107,576</u>	<u>3,912,843</u>
LIABILITIES						
Current Liabilities:						
Payables:						
Accounts	44,020	45,857	381	1,551	22,372	114,181
Compensation	7,844	1,298	1,770	175	-	11,087
Due to primary government	11,718	-	177	-	-	11,895
Accrued liabilities	18,123	12,976	1,272	47,025	-	79,396
Deferred revenue	31,304	11,591	160	2,722	5,269	51,046
Current maturities	111,828	-	-	14,405	-	126,233
Other current liabilities	5,969	16,186	-	11,077	-	33,232
Total current liabilities	<u>230,806</u>	<u>87,908</u>	<u>3,760</u>	<u>76,955</u>	<u>27,641</u>	<u>427,070</u>
Noncurrent Liabilities:						
Long term debt:						
Bonds payable	349,020	518,396	-	892,894	-	1,760,310
Other long term liabilities	17,046	-	-	12,968	2,258	32,272
Refundable advances	-	-	-	-	726	726
Deferred revenue	454,931	-	-	365	-	455,296
Total long term liabilities	<u>820,997</u>	<u>518,396</u>	<u>-</u>	<u>906,227</u>	<u>2,984</u>	<u>2,248,604</u>
Total liabilities	<u>1,051,803</u>	<u>606,304</u>	<u>3,760</u>	<u>983,182</u>	<u>30,625</u>	<u>2,675,674</u>
NET ASSETS						
Invested in capital assets, net of related debt	534,819	115,696	15,165	1,023	57,692	724,395
Restricted - expendable	41,596	191,304	-	53,749	341	286,990
Restricted-non-expendable	-	-	-	-	9,432	9,432
Unrestricted	178,351	2,275	5,353	20,887	9,486	216,352
Total net assets	<u>\$ 754,766</u>	<u>\$ 309,275</u>	<u>\$ 20,518</u>	<u>\$ 75,659</u>	<u>\$ 76,951</u>	<u>\$ 1,237,169</u>

The accompanying notes are an integral part of this statement.

Exhibit 5-b

**DISTRICT OF COLUMBIA
DISCRETELY PRESENTED COMPONENT UNITS
COMBINING STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS**

**Year Ended September 30, 2002
(\$000s)**

	Water and Sewer	Convention Center	Sports Commission	Housing Finance	Univer- sity	Totals
Operating Revenues:						
Charges for services:						
Public	\$ 203,732	\$ 9,071	\$ 7,501	\$ 46,099	\$ 16,058	\$ 282,461
Intergovernmental	44,997	-	-	-	-	44,997
Federal & local grants & contributions	-	-	-	-	20,832	20,832
Miscellaneous	-	-	-	12,930	844	13,774
Total operating revenues	<u>248,729</u>	<u>9,071</u>	<u>7,501</u>	<u>59,029</u>	<u>37,734</u>	<u>362,064</u>
Operating Expenses:						
Personal services	62,162	12,077	4,397	3,237	54,135	136,008
Contractual services	59,166	5,580	3,183	3,398	12,266	83,593
Supplies	13,683	311	409	-	5,645	20,048
Occupancy	20,071	1,775	583	4,216	2,367	29,012
Depreciation	37,099	472	1,414	237	4,430	43,652
Miscellaneous	16,904	387	1,660	42,828	4,879	66,658
Total operating expenses	<u>209,085</u>	<u>20,602</u>	<u>11,646</u>	<u>53,916</u>	<u>83,722</u>	<u>378,971</u>
OPERATING INCOME (LOSS)	39,644	(11,531)	(4,145)	5,113	(45,988)	(16,907)
Nonoperating Revenues (Expenses):						
Intergovernmental	-	53,874	-	-	46,068	99,942
Interest revenue (loss)	6,806	244	(42)	11,210	1,681	19,899
Interest expense	(16,339)	-	-	-	-	(16,339)
HUD section 8 receipts & service project grants	-	-	-	19,301	-	19,301
Program and housing assistance payments	-	-	-	(19,301)	-	(19,301)
Other revenue (expenses)	(15,228)	(6,060)	2,177	(68)	887	(18,292)
Total nonoperating revenues (expenses)	<u>(24,761)</u>	<u>48,058</u>	<u>2,135</u>	<u>11,142</u>	<u>48,636</u>	<u>85,210</u>
INCOME (LOSS) BEFORE CONTRIBUTIONS	14,883	36,527	(2,010)	16,255	2,648	68,303
Capital contributions	18,848	-	-	-	2,953	21,801
Total contributions	18,848	-	-	-	2,953	21,801
Change in net assets	33,731	36,527	(2,010)	16,255	5,601	90,104
Net assets at October 1 (restated)	<u>721,035</u>	<u>272,748</u>	<u>22,528</u>	<u>59,404</u>	<u>71,350</u>	<u>1,147,065</u>
Net assets at September 30	<u>\$ 754,766</u>	<u>\$ 309,275</u>	<u>\$ 20,518</u>	<u>\$ 75,659</u>	<u>\$ 76,951</u>	<u>\$ 1,237,169</u>

The accompanying notes are an integral part of this statement.

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NOTES TO THE BASIC FINANCIAL STATEMENTS

SEPTEMBER 30, 2002

(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 a 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 organizations that make up its legal entity. Criteria to be considered in determining organizations 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 benefit/burden on the District.
- The organization is fiscally dependent on the District.
- It would be misleading to exclude the organization from the District's financial report.

Based on the aforementioned criteria, the District's financial statements include five discretely presented component units: Water and Sewer Authority, Washington Convention Center, Sports and Entertainment Commission, Housing Finance Agency, 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, and other District officials appoint 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 Convention Center and the Sports and Entertainment Commission, and certain tax revenues are dedicated to these 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 entity can be obtained at the following locations:

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Washington Convention Center

General Manager
900 Ninth Street, N. W.
Washington, D. C. 20005

Housing Finance Agency

Executive Director
815 Florida Avenue, NW
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

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 appoints all members of the governing body of the Corporation, and thus is able to impose its will. Separate audited financial statements for the Tobacco Corporation are available from the Office of the Chief Financial Officer, 1350 Pennsylvania Avenue, N.W. Suite 209, Washington, D.C. 20004.

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 despite the fact the Mayor appoints a voting majority of their governing boards, except the Courts. The District does not appoint the members of the Joint Committee on Judicial Administration.

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, composed 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 10.

E. BASIS OF PRESENTATION

In June 1999, GASB issued Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis - for State and Local Governments*. This statement, known as the "Reporting Model" statement, affects the way the District prepares and presents financial information. State and local governments traditionally have used a financial reporting model substantially different from the one used to prepare private-sector financial reports.

GASB Statement No. 34 established new requirements and a new reporting model for the annual financial reports of state and local governments. The Statement was developed to make annual reports easier to understand and more useful to the people who use governmental financial information to make decisions. The new information required by GASB Statement No. 34 is:

- *Management's Discussion and Analysis* - GASB Statement No. 34 requires that financial statements be accompanied by a narrative introduction and

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

analytical overview of the government's financial activities in the form of "Management's Discussion And Analysis" (MD&A). This analysis is similar to analysis the private sector provides in their annual reports.

- *Government-Wide Financial Statements* – The new reporting model requires financial statements to be prepared using full accrual accounting for all of the District's activities. This approach includes not just current assets and liabilities (such as cash and accounts payable) but also capital assets and long-term liabilities (such as buildings and infrastructure, including bridges and roads, and general obligation debt). Accrual accounting also reports all of the revenues and cost of providing services each year, not just those received or paid in the current year or soon thereafter. Government-wide financial statements include the following new statements to be presented:
 - *Statement of Net Assets* – The Statement of Net Assets displays the financial position of the District (governmental and business-type activities) and its 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 will be broken down into three categories – 1) invested in capital assets, net of related debt; 2) restricted; and 3) unrestricted.
 - *Statement of Activities* – The Statement of Activities reports expenses and revenues in a format that focuses on the cost of each of the District's functions. The expense of individual functions is compared to the revenues generated directly by the function (for instance, through user charges or intergovernmental grants). The District 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 as 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 Improvement Fund*, used to account for the purchase or construction of capital assets financed by operating transfers, capital grants or debt.

Non-Major Governmental Funds includes two Special Revenue Funds: (1) Tax Increment Financing (TIF) Program Fund (2) Tobacco Settlement Financing Corporation (TSFC) Fund; and one Capital Project's Fund: Highway Trust 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 or could be financed or recovered primarily through user charges, and the determination of net income is necessary or useful to sound financial administration. The District has two major proprietary funds, which are discussed below:

- *Lottery and Games Fund* - Used to account for revenues from lotteries and daily numbers games operated by the District and from licenses to conduct bingo games and raffles, and related prizes, expenses and capital outlays. Gambling activities are administered by a 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 resources to be used

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

for benefit payments to unemployed former 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.

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 only reports Pension Trust Funds and Agency Funds. Pension trust funds are accounted for in essentially the same manners as proprietary funds since capital maintenance is critical. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Fiduciary funds are not included in the government-wide financial statements.

Government-Wide Financial Statements

The government-wide financial statements (i.e. the statements of net assets and the statements of changes in net assets) report information on all of the non-fiduciary activities of the District and its component units. *Governmental Activities*, 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. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are 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.

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, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

The proprietary funds, pension 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. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. With this measurement focus, all assets and all liabilities are included on the balance sheet. 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 trust funds present additions and deductions in fiduciary net assets.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. The District also has the option of following private-sector guidance issued after November 30, 1989 for its business-type activities and proprietary funds and component units. As allowed by GASB 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.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the government's water and sewer function and various other functions of the government.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations.

Basis of Accounting

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 Number 6 (GASBI 6) modified the recognition criteria of certain expenditures and liabilities. 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. 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. On 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 as 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 forfeits and charges for services 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 forfeits 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 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 has been made, net investment income as earned, and expenditures for benefits and refunds when due and payable.

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 people. The District uses the Electronic Benefits Transfer (EBT) systems that allow program beneficiaries to charge their qualifying food purchases, thereby eliminating the need for paper stamps. Thus, revenues and expenditures are reported when the underlying transaction (the food purchase) occurs. The District records the existence of any food stamps as of the date of the balance sheet as assets and deferred revenues.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

G. BASIS OF BUDGETING AND BUDGETARY CONTROL POLICIES

Process

About February 1 of each year, the Mayor submits to the Council an all sources budget for the general 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 April 1 of each year, the Mayor approves the adopted budget and forwards it to the President of the United States for review. About April 15 of each year, the President submits the reviewed budget to Congress which conducts public hearings and enacts the budget and the authorized Federal payment in lieu of taxes through passage of an appropriation law.

Appropriation Act

The legally adopted budget is the annual appropriation public law (Appropriation Act) enacted by Congress and signed by the President. The Appropriation Act authorizes expenditures at the function level or by functional category, 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 Appropriation Act by submitting to the President and Congress a request for a supplemental appropriation.

Pursuant to the Reprogramming Policy Act (D. C. Code 47-361), the District may reallocate budget amounts within functions. The appropriated budget amounts in the Statement of Revenues, Expenditures, and Changes in Fund Balances—Budget and Actual 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. An unfavorable expenditure variance in the budgetary statement for a function is a violation of the Anti-Deficiency Act (31 U.S.C. 1341). Also, a violation of the Anti-Deficiency Act exists if there is an unfavorable expenditure variance for a particular purpose or object of expenditure within an appropriation.

The Appropriation Act specifies expenditures and net surplus or deficit of revenues. The Appropriation 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. The Statement of Revenues, Expenditures, and Changes in Fund Balances—Budget and Actual shows Revenues and Other Sources as presented in the Conference Report (H.R. 107-593) and Expenditures and Other Uses as contained in the Appropriation Act (PL 107-96.)

The budgetary general fund differs from the GAAP-basis general fund and federal and private resources fund. For budgetary purposes, the general fund must be considered in conjunction with the federal and private resources major fund as presented in Exhibit 2d. In fiscal year 2002, the District elected to separate the federal and private resources fund from the general fund in order to enhance stakeholders understanding of the general operations of the District. The annual appropriated budget is enacted on a basis that is not consistent with GAAP because of differences that result from budgeting inventory, Medicaid, certain pension and other employee benefits, and other expenditures on a cash basis, and budgeting dedicated tax revenues to the benefiting fund rather than to the fund with the authority to levy and collect the tax.

Adjustments necessary to reconcile the excess (deficiency) of revenues and other financing sources over expenditures and other financing uses from budget basis to GAAP basis are shown in Exhibit 2-d, Budgetary Comparison Statement.

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. The fund balance is "reserved for encumbrances" to indicate the portion that is available for expenditure upon vendor performance.

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 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, 2002 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 also authorized to invest in fixed income, equity securities and other types of investments.

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. RESTRICTED ASSETS

Certain governmental and proprietary funds, component unit, 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 reserved fund balance in the governmental fund to indicate the portion of the net assets or fund balance that is available for restricted purposes

only. Restricted assets also represents cash deposited in bank accounts legally restricted for certain purposes such as the payment of bond principal and interest or the payment of fiscal fees on long-term debt.

J. PREPAID ITEMS AND DEFERRED CHARGES

Prepaid items are for payments made by the District in the current 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, bond discounts (premiums) and issuance costs are recognized in the current period as interest and fiscal charges, respectively. In the government-wide financial statements, bond discounts (premiums) and issuance costs are capitalized as deferred charges and amortized as fiscal charges over the term of the related bonds.

K. 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.

L. 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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

funds" (i.e., the non-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 residual 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 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).

M. 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. 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 do not add to the value of the assets or materially extend asset lives are 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.

Repairs and maintenance are recorded as expenses; renewals and betterments are capitalized. 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 has been 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.

Table 1 – Estimated Useful Lives (by Asset Category)

	<u>Useful Life</u>
Sewer Lines	30-45 years
Buildings	50 years
Furniture, Fixtures and Equipment	5-10 years
Vehicles	5-10 years
Land Improvements	30-45 years

N. 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.

O. 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, depending on the employee's length of service.

Accrual

The District records vacation and sick leave as an expenditure and related liability in the governmental fund financial statements only to the extent that they mature 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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

expense and liability as the benefits accrue to employees. The District does not record a liability for non-vesting accumulating rights to receive sick pay benefits. At the time of retirement, unused sick leave is credited at the rate of 22 days for each month of service and is added to the retirees' years of service in the Civil Service Retirement System and in the District Retirement Program.

