NOTES TO THE BASIC FINANCIAL STATEMENTS

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SEPTEMBER 30, 2009

(Dollar amounts expressed in thousands)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. BACKGROUND AND HISTORY OF GOVERNMENTAL UNIT

General Operations

The District of Columbia (the District) was created on March 30, 1791, and became the nation's capital on December 1, 1800, in accordance with Article 1, section 8, clause 17 of the United States Constitution. This portion of the Constitution empowered Congress to establish the seat of government for the United States. On January 2, 1975, Congress granted the District a Home Rule Charter, which became effective through the enactment of the District of Columbia Self-Government and Governmental Reorganization Act, Public Law 93-198.

The District is a municipal corporation, which operates under an elected Mayor-Council form of government. Accordingly, an Act of the Council, other than a budget request act, becomes law unless Congress and the President disapprove it after it has been adopted. Citizens of the District have the right to vote for the President and Vice-President of the United States but not for members of Congress. The District does, however, have an elected non-voting Delegate to the United States House of Representatives.

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

B. FINANCIAL REPORTING ENTITY

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

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

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

The Mayor, with the consent of the Council, appoints the governing bodies of the Water and Sewer Authority, Washington Convention Center Authority, Sports and Entertainment Commission, Housing Finance Agency, and the University of the District of Columbia. In addition, the District has an obligation to provide financial support to the Housing Finance Agency, the Sports and Entertainment Commission, and the University of the District of Columbia and must approve certain transactions of and certain tax revenues dedicated to the Washington Convention Center Authority. The Water and Sewer Authority is responsible for the payment of certain District long-term debt, issued before that Authority's creation, to finance capital improvements. For that reason, and because the Water and Sewer Authority is an independent authority established under its enabling legislation, this entity is included as a component unit of the District of Columbia.

Information on how to obtain financial statements for each discretely presented component unit is available at the following locations:

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D.C. Sports and Entertainment Commission
c/o General Manager
Washington Convention Center Authority
801 Mount Vernon Place, N.W.
Washington, D. C. 20001

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

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

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

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

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

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

C. RELATED ORGANIZATIONS

A related organization is one for which the primary government is responsible but not *financially accountable*. The District of Columbia Housing Authority and the District of Columbia Courts are related organizations because the District is not financially accountable for them. Although the Mayor appoints a voting majority of the Housing Authority's governing board, the District's accountability for this organization does not extend beyond such appointments. The Mayor does not appoint the members of the Courts' Joint Committee on Judicial Administration; however, the Courts are considered related organizations because they provide the District with judicial services normally associated with state and local governments.

D. JOINT VENTURE

The District is a participant with other local jurisdictions in a joint venture to plan, construct, finance and operate a public transit system serving the Metropolitan Washington Area Transit Zone, which includes the District of Columbia; the cities of Alexandria, Falls Church, Fairfax, Manassas and Manassas Park and the counties of Arlington, Fairfax, Loudoun and Prince William in Virginia; and Montgomery, Anne Arundel and Prince George's in Maryland. The Washington Metropolitan Area Transit Authority (WMATA) was created in February 1967 for that purpose. WMATA is governed by a six member Board and six alternates, comprised of two Directors and two alternates 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. The District does not have explicit measurable equity interest in the joint venture; accordingly, the District does not include the financial activities of the joint venture in its financial statements. Further information regarding this joint venture is discussed in Note 12 on page 112.

E. BASIS OF PRESENTATION

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- *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 is broken into these three categories – 1) invested in capital assets, net of related debt; 2) restricted; and 3) unrestricted.

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

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

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

Governmental Funds are used to account for all of the District's general activities. The acquisition, use and balances of the District's expendable financial resources and the related liabilities (except those accounted for in the Proprietary Funds and the discretely presented component units) are accounted for in the Governmental Funds.

The District reports the following major governmental funds:

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

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

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

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

Non-Major Governmental Funds include six Special Revenue Funds: (1) Tax Increment Financing (TIF) Program Fund; (2) Tobacco Settlement Financing Corporation (TSFC) Fund; (3) Community Health Care Financing Fund; (4) Housing Production Trust Fund; (5) PILOT Special Revenue Fund, and (6) Baseball Project Fund. Other Non-Major Governmental Funds include the Highway Trust Fund, a capital project fund, and a Debt Service Fund.

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

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

- *Unemployment Compensation Fund* - used to account for the accumulation of financial resources to be used for benefit payments to unemployed former employees of the District and federal governments and of private employers in the District. Resources

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

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

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

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

  Other Postemployment Trust Fund - used to report assets that are accumulated and benefits that are paid for postemployment healthcare and life insurance.

- *Private Purpose Trust Fund* - used to report trust arrangements not reported in pension trust funds "under which principal and income benefit individuals, private organizations, or other governments." The District uses this fund to account for the amounts held in its tax-advantaged 529 College Savings Investment Plan, which was established to help families save for the higher education expenses of designated beneficiaries. This Plan is available to District residents and non-District residents nationwide.

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

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

Prior year comparative information

The financial statements include summarized prior-year comparative information. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the District's financial statements for the year ended September 30, 2008, from which such summarized information was derived.

F. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

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

Government-Wide Financial Statements

The government-wide financial statements are reported using the flow of economic resources measurement focus and the accrual basis of accounting. Therefore, the Statement of Net Assets reports all assets (including receivables regardless of when collected and capital assets, such as heavy trucks, and infrastructure (highways and bridges)) and liabilities regardless of when payment is due. The Statement of Activities, which includes all revenues and expenses, regardless of when cash is respectively received or paid, reports program revenues, which are revenues derived directly from a specific governmental function and are reported by the function that generates the revenue. Charges for goods or services, grant revenues, and fines are reported as program revenues. Tax revenues are classified as general revenues in the Statement of Activities. The Statement of Activities also reports governmental activities expenses, including governmental fund expenditures (those which are not eliminated or reclassified) and current year depreciation on capital assets. The effect of interfund activity has been eliminated from the government-wide financial statements.