An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in 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 the balance sheet date 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 in lieu of paid overtime is reported in the government-wide financial statements and in the proprietary funds.

P. 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.

Capital appreciation bonds are issued with a stated interest rate of zero percent. The associated interest is not paid until the bonds mature. 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, taking into account the interest that has

been accumulating and automatically reinvested in the bonds.

Q. 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 or 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/net assets 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, 2002, the District had established the following reservations (see **Table 26**):

Reserve for Debt Service—Bond Escrow - This portion of fund balance represents that portion of investments held

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

in escrow that are available for future debt service obligations or requirements.

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 Budget – This portion of fund balance represents unused FY 2001 Budget Reserve amounts that are available until expended.

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

Reserve for Purpose Restrictions - This portion of fund balance represents grants received by the District that must be used in accordance with grant-imposed restrictions.

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

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 FY 2001.

Reserve for Future Benefits - This portion of fund balance represents the portion of resources that is available for benefit payments from the Pension Trust Funds.

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

R. POST-EMPLOYMENT BENEFITS

In addition to the pension benefits described in Note 8, employees may receive post-retirement health care and life insurance benefits. In fiscal year 2002, there were 7,124 pre-87 (Civil Service) and 10,015 post-87 (DC Defined Contribution) employees, which totaled 17,139 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. The District has recognized \$314 for post-retirement health and life insurance premiums paid during fiscal year 2002. As of September 30, 2002, there were 220 annuitants that received these benefits.

S. USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 general purpose financial statements and the reported amounts of revenues, expenses and expenditures during the reporting period. Actual results could differ from those estimates.

T. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets

The governmental fund balance sheet includes a reconciliation between fund balance - 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 modified accrual accounting basis including deferred revenue, but are reported in the government-wide financial statements.

The details of the \$(4,581) difference are as follows:

Deferred revenue	\$ 40,735
Accrued interest	<u>(45,316)</u>
Net adjustment	<u>\$ (4,581)</u>

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a 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 \$343,061 difference are as follows:

Capital outlay capitalized	\$ 706,515
Less: Depreciation expense	(155,288)
Loss on disposal of Lorton	(171,094)
Net other disposals	(1,579)
Net capital lease activity	(35,493)
Net adjustment	<u>\$ 343,061</u>

The details of the \$5,757 difference are as follows:

Deferred property taxes	\$ 4,674
Revenue from QZAB	1,083
Net adjustment	<u>\$ 5,757</u>

The details of the \$(206,096) difference are as follows:

Bond proceeds	\$ (408,178)
Principal payments	202,082
Net adjustment	<u>\$ (206,096)</u>

The details of the \$(26,029) difference are as follows:

Increase (decrease) in expenses due to accrued liabilities:	
Disability compensation	\$(31,352)
Accreted interest	(2,572)
Accrued interest	(3,705)
Compensated absences	(10,293)
Claims and judgments	21,893
Net adjustment	<u>\$ (26,029)</u>

U. RESTATEMENTS

As a result of the adoption of GASB Statement No. 34, as amended by GASB Statements no. 35, 37 and 38, and GASB Interpretation No. 6, the District is required to change its historical accounting policies regarding its accounting for certain liabilities such as deferred revenue, claims and judgments and interest. Additionally, on October 1, 2001, the District created the Federal and Private Resources special revenue fund to account for

certain activities previously reported in the General fund. As a result, the following October 1, 2001 fund balances and net assets have been restated:

General Fund

October 1, 2001, as previously reported	\$ 562,245
Net change due to adoption of GASB 34 and GASB Interpretation No. 6	303,307
Establishment of Federal and Private Resources Fund	<u>(27,679)</u>

October 1, 2001, as Restated **\$ 837,873**

General Capital Improvements Fund

October 1, 2001, as previously reported	\$ (57,943)
Net change due to adoption of GASB 34	<u>14,722</u>

October 1, 2001, as Restated **\$ (43,221)**

Unemployment Compensation Fund

October 1, 2001, as previously reported	\$ 303,604
Net change due to adoption of GASB 34	<u>(13,801)</u>

October 1, 2001, as Restated **\$ 289,803**

The University of the District of Columbia

October 1, 2001, as previously reported	\$ 71,730
Net change due to adoption of GASB 34	<u>(380)</u>

October 1, 2001, as Restated **\$ 71,350**

In connection with the adoption of GASB 34, the District hired a consultant to perform an inventory of its capital assets as of October 1, 2001. The study resulted in an adjustment to previously reported net capital asset balances of \$ (95,009).

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 \$1,620,814 within the custody of the District, in accordance with District policies, substantially all deposits as of September 30, 2002 were insured or collateralized with securities held by the District or by its agent in the District's name. At September 30, 2002, the carrying amount of cash for the primary government was \$1,392,007 and the bank balance was \$1,185,641. The carrying amount of cash (deposits) for the component units was \$228,807 and the bank balance was \$230,158.

B. INVESTMENTS

Investments held by the District at September 30, 2002 have been categorized according to the level of custodial credit risk associated with its custodial arrangements at the end of the period.

Custodial Credit Risk Categorization

Custodial credit risk refers to the risk that the District may not be able to obtain possession of its investments in the event of default by a counterparty. The three types of custodial credit risk are:

- Category 1, which includes investments that are insured or registered or for which securities are held by the District or its agent in the District's name;
- Category 2, which includes uninsured and unregistered investments for which securities are held by the counterparty's trust department or agent in the District's name; and
- Category 3, which includes uninsured and unregistered investments for which securities are held by the counter party, or by its trust department or agent, but not in the District's name.

Investments not evidenced by securities that exist in physical or book entry form are not categorized. Investments by type and category at September 30, 2002 are shown in **Table 2a**.

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 2002, 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.

For 2002, derivative investments included foreign currency forward contracts, mortgage-backed security pools, collateralized mortgage obligations, asset backed securities and floating rate notes, interest only treasury securities, bond options and futures, and equity index futures.

These derivative investments are included in the Category 1 investments shown in **Table 2a**.

At September 30, 2002, the Housing Finance Agency (HFA) held \$296,750 in Government National Mortgage Association (GNMA) certificates, which are classified as mortgage-backed securities and included as category 2 in **Table 2a**.

NOTE 2. CASH AND INVESTMENTS

Table 2a – Investments by Type and Category

	Category			Total Carrying Value
	1	2	3	
Primary Government:				
Investments:				
U. S. government securities	\$ 90,253	\$ 19	\$ -	\$ 90,272
Corporate securities	5,000	12,444	-	17,444
Pension trust funds investments:				
Equity securities (net of securities transaction payable of \$450,700)	519,373	-	-	519,373
Fixed income securities	850,856	-	-	850,856
	<u>1,465,482</u>	<u>12,463</u>	<u>-</u>	<u>1,477,945</u>
Not Categorized:				
Mutual funds	-	-	-	502,215
Pension trust funds investments:				
Equity securities	-	-	-	36,021
Fixed income securities	-	-	-	90,542
Securities lending collective investment pool	-	-	-	134,534
Total investments (excluding certificates of deposit (primary government))	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,241,257</u>
Component Units:				
U. S. government securities	60,885	320,545	17,438	398,868
Repurchase agreements	33,261	-	-	33,261
Corporate securities	35,765	291,617	34	327,416
Investment contracts	-	-	-	194,254
	<u>\$ 129,911</u>	<u>612,162</u>	<u>17,472</u>	<u>953,799</u>
Mutual funds				677
Total investments (component units)				<u>954,476</u>
Total reporting entity				<u>\$ 3,195,733</u>

NOTE 2. CASH AND INVESTMENTS

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

Total investments per Table 2a		\$	3,195,733
Total deposits			<u>1,620,814</u>
Total		\$	<u><u>4,816,547</u></u>
	Exhibit 1-a	Exhibit 4-a	Total
Cash and cash equivalents	\$ 241,854	\$ -	\$ 241,854
Investments	567,871	-	567,871
Cash and cash equivalents (restricted)	947,982	430,978	1,378,960
Investments (restricted)	<u>996,535</u>	<u>1,631,327</u>	<u>2,627,862</u>
Total	<u><u>\$ 2,754,242</u></u>	<u><u>\$ 2,062,305</u></u>	<u><u>\$ 4,816,547</u></u>

The Pension Trust Funds used asset backed securities (ABS), collateralized mortgage obligations (CMOs,) mortgage-backed pools and securities, floating rate notes, structured notes, stripped/zero coupon bonds, and forward mortgage backed security contracts (TBAs) 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. CMO’s 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 is 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.

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, 2002, the Pension Trust Funds’ portfolio included \$634,269 of derivative investments, or 32.4% of the pension investment portfolio. The proportion of derivative investments varied at times throughout the year. Further information regarding balances throughout the year is not available.

Derivative investments by type at September 30, 2002 are shown in **Table 3**.

Table 3 – Derivative Investments by Type

<u>Investment Instrument Type</u>	
Mortgage backed securities	\$ 445,003
Collateralized mortgage obligations	52,578
Asset backed securities	13,728
Structured notes (including stripped securities)	55,969
Stock performance index futures fund	67,660
Floating rate notes	5,402
Inflation index bonds	4,795
Foreign currency futures/forward contracts, net	(7,798)
Options	<u>(3,068)</u>
Total derivatives	\$ <u><u>634,269</u></u>

NOTE 2. CASH AND INVESTMENTS**C. SECURITIES LENDING**

During FY 2002, the master custodian, at the direction of the Retirement Board, lent the Pension Trust Funds' equity 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 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 Retirement Board and the borrowers maintained the right to terminate all securities lending transactions on demand.

The cash collateral received on each loan was invested, together with the cash collateral of other qualified tax-exempt plan lenders, in a collective investment pool. At September 30, 2002, the investment pool had an average duration of 61 days and an average weighted maturity of 153 days. Because the loans were terminable at will, their duration did not generally match the duration of the investments made with cash collateral.

During FY 2002, the Retirement Board did not restrict the amount of loans that the master custodian made on its behalf. No failure to return loaned securities or to pay distributions occurred during the year, and no losses were incurred from a default of a borrower or the master custodian. The Funds had no credit risk exposure to borrowers as of year-end. As of September 30, 2002, the collateral held and the market value of securities on loan were \$152,402 and \$147,142 respectively. The collateral held is included in cash and investments shown in Exhibit 4-a and the liabilities associated with the securities lending transactions are reported in Exhibit 4-a, at their carrying amounts, which are less than their market values.

At the close of 2002, gross earnings from securities lending transactions totaled \$4,614. 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 \$2,645, \$478 and \$3,123, respectively. The Pension Trust Funds' share of the net earnings on securities lending transactions totaled \$499 in 2002.

NOTE 3. RESTRICTED ASSETS

At September 30, 2002, restricted assets of the primary government and its component units totaled \$3,901,800 as summarized in Table 4.

Table 4 – Summary of Restricted Assets

Governmental Funds/Governmental Activities						
		General	General Capital Improvements	Non-Major	Total	
Bond Escrow Accounts	\$	198,700	-	-	198,700	
Public Transportation		-	84,142	-	84,142	
Emergency Cash/Debt Service Reserves		248,731	-	66,858	315,589	
Total	\$	447,431	84,142	66,858	598,431	
Proprietary Funds/Business-type Activities						
		Lottery & Games	Unemployment Compensation	Total	Fiduciary Funds	Component Units
Bond Escrow Accounts	\$	-	-	-	-	967,641
Unpaid Prizes		70,158	-	70,158	-	-
University Endowment		-	-	-	-	8,911
Benefits		-	298,855	298,855	1,957,283	-
Other		-	-	-	-	521
Total	\$	70,158	298,855	369,013	1,957,283	977,073

NOTE 4. COMPONENT UNIT AND INTERFUND BALANCES AND OTHER RECEIVABLES**A. RECEIVABLES AND PAYABLES BETWEEN FUNDS AND COMPONENT UNITS**

Due to/due from and interfund receivable and payable balances for each individual fund and component unit at September 30, 2002 are shown in Table 5.

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

Fund or Component Unit	Primary Government/ Component Units		Interfund	
	Receivables	Payables	Receivables	Payables
General	\$ 177	28,107	292,258	11,443
Federal & Private Resources	-	-	25,765	-
General Capital Improvements	-	-	9,990	280,330
Non-major governmental	11,718	-	11,443	19,740
Unemployment Compensation	-	-	989	28,312
Pension Trust	-	-	78	611
Agency	-	-	-	87
Water and Sewer Authority	17,948	11,718	-	-
Washington Convention Center	4,536	-	-	-
Sports Commission	-	177	-	-
University of the District of Columbia	5,623	-	-	-
Total	\$ 40,002	40,002	340,523	340,523

The above balances represent the impact of transactions between the funds, which will be settled during fiscal year 2003.

NOTE 4. COMPONENT UNIT AND INTERFUND BALANCES AND OTHER RECEIVABLES**B. INTERFUND TRANSFERS**

Table 6 shows a summary of interfund transfers for the fiscal year ended September 30, 2002.

Table 6 – Summary of Interfund Transfers

TRANSFER FROM (OUT)	TRANSFER TO (IN)	PURPOSE	AMOUNT
General Fund	Highway Trust Funds	Motor fuel taxes dedicated to the Highway Trust Fund	\$ 27,348
General Fund	Highway Trust Funds	Operating funds used to finance capital projects	11,000
General Fund	General Capital Improvement Fund	Surplus interest from the sale of DCPS properties held by Control Board	947
General Fund	Federal and Private Resources	Receivable write off between Appropriated Funds	13,181
General Capital Improvements Fund	General Fund	Charter Schools Revolving Loan Enhancement Account transfer	6,848
General Capital Improvements Fund	General Fund	Reprogramming of capital expenditures paid from local funds	9,000
Lottery and Games	General Fund	DC Lottery and Games excess revenues, after operating cost, to the General Fund	63,000

C. OTHER RECEIVABLES

Taxes and other receivables are valued at their estimated collectible amount. These receivables are presented in various funds as shown in Table 7.