Fund Financial Statements

Governmental Funds

All governmental funds are accounted for using a flow of current financial resources measurement focus and the modified accrual basis of accounting. Under this measurement focus, only current assets and current liabilities are normally 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. Unreserved fund balance represents a measure of available, spendable resources.

Under the modified accrual basis of accounting, revenues of governmental funds are recognized in the year they become susceptible to accrual (both measurable and available) to pay current fiscal year liabilities. The District considers property taxes to be available if they are collected within 60 days of the fiscal year-end. A one-year availability period is used for revenue recognition for all other governmental fund revenues, with the exception

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

of expenditure-driven grants, which are recognized when all eligibility criteria and compliance requirements have been met and the related amounts are earned.

GASB Interpretation No. 6 (GASBI 6) requires that expenditures and liabilities such as debt service, compensated absences, claims and judgments, and special termination benefits be recorded in the governmental fund statements only when they mature or become due for payment within the period. Otherwise, such activity is recorded in the government-wide financial statements as incurred.

Proprietary Funds, Trust Funds, and Component Units

The proprietary funds, pension and OPEB trust funds, private purpose trust funds, and discretely presented component units are accounted for on a flow of economic resources measurement focus and the accrual basis of accounting. Under this measurement focus, all assets and liabilities associated with the operation of these funds are included on the Statement of Net Assets. Net assets of the proprietary funds is segregated into capital assets, net of related debt; restricted; and unrestricted components. Under the accrual basis of accounting, revenues are recognized in the fiscal year earned and expenses are recognized in the fiscal year incurred. The related operating statements of proprietary funds present increases (revenues) and decreases (expenses) in net assets. Operating statements of pension and private purpose trust funds present additions and deductions in fiduciary net assets.

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

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

The Pension Trust Fund and Other Postemployment Benefits (OPEB) Trust Fund recognize additions to net assets from participants' contributions when due, District contributions when due and a formal commitment for payment has been made, net investment income as earned, and expenditures for benefits and refunds when due and payable. The Private Purpose Trust Fund recognizes additions to net assets when participants' contributions are received.

Revenue Recognition (by Type or Source)

Those revenues which are susceptible to accrual are taxes, federal contributions and grants, charges for services and investment income.

Property Taxes

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

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 and ending 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. Property taxes are levied after the returns are filed. However, if a taxpayer fails to pay property taxes when due, the District does not have a legal claim to the taxpayer's property until after July 31. Failure to pay the levied taxes may result in the District's eventual seizure of the taxpayer's property. 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.

Other Revenues Susceptible to Accrual

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

Intergovernmental Revenues

Intergovernmental revenues are amounts derived through agreements with other governments. In general, these

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revenues are comprised of contributions and grants made by the federal government to the District. Contributions are recognized as revenue when received. Generally, entitlements and shared revenues are recognized as revenue at the time of receipt or earlier, if measurable and available. Resources arising from grants are usually subject to certain eligibility requirements; therefore, most grant revenues are recognized as revenue only when the conditions of the grant are met. Grant funds received before all eligibility requirements are met are recorded as deferred revenue.

Revenues Not Susceptible to Accrual

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

Food Stamps

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

G. BASIS OF BUDGETING AND BUDGETARY CONTROL POLICIES

Process

On or about March 20 of each year, the Mayor submits to the Council an all sources budget for the General Operating Fund for the fiscal year commencing the following October 1. The Council holds public hearings and adopts the budget through passage of a budget request act. The Mayor may not forward and the Council may not adopt any budget for which expenditures and other financing uses exceed revenues and other financing sources. A project-length financial plan is adopted for the General Capital Improvements Fund. On or about June 1 of each year, the Mayor approves the adopted budget and forwards it to the President of the United States for review. Early in June of each year, the President submits the reviewed budget to Congress which conducts public hearings and enacts the budget through passage of an appropriations bill.

Appropriations Act

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

Pursuant to the Reprogramming Policy Act (D. C. Official Code §47-363 (2001), as amended), the District may reallocate budget amounts within an appropriation title. The appropriated budget amounts in the Budgetary Comparison Statement (Exhibit 2-d) 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 in this statement. A negative expenditure variance in the budgetary comparison statement for a particular function is a violation of the federal Anti-Deficiency Act (31 U.S.C. §§1341, 1342, 1349, and 1351) and the District of Columbia Anti-Deficiency Act (D.C. Official Code §§47-355.01-355.08, (2001)). Also, a violation of the D.C. Anti-Deficiency Act exists if there is a negative expenditure variance for a particular purpose or object of expenditure within an appropriation.

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

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

- *Basis Differences* - These are differences that arise because the basis of budgeting differs from the basis of accounting prescribed by GAAP as indicated in Note 1X on page 70.

- *Entity Differences* – These differences result from the inclusion or exclusion of certain activities for

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

budgetary purposes as opposed to those included or excluded on a GAAP basis as indicated in Note 1X on page 70.

Budgetary Controls

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

Encumbrances

Encumbrance accounting is employed in the governmental funds. Under this method of accounting, purchase orders, contracts, and other commitments for the expenditure of funds are recorded in order to reserve the required portion of an appropriation. Encumbrances outstanding at year-end do not constitute expenditures or liabilities for GAAP or budgetary purposes. All encumbrances lapse in the General Fund at year end, and may automatically be re-appropriated and re-encumbered as part of the subsequent year's budget. However, generally, encumbered amounts do not lapse at year-end in the Capital Projects Fund, Special Revenue Fund, or Federal and Private Resources Fund.

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 (Due To) to the general fund, which is deemed to have loaned the cash to the overdrawn fund. The General Fund reports a receivable (Due From) from the overdrawn fund.

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

Investments

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, 2009, the District invested primarily in securities backed by U.S. government agencies with the implicit guarantee of the federal government. Such investments are considered to be the equivalents of cash. The Pension Trust Funds are authorized to invest in fixed income, equity securities and other types of investments. Also, the Private Purpose Trust Fund is authorized to invest in eight portfolios which are comprised of equities, balanced fund, and fixed income securities.