Table 7 - Other Receivables

	General	Federal & Private Resources	General Capital Improvements	Nonmajor Governmental Funds	Lottery and Games	Unemployment Compensation	Pension Trust Funds
Gross Receivable:							
Taxes	\$ 331,878	-	-	-	-	-	-
Accrued interest	693	-	-	-	-	-	-
Accounts	504,868	117,298	6,375	3,203	5,033	16,933	2,635
Total gross receivable	837,439	117,298	6,375	3,203	5,033	16,933	2,635
Less-allowance for uncollectibles	486,453	-	-	-	456	-	-
Total net receivable	\$ 350,986	117,298	6,375	3,203	4,577	16,933	2,635

NOTE 5. CAPITAL ASSETS

Capital Outlays

Capital outlays totaled \$905,418 for the fiscal year ended September 30, 2002, which are reported in the General Capital Improvements 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 asset, the balance in the Construction in Progress account is transferred to an appropriate descriptive capital asset account such as building or equipment.

Loss On Disposal Of Lorton Correctional Complex

During the fiscal year ended September 30, 2002, the District transferred all inmates housed at the Lorton Correctional Complex in Lorton, Virginia to federal penal institutions. The property was transferred to the Fairfax County Water Authority of Fairfax, Virginia in

accordance with the provisions of Title XI subtitle C of the District of Columbia Revitalization for Lorton Closure and Transfer of Property Act without consideration. Consequently, the District recognized a loss of \$171,094 on the disposal of the property.

Mayor's Mansion

In February 2001, The Eugene B. Casey Foundation offered to purchase property located at 1801 Foxhall Road, N.W., and to renovate the existing structures to be used as the Official Residence of the Mayor, to be named the Casey Mansion. This unexpected offer will provide the District a mayoral residence, similar to that provided by each of the 50 U.S. States, many major U.S. cities and also to the mayors of many other world capital cities. This potential donation has not yet been recorded in these basic financial statements.

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, 2001 (Restated)	Additions	Transfers/ Dispositions	CIP Transfers in (out)	Balance September 30, 2002
Non Depreciable					
Land	\$ 216,721	-	(34)	2,389	219,076
Construction in progress (CIP)	698,093	675,254	-	(366,915)	1,006,432
Total non-depreciable	<u>914,814</u>	<u>675,254</u>	<u>(34)</u>	<u>(364,526)</u>	<u>1,225,508</u>
Depreciable					
Infrastructure	2,214,924	-	-	156,964	2,371,888
Buildings	2,214,919	-	(250,522)	145,245	2,109,642
Equipment	328,348	31,261	(1,873)	62,317	420,053
Total depreciable	4,758,191	31,261	(252,395)	364,526	4,901,583
Less-accumulated depreciation	(2,150,743)	(155,288)	79,757	-	(2,226,274)
Total depreciable, net	2,607,448	(124,027)	(172,638)	364,526	2,675,309
Net governmental activities capital assets	\$ 3,522,262	551,227	(172,672)	-	3,900,817
Local source	3,219,014	274,609	(172,672)	-	3,320,951
Intergovernmental	303,248	276,618	-	-	579,866
Total resources invested	\$ 3,522,262	551,227	(172,672)	-	3,900,817

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, 2001 (restated)	Transfers/ Additions	Transfers/ Dispositions	CIP Transfers in (out)	Balance September 30, 2002
Governmental direction and support	\$ 182,309	2,097	(537)	53,365	237,234
Economic development and regulation	82,475	2,157	-	3,178	87,810
Public safety and justice	759,071	5,243	(251,892)	15,859	528,281
Public education system	697,431	7,182	-	115,617	820,230
Human support services	561,411	1,818	-	10,037	573,266
Public works	2,692,215	12,764	-	168,859	2,873,838
Construction in progress (CIP)	698,093	675,254	-	(366,915)	1,006,432
Total	\$ 5,673,005	706,515	(252,429)	-	6,127,091

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, 2001 (restated)	Additions	Transfers/ Dispositions	Balance September 30, 2002
Government direction and support	\$ 30,494	30,495	-	60,989
Economic development and regulation	16,543	2,341	-	18,884
Public safety and justice	253,041	26,765	(79,757)	200,049
Public education system	385,808	15,637	-	401,445
Human support services	239,084	9,648	-	248,732
Public works	1,225,773	70,402	-	1,296,175
Total	\$ 2,150,743	155,288	(79,757)	2,226,274

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, 2001	Additions	Transfers/ Dispositions	Balance September 30, 2002
Lottery:				
Equipment	\$ 3,612	358	(245)	3,725
Total	3,612	358	(245)	3,725
Less-accumulated depreciation	(2,284)	(191)	245	(2,230)
Net capital assets	\$ 1,328	167	-	1,495

E. DISCRETELY PRESENTED COMPONENT UNITS CAPITAL ASSETS

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

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

Asset Class	Balance October 1, 2001	Additions	Transfers/ Dispositions	CIP Transfers in (out)	Balance September 30, 2002
Land	\$ 11,939	193	-	-	12,132
Utility plant	1,644,464	-	-	162,004	1,806,468
Buildings	143,232	8,418	-	-	151,650
Equipment	116,243	3,200	(10,726)	8,756	117,473
Construction in progress	581,961	379,192	-	(170,760)	790,393
Total	2,497,839	391,003	(10,726)	-	2,878,116
Less-accumulated depreciation	685,218	42,959	(8,820)	-	719,357
Net capital assets	\$ 1,812,621	348,044	(1,906)	-	2,158,759

NOTE 5. CAPITAL ASSETS

Table 13- Capital Assets by Component Unit

Component Unit	Balance October 1, 2001	Additions	Transfers/ Dispositions	Balance September 30, 2002
University of the District of Columbia	\$ 149,825	4,780	(10,139)	144,466
Washington Convention Center	402,195	230,941	(19)	633,117
Water and Sewer Authority	1,906,150	148,993	(568)	2,054,575
Sports and Entertainment Commission	35,204	6,000	-	41,204
Housing Finance Agency	4,465	289	-	4,754
Total	\$2,497,839	391,003	(10,726)	2,878,116
Less-accumulated depreciation	(685,218)	(42,959)	8,820	(719,357)
Net component unit capital assets	\$ 1,812,621	348,044	(1,906)	2,158,759

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			Unexpended Balance
			Prior Years	Current Year	Total	
PRIMARY GOVERNMENT						
Governmental Direction and Support:						
Finance	3	\$ 115,924	\$ 75,134	\$ 29,646	\$ 104,780	\$ 11,144
Personnel	1	4,384	1,385	2,999	4,384	-
Legislative	1	1,600	1,600	-	1,600	-
Elections	1	145	145	-	145	-
Administrative	12	265,225	61,096	62,344	123,440	141,785
Total	18	387,278	139,360	94,989	234,349	152,929
Public Safety and Justice:						
Police	5	80,162	4,114	8,755	12,869	67,293
Fire	1	4,863	320	342	662	4,201
Correction	4	35,009	1,696	6,004	7,700	27,309
Emergency Preparedness	-	-	-	-	-	-
Judicial	-	-	-	-	-	-
Total	10	120,034	6,130	15,101	21,231	98,803
Public Education System:						
Public School System	39	559,093	134,341	80,209	214,550	344,543
Human Support Services:						
Health and welfare	21	176,802	2,696	44,275	46,971	129,831
Human relations	1	10,724	2,116	739	2,855	7,869
Recreation	9	172,413	8,364	6,588	14,952	157,461
Total	31	359,939	13,176	51,602	64,778	295,161
Public Works:						
Environmental	61	571,972	245,447	226,077	471,524	100,448
Total	61	571,972	245,447	226,077	471,524	100,448
Totals	159	\$ 1,998,316	\$ 538,454	\$ 467,978	\$ 1,006,432	\$ 991,884

NOTE 6. CONDUIT DEBT TRANSACTIONS

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, 2002, the aggregate outstanding principal amount for these conduit debt obligations was approximately \$3.5 billion.

NOTE 7. 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, or proprietary funds statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance, costs are reported as deferred charges.

Governmental funds recognize bond premiums and discounts, as well as bond 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

At September 30, 2001, the District had serial and term general obligation bonds balance of \$2,582,018. On December 5, 2001, the District issued \$214,155 in multimodal general obligation bonds (Series 2001C) scheduled to mature on June 1, 2026 and \$69,715 in multimodal general obligation refunding bonds (Series 2001D) scheduled to mature on June 1, 2029. Bond proceeds were used to (i) fund capital projects totaling \$211,345, (ii) defease \$63,565 of the District's outstanding general obligation bonds, and (iii) pay \$3,734 for costs and expenses of issuing and delivering the bonds.

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the

old debt of approximately \$924. The District completed the advance refunding to reduce its total debt service payment over the next 26 years by approximately \$5,000 and to obtain an economic gain of approximately \$3,100.

The Series 2001C and 2001D bonds were issued as variable rate demand obligations. These bonds will bear interest from their date of issue at a variable rate unless converted to a fixed interest rate, ARS rate or flexible rate in accordance with the indenture. The Series 2001C and 2001D bonds have an interest rate swap agreement associated with them, as described in Note 14. The effective interest rates for the 2001C and 2001D bonds were 4.09% and 4.08%, 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, a portion of these bonds totaling \$79,070 is reflected in the financial statements of the Water and Sewer Authority.

The remainder of the general obligation bonds were authorized and issued primarily to provide funds for certain other capital projects and improvements. They 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 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 issues at September 30, 2002 is shown in **Table 16**.

NOTE 7 LONG – TERM LIABILITIES**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 a Development Sponsor. The sole source of repayment of the TIFs shall be the incremental revenues from the Project, and the District shall have no obligation to make any payments on the TIF Note, other than through the remittance to the Paying Agent. If the incremental revenues are insufficient to pay the principal and interest due on the TIFs when due, such payment shortfall shall not constitute a default under the TIFs. If and when the incremental revenues are sufficient, the District shall pay the amount of any 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 rates on the Gallery Place and Mandarin Hotel TIF Bonds range from 4.0% to 5.5%.

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 aggregate principal amount of its Tobacco Settlement Asset-Backed Bonds, Series 2001, of which \$514,280 was outstanding as of September 30, 2002. The payment of those bonds was 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 revert to the General

Fund. A total of \$9,750 was returned to the General Fund during the fiscal year 2002. 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.

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 \$3,582 into a sinking fund in fourteen equal amounts of \$255 beginning December 1, 2002.

NOTE 7. LONG-TERM LIABILITIES

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

	General Obligation Bonds	TIF Notes	TIF Bonds	Tobacco Bonds	QZAB	Total
Debt payable at October 1, 2001	\$ 2,582,018	6,900	-	521,105	-	3,110,023
Bond and note proceeds:						-
Series 2001AC	214,155	-	-	-	-	214,155
Series 2001D	69,715	-	-	-	-	69,715
Gallery Place Project	-	-	73,650	-	-	73,650
Mandarin Oriental Hotel Project	-	-	45,995	-	-	45,995
QZAB	-	-	-	-	3,582	3,582
Total	\$ 2,865,888	6,900	119,645	521,105	3,582	3,517,120
Debt payments:						
Principal matured	131,750	-	-	6,825	-	138,575
Principal defeased	63,565	-	-	-	-	63,565
Other	-	-	-	-	-	-
Debt payable September 30, 2002	\$ 2,670,573	6,900	119,645	514,280	3,582	3,314,980

A summary of debt service requirements for general long-term debt to maturity for these bonds is shown in Table 17.

Table 17 - Summary of Debt Service Requirements for General Long-Term Debt to Maturity

Year Ending September 30	General Obligation		Tobacco Bonds		Total
	Principal	Interest	Principal	Interest	
2003	\$ 144,135	139,979	7,730	33,195	325,039
2004	149,975	133,285	3,810	32,712	319,782
2005	157,640	124,821	4,000	32,473	318,934
2006	165,470	116,591	4,720	32,223	319,004
2007	171,723	108,043	5,215	31,928	316,909
2008 - 2012	859,003	411,593	72,100	150,199	1,492,895
2013 - 2017	367,505	251,580	99,055	125,262	843,402
2018 - 2022	273,900	141,559	139,180	88,789	643,428
2023 - 2027	312,120	63,091	178,470	34,816	588,497
2028 - 2033	69,102	6,394	-	-	75,496
Total	\$ 2,670,573	1,496,936	514,280	561,597	5,243,386

Due to the uncertainty of the future tax increment receipts, future payments on TIF notes and bonds are not included in the summary of debt service requirements.

NOTE 7 LONG – TERM LIABILITIES**Defeased Bonds**

In prior years, the District has defeased certain bond issues by issuing refunding bonds. As of September 30,

2002, the total amount of defeased debt outstanding but removed from the government-wide financial statement was \$683,624. The amount defeased during the year ended September 30, 2002 is presented in Table 18.

Table 18 – Summary of Defeased Bonds in Fiscal Year 2002

Defeased by Bond 2002D:			
Bond Series	Interest Rate (%)		Amount
1999A Serial	5.375 - 5.625	\$	15,225
1999A Term	5.500		33,120
1999B Serial	5.500		15,220
TOTAL:		\$	63,565

COMPONENT UNITS**Water and Sewer Authority**

The Water and Sewer Authority 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, 2002, the highest rate on these notes was 6.75% and the lowest rate was 4.55%. Debt outstanding at September 30, 2002 totaling \$376,846 included net unamortized premiums of \$5,998 and a

remaining principal balance of \$370,848.

Commercial Paper Note Payable

At the end of FY 2002, the Authority had issued \$90 million in commercial paper, with interest rates ranging from 1.40 to 1.65 percent. All maturities were less than 270 days, as stipulated in the Board resolution authorizing the program. The remaining \$10 million authorized under this program was issued early in FY 2003. This amount is included in the Combining Statements of Net Assets (Exhibit 5-a).

A summary of Water and Sewer Authority's debt service requirements to maturity for principal and interest is shown in Table 19.