Money market investments must be in compliance with the requirements of Rule 2a-7 (17 CFR 270.2a-7) under the Investment Company Act of 1940 (15 U.S.C. 80a-1 et seq.). Money market investments that have a 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. INVENTORY

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

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

J. RESTRICTED ASSETS

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

K. PREPAID ITEMS AND DEFERRED CHARGES

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

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

L. RECEIVABLES AND PAYABLES

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

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

M. TRANSFERS AND OTHER TRANSACTIONS BETWEEN FUNDS

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

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (e.g., the current portion of interfund loans) or "advances to/from other funds." All other outstanding balances between funds are also reported as "due to/from other funds." Any remaining balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances." Short-term amounts owed between the primary government and a discretely presented component unit is classified as "Due to/from primary government" and "Due to/from component unit" on the Statement of Net Assets.

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

N. CAPITAL ASSETS

Capital assets, which include property, plant, equipment, and land improvements (infrastructure) such as roads, bridges, streets and sidewalks, drainage systems, lighting systems, and similar items, are reported in the applicable governmental or business-type activities or component units columns in the government-wide financial statements and proprietary fund financial statements. All purchased capital assets are stated at cost when historical records are available and at estimated historical cost when no historical records exist. In the case of the initial capitalization of general infrastructure acquired prior to fiscal years ended after June 30, 1980, the District elected to include all such items regardless of their acquisition date.

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Assets acquired through capital leases are stated at the lesser of the present value of the lease payments or the fair value of the asset at the date of lease inception. Donated capital assets are stated at their estimated fair market value on the date received. The cost of maintenance and repairs that does not add to the value of the assets or materially extend asset lives is not capitalized. Betterments are capitalized over the remaining useful lives of the related capital assets. For capitalized purchases in the governmental funds, expenditures are recorded 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.

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

Capitalization and Depreciation Policies

Capitalized assets have an original cost of $5 (five thousand dollars) or more per unit. Depreciation is calculated on each class of depreciable property using the straight-line method. Estimated useful lives for capital assets are shown in **Table 1** by category.

Table 1 – Estimated Useful Lives (by Asset Category)

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

O. CAPITAL LEASES

Leased property having elements of ownership is recorded in the government-wide and proprietary fund financial statements. The related obligations, in amounts equal to the present value of minimum lease payments payable during the remaining term of the leases, are also recorded in these financial statements.

P. COMPENSATED ABSENCES

Benefit Accumulation Policies

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

Accrual

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

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

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

Q. LONG-TERM LIABILITIES

Pursuant to Section 603 of the District of Columbia Home Rule Act, as amended, no long-term general obligation debt (other than refunding debt) may be issued during any fiscal year in an amount which would cause the amount of the principal and interest paid in any fiscal year on all general obligation debt to exceed 17% of the total General Fund revenues of the fiscal year in which the debt is issued. The legal debt limitation is calculated annually by dividing maximum annual principal and interest by current-year total general fund revenues (excluding revenue and debt of the Water and Sewer Authority, pursuant to the Home Rule Act.)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

The District will begin paying principal on its 1994B Capital Appreciation Bonds (CABs) in June 2012, and will make such payments annually through June 2014. There are no periodic interest payments due. The CABs accrete to their full value at maturity. Interest is accreted and recorded annually using rates ranging from 6.00% to 6.65%. Accreted interest is calculated throughout the maturity periods of the bonds and is recorded in the government-wide financial statements. The accreted value of such bonds is the current value, plus the interest that has been accumulating on the bonds.

The District pays principal on its 2002 Mandarin TIF Capital Appreciation Bonds (CABs) annually. The CABs accrete to their full value at maturity. Interest is accreted and compounded semi-annually using rates ranging from 4.26% to 5.91%. Accreted interest is calculated throughout the maturity periods of the bonds and is recorded in the government-wide financial statements. The accreted value of such bonds is the current value, plus the interest that has been accumulating on the bonds.

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

R. NEW ACCOUNTING STANDARDS ADOPTED

During the fiscal year ended September 30, 2009, the District adopted the following new accounting standards issued by the Governmental Accounting Standards Board (GASB):

Statement No. 49, Accounting and Financial Reporting for Pollution Remediation Obligations

Issued on December 1, 2006, this Statement identifies the circumstances under which a government is to estimate its expected outlays for pollution remediation if it knows a site is polluted. Liabilities and expenses are to be estimated using "an expected cash flows" measurement technique, which is used by environmental professionals. This statement also requires state and local governments to disclose in the notes to the financial statements information about their pollution obligations associated with clean-up efforts. Implementation of this Statement had no material impact on the District's fiscal year 2009 financial statements.

Statement No. 52, Land and Other Real Estate Held as Investments by Endowments

Issued in November 2007, this statement requires endowments to report their land and other real estate investments at fair value. Governments are also required to report the changes in fair value as investment income and to disclose the methods and significant assumptions employed to determine fair value, and other information that they currently present for other investments reported at fair value. Implementation of this Statement had no material impact on the District's fiscal year 2009 financial statements.

Statement No. 55, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments

Issued in March 2009, this statement incorporates the hierarchy of generally accepted accounting principles (GAAP) for state and local governments into the Governmental Accounting Standards Board's (GASB) authoritative literature.

Statement No. 56, Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards

Issued in March 2009, this statement incorporates into the Governmental Accounting Standards Board's (GASB) authoritative literature certain accounting and financial reporting guidance presented in the American Institute of Certified Public Accountants' Statements on Auditing Standards. This statement

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

addresses three issues not included in the GASB authoritative literature that establishes accounting principles—related party transactions, going concern considerations, and subsequent events. The presentation of principles used in the preparation of financial statements is more appropriately included in accounting and financial reporting standards rather than in the auditing literature.

Governmental Accounting Standards Board Technical Bulletin (GASBTB 2008-1), Determining the Annual Required Contribution Adjustment for Postemployment Benefits

Issued on December 15, 2008, this technical bulletin clarifies the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, for calculating the annual required contribution (ARC) adjustment.