Table 19 – Water and Sewer Authority Debt Service Requirements to Maturity

Year Ending September 30	Principal	Interest	Total
2003	\$ 21,828	19,834	41,662
2004	14,719	19,082	33,801
2005	16,134	18,274	34,408
2006	13,385	17,409	30,794
2007	16,023	16,685	32,708
2008 - 2012	66,692	71,289	137,981
2013 - 2017	67,762	53,169	120,931
2018 - 2022	88,999	31,856	120,855
2023 - 2027	49,805	10,043	59,848
2028 - 2032	10,353	1,513	11,866
2033 - 2037	2,676	669	3,345
2038 - 2042	2,472	204	2,676
Total	\$ 370,848	260,027	630,875

NOTE 7. LONG-TERM LIABILITIES

Washington Convention Center

On September 29, 1998, the Washington Convention Center issued \$524 million in senior lien dedicated tax revenue serial and term bonds at various rates and maturities.

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

The Washington Convention Center Authority (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 Washington Convention Center 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 Washington Convention Center's debt service requirements to maturity for principal and interest is shown in **Table 20**.

Table 20 – Washington Convention Center Debt Service Requirements to Maturity

Year Ending September 30	Principal	Interest	Total
2003	\$ -	25,952	25,952
2004	10,225	25,952	36,177
2005	10,685	25,491	36,176
2006	11,190	24,984	36,174
2007	11,720	24,452	36,172
2008 - 2012	68,220	112,654	180,874
2013 - 2017	88,065	92,803	180,868
2018 - 2022	113,125	67,743	180,868
2023 - 2027	143,725	37,147	180,872
2028 - 2029	67,505	4,847	72,352
	524,460	442,025	966,485
Less: Discount	(6,064)	-	(6,064)
Total	\$ 518,396	442,025	960,421

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. 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 21**.

NOTE 7. LONG TERM LIABILITIES

Table 21 - Housing Finance Agency Debt Service Requirements to Maturity

Year Ending September 30	Principal	Interest	Total
2003	\$ 14,405	44,268	58,673
2004	13,245	43,485	56,730
2005	4,890	42,902	47,792
2006	2,310	42,772	45,082
2007	2,780	42,656	45,436
2008-2012	36,544	208,273	244,817
2013-2017	15,617	199,128	214,745
2018-2022	64,285	187,728	252,013
2023-2027	169,025	154,555	323,580
2028-2032	187,706	101,768	289,474
2033-2037	281,454	45,063	326,517
2038-2042	63,665	24,095	87,760
2043-2047	47,394	2,943	50,337
Subtotal	903,320	1,139,636	2,042,956
Unamortized Bond Premium, net	3,979	-	3,979
Total	\$ 907,299	1,139,636	2,046,935

B. OTHER LONG-TERM LIABILITIES

A summary of changes in other long-term liabilities for governmental activities is shown in Table 22.

Table 22 - Changes in Other Long-Term Liabilities

Account	Balance October 1, 2001	Additions	Deductions	Balance September 30, 2002
Governmental Activities:				
Accrued disability compensation (Note 13)	\$ 200,531	64,179	32,827	231,883
Accumulated annual leave	85,716	10,292	-	96,008
Accreted interest	14,298	2,572	-	16,870
Capital leases payable (Note 12)	121,564	51,944	16,451	157,057
Total	\$ 422,109	128,987	49,278	501,818

NOTE 7. LONG-TERM LIABILITIES

C. CURRENT PORTION OF LONG-TERM LIABILITIES

Table 23 presents the current portions of long-term liabilities.

Table 23 – Current Portion of Long-Term Liabilities

Type of Liability	Current Portion	Long-Term Portion	Total
	Principal	Principal	Principal
General Obligation Bonds	\$ 144,135	2,526,438	2,670,573
TIF Bonds and Notes	364	126,181	126,545
QZAB	255	3,327	3,582
Capital Leases	22,246	134,811	157,057
Tobacco Bonds	7,730	506,550	514,280
Annual leave	59,869	36,139	96,008
Future benefits	27,959	203,924	231,883
Accreted interest	-	16,870	16,870
Grant disallowances	-	56,940	56,940
Claims and judgments	5,000	23,969	28,969
Total Governmental Funds	\$ 267,558	3,635,149	3,902,707

NOTE 8. 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. The contribution rate will revert to 7.5% in October 2002, and then back to 7% in January 2003. The employee contribution rate for Civil Service covered employees changed to 7.0% on January 2001.

District contributions to the pension plans administered by the federal government, for the years ended September 30, 2002, 2001, and 2000 were as shown in **Table 24**. These financial statements are available from the U.S. Office of Personnel Management at www.opm.gov.

NOTE 8. RETIREMENT PROGRAMS**Table 24 - Summary of District Contributions to Federally Administered Pension Plans**

Plan	Rate	Employees		2002	2001	2000
Civil Service	8.51%	7,124	\$	25,855	27,309	29,027
Social Security	7.65%	11,434		<u>51,338</u>	<u>48,307</u>	<u>34,571</u>
Total			\$	<u>77,193</u>	<u>75,616</u>	<u>63,598</u>
Total Payroll			\$	<u>1,585,193</u>	<u>1,198,182</u>	<u>1,606,136</u>

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, 1400 L Street, N. W., Suite 300, Washington, D. C. 20005.

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 25**.

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 District contributions for fiscal

year 2002, 2001 and 2000 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 \$251,700 for the year ended September 30, 2002 and have been reported as intergovernmental revenue. Related expenditures of \$198,843 and \$52,857 have been reported in the public safety and justice and the public education systems functions, respectively.

NOTE 8. RETIREMENT PROGRAMS**Table 25 - Actuarial Assumptions**

	<u>Police and Fire</u>	<u>Teachers</u>
Contribution rates plan members	7% - 8%	7% - 8%
Actuarial valuation date	10/01/00	10/01/00
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% - 8.8%	5.3% - 8.8%
Inflation rate	5%	5%
Cost of living adjustments	5%	5%

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

Actuarially Required Contributions

The District made its actuarially required contribution of \$74.6 million to the Police and Firefighters' Plan during the year ended September 30, 2002.

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, 2002, District contributions to the plan were \$19,135. This plan also covers employees of the Sports Commission and Water and Sewer Authority, while the employees of the Housing Finance Agency and Washington Convention Center are covered under their own separate defined contribution plans. Payments to the HFA and Convention Center Plans were \$124 and \$555, respectively.

University of the District of Columbia Component Unit

The University sponsors a contributory pension and retirement plan administered by the Teachers Insurance and Annuity Association/College Retirement Equities Fund (TIAA/CREF.) Eligible employees are those on the faculty and administrative staff of the University. The employees have the option to contribute a minimum of 5% of base salaries. The University contributes a percentage of each employee's base salary as follows: 15% for general faculty, 7% for law school faculty, and 7% for administrative staff. University contributions to the plan in fiscal year 2002 were \$3,183. Generally, employees are fully vested in both their contributions and in those of the University.

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 \$11,000 of their annual compensation for calendar year 2002. Employees with more than fifteen years of service may defer up to \$13,000 for the calendar year 2002. Also an additional deferral of \$1,000 was available to participants

NOTE 8. RETIREMENT PROGRAMS

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

\$11,000 or 100% of includible compensation in calendar year 2002. Also an additional deferral of \$1,000 was available to participants who were at least 50 years old before the end of the calendar year. Compensation deferred and income earned are taxable when paid or made available to the participant or beneficiary upon retirement, death, termination, or unforeseeable emergency. Contributions are not assets of the District, which has no further liability to the plan.

NOTE 9. FUND BALANCE RESERVATIONS

Reserved and designated fund balances at September 30, 2002 are shown in Table 26.

Table 26 - Schedule of FY 2002 Reserved and Designated Fund Balances

	General Fund	Federal & Private Resources	General Capital Improvements	Nonmajor Governmental Funds	Unemployment Compensation Fund	Pension Trust Fund
Reserved						
Debt service – bond escrow	\$ 198,700	-	78,577	-	-	-
Emergency and contingency cash reserve fund	248,731	-	-	-	-	-
Budget	45,063	-	-	-	-	-
Long-term assets	16,092	-	1,736	-	-	-
Inventory	9,891	2,263	-	-	-	-
Purpose restrictions	16,937	233,536	2,462	-	-	-
Charter school loan fund	10,000	-	-	-	-	-
Tobacco settlement	-	-	-	57,137	-	-
Future benefits	-	-	-	-	271,361	1,816,943
Highway projects	-	-	-	65,985	-	-
Total Reserved Fund Balances	\$ 545,414	235,799	82,775	123,122	271,361	1,816,943
Unreserved						
Designated:						
Post employment benefits	\$ 22,408	-	-	-	-	-
Grant disallowances	56,940	-	-	-	-	-
Other purpose restrictions	125,239	-	-	-	-	-
Undesignated	115,327	-	(472,305)	31,751	-	-
Total Unreserved Fund Balances	\$ 319,914	-	(472,305)	31,751	-	-
Total Fund Balances	\$ 865,328	235,799	(389,530)	154,873	271,361	1,816,943

The general capital improvements fund has a negative fund balance of \$(389,530) at September 30, 2002, which will be eliminated by additional operating transfers from the general fund during fiscal year 2003.

NOTE 10. 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 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, 2002 is shown in Table 27.

Table 27 - Summary of Grants Provided to WMATA

<u>Account</u>	<u>Amount</u>
Operating grants	\$ 141,012
Debt service grants	10,331
Capital grants (less escrow balance)	36,390
Total	\$ 187,733

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.

NOTE 11. 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 in lieu of taxes 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, 2002 totaled \$652,066.

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 received a total federal payment of \$155,900 for various purposes relating to emergency preparedness. These funds are made available to assist the District to prepare itself and its citizens to more effectively respond to any threat or possible terrorist attack. These funds must be utilized for the specific purposes and expended by September 30, 2003.

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, except for those associated with water and sewer facilities, 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

NOTE 11. TRANSACTIONS WITH THE FEDERAL GOVERNMENT

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 its 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, 1999 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 \$9,044 for the fiscal year ended September 30, 2002.

NOTE 12. 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 \$13,558 in 2002.

Master Lease

The District began its Master Equipment Lease Purchase Program. (the "Program") in 1998 to provide tax exempt financing for projects with short-term to intermediate-term useful lives. The Program enables the District to improve its asset/liability management by matching the useful life of the asset being financed to the amortization of the liability (5 to 10 years).

Lease payment obligations are not debt nor are they general obligations of the District, but are payable from local appropriations. Each schedule under the Program sets forth the principal and interest components of each rental payment payable during the lease term.

As of September 30, 2002, the District had financed approximately \$74.6 million of its capital equipment needs through the Program, and had approximately \$55.5 million in principal outstanding. During the year, the average interest rate used to finance equipment through the Program was 4.21%, with payments being made on a quarterly basis.

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.

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 \$101,887 in 2002.

C. SCHEDULES 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, 2002 is shown in **Table 28**.

NOTE 12. LEASES**Table 28 - Schedule of Future Minimum Lease Payments**

Year Ending September 30	Primary Government			Component Units	
	Capital Leases	Operating Leases		Operating Leases	
		Facilities	Equip-ment	Facilities	Equip-ment
2003	\$ 22,001	81,115	2,676	1,225	414
2004	27,802	80,955	586	1,240	77
2005	28,662	80,911	507	1,240	71
2006	20,530	83,450	195	1,241	31
2007	11,817	86,286	-	1,241	-
2008-2012	54,034	149,778	-	414	-
2013-2017	20,738	3,081			
Minimum lease payments	185,584	565,576	3,964	6,601	593
Less - imputed interest	28,527				
Present value of payments	\$ 157,057				

NOTE 13. 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. 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, 2002. As such, the District's compliance with applicable grant and

federal requirements will be assessed and established at some future date. An accrual of \$56,940 in the government-wide financial statements has been provided which estimates the probable cumulative expenditures that may be disallowed by the granting agencies based on prior experience.

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 provision for claims and judgments at September 30, 2002.

A summary of the changes in the accrued liability for claims and judgments in the government-wide financial statements is shown in **Table 29**.

NOTE 13. COMMITMENTS AND CONTINGENCIES**Table 29 - Summary of Changes in Claims and Judgments Accrual**

Description	2002	2001
Liability at October 1	\$ 86,890	95,271
Incurring claims	7,959	26,951
Less:		
claims payments/adjustments	(65,880)	35,332
Liability at September 30	\$ 28,969	86,890

The accrued liability is based on estimates of the payments that will be made upon judgment or resolution of the claim. No accrual has been provided for possible but not probable additional claims, which are estimated to be approximately \$110,243.

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 at 6.3% of projected disability compensation is accrued in the government-wide financial statements.

A summary of changes in this accrual is shown in **Table 30**.

Table 30 - Summary of Changes in Disability Compensation Accrual

Description	2002	2001
Liability at October 1	\$200,531	\$177,660
Claims incurred	64,179	55,200
Less-benefit payments	32,827	32,329
Liability at September 30	\$231,883	\$200,531

E. INTEREST RATE SWAP AGREEMENTS

The District has entered into interest rate swap agreements for two variable rate bond issues (1991B and 2001C/D), of which \$37,270 and \$283,870 are outstanding at September 30, 2002, respectively. The agreements are for the term of the related outstanding

bonds. Based on the rate swap agreements, the District owes interest to the counterparties to the swap, calculated at a fixed rate of 5.80% and variable rate of 4.004%, respectively. In return, the counterparties owe the District interest based on a variable rate index. Only the net difference in interest payments is actually exchanged between the counterparties. The District continues to pay interest to the bondholders at the variable rate as provided by the bonds, and the net interest payment under the swap agreements adjusts the net interest rate paid by the District on these bonds to an approximate fixed rate (the fixed rates stated above). The District will be exposed to variable rates on the bonds if the counterparty defaults or if a swap agreement is terminated. Terminating a swap agreement may result in the District making or receiving a termination payment related to market rates at that time.

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, 2002, deferred revenue of \$8,927 related to this agreement is recorded in the government-wide financial statements.