This technical bulletin applies to situations in which the actuarial valuation separately identifies the actual amount that is included in the ARC related to the amortization of past employer contribution deficiencies or excess contributions to a pension or other postemployment benefit (OPEB) plan. Statements 27 and 45 required a procedure for estimating the amount. This technical bulletin encourages use of the actual amount, if known, in place of the estimation procedure for purposes of the ARC adjustment.

S. NEW ACCOUNTING PRONOUNCEMENTS

The District plans to implement the following pronouncements as required by the established implementation dates or earlier, when deemed feasible.

Statement No. 51, Accounting and Financial Reporting for Intangible Assets

Issued in June 2007, this statement provides that intangible assets must possess the following characteristics:

- Lack of physical substance;
- Be non-financial in character; and
- Have an initial useful life extending beyond a single reporting period.

The Statement further provides that recognition of intangible assets is only appropriate when they are either separable (e.g. can be sold, transferred, or licensed) or represent contractual or other legal rights regardless of transferability or separability. The requirements are mandated to be effective for financial statements for periods beginning after June 15, 2009, the District's fiscal year 2010. Retroactive implementation is only required for intangible assets acquired in fiscal years ending after June 30, 1980.

Statement No. 53, Accounting and Financial Reporting for Derivative Instruments

Issued in June 2008, this statement requires governments to measure most derivative instruments at fair value in financial statements that are prepared using the economic resources measurement focus and the accrual basis of accounting. This statement provides specific criteria to be used by governments to determine whether a derivative instrument results in an effective hedge. Changes in fair value for effective hedges that are achieved with derivative instruments are to be recognized in the reporting period to which they relate. Changes in the fair value of these hedging derivative instruments do not affect current investment revenue, but are reported as deferrals in the statement of net assets or the balance sheet. Derivative instruments that either do not meet the criteria for an effective hedge or are associated with investments that are already reported at fair value are to be classified as investment derivative instruments for financial reporting purposes. Changes in fair value of those derivative instruments are reported as part of investment revenue in the current reporting period. This statement is effective for financial statements for reporting periods beginning after June 15, 2009.

Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions

Issued in March 2009, this statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

The initial distinction that is being made in reporting fund balance information is identifying amounts that are considered nonspendable, such as fund balance associated with inventories. This statement also provides for additional classification as restricted, committed, assigned, and unassigned based on the relative strength of the constraints that control how specific amounts can be spent.

This statement also provides guidance for classifying

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

stabilization amounts on the face of the balance sheet and requires disclosure of certain information about certain stabilization arrangements in the notes to the financial statements. The definitions of the general fund, special revenue fund type, capital projects fund type, debt service fund type, and permanent fund type are also clarified in this statement.

This statement is effective for financial statements for periods beginning after June 15, 2010, the District's fiscal year 2011, although early implementation is encouraged.

T. RESTRICTED NET ASSETS AND FUND BALANCE RESERVATIONS AND DESIGNATIONS

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

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

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

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

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

In the governmental fund financial statements, reserves and designations segregate portions of fund balance that are either not available or have been earmarked for specific purposes. The amount of fund balance that is available for future operations is presented as "unreserved." Reservations of fund balance represent amounts that are legally or statutorily identified for specific purposes or portions that are not appropriable for expenditure. These reserved fund balances are imposed by the Congress of the United States and by contractual commitments to external entities. 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, 2009, the District had established the following fund balance reservations and restricted net assets (see **Tables 45a and 45b** on page 111):

Reservations

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

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

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

Reserve for Subsequent Year's Expenditures - This portion of fund balance represents amounts to be used to finance certain non-recurring policy initiatives and other expenditures included in the FY 2010 budget approved by the District Council and Congress.

Reserve for Inventory - This portion of fund balance represents amounts not available for appropriation or expenditure because the underlying asset (inventory) is not an available financial resource for appropriation or expenditure.

Reserve for Budget - This portion of fund balance represents unused FY 2009 Budget Reserve amounts that are available until expended.

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

Reserve for Student Enrollment - This portion of fund balance is reserved for payments to public charter schools in the event that enrollment exceeds projections used in developing the Uniform Per Student Funding Formula.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Reserve for PILOT - This portion of fund balance is reserved for payment of future debt service associated with the Anacostia Waterfront Corporation PILOT revenue bonds.

Reserve for Tobacco Settlement - This portion of the District's fund balance is reserved for the purpose of paying future debt service and related expenses associated with the Tobacco Corporation's issuance of Tobacco Settlement Asset-Backed Bonds in fiscal years 2001 and 2006.

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

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

Reserve for Community Healthcare - This portion of fund balance is reserved to promote healthcare and the delivery of healthcare-related services in the District.

Reserve for Baseball - This portion of fund balance represents the available resources for baseball stadium construction.

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

Designation

This is the portion of unreserved fund balance that is intended for future use in accordance with the District's self-imposed limitations through council legislation.

Restricted Net Assets

Restricted for Future Benefits - This portion of net assets represents the resources available for benefit payments from the Pension and Private Purpose Trust Funds and Unemployment Compensation Fund.

U. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

In addition to the pension benefits described in Note 9 and pursuant to D.C. Code §1-622, employees hired after September 30, 1987, who subsequently retire may be eligible to continue their healthcare benefits. Furthermore, in accordance with D.C. Code §1-623, these employees may convert their group life insurance to individual life insurance. The expense of providing such benefits to employees hired prior to October 1, 1987, is paid by the federal government and the District has no liability for these costs. However, the District provides health and life insurance benefits to retirees first employed by the District after September 30, 1987. The District pays 75% of the cost of health insurance, and 33% of the cost of life insurance, for eligible retirees. The District also pays 75% of the premium for a retiree's spouse and dependent health insurance coverage. The District records a liability in its government-wide financial statements for its portion of the cost of postemployment benefits. A liability for such benefits is not recorded in the fund statements. Historically, the District funded the OPEB Plan on a pay-as-you-go basis, but began funding on an actuarial basis in fiscal year 2008.

As of September 30, 2009, there were 3,675 pre-87 (Civil Service) and 14,269 post-87 (D.C. Defined Contribution) employees who were eligible for such benefits. Of those eligible as of September 30, 2009, there were 298 OPEB Plan participants receiving such benefits, consisting of 254 teachers, police, and firefighters, and 44 general District retirees. During fiscal year 2009, $3,505 was paid from the OPEB Plan for the associated insurance carrier premiums and other administrative costs.