NOTE. 14 SUBSEQUENT EVENTS

A. ISSUANCE OF BONDS, NOTES AND OTHER OBLIGATIONS

On October 15, 2002, the District issued Series 2002A and 2002B General Obligation Bonds in the aggregate principal amount of \$374,200. The proceeds of these bonds are being used to fund a portion of the District's fiscal year 2002 Capital Improvement Program and to pay the costs and expenses of issuing and delivering the bonds. On October 31, 2002, the District issued Series 2002C and 2002D General Obligation Refunding Bonds in the aggregate principal amount of \$163,170. The proceeds of these bonds were used to defease a portion of the District's outstanding general obligation bonds at a savings to the District and to pay the costs and expenses of issuing and delivering the bonds. The Series 2002 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 District's 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 Series 2002A, 2002B and 2002D bonds bear interest at variable rates from the date of issue until maturity, unless converted to a fixed rate. However, the Series 2002B and 2002D bonds were issued in conjunction with interest rate swap agreements, which effectively fixed the interest rates paid by the District on these bonds. The Series 2002C bonds were issued as fixed-rate bonds. The final maturity of the Series 2002A, 2002B, 2002C and 2002D bonds is June 1, 2019, 2027, 2014, and 2031, respectively.

On October 30, 2002, the District issued Fiscal Year 2003 General Obligation Tax Revenue Anticipation Notes in the aggregate principal amount of \$150,000. The proceeds of these notes are being used to fund the District's Fiscal Year 2003 seasonal cash flow needs. The notes 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 notes were issued as fixed-rate notes, and mature on September 30, 2003.

On November 7, 2002, the District facilitated the issuance of Certificates of Participation by a Trustee in the aggregate principal amount of \$58,075, obligating the District to make lease payments on certain real property pursuant to a lease purchase agreement. The proceeds of these certificates were used to defease outstanding certificates at a savings to the District and to pay the costs and expenses of issuing and delivering the certificates. The certificates are *not* general obligations of the District, and are *not* secured by the District's full faith and credit. Payment of the District's obligations under the certificates is subject to annual appropriation. The certificates were

issued as fixed-rate certificates, and their final maturity is 2013.

B. HOUSING FINANCE AGENCY

On October 1, 2002, the Agency issued Series 2002 Multi-Family Housing Revenue bonds of \$34.08 million, on October 24, 2002 the Agency issued Series 2002 Multi-Family Housing Revenue bonds of \$4.14 million, and on December 30, 2002, the Agency issued Series 2002J for Multifamily Housing bonds of \$16.125 million. In addition, the Agency drew down bond Series 2002 for \$300 million and redeemed the single-family draw down bonds series 1999 in the amount of \$220.1 million on December 13, 2002.

On October 1, 2002, the Agency made a McKinney Act loan to the Carver 2000 Tenants Association, Inc. in the amount of \$2,391 for costs associated with the acquisition of the George Washington Carver Apartments.

REQUIRED SUPPLEMENTARY INFORMATION

(Unaudited)

SEPTEMBER 30, 2002

Three-year historical trend information of the retirement systems administered by the reporting entity is presented in the following tables as required supplementary information.

Police and Fire Pension Plan

Year Ended	Annual Pension Cost (APC) (millions)	Percentage of APC Contributed	Net Pension Obligation
09/30/00	\$39.9	100%	\$0
09/30/01	49.0	100%	0
09/30/02	74.6	100%	0

Teachers Pension Plan

Year Ended	Annual Pension Cost (APC) (millions)	Percentage of APC Contributed	Net Pension Obligation
09/30/00	\$10.7	100%	\$0
09/30/01	.2	100%	0
09/30/02	0	100%	0

GENERAL FUND

The General Fund is used to account for all financial resources that are not required to be accounted for in another fund.

Exhibit A-1

GENERAL FUND
BALANCE SHEET
September 30, 2002
(\$000s)

ASSETS

Current Assets:	
Cash and cash equivalents (unrestricted)	\$ 47,936
Investments	439,996
Receivables (net of allowances for uncollectibles):	
Taxes	234,244
Accounts	116,744
Intergovernmental	4,248
Due from component unit	9,927
Interfund	282,506
Inventories	9,891
Other current assets	23,612
Cash and cash equivalents (restricted)	<u>447,431</u>
Total assets	\$ <u>1,616,535</u>

LIABILITIES AND FUND BALANCE

Current Liabilities:	
Payables:	
Accounts	308,845
Compensation:	
Salaries and wages	121,706
Employee benefits	3,400
Payroll taxes	4,917
Other deductions	2,348
Due to component units	28,107
Interfund	11,443
Accrued liabilities:	
Claims and judgments	5,000
Medicaid	59,610
Tax refunds	69,663
Deferred revenue:	
Property taxes	86,443
Other deferrals	24,092
Other current liabilities	<u>25,633</u>
Total liabilities	<u>751,207</u>
Fund Balance:	
Reserved	545,414
Unreserved	<u>319,914</u>
Total fund balance	<u>865,328</u>
Total liabilities and fund balance	\$ <u>1,616,535</u>

See Accompanying Independent Auditors' Report.

Exhibit A-2

**GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE**

Year Ended September 30, 2002
(\$000s)

Revenues:	
Taxes	\$ 3,229,809
Licenses and permits	52,003
Fines and forfeits	88,495
Charges for services:	
Public	88,333
Intergovernmental	10,741
Interfund	7,168
Miscellaneous:	
Public	179,505
Investment income	10,550
Total revenues	<u>3,666,604</u>
Expenditures:	
Current:	
Governmental direction and support	339,819
Economic development and regulation	115,695
Public safety and justice	634,867
Public education system	929,988
Human support services	761,121
Public works	146,786
Receiverships	319,608
Public transportation	148,493
Debt service:	
Principal	131,750
Interest	135,688
Fiscal charges	4,744
Total expenditures	<u>3,668,559</u>
EXCESS OF EXPENDITURES OVER REVENUES	<u>(1,955)</u>
Other Financing Sources (Uses):	
Proceeds from:	
General obligation bonds	72,525
Payment to refunded bond escrow agent:	
Refunded debt	(63,565)
Other charges	(5,922)
Transfers:	
Interfund transfers in	78,848
Interfund transfers out	(52,476)
Total other financing sources (uses)	<u>29,410</u>
EXCESS OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	<u>27,455</u>
Fund Balance at October 1, as restated	<u>837,873</u>
Fund Balance at September 30	<u>\$ 865,328</u>

See Accompanying Independent Auditors' Report.

Exhibit A-3

GENERAL FUND
SCHEDULE OF EXPENDITURES AND NET FINANCING (SOURCES) USES
FUNCTION AND OBJECT --GAAP BASIS

Year Ended September 30, 2002
(\$000s)

Function and Subfunction	Personal Services	Contractual Services	Supplies	Occupancy	Miscellaneous	Total
Governmental Direction and Support:						
Legislative	\$ 10,882	1,243	157	612	1,492	14,386
Executive	43,835	44,311	407	6,488	12,201	107,242
Finance	53,973	14,924	635	8,205	66,505	144,242
Personnel	10,432	15,779	235	1,044	243	27,733
Administrative	22,752	9,160	773	9,245	(762)	41,168
Elections	3,092	1,451	28	390	87	5,048
Total	<u>144,966</u>	<u>86,868</u>	<u>2,235</u>	<u>25,984</u>	<u>79,766</u>	<u>339,819</u>
Economic Development and Regulation:						
Community development	9,811	10,414	325	1,308	19,183	41,041
Economic regulation	34,164	7,972	485	7,171	1,316	51,108
Employment services	9,214	5,728	(170)	1,245	7,529	23,546
Total	<u>53,189</u>	<u>24,114</u>	<u>640</u>	<u>9,724</u>	<u>28,028</u>	<u>115,695</u>
Public Safety and Justice:						
Police	324,338	34,297	4,404	10,368	5,510	378,917
Fire	138,235	4,043	2,423	3,210	4,126	152,036
Corrections	43,214	32,135	1,978	5,299	15,110	97,736
Protection	3,488	1,433	30	922	30	5,903
Judicial	209	57	4	2	3	275
Total	<u>509,484</u>	<u>71,965</u>	<u>8,839</u>	<u>19,801</u>	<u>24,779</u>	<u>634,867</u>
Public Education System:						
Schools	497,815	81,875	18,257	31,313	267,977	897,237
Culture	20,460	3,231	437	2,273	6,350	32,751
Total	<u>518,275</u>	<u>85,106</u>	<u>18,694</u>	<u>33,586</u>	<u>274,327</u>	<u>929,988</u>
Human Support Services:						
Health and welfare	76,488	150,516	4,257	27,672	416,368	675,301
Human relations	2,491	3,644	67	236	12,046	18,484
Employment benefits	36,863	-	-	-	-	36,863
Recreation	22,290	3,929	1,055	2,661	539	30,474
Total	<u>138,132</u>	<u>158,089</u>	<u>5,379</u>	<u>30,569</u>	<u>428,953</u>	<u>761,121</u>
Public Works						
	<u>67,719</u>	<u>48,941</u>	<u>4,186</u>	<u>12,935</u>	<u>13,005</u>	<u>146,786</u>
Receiverships:						
Child and family services	26,049	3,356	-	5,440	106,332	141,177
Commission on mental health services	107,160	59,041	1,746	9,917	567	178,431
Total	<u>133,209</u>	<u>62,397</u>	<u>1,746</u>	<u>15,357</u>	<u>106,899</u>	<u>319,608</u>
Public transportation						
	-	-	-	-	148,493	148,493
Debt Service						
	-	-	-	-	272,182	272,182
Net Financing Sources						
	-	-	-	-	(29,410)	(29,410)
Total expenditures and net sources	<u>\$ 1,564,973</u>	<u>537,480</u>	<u>41,719</u>	<u>147,956</u>	<u>1,347,022</u>	<u>3,639,150</u>

See Accompanying Independent Auditors' Report.

Exhibit A-4

GENERAL FUND
SCHEDULE OF LOCAL SOURCE REVENUES
BUDGET AND ACTUAL (BUDGETARY BASIS)

Year Ended September 30, 2002
(\$000s)

Source	Budget		Actual	Variance - Favorable (Unfavorable)
	Original	Revised		
Taxes:				
Property:				
Real	\$ 680,964	707,335	726,014	18,679
Personal	53,682	63,262	65,208	1,946
Public space rental	11,385	10,795	12,167	1,372
Total	<u>746,031</u>	<u>781,392</u>	<u>803,389</u>	<u>21,997</u>
Sales and use:				
General	685,697	607,249	612,354	5,105
Alcoholic beverages	4,810	4,582	4,721	139
Cigarette	17,000	15,483	17,189	1,706
Motor vehicles	31,000	36,590	34,573	(2,017)
Total	<u>738,507</u>	<u>663,904</u>	<u>668,837</u>	<u>4,933</u>
Income and franchise:				
Individual income	1,112,524	1,107,181	949,175	(158,006)
Corporation franchise	181,100	143,305	142,647	(658)
Unincorporated business	67,453	59,315	68,602	9,287
Total	<u>1,361,077</u>	<u>1,309,801</u>	<u>1,160,424</u>	<u>(149,377)</u>
Gross receipts:				
Public utility	152,480	156,670	140,931	(15,739)
Toll telecommunication	59,000	57,067	55,353	(1,714)
Insurance companies	33,000	33,600	35,502	1,902
Total	<u>244,480</u>	<u>247,337</u>	<u>231,786</u>	<u>(15,551)</u>
Other:				
Decd recordation	69,481	77,035	89,951	12,916
Decd transfer	53,592	60,183	62,228	2,045
Inheritance and estate	29,887	47,567	125,889	78,322
Economic interest	500	4,500	5,078	578
Total	<u>153,460</u>	<u>189,285</u>	<u>283,146</u>	<u>93,861</u>
Total taxes	<u>3,243,555</u>	<u>3,191,719</u>	<u>3,147,582</u>	<u>(44,137)</u>
Licenses and Permits:				
Business licenses	25,200	30,758	29,875	(883)
Nonbusiness permits	18,136	17,149	20,320	3,171
Total	<u>43,336</u>	<u>47,907</u>	<u>50,195</u>	<u>2,288</u>
Fines and Forfeits	<u>60,040</u>	<u>78,835</u>	<u>86,539</u>	<u>7,704</u>
Charges for Services:				
Right of way	-	-	18,000	18,000
Other	49,928	37,919	37,472	(447)
Total	<u>49,928</u>	<u>37,919</u>	<u>55,472</u>	<u>17,553</u>
Miscellaneous:				
Interest	25,820	17,765	9,645	(8,120)
Other	46,210	46,585	70,908	24,323
Total	<u>72,030</u>	<u>64,350</u>	<u>80,553</u>	<u>16,203</u>
Total local source revenues	<u>\$ 3,468,889</u>	<u>3,420,730</u>	<u>3,420,341</u>	<u>(389)</u>

See Accompanying Independent Auditors' Report.

GENERAL FUND
SCHEDULE OF BUDGETARY BASIS REVENUES AND EXPENDITURES BY SOURCE OF FUNDS
Year Ended September 30, 2002
(S000s)

	Local Source			Other Source			Total		
	Original Budget	Revised Budget	Actual	Original Budget	Revised Budget	Actual	Original Budget	Revised Budget	Actual
Revenues and Sources:									
Taxes									
Property	746,031	781,392	803,389	-	-	-	746,031	781,392	803,389
Sales and uses	738,507	663,904	668,837	-	-	-	738,507	663,904	668,837
Income and franchise	1,361,077	1,309,801	1,160,424	-	-	-	1,361,077	1,309,801	1,160,424
Gross receipts and other taxes	397,940	436,622	514,932	-	-	-	397,940	436,622	514,932
Total taxes	3,243,555	3,191,719	3,147,582	-	-	-	3,243,555	3,191,719	3,147,582
Licenses and permits	43,336	47,907	50,195	-	-	-	43,336	47,907	50,195
Fines and forfeits	60,040	78,835	86,539	-	-	-	60,040	78,835	86,539
Charges for services	49,928	37,919	55,472	-	-	-	49,928	37,919	55,472
Miscellaneous	72,030	64,350	80,553	-	-	-	72,030	64,350	80,553
Other	-	209,545	-	209,545	160,290	156,236	209,545	160,290	156,236
Fund balance released from restrictions	37,401	37,401	37,401	-	-	-	37,401	37,401	37,401
Interfund transfer	70,000	70,000	63,000	-	-	-	70,000	70,000	63,000
Total Revenues and Sources	3,376,290	3,528,131	3,520,742	209,545	160,290	156,236	3,785,835	3,688,421	3,676,978
Expenditures and Uses:									
Governmental direction and support	229,421	239,573	248,012	48,986	22,550	17,927	278,407	262,123	265,939
Economic development and regulation	60,786	57,098	56,070	80,740	81,667	60,721	141,526	138,765	116,791
Public safety and justice	594,803	633,574	628,510	37,438	12,352	7,650	632,241	645,926	636,160
Public education system	896,994	901,519	894,316	8,467	8,601	6,693	905,461	910,120	901,009
Public School FY03 Expenditure	107,497	31,939	31,939	-	-	-	107,497	31,939	31,939
Human support services	711,072	740,379	736,541	3,838	22,766	18,540	732,130	763,145	755,081
Public works	286,334	297,864	297,335	12,171	11,669	8,056	298,505	309,533	305,361
Receiverships	250,515	298,310	330,700	685	685	400	251,200	298,995	331,100
Workforce investments	42,896	801	-	-	-	-	42,896	801	-
Wilson building	8,859	7,195	5,945	-	-	-	8,859	7,195	5,945
Tobacco fund	33,254	33,254	-	-	-	-	33,254	33,254	-
Reserve	120,000	-	-	-	-	-	120,000	-	-
Repay bonds and interest	247,902	239,952	233,251	-	-	-	247,902	239,952	233,251
Repay deficit bonds and interest	39,300	39,300	38,931	-	-	-	39,300	39,300	38,931
Interest on short term borrowing	500	-	-	-	-	-	500	-	-
Certificates of participation	-	7,950	7,924	-	-	-	-	7,950	7,924
Reserve relief	30,000	4,799	-	-	-	-	30,000	4,799	-
Non-departmental agency	5,799	-	-	-	-	-	5,799	-	-
Total Expenditures and Net Uses	3,665,932	3,533,507	3,509,474	209,545	160,290	119,957	3,873,477	3,693,797	3,629,431
Excess (Deficiency) of Revenues and Sources Over (Under) Expenditures and Uses	\$(89,642)	\$(5,376)	11,268	16,644	36,279	36,279	\$(89,642)	\$(5,376)	47,547

See Accompanying Independent Auditors' Report.

Exhibit A-6

GENERAL FUND
SCHEDULE OF BUDGETARY BASIS REVENUES AND EXPENDITURES

Year Ended September 30, 2002
(\$000s)

	Original Budget	Revised Budget	Actual	Variance Actual To Original Budget
Revenues and Sources:				
Taxes:				
Property	\$ 746,031	781,392	803,389	57,358
Sales and use	738,507	663,904	668,837	(69,670)
Income and franchise	1,361,077	1,309,801	1,160,424	(200,653)
Other taxes	397,940	436,622	514,932	116,992
Total taxes	<u>3,243,555</u>	<u>3,191,719</u>	<u>3,147,582</u>	<u>(95,973)</u>
Licenses and permits	43,336	47,907	50,195	6,859
Fines and forfeits	60,040	78,835	86,539	26,499
Charges for services	49,928	37,919	55,472	5,544
Miscellaneous	72,030	64,350	80,553	8,523
Other	209,545	160,290	156,236	(53,309)
Fund balance released from restriction	37,401	37,401	37,401	-
Interfund transfer	70,000	70,000	63,000	(7,000)
Total Revenues and Sources	<u>3,785,835</u>	<u>3,688,421</u>	<u>3,676,978</u>	<u>(108,857)</u>
Expenditures and Uses:				
Governmental direction and support	278,407	262,123	265,939	12,468
Economic development and regulation	141,526	138,765	116,791	24,735
Public safety and justice	632,241	645,926	636,160	(3,919)
Public education system	905,461	910,120	901,009	4,452
Public School FY03 Expenditure	107,497	31,939	31,939	75,558
Human support services	732,130	763,145	755,081	(22,951)
Public works	298,505	309,533	305,361	(6,856)
Receiverships	251,200	298,995	331,100	(79,900)
Washington Convention Center payment	42,896	801	-	42,896
Wilson Building	8,859	7,195	5,945	2,914
Tobacco fund	33,254	33,254	-	33,254
Reserve	120,000	-	-	120,000
Reserve relief	30,000	-	-	30,000
Repay bonds and interest	247,902	239,952	233,251	14,651
Repay deficit bonds and interest	39,300	39,300	38,931	369
Interest on short term borrowing	500	-	-	500
Certificates of participation	-	7,950	7,924	(7,924)
Non-departmental agency	5,799	4,799	-	5,799
Total Expenditures and Uses	<u>3,875,477</u>	<u>3,693,797</u>	<u>3,629,431</u>	<u>246,046</u>
Excess (Deficiency) of Revenues and Sources Over (Under) Expenditures and Uses	\$ <u>(89,642)</u>	<u>(5,376)</u>	<u>47,547</u>	<u>137,189</u>

See Accompanying Independent Auditors' Report.

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NONMAJOR GOVERNMENTAL FUNDS

Special Revenue Funds

The **Tax Increment Financing (TIF) Program Fund** is used to account for activities relating to various TIF development initiatives.

The **Tobacco Settlement Financing Corporation (TSFC) Fund** is used to account for the tobacco litigation settlement activities of the District of Columbia.

Capital Projects Fund

The **Highway Trust Fund** is used to account for the motor vehicle fuel taxes and other fees collected and used by the District for highway projects.

Exhibit B-1

**NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET**

September 30, 2002
(\$000s)

	Tax Increment Financing Program	Tobacco Settlement Financing Corporation	Highway Trust	Total
ASSETS				
Current Assets:				
Cash and cash equivalents	\$ -	\$ 204	\$ -	\$ 204
Investments	31,657	-	49,703	81,360
Receivables (net of allowances for uncollectibles):				
Accounts	-	-	3,203	3,203
Due from other District entities	-	-	11,718	11,718
Interfund	-	-	11,443	11,443
Accrued interest	-	29	-	29
Restricted cash and investments	-	66,858	-	66,858
Total assets	\$ 31,657	\$ 67,091	\$ 76,067	\$ 174,815
LIABILITIES AND FUND BALANCE				
Current Liabilities:				
Payables:				
Accounts	-	-	92	92
Accrued liabilities	-	110	-	110
Due to other funds	-	9,750	9,990	19,740
Total liabilities	-	9,860	10,082	19,942
Fund Balance:				
Reserved for encumbrances	-	-	65,985	65,985
Reserved	-	57,137	-	57,137
Unreserved	31,657	94	-	31,751
Total fund balance	31,657	57,231	65,985	154,873
Total liabilities and fund balance	\$ 31,657	\$ 67,091	\$ 76,067	\$ 174,815

See Accompanying Independent Auditors' Report.

Exhibit B-2

NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES

Year Ended September 30, 2002

(\$000s)

	Tax Increment Financing Program	Tobacco Settlement Financing Corporation	Highway Trust	Total
Revenues:				
Interest	\$ 234	\$ 3,462	\$ 1,833	\$ 5,529
Other	33	34,672	19,946	54,651
Total revenues	<u>267</u>	<u>38,134</u>	<u>21,779</u>	<u>60,180</u>
Expenditures:				
Current:				
Governmental direction and support	-	358	-	358
Bond principal payment	-	6,825	-	6,825
Capital outlay	79,093	-	48,586	127,679
Financing charge	9,078	-	-	9,078
Interest	84	39,412	-	39,496
Total expenditures	<u>88,255</u>	<u>46,595</u>	<u>48,586</u>	<u>183,436</u>
DEFICIENCY OF REVENUES UNDER EXPENDITURES	<u>(87,988)</u>	<u>(8,461)</u>	<u>(26,807)</u>	<u>(123,256)</u>
Other Financing Sources (Uses):				
Operating transfer in	-	-	38,348	38,348
Proceeds from:				
Tax increment financing bonds	119,645	-	-	119,645
Total other financing sources	<u>119,645</u>	<u>-</u>	<u>38,348</u>	<u>157,993</u>
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES	<u>31,657</u>	<u>(8,461)</u>	<u>11,541</u>	<u>34,737</u>
Fund Balances at October 1	<u>-</u>	<u>65,692</u>	<u>54,444</u>	<u>120,136</u>
Fund Balances at September 30	<u>\$ 31,657</u>	<u>\$ 57,231</u>	<u>\$ 65,985</u>	<u>\$ 154,873</u>

See Accompanying Independent Auditors' Report.

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FIDUCIARY FUNDS

The Fiduciary Funds are used to account for assets held by the District in a trustee or agency capacity and include the pension trust funds and agency funds. Pension trust funds account for assets held by the District under terms of a formal trust agreement. Agency funds are used to account for assets held by the District as an agent for individuals, private organizations or other governments.

The **Pension Trust Funds** are used to account for the accumulation of resources to be used for retirement annuity payments at appropriate amounts and times in the future for police officers, fire fighters and public school teachers of the District. Resources are contributed by employees and by the District and federal governments at amounts determined by an annual actuarial study. The funds are administered by a thirteen member Retirement Board. Three of these members are appointed by the Mayor and three by the Council. The other members include one each active and retired police officers, fire fighters, and teachers. The administrative costs of the board are accounted for in the funds.

The **Agency Funds** are used to account for refundable deposits required of various licenses, monies held in escrow as an agent for individuals, private organizations or other governments.

Exhibit C-1

PENSION TRUST FUNDS
COMBINING STATEMENT OF FIDUCIARY NET ASSETS

September 30, 2002
(\$000s)

	Police and Fire	Teachers	Total
ASSETS			
Current Assets:			
Cash and cash equivalents - restricted	\$ 325,956	\$ -	\$ 325,956
Investments - restricted	840,602	790,725	1,631,327
Receivables (net of allowances for uncollectibles):			
Interfund	1,160	1,475	2,635
Due from other funds	6	72	78
Total assets	1,167,724	792,272	1,959,996
LIABILITIES AND FUND BALANCES			
Current Liabilities:			
Payables:			
Accounts	3,618	4,290	7,908
Securities lending	80,162	54,372	134,534
Interfund payables	364	247	611
Total liabilities	84,144	58,909	143,053
Net Assets			
Restricted for pension benefits	1,083,580	733,363	1,816,943
Total net assets	\$ 1,083,580	\$ 733,363	\$ 1,816,943

See Accompanying Independent Auditors' Report.

Exhibit C-2

PENSION TRUST FUNDS
COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
Year Ended September 30, 2002
(\$000s)

	Police and Fire	Teachers	Totals
Additions:			
Benefit contributions:			
Employer	\$ 74,600	-	74,600
Employees	19,390	25,374	44,764
Investment income:			
Interest and dividends	35,226	24,242	59,468
Net depreciation in fair value of investments	(129,669)	(86,692)	(216,361)
Less - investment expenses	(5,121)	(3,526)	(8,647)
Total additions	<u>(5,574)</u>	<u>(40,602)</u>	<u>(46,176)</u>
Deductions:			
Administrative expenses	1,445	989	2,434
Benefit payments	3,222	3,800	7,022
Total deductions	<u>4,667</u>	<u>4,789</u>	<u>9,456</u>
Change in net assets	(10,241)	(45,391)	(55,632)
Net assets held in trust for pension benefits:			
October 1	<u>1,093,821</u>	<u>778,754</u>	<u>1,872,575</u>
September 30	<u>\$ 1,083,580</u>	<u>733,363</u>	<u>1,816,943</u>

See Accompanying Independent Auditors' Report.

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SUPPORTING SCHEDULES

Supporting schedules are financial presentations used to aggregate and present in greater detail information spread throughout the financial statements and to present additional information not disclosed in the basic financial statements.

Exhibit D-1

FINANCIAL REPORTING ENTITY
SCHEDULE OF BUDGETARY BASIS EXPENDITURES
 Year Ended September 30, 2002
 (\$000s)

	Budget		Actual	Variance
	Original	Revised		
Governmental direction and support:				
City Council	\$ 13,312	13,598	12,605	993
DC Auditor	1,299	1,335	1,283	52
Advisory neighborhood commissions	808	810	521	289
Mayor	13,028	9,067	8,338	729
Executive secretary	2,516	2,466	2,299	167
Citywide call center	1,898	1,854	1,850	4
City administrator	28,009	16,056	13,052	3,004
Personnel	16,026	15,535	14,982	553
Human resource development	3,766	3,683	3,486	197
Finance and resource management	2,430	2,429	2,174	255
Contracts and procurement	13,066	13,162	12,999	163
Chief technology officer	12,902	16,263	16,245	18
Property management	34,791	16,021	14,877	1,144
Contract appeals	746	695	676	19
Elections and ethics	3,503	3,948	3,763	185
Campaign finance	1,388	1,391	1,290	101
Public employee relations	686	676	623	53
Employee appeals	1,540	1,506	1,485	21
Council of governments	367	367	367	-
Corporation counsel	50,440	48,788	54,087	(5,299)
Settlements and judgments	23,450	30,150	31,360	(1,210)
Inspector general	12,476	11,928	11,619	309
Chief financial officer	78,810	81,355	81,245	110
Total governmental direction and support	317,257	293,083	291,226	1,857
Economic development and regulation:				
Business services and economic development	35,036	35,137	27,743	7,394
Office of zoning	2,378	1,918	1,892	26
Housing and community development	57,890	71,718	67,938	3,780
Alcoholic beverage regulation administration	2,607	2,607	1,976	631
Employment services	81,402	78,826	71,409	7,417
Appeals and review	242	249	243	6
Real property assessment and appeals	298	304	274	30
Consumer and regulatory affairs	28,605	29,215	27,338	1,877
Office of banks and financial institutions	6,620	5,904	4,378	1,526
Public services commission	6,402	6,506	6,289	217
Office of people's counsel	3,884	3,884	3,826	58
Insurance regulation	9,511	9,511	8,346	1,165
Office of cable TV	3,437	3,575	3,197	378
Total economic development and regulation	238,312	249,354	214,849	24,505
Public safety and justice:				
Police	314,629	341,840	338,324	3,516
Fire and emergency medical services	119,870	135,354	134,531	823
Police and firefighter retirement contribution	74,600	74,600	74,600	-
Corrections information council	-	100	-	100
Corrections	115,385	130,859	124,686	6,173
National guard	2,995	2,522	1,894	628
Emergency preparedness	3,964	20,279	19,887	392
Judicial disabilities and tenure	172	185	182	3
Judicial nomination	91	93	93	-
Citizen complaint review board	1,424	1,321	1,168	153
Advisory commission on sentencing	637	490	416	74
Office of the Chief Medical Examiner	6,812	5,968	5,740	228
Total public safety and justice	640,579	713,611	701,521	12,090
Public education system:				
Public schools	820,038	881,593	861,220	20,373
FY03 public school expenditure	74,371	1,527	1,527	-
State education office	47,370	50,048	47,686	2,362
Public charter schools	142,257	73,372	67,213	6,159
FY02 public charter school expenditure	33,126	30,412	30,412	-
University	45,912	56,068	56,068	-
Public library	27,270	27,414	26,552	762
Arts and humanities	2,456	2,632	2,604	28
Total public education system	1,192,800	1,123,066	1,093,382	29,684