V. USE OF ESTIMATES

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

W. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

The governmental funds balance sheet includes reconciliation between fund balances - total governmental

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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, including deferred revenue, are not reported under the modified accrual basis of accounting, but are reported in the government-wide financial statements. The difference in deferred revenue of $76,153 between the two statements is a reconciling item, which is attributable to the modified accrual basis of accounting having been used to recognize property tax revenues in the governmental funds. The accrual basis of accounting is used to record revenues in the government-wide financial statements.

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

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

The details of the $871,182 difference related to capital outlay are as follows:

Capital outlay capitalized	$	916,973
Less:		
Depreciation expense		(304,354)
Capital asset additions		18,343
Transfer and dispositions		(46,917)
Capital asset additions - land swaps		287,137
Net Adjustment	**$**	871,182

Deferred property tax revenues which were earned but not currently available financial resources for the purpose of recognition in the governmental funds were recognized in the government-wide financial statements. Such revenues were $16,822 more in the statement of activities than in the Statement of Revenues, Expenditures and Changes in Fund Balances.

The details of the $(268,719) difference related to long-term liabilities are as follows:

Bonds issued	$	(1,071,785)
Equipment financing program		(62,068)
Premium on long-term debt		(50,198)
Less:		
G.O. Bonds current and advance refunding		601,585
Principal payments on G.O. bonds		224,305
Principal payments on other long term debt		46,958
Principal payments on equipment financing program		33,774
Principal payments on capital lease		7,911
Fiscal charges -net		799
Net Adjustment	**$**	**(268,719)**

The details of the $(168,972) difference related to the change in accrued liabilities are as follows:

Annual leave	$	(12,071)
Future disability benefits		(36,565)
CAB interest accretion		(23,580)
Grant disallowances		(10,265)
Accrued interest		(17,302)
Claims and judgments		(2,935)
Unfunded pension expenses		(819)
Net OPEB liability		(49,608)
Severance pay		(15,827)
Net Adjustment	**$**	**(168,972)**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

	GENERAL FUND	FEDERAL AND PRIVATE RESOURCES
EXCESS OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES - BUDGETARY BASIS	$ 139,922	$ 83,278
Basis differences:		
Inventory is recorded using the purchase method for budgetary purposes and the consumption method on a GAAP basis	(5,648)	238
Transfers - other financing sources	9,126	-
Sale of DC Village to WMATA	6,425	-
Debt related adjustments	1,045	-
Fund balance released from restrictions - a funding source for budgetary purposes but not revenue on a GAAP basis	(476,558)	(23,134)
State education loan program	-	(1,610)
Other	(423)	-
Entity differences:		
Operating surplus from enterprise funds that are excluded on a budgetary basis	1,872	-
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES - GAAP BASIS	**$ (324,239)**	**$ 58,772**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Y. RESTATEMENT

Component Unit

Housing Finance Agency

Change in Accounting Policy – To the extent the Multifamily (Conduit Bond) Program continues to be disclosed on the face of the Housing Finance Agency's financial statements, the Agency has changed the way it accounts for the cost of bond issuance under the Multi-Family (Conduit Bond) Program. Instead of recording the deferred credit and capitalizing the costs of issuance and amortizing them over time, the Agency will record the receipt of the cost of issuance funds as an escrow and reduce the escrow as the cost of issuance items are paid. The Agency elected this treatment as a more conservative way to associate the costs incurred by the borrowers in connection with consummating loans payable relating to the respective indentures within the Multifamily (Conduit Bond) Program.

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

October 1, 2008, as previously reported	$ 1,582,374
DCHFA Accounting Policy Change	(8,986)
October 1, 2008, restated	**$ 1,573,388**

NOTE 2. CASH AND INVESTMENTS

A. CASH

The District of Columbia follows the practice of pooling cash and cash equivalents for some of its governmental funds and component units in order to provide better physical custody and control of cash; to enhance operating efficiency; and to maximize investment opportunities. Of $3,247,141 within the custody of the District, in accordance with District policies, substantially all deposits as of September 30, 2009 were insured or collateralized with securities held by the District or by its agent in the District's name. At September 30, 2009, the carrying amount of cash for the primary government and fiduciary funds was $2,776,775 and the bank balance was $2,514,091. The carrying amount of cash (deposits) for the component units was $470,366 and the bank balance was $471,949.

B. INVESTMENTS

The Treasurer is authorized by District laws to invest funds in a manner that will preserve principal and meet the District's anticipated daily cash requirements, while maximizing investment earnings. The District purchases legally authorized investments consistent with the provisions of the Financial Institutions Deposit and Investment Act of 1997 (D.C. Law 12-56), which became effective March 18, 1998. The District's current investment policy limits investments to obligations of the United States and agencies thereof, prime commercial paper, bankers' acceptances and repurchase agreements fully collateralized in obligations of the United States government and agency securities. During the fiscal year, the District's investments (other than those held by the Retirement Board) consisted primarily of money market funds and/or obligations backed by the United States government or its agencies. The Retirement Board is authorized to invest in a variety of investments including fixed income, equity securities and other types of investments. As prescribed in D.C. Code §1-907.01 (2001 Ed), the Retirement Board may not invest in debt instruments of the District, the Commonwealth of Virginia, or the State of Maryland governments, political subdivisions thereof, or any entity subject to control by them; debt instruments fully guaranteed by those governments; real property in those jurisdictions; or debt instruments secured by real property in those jurisdictions.

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

- *Interest Rate Risk* - The District limits exposure to fair value losses arising from rising interest rates by investing in U.S. government and agency securities and money market funds with original maturities of 90 days or less. The Retirement Board also limits its

NOTE 2. CASH AND INVESTMENTS

exposure by requiring its fixed income managers to construct and actively manage a portfolio of fixed income and related securities that maintains a weighted average duration within +/-2 years of the duration of the fixed income benchmark.

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

- *Custodial Credit Risk* – Custodial credit risk occurs in the event that investment securities are uninsured and/or not registered in the name of the government, and there is failure of the counterparty. In such a case, the government will not be able to recover the value of its investments or collateral securities held in the possession of an outside party. The District had no custodial credit risk exposure during the fiscal year. All District investments in fiscal year 2009 were collateralized.. All collateral for investments is held in the District's name by the Federal Reserve in a custodial account. Any funds not invested at the end of the day are placed in overnight investments in the District's name.

- *Foreign Currency Risk* - As a general policy of the Retirement Board, investment managers with authority to invest in securities denominated in a foreign currency may reduce exposure to currency risk by systematically hedging foreign currency positions back to U.S. dollars through the foreign currency markets. Because the forward exchange rate is seldom equal to the spot exchange rate, forward hedging gains and losses may arise.

  At September 30, 2009, other than the Retirement Board, the District had no exposure to foreign currency risk. At the end of fiscal year 2009, the Retirement Board held investments that were denominated in a currency other than the United States Dollar, as follows:

	Asset Class				
	Cash	Equities	Fixed Income	Swaps	Total
Australian Dollar	$ 1,695	$ 26,371	$ 8,543	$ (267)	$ 36,342
Canadian Dollar	110	22,315	-	-	22,425
Swiss Franc	43	37,127	-	-	37,170
Danish Krone	90	5,144	-	-	5,234
Euro	1,424	233,083	21,621	-	256,128
Pound Sterling	127	76,495	-	-	76,622
Hong Kong Dollar	66	32,808	-	-	32,874
Japanese Yen	1,347	123,930	3,188	-	128,465
Norwegian Krone	409	4,918	-	-	5,327
New Zealand Dollar	49	225	-	-	274
Swedish Krona	1,312	15,362	-	-	16,674
Singapore Dollar	55	6,384	-	-	6,439
Mexican Peso	3	-	-	(4)	(1)
Brazilian Real	-	-	1,442	(14)	1,428
Total Foreign Currency	$ 6,730	$ 584,162	$ 34,794	$ (285)	$ 625,401

- *Concentration of Credit Risk* – The District's investment policy does not allow for an investment in any one institution that is in excess of twenty-five percent of the District's total investment. At September 30, 2009, the District was in compliance with this policy.

Asset Impairment

At September 30, 2009, the District recognized an impairment loss totaling $4,569 related to its investment in certain mortgage-backed securities, in the aggregate.

The purchase cost and market value of these securities, in the aggregate, were $29,971 and $17,139, respectively. The total value of the mortgage-backed securities is less than 1% of the total investment holdings. Market values for the mortgage-backed securities are based on pricing provided by an independent valuation service.

The District has determined this impairment to be other than temporary because the decline in value has existed for an extended period of time, and is directly related to adverse conditions that are specific to these securities (among other securities in the marketplace). Various dynamics in the credit-market environment and the illiquidity of mortgage-backed securities have resulted in declines in the market values of these securities. The District has no current plans to sell these securities. The District expects to continue to receive timely principal and interest payments on these securities, and most of them are rated in the highest rating category (AAA). As such, the District may recoup some or all of the impairment amount. Mortgage-Backed Securities (MBS) are prohibited by the current Investment Policy however all existing MBS positions were "grandfathered" into the overall investment portfolio and no additional such investments shall be entered into.

NOTE 2. CASH AND INVESTMENTS

Table 2a – Cash and Investments Detail

	Total Carrying Value			
INVESTMENTS				
Primary Government:				
U. S. government securities	$	173,510		
Corporate securities		9,464		
Mutual funds		43,226		
Total Primary Government			$	226,200
Fiduciary Funds:				
Pension trust funds investments held by Board's agent in Board's name:				
Equity securities		2,282,169		
Fixed income securities		893,655		
Real estate		192,645		
Private equity		543,921		
Private purpose trust funds investments		117,903		
Total Fiduciary Funds				4,030,293
Component Units:				
U. S. government securities		392,134		
Corporate securities		60,727		
Investment contracts		94,673		
Mutual funds		160,397		
Total Component Units				707,931
Total reporting entity investments			$	4,964,424
CASH BALANCES				
Primary government			$	2,377,154
Fiduciary Funds				399,621
Component units				470,366
Total cash balances			**$**	**3,247,141**

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

Total investments per Table 2a	$	4,964,424
Total cash balances		3,247,141
Total	$	**8,211,565**

		Exhibit 1-a		Exhibit 4-a		Total
Cash and cash equivalents	$	559,471	$	-	$	559,471
Investments		188,803		-		188,803
Cash and cash equivalents (restricted)		2,288,049		399,621		2,687,670
Investments (restricted)		745,328		4,030,293		4,775,621
Total	$	**3,781,651**	$	**4,429,914**	$	**8,211,565**

NOTE 2. CASH AND INVESTMENTS

Derivative Financial Instruments

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

Interest Rate Swap Agreements

Objectives

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

Terms

2004B Swap

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

2002B Swap

On October 15, 2002, the District entered into a floating-to-fixed rate swap in connection with its $224,300 Multimodal General Obligation Bonds, Series 2002B (2002B Swap). The original notional amount of the swap was $224,300. Under the terms of the swap, scheduled to terminate in 2027, the District pays a fixed-rate of 3.615% and receives variable rate payments equivalent to Bond Market Association Municipal Swap Index (BMA) until December 1, 2004, and at 67% of London Interbank Offer Rate (LIBOR) thereafter.

On May 21, 2008 the District issued the Series 2008C Bonds to refund the District's Series 2002B Bonds. The swap agreement entered into by the District in connection with the Series 2002B Bonds (the 2002 Swap) was, for federal tax purposes, identified on the District's books with the Series 2002B Bonds. While the issuance of the Series 2008C Bonds resulted in the deemed termination of the 2002 Swap for federal tax purposes, the 2002 Swap has not actually been terminated by the District and remains in effect for the Series 2008C Bond. The notional value of the swap and the principal amount of the associated debt service begin to decline in fiscal year 2020.