(Continued)

Exhibit D-1

FINANCIAL REPORTING ENTITY
SCHEDULE OF BUDGETARY BASIS EXPENDITURES

Year Ended September 30, 2002
(S000s)

	Budget		Actual	Variance
	Original	Revised		
Human support services:				
Human development	\$ 421,581	434,277	431,279	2,998
Health	1,291,040	1,223,188	1,215,458	7,730
Recreation and parks	31,145	32,049	31,372	677
Aging	19,658	21,490	19,554	1,936
PBC transition	-	17,728	17,312	416
Unemployment compensation contribution	8,200	9,182	9,182	-
Employee disability compensation	27,986	27,701	27,701	-
Human rights	1,651	1,871	1,838	33
Children investment trust	-	5,831	5,831	-
Latino affairs	2,849	2,861	2,808	53
Energy	6,284	11,984	10,511	1,473
Asian and pacific islander affairs	207	210	198	12
Veterans' affairs	230	175	172	3
Total human support services	1,810,831	1,788,347	1,773,216	15,331
Public works:				
Public works	114,078	123,991	122,879	1,112
Department of motor vehicles	34,025	33,329	32,572	757
Taxicab commission	2,992	2,952	957	1,995
Washington metropolitan area transit commission	83	83	83	-
Washington metropolitan area transit authority	148,622	148,622	148,493	129
School transit subsidy	3,100	3,100	2,894	206
Total public works	302,900	312,077	307,878	4,199
Receiverships:				
Child and family services	176,378	172,447	204,016	(31,569)
Incentives for adoption of children	-	904	904	-
Dept of mental health	228,620	229,981	221,150	8,831
Total receiverships	404,998	403,332	426,070	(22,738)
Other:				
Reserve	120,000	-	-	-
Repayment of bonds and interest	247,902	239,952	233,251	6,701
Repayment of general fund deficit bonds	39,300	39,300	38,931	369
Interest on short term borrowing	500	-	-	-
Certificates of participation	-	7,950	7,924	26
Emergency planning and security costs	16,058	606	-	606
Wilson Building	8,859	7,195	5,945	1,250
Reserve Relief	30,000	-	-	-
Emergency reserve fund transfer	33,254	33,254	-	33,254
Non-departmental agency	5,799	4,799	-	4,799
Water and sewer authority	-	244,978	203,027	41,951
Washington aqueduct	-	46,510	-	46,510
Lottery and games	-	229,688	212,138	17,550
Storm water	3,100	3,100	988	2,112
Sports commission	-	9,627	3,741	5,886
Retirement board administration	-	13,388	7,168	6,220
Correctional industries	-	-	(614)	614
Washington convention center operations	-	57,278	-	57,278
Workforce investment	42,896	801	-	801
Total other	547,668	938,426	712,499	225,927
Total budget	\$ 5,455,345	5,821,496	5,530,641	290,855

See Accompanying Independent Auditors' Report.

Exhibit D-2

FINANCIAL REPORTING ENTITY
SCHEDULE OF BUDGETARY BASIS OPERATIONS BY SOURCE OF FUNDS
Year Ended September 30, 2002
(\$000s)

	Local Source				Federal Grants			
	Original Budget	Revised Budget	Actual	Variance	Original Budget	Revised Budget	Actual	Variance
General Fund:								
Revenues	\$ 3,576,290	3,528,131	3,520,742	7,389	1,546,563	1,493,574	1,389,557	104,017
Expenditures	3,665,932	3,533,507	3,509,474	24,033	1,546,563	1,493,574	1,454,177	39,397
Excess (Deficiency)	(89,642)	(5,376)	11,268	(16,644)	-	-	(64,620)	64,620
Water and Sewer Utility:								
Water and Sewer Authority:								
Revenues	-	-	-	-	-	-	-	-
Expenditures	-	-	-	-	-	-	-	-
Excess (Deficiency)	-	-	-	-	-	-	-	-
Washington Aqueduct:								
Revenues	-	-	-	-	-	-	-	-
Expenditures	-	-	-	-	-	-	-	-
Excess (Deficiency)	-	-	-	-	-	-	-	-
Total Water and Sewer Utility:								
Revenues	-	-	-	-	-	-	-	-
Expenditures	-	-	-	-	-	-	-	-
Excess (Deficiency)	-	-	-	-	-	-	-	-
Lottery and Games:								
Revenues	-	-	-	-	-	-	-	-
Expenditures	-	-	-	-	-	-	-	-
Excess (Deficiency)	-	-	-	-	-	-	-	-
Sports Commission:								
Revenues	-	-	-	-	-	-	-	-
Expenditures	-	-	-	-	-	-	-	-
Excess (Deficiency)	-	-	-	-	-	-	-	-
Retirement Board Administration:								
Revenues	-	-	-	-	-	-	-	-
Expenditures	-	-	-	-	-	-	-	-
Excess (Deficiency)	-	-	-	-	-	-	-	-
Correctional Industries:								
Revenues	-	-	-	-	-	-	-	-
Expenditures	-	-	-	-	-	-	-	-
Excess (Deficiency)	-	-	-	-	-	-	-	-
Washington Convention Center Operations:								
Revenues	-	-	-	-	-	-	-	-
Expenditures	-	-	-	-	-	-	-	-
Excess (Deficiency)	-	-	-	-	-	-	-	-
Total:								
Revenues	3,576,290	3,528,131	3,520,742	7,389	1,546,563	1,493,574	1,389,557	104,017
Expenditures	3,665,932	3,533,507	3,509,474	24,033	1,546,563	1,493,574	1,454,177	39,397
Excess (Deficiency)	\$ (89,642)	(5,376)	11,268	(16,644)	-	-	(64,620)	64,620

See Accompanying Independent Auditors' Report.

Exhibit D-2

FINANCIAL REPORTING ENTITY
SCHEDULE OF BUDGETARY BASIS OPERATIONS BY SOURCE OF FUNDS
Year Ended September 30, 2002
(\$000s)

	Private and Other				Total			
	Original Budget	Revised Budget	Actual	Variance	Original Budget	Revised Budget	Actual	Variance
General Fund:								
Revenues	\$ 239,750	189,846	204,559	(14,713)	5,362,603	5,211,551	5,114,858	96,693
Expenditures	239,750	189,846	140,542	49,304	5,452,245	5,216,927	5,104,193	112,734
Excess (Deficiency)	-	-	64,017	(64,017)	(89,642)	(5,376)	10,665	(16,041)
Water and Sewer Utility:								
Water and Sewer Authority:								
Revenues	-	244,978	203,027	41,951	-	244,978	203,027	41,951
Expenditures	-	244,978	203,027	41,951	-	244,978	203,027	41,951
Excess (Deficiency)	-	-	-	-	-	-	-	-
Washington Aqueduct:								
Revenues	-	46,510	-	46,510	-	46,510	-	46,510
Expenditures	-	46,510	-	46,510	-	46,510	-	46,510
Excess (Deficiency)	-	-	-	-	-	-	-	-
Total Water and Sewer Utility:								
Revenues	-	291,488	203,027	88,461	-	291,488	203,027	88,461
Expenditures	-	291,488	203,027	88,461	-	291,488	203,027	88,461
Excess (Deficiency)	-	-	-	-	-	-	-	-
Lottery and Games:								
Revenues	-	229,688	212,138	17,550	-	229,688	212,138	17,550
Expenditures	-	229,688	212,138	17,550	-	229,688	212,138	17,550
Excess (Deficiency)	-	-	-	-	-	-	-	-
Sports Commission:								
Revenues	-	9,627	3,741	5,886	-	9,627	3,741	5,886
Expenditures	-	9,627	3,741	5,886	-	9,627	3,741	5,886
Excess (Deficiency)	-	-	-	-	-	-	-	-
Retirement Board Administration:								
Revenues	-	13,388	7,168	6,220	-	13,388	7,168	6,220
Expenditures	-	13,388	7,168	6,220	-	13,388	7,168	6,220
Excess (Deficiency)	-	-	-	-	-	-	-	-
Correctional Industries:								
Revenues	-	-	(614)	614	-	-	(614)	614
Expenditures	-	-	(614)	614	-	-	(614)	614
Excess (Deficiency)	-	-	-	-	-	-	-	-
Washington Convention Center Operations:								
Revenues	-	57,278	-	57,278	-	57,278	-	57,278
Expenditures	-	57,278	-	57,278	-	57,278	-	57,278
Excess (Deficiency)	-	-	-	-	-	-	-	-
Total:								
Revenues	239,750	791,315	630,019	161,296	5,362,603	5,813,020	5,540,318	272,702
Expenditures	239,750	791,315	566,002	225,313	5,452,245	5,818,396	5,529,653	288,743
Excess (Deficiency)	\$ -	-	64,017	(64,017)	(89,642)	(5,376)	10,665	(16,041)

Exhibit D-3

FINANCIAL REPORTING ENTITY
SCHEDULE OF BUDGET REVISIONS
 Year Ended September 30, 2002
 (\$000s)

	Local Source					Federal Grants			
	Original Budget	Initial Allocation	Repro-gramming	Other Allocations	Revised Budget	Original Budget	Initial Allocation	Revenue Change	Revised Budget
Revenues and Sources:									
Taxes									
Property taxes	\$ 746,031	-	-	35,361	781,392	-	-	-	-
Sales and use taxes	738,367	-	-	(74,604)	663,904	-	-	-	-
Income taxes	1,361,077	-	-	(51,276)	1,309,801	-	-	-	-
Other taxes	397,940	-	-	38,682	436,622	-	-	-	-
Total taxes	3,243,555	-	-	(51,836)	3,191,719	-	-	-	-
Licenses and permits	43,336	-	-	4,571	47,907	-	-	-	-
Fines and forfeits	60,040	-	-	18,795	78,835	-	-	-	-
Charges for services	49,928	-	-	(12,009)	37,919	-	-	-	-
Miscellaneous	72,030	-	-	(7,680)	64,350	-	-	-	-
Private & Other	-	-	-	-	-	-	-	-	-
Operating grants	-	-	-	-	-	1,546,563	-	(52,989)	1,493,574
Transfer in from Lottery Board	70,000	-	-	-	70,000	-	-	-	-
Total revenues and sources	3,538,889	-	-	(48,159)	3,490,730	1,546,563	-	(52,989)	1,493,574
Expenditures and Uses:									
Governmental direction and support	229,421	25,574	(4,124)	(11,298)	239,573	38,809	-	(7,910)	30,899
Economic development and regulation	60,786	(3,049)	(194)	(445)	57,098	96,199	-	13,803	110,002
Public safety and justice	594,803	98,178	(17,791)	(11,706)	633,574	8,298	-	59,347	67,645
Public education system	896,994	24,271	-	(19,746)	901,519	172,505	-	1,291	173,796
Public School FY03 Expenditure	107,497	(75,558)	-	-	31,939	-	-	-	-
Human support services	711,072	31,527	(1,744)	(476)	740,379	1,075,960	-	(52,691)	1,023,269
Public works	286,334	12,253	(723)	-	297,864	4,395	-	(1,851)	2,544
Receiverships	250,515	48,678	500	(1,383)	298,310	134,339	-	(49,526)	84,813
Workforce investments	42,896	(42,092)	(3)	-	801	-	-	-	-
Tobacco Settlement Trust Fund Transfer	33,254	-	-	-	33,254	-	-	-	-
Wilson Building	8,859	(1,664)	-	-	7,195	-	-	-	-
Reserve	120,000	(120,000)	-	-	-	-	-	-	-
Reserve Relief	30,000	(30,000)	-	-	-	-	-	-	-
Repayment of bonds and interest	247,902	(7,950)	-	-	239,952	-	-	-	-
Repayment of General Fund deficit bonds	39,300	-	-	-	39,300	-	-	-	-
Interest on short term borrowing	500	(500)	-	-	-	-	-	-	-
Certificates of participation	-	7,950	-	-	7,950	-	-	-	-
Non Departmental	5,799	(1,000)	-	-	4,799	-	-	-	-
Emergency planning and security costs	-	606	-	(606)	-	16,058	-	(15,452)	606
Water and Sewer Authority	-	-	-	-	-	-	-	-	-
Washington Aqueduct	-	-	-	-	-	-	-	-	-
Lottery and Games	-	-	-	-	-	-	-	-	-
Sports Commission	-	-	-	-	-	-	-	-	-
Storm Water	-	-	-	-	-	-	-	-	-
Retirement Board administration	-	-	-	-	-	-	-	-	-
Correctional Industries	-	-	-	-	-	-	-	-	-
Washington Convention Center operations	-	-	-	-	-	-	-	-	-
Management Supervisory Service	-	-	-	-	-	-	-	-	-
Human resource development	-	-	-	-	-	-	-	-	-
Equipment Lease - Operating	-	-	-	-	-	-	-	-	-
Washington Convention Center payment	-	-	-	-	-	-	-	-	-
Total expenditures and uses	3,665,932	(32,776)	(23,989)	(75,660)	3,533,507	1,546,563	-	(52,989)	1,493,574
Subtotal	(127,043)	32,776	23,989	27,501	(42,777)	-	-	-	-
Excess (Deficiency) of Revenues and Sources Over (Under) Expenditures and Uses	\$ (127,043)	32,776	23,989	27,501	(42,777)	-	-	-	-

See Accompanying Independent Auditors' Report.