2002D Swap

On October 31, 2002, the District entered into a floating-to-fixed rate swap in connection with its $124,995 Multimodal General Obligation Refunding Bonds, Series 2002D (2002D Swap). The original notional amount of the swap was $124,995. Under the terms of the swap, scheduled to terminate in 2031, the District pays a fixed-rate of 3.617% and receives variable rate payments equivalent to the BMA Swap Index until December 1, 2004 and at 67% of LIBOR thereafter. The notional value of the swap and the principal amount of the associated debt service begin to decline in fiscal year 2015.
In August 2009, the District novated the Series 2002D Interest Rate Swap Agreement from the original counterparty, Lehman Brothers Commercial Bank, to Wachovia Bank, N.A. The 2002D Swap original terms for rates and payments remain in effect.

2001C/D Swap

On December 6, 2001, the District entered into a floating-to-fixed rate swap in connection with its $214,155 Multimodal General Obligation Bonds, Series 2001C and its $69,715 Multimodal General Obligation Refunding Bonds, Series 2001D (2001C/D Swap). The original notional amount of the swap was $283,870. Two firms, Bear, Stearns & Co. Inc. (Bear Stearns) and UBS AG, negotiated the split of this swap transaction. As a result, Bear Stearns and UBS AG received 62.5% and 37.5% of the notional amount of the swap, respectively. Under the terms of the swap, scheduled to terminate in 2029, the District pays a fixed-rate of 4.004% and receives variable rate payments equivalent to BMA until June 2, 2003, and at 67% of LIBOR thereafter. The notional value of the swap and the principal amount of the associated debt service began to decline in fiscal year 2003.

On June 2, 2003, the District entered into an enhanced interest rate swap agreement for the 2001C/D Bond issue (2001C/D Enhanced Swap). Based on the 2001C/D Enhanced Swap, the District pays the counterparty 67% of LIBOR and the counterparty pays the District a variable rate as a percentage of the actual LIBOR reset

NOTE 2. CASH AND INVESTMENTS

each month. The purpose of this swap is to reduce the basis risk to the District by providing a closer match between the District underlying variable rate bonds and the variable rate swap receipt from the counterparty. Only the net difference in interest payments is actually exchanged between the counterparties.

In April 2009, the District novated the Bear Stearns' 2001C/D Swap portion and the 2001C/D Enhanced Swap to J.P. Morgan Chase & Co. Inc. The original terms for rates and payments remain in effect.

2006 NCRC Swap

On February 6, 2006, the National Capital Revitalization Corporation (NCRC) a former component unit of the District which has since been dissolved, entered into an interest rate cap agreement with SMBC Derivative Products Limited, in connection with the bonds issued ("the Bonds") for the construction of a parking garage under which NCRC, in return for payment of a premium, will receive payments from the counterparty in an amount by which the interest rate on the NCRC Bonds exceeds 8.57%. The notional amount is equal to the principal amount of the NCRC Bonds. Since the issuance of the NCRC Bonds, the District has, pursuant to statute, in fiscal year 2007 abolished NCRC and assumed its assets and obligations, including the payment of the NCRC Bonds, from the specific revenue streams pledged as security for the Bonds.

2007 AWC Swap

In connection with the issuance of the Anacostia Waterfront Corporation (AWC) Bonds in September 2007, the AWC, former component unit of the District which has since been dissolved, entered into a swap agreement with Wachovia Bank, N.A. which has a current notional amount of $102,970 and provides for a fixed rate payment by the District at 4.46%. The AWC also entered into a floating to fixed interest rate swap with Wachovia Bank, N.A., under which the AWC pays a fixed rate and receives a variable rate which matches the rate on the bond purchased by Wachovia Bank, N.A. The notional amount of the swap is equal to the principal amount of the AWC Bonds. The District has, pursuant to statute, in fiscal year 2007 abolished AWC and assumed its assets and obligations, including the payment of the AWC Bonds, from the specific revenue streams pledged as security for the Bonds.

Fair Market Value

As of September 30, 2009, the 2004B, 2002B, 2002D, 2001C/D Swaps; 2006 NCRC Swap; and 2007 AWC Swap had fair market values as shown in **Table 3**:

Table 3 – Swap Fair Market Values

2004B Swaps	$(2,493)
2002D Swap	(16,710)
2008C/2002B Swap	(34,593)
2001C/D (Enhanced Swap) (JP Morgan Chase Bank)	(326)
2001C/D (JP Morgan Chase Bank)	(22,982)
2001C/D (UBS AG)	(13,691)
2006 NCRC Swap	20
2007 AWC Swap	(8,558)
Total	**$(99,333)**

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

Credit Risk

The fair market values of the swaps represent the District's obligation to the respective counterparties if the swaps were terminated. As of September 30, 2009, the District was exposed to minimal credit risk of $20 because a portion of the swaps had a positive fair value. For the most part, the District was not exposed to credit risk because the swaps had negative fair values. Should the counterparties to these transactions fail to perform according to the terms of the applicable swap contracts, the District faces a maximum possible loss equivalent to the fair market value of the swaps in the aggregate, which was $(99,333) at the close of fiscal year 2009.

Standard & Poor's and Moody's rated the counterparty to each swap as of September 30, 2009, as presented in **Table 4.**

Table 4 – Swap Counterparty Credit Ratings

Swap	Counterparty	Credit Rating
2004B	JP Morgan Chase & Co.	A+/Aa3
2002D	Wachovia Bank	AA/Aa2
2008C/2002B	Morgan Stanley	A/A2
2001C/D	JP Morgan Chase Bank	AA/Aa1
2001C/D	UBS AG	A+/Aa2
2006 NCRC	SMBC Capital Markets , Inc.	A+/Aa2
2007 AWC	Wachovia Bank	AA/Aa2

NOTE 2. CASH AND INVESTMENTS

Basis Risk

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

Termination Risk

The District or the counterparty may terminate the swap if the other party fails to perform under the terms of the contract. The swap uses the International Swap Dealers Association Master Agreement, which includes standard termination events. The Schedule to the Master Agreement defines an "additional termination event." That is, the swap may be terminated if the counterparty or its Credit Support Provider, or the District has one or more outstanding issues of rated unsecured, unenhanced senior debt and none of such issues has a rating of at least (i) Baa3 or higher as determined by Moody's Investors Service, Inc., (ii) BBB-, or higher as determined by Standard & Poor's Ratings Service, or (iii) an equivalent investment grade rating determined by a nationally recognized rating service acceptable to both parties.