FINANCIAL REPORTING ENTITY
SCHEDULE OF BUDGET REVISIONS
 Year Ended September 30, 2002
 (\$000s)

	Private and Other				Total					
	Original Budget	Initial Allocation	Revenue Change	Revised Budget	Original Budget	Initial Allocation	Reprogramming	Revenue Change	Other Allocations	Revised Budget
Revenues and Sources:										
Taxes:										
Property taxes	\$ -	-	-	-	746,031	-	-	-	35,361	781,392
Sales and use taxes	-	-	-	-	738,507	-	-	-	(74,603)	663,904
Income taxes	-	-	-	-	1,361,077	-	-	-	(51,276)	1,309,801
Other taxes	-	-	-	-	397,940	-	-	-	38,682	436,622
Total taxes	-	-	-	-	3,243,555	-	-	-	(51,836)	3,191,719
Licenses and permits	-	-	-	-	43,336	-	-	-	4,571	47,907
Fines and forfeits	-	-	-	-	60,040	-	-	-	18,795	78,835
Charges for services	-	-	-	-	49,928	-	-	-	(12,009)	37,919
Miscellaneous	-	-	-	-	72,030	-	-	-	(7,680)	64,350
Private & Other	242,850	-	551,565	794,415	242,850	-	-	551,565	-	794,415
Operating grants	-	-	-	-	1,546,563	-	-	(32,989)	-	1,493,574
Transfer in from Lottery Board	-	-	-	-	70,000	-	-	-	-	70,000
Total revenues and sources	242,850	-	551,565	794,415	5,328,302	-	-	498,576	(48,159)	5,778,719
Expenditures and Uses:										
Governmental direction and support	49,027	-	(26,416)	22,611	317,257	25,574	(4,124)	(34,326)	(11,298)	293,083
Economic development and regulation	81,327	-	927	82,254	238,312	(3,049)	(194)	14,730	(445)	249,254
Public safety and justice	37,478	-	(25,086)	12,392	640,579	98,178	(17,701)	34,261	(41,706)	713,611
Public education system	15,804	-	8	15,812	1,085,303	24,271	-	1,299	(19,746)	1,091,127
Public School FY03 Expenditure	-	-	-	-	107,497	-	(75,558)	-	-	31,939
Human support services	23,799	-	1,100	24,899	1,810,831	31,527	(1,744)	(51,591)	(476)	1,788,547
Public works	12,171	-	(502)	11,669	302,900	12,253	(723)	(2,353)	-	312,077
Receiverships	20,144	-	65	20,209	404,998	-	-	49,461	(1,383)	403,332
Workforce investments	-	-	-	-	42,896	(42,092)	(3)	-	-	801
Tobacco Settlement Trust Fund Transfer	-	-	-	-	33,254	-	-	-	-	33,254
Wilson Building	-	-	-	-	8,859	(1,664)	-	-	-	7,195
Reserve	-	-	-	-	120,000	(120,000)	-	-	-	-
Reserve Relief	-	-	-	-	30,000	(30,000)	-	-	-	-
Repayment of bonds and interest	-	-	-	-	247,902	(7,950)	-	-	-	239,952
Repayment of General Fund deficit bonds	-	-	-	-	39,300	-	-	-	-	39,300
Interest on short term borrowing	-	-	-	-	500	(500)	-	-	-	-
Certificates of participation	-	-	-	-	-	7,950	-	-	-	7,950
Non-Departmental	-	-	-	-	5,799	(1,000)	-	-	-	4,799
Emergency planning and security costs	-	-	-	-	16,058	606	-	(15,452)	(606)	606
Water and Sewer Authority	-	-	244,978	244,978	-	-	-	244,978	-	244,978
Washington Aqueduct	-	-	46,510	46,510	-	-	-	46,510	-	46,510
Lottery and Games	-	-	239,688	239,688	-	-	-	239,688	-	239,688
Sports Commission	-	-	9,627	9,627	-	-	-	9,627	-	9,627
Storm Water	3,100	-	-	3,100	3,100	-	-	-	-	3,100
Retirement Board administration	-	-	13,388	13,388	-	-	-	13,388	-	13,388
Correctional Industries	-	-	-	-	-	-	-	-	-	-
Washington Convention Center operations	-	-	57,278	57,278	-	-	-	57,278	-	57,278
Management Supervisory Service	-	-	-	-	-	-	-	-	-	-
Human resource development	-	-	-	-	-	-	-	-	-	-
Equipment Lease - Operating	-	-	-	-	-	-	-	-	-	-
Washington Convention Center payment	-	-	-	-	-	-	-	-	-	-
Total expenditures and uses	242,850	-	551,565	794,415	5,455,345	(32,776)	(23,989)	498,576	(75,660)	5,821,496
Subtotal	-	-	-	-	(127,043)	32,776	23,989	-	27,501	(42,777)
Excess (Deficiency) of Revenues and Sources Over (Under) Expenditures and Uses	\$ -	-	-	-	(127,043)	32,776	23,989	-	27,501	(42,777)

Exhibit D-4

FINANCIAL REPORTING ENTITY
SCHEDULE OF FINANCIAL OPERATIONS
Year Ended September 30, 2002
(\$000s)

	General	Special Revenue Fund	Capital Projects	Lottery and Games	Unemployment Compensation	Water and Sewer	Convention Center	Sports Commission	Housing Finance	University	Totals 2002
Revenues:											
Taxes	\$ 3,229,809	-	-	-	104,945	-	-	-	-	-	3,334,754
Licenses and permits	52,003	-	-	-	-	-	-	-	-	-	52,003
Fines and forfeits	88,495	-	-	-	-	-	-	-	-	-	88,495
Charges for services	106,242	39,304	-	211,151	-	248,729	9,071	7,501	46,099	36,890	704,987
Benefit contributions	-	-	-	-	17,360	-	-	-	-	-	17,360
Miscellaneous	-	86,993	-	630	50,296	6,806	-	-	12,930	844	348,554
Federal contributions/grants	-	1,890,544	-	-	-	-	-	-	-	-	1,890,544
Transfers from other funds	78,848	13,181	39,295	-	-	-	53,874	-	-	46,068	231,266
Total revenues	<u>3,745,452</u>	<u>2,030,022</u>	<u>39,295</u>	<u>211,781</u>	<u>172,601</u>	<u>255,535</u>	<u>62,945</u>	<u>7,501</u>	<u>59,029</u>	<u>83,802</u>	<u>6,667,963</u>
Expenditures:											
Governmental direction	339,819	27,162	-	-	-	-	-	-	-	-	366,981
Economic development	115,695	108,065	-	-	-	-	-	-	10,851	-	234,611
Public safety and justice	634,867	264,249	-	-	-	-	-	-	-	-	899,116
Public education	929,988	213,292	-	-	-	-	-	-	-	74,413	1,217,693
Human support services	761,121	1,061,937	-	148,670	191,043	-	19,743	10,232	-	-	2,192,746
Public works	146,786	2,516	-	-	-	153,082	-	-	-	-	304,384
Receiverships	319,608	106,637	-	-	-	-	-	-	-	-	426,245
Miscellaneous	140,432	134,492	48,586	-	-	16,904	387	-	42,828	4,879	388,508
Transfers to other funds	52,476	-	-	63,000	-	-	-	-	-	-	115,476
Total expenditures	<u>3,440,792</u>	<u>1,918,350</u>	<u>48,586</u>	<u>211,670</u>	<u>191,043</u>	<u>171,986</u>	<u>20,130</u>	<u>10,232</u>	<u>53,679</u>	<u>79,292</u>	<u>6,145,760</u>
OPERATING EXCESS (DEFICIENCY)	304,660	111,672	(9,291)	111	(18,442)	83,549	42,815	(2,731)	5,350	4,510	522,203
Capital Sources (uses):											
Capital acquisitions	-	-	(814,129)	-	-	(15,228)	(6,060)	-	-	-	(835,417)
Capital contributions	-	-	161,450	-	-	18,848	-	-	-	2,953	183,251
Interest	-	-	5,037	-	-	(16,339)	244	(42)	11,210	1,681	1,791
Lease intceptions and asset sales	-	119,645	36,096	-	-	-	-	-	-	-	155,741
Bond proceeds	72,525	-	216,010	-	-	-	-	-	-	-	288,535
Debt payments	(201,237)	-	-	-	-	-	-	-	-	-	(201,237)
Other	(148,493)	-	70,059	-	-	(37,099)	(472)	763	(305)	(3,543)	(119,090)
Total capital uses	<u>(277,205)</u>	<u>119,645</u>	<u>(325,477)</u>	<u>-</u>	<u>-</u>	<u>(49,818)</u>	<u>(6,288)</u>	<u>721</u>	<u>10,905</u>	<u>1,091</u>	<u>(526,426)</u>
INCREASE (DECREASE) IN BALANCES	27,455	231,317	(334,768)	111	(18,442)	33,731	36,527	(2,010)	16,255	5,601	(4,223)
Balances at October 1 (restated)	837,873	93,371	11,223	3,374	289,803	721,035	272,748	22,528	59,404	71,350	2,382,709
Balances at September 30	<u>865,328</u>	<u>324,688</u>	<u>(323,545)</u>	<u>3,485</u>	<u>271,361</u>	<u>754,766</u>	<u>309,275</u>	<u>20,518</u>	<u>75,659</u>	<u>76,951</u>	<u>2,378,486</u>

See Accompanying Independent Auditors' Report.

Exhibit D-5

FINANCIAL REPORTING ENTITY
SCHEDULE OF BUDGETARY BASIS EXPENDITURES
Year Ended September 30, 2002
(\$000s)

	2002				2001		Difference		
	Gross Cost	Related Resources District	Federal	Net Cost	% of Revenue	Net Cost	% of Revenue	Better or (Worse) Amount	%
General Revenues:									
Sovereign:									
Taxes	\$ -	3,229,809	-	3,229,809	90.7 %	\$ 3,316,379	82.0 %	\$ (86,570)	(2.6) %
Licenses and permits	-	52,003	-	52,003	1.5	42,829	1.1	9,174	21.4
Fines and forfeits	-	88,495	-	88,495	2.5	58,223	1.4	30,272	52.0
Miscellaneous:									
Interest	-	12,652	-	12,652	0.3	38,868	1.0	(26,216)	(67.4)
Other	-	177,403	-	177,403	5.0	214,838	5.3	(37,435)	(17.4)
Federal:									
Payment in lieu of taxes	-	-	-	-	-	370,061	9.2	(370,061)	(100.0)
Total general revenues	-	3,560,362	-	3,560,362	100.0	4,041,198	100.0	(480,836)	(11.9)
Cost of Operating:									
General:									
Governmental direction	339,819	12,935	-	326,884	9.2	233,792	5.7	(93,092)	(39.8)
Economic development	115,695	30,955	-	84,740	2.4	84,501	2.1	(239)	(0.3)
Public safety and justice	634,867	16,987	-	617,880	18.4	914,496	22.6	296,616	32.4
Public education	929,988	794	-	929,194	26.1	966,410	23.9	37,216	3.9
Human support services	761,121	98	-	761,023	21.4	670,356	16.6	(90,667)	(13.5)
Public works	295,279	44,472	-	250,807	7.0	220,285	5.5	(30,522)	(13.9)
Receiverships	319,608	-	-	319,608	9.0	364,677	9.0	45,069	12.4
Interest and charges	140,432	-	-	140,432	3.9	149,177	3.7	8,745	5.9
Transfers	52,476	78,848	-	(26,372)	(0.7)	272,842	6.7	299,214	109.7
Special Revenue:									
General direction	1,918,350	2,030,022	-	(111,672)	(3.1)	(58,165)	(1.4)	53,507	-
Enterprise:									
Lottery and games	211,670	211,781	-	(111)	-	(325)	-	(214)	(65.8)
Unemployment compensation	191,043	172,601	-	18,442	0.5	(31,943)	(0.8)	(50,385)	(157.7)
Component Units:									
Water and Sewer	171,986	255,535	-	(83,549)	(2.3)	(53,729)	(1.3)	29,820	55.5
Convention Center	20,130	62,945	-	(42,815)	(1.2)	(40,706)	(1.0)	2,109	5.2
Sports Commission	10,232	7,501	-	2,731	0.1	(25)	-	(2,756)	(11024.0)
Housing Finance	53,679	59,029	-	(5,350)	(0.2)	(25,778)	(0.6)	(20,428)	(79.2)
University	79,292	83,802	-	(4,510)	(0.1)	9,566	0.2	14,076	147.1
Net cost of operating	6,245,668	3,068,305	-	3,177,363	90.5	3,675,431	90.9	498,068	13.6
CURRENT INCOME:	6,245,668	6,628,667	-	382,999	(9.5)	365,767	9.2	17,232	4.7
Cost of Investing (Financing):									
Fixed assets	835,417	177,644	161,449	496,324	13.9	277,028	6.9	219,296	79.2
Long term debt	201,237	288,535	-	(87,298)	(2.5)	563,554	13.9	(650,852)	(115.5)
Net cost of investing	1,036,654	466,179	161,449	409,026	11.4	840,582	20.8	(431,556)	(51.3)
FINANCIAL FLOW IN	7,282,322	7,094,846	161,449	(26,027)	(0.8)	(474,815)	(11.6)	448,788	94.5
Reclassification to GAAP Basis:									
Employee benefits	-	-	-	-	-	20,936	0.5	(20,936)	(100.0)
Depreciation	(155,288)	-	-	(155,288)	(4.4)	(31,152)	(0.8)	(124,136)	(398.5)
Fixed assets	296,876	-	-	296,876	8.3	268,205	6.6	28,671	10.7
Long term debt	(119,785)	-	-	(119,785)	(3.4)	6,802	0.2	(126,587)	(1861.0)
Total reclassification	21,803	-	-	21,803	0.6	264,791	6.5	(242,988)	(91.8)
INCREASE (DECREASE) IN BALANCES									
	\$ 7,260,519	7,094,846	161,449	(4,224)	(0.2) %	\$ (210,024)	(11.5) %	\$ 205,800	98.0 %

See Accompanying Independent Auditors' Report.

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