Swap Payments and Associated Debt

Using interest rates as of September 30, 2009, principal and interest requirements of the fixed-rate debt and net swap payments are shown in **Table 5**. As rates vary, net swap payments will vary. As the principal on the variable rate bonds matures, each swap's notional amount likewise diminishes, or amortizes as well.

Table 5 – Swaps Interest Requirements

	Governmental Activities			
	General Obligation			
Primary Government	**Principal**	**Interest**	**Interest Rate Swaps, Net**	**Total**
Year Ending September 30				
2010	$ 7,635	$ 3,837	$ 21,534	$ 33,006
2011	7,945	3,807	21,241	32,993
2012	27,660	3,776	20,936	52,372
2013	8,370	3,667	19,874	31,911
2014	17,825	3,633	19,553	41,011
2015-2019	102,920	12,899	90,059	205,878
2020-2024	267,335	7,226	61,365	335,926
2025-2029	177,965	1,619	14,389	193,973
2030-2034	7,980	48	416	8,444
Total	**$ 625,635**	**$ 40,512**	**$ 269,367**	**$ 935,514**

<u>Retirement Board Derivatives</u>

During 2009, the Pension Trust Funds, in accordance with the policies of the Retirement Board, and through the Pension Trust Funds' investment managers who have full discretion over investment decisions, invested in various derivative instruments either to increase potential earnings or to hedge against potential losses. These derivatives included asset-backed securities (ABS), collateralized mortgage-backed securities (CMOs), mortgage-backed pools and securities, floating rate notes, structured notes, stripped/zero coupon bonds, inflation index bonds, forward mortgage-backed securities (TBAs), foreign currency forward and futures contracts, equity index futures, bond futures, bond options, currency options, swaps, swaptions, and warrants.

Derivative instruments generally contain exposure to credit risk, market risk, and/or legal risk. Credit risk is the exposure to the default of another party to the transaction (counterparty), or to the creditworthiness of derivative securities, such as mortgage-backed, asset-backed, floating rate, and stripped securities. Market risk is the exposure to changes in the market, such as a change in interest rates, currency exchange rates, or a change in the price or principal value of a security. The Retirement Board believes that all contracts entered into are legally permissible in accordance with the policy of the Board.

The Pension Trust Funds used ABS, CMOs, mortgage-backed pools and securities, floating rate notes, structured notes, stripped/zero coupon bonds, and TBAs primarily to increase potential returns. ABS and mortgage-backed pools and securities, with higher credit and market risks,

NOTE 2. CASH AND INVESTMENTS

offer higher potential yields than comparable duration U.S. Treasury notes. CMOs, with higher market risks, also offer higher potential yields than comparable duration U.S. Treasury notes, 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. These and all other risks mentioned herein are monitored and managed by the Retirement Funds' external investment managers who purchase such securities and notes on behalf of the District Retirement Funds.

Floating rate notes (securities which pay an interest rate tied to an index) are subject to market risk to the extent of the movement of the underlying index in relation to market rates. A downward movement in the underlying index would negatively impact the interest income received on the security. Upward movements in interest rates do not adversely affect floating rate notes as they do fixed rate notes, allowing floating rate notes to function as a hedge against upward changes in interest rates.

The Pension Trust Funds invested 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 Pension Trust Funds also invested in stripped/zero coupon bonds, which are purchased at a discount and do not pay any interest.

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

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

Foreign currency forward and futures contracts can pose market risk when the maximum potential loss on a particular contract is greater than the value of the underlying investment. Market risks arise due to movements in the foreign exchange rates underlying the contracts used by the Pension Trust Funds. Credit risk is managed by limiting transactions to counterparties with short-term credit ratings of Al or Pl or by trading on organized exchanges. Market risk for currency options is limited to the purchase cost. Credit risk is managed by limiting transactions to counterparties with investment grade ratings or by trading on organized exchanges.

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

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

Warrants are used by the Pension Trust Funds to gain equity exposure and to enhance performance. Warrants are often distributed by issuers to holdings of common stock and bonds, and are held for the same fundamental reasons as the original common stock and/or bond holdings. Market risk is limited to the purchase cost. Credit risk is similar to the underlying equity and/or bond holdings. Again, all such risks are monitored and managed by the Pension Trust Funds' external investment managers who have full discretion over such investment decisions.

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

At September 30, 2009, the Pension Trust Funds' portfolio included $403,776 of derivative investments, or 11% of the pension investment portfolio. The proportion of derivative investments varied at times throughout the year.

NOTE 2. CASH AND INVESTMENTS

Derivative investments by type at September 30, 2009, are shown in **Table 6.**

Table 6 – Derivative Investments by Type

Derivative Instrument Type		
Asset-backed securities	$	64,027
Collateralized mortgage obligations		51,499
Mortgage-backed security pools and securities		286,150
Swaps		1,865
Options		235
Total Derivatives	**$**	**403,776**

C. SECURITIES LENDING

During fiscal year 2009, the master custodian, at the direction of the Retirement Board, loaned the Pension Trust Funds equity and fixed income securities and received collateral in the form of cash (United States and foreign currency), securities issued or guaranteed by the United States government, the sovereign debt of foreign countries and irrevocable letters of credit issued by a bank insured by the Federal Deposit Insurance Corporation (FDIC). The collateral could not be pledged or sold unless the borrower defaulted on the loan. Borrowers were required to deliver and maintain collateral for each loan in an amount equal to (i) at least 102% of the market value of the loaned securities in the United States; or (ii) 105% of the market value of the loaned securities in the case of loaned securities not denominated in United States dollars or whose primary trading market was not located in the United States.

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

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

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

There was no involuntary participation in an external investment pool by the Quality D Fund and there was no income from one fund that was assigned to another fund by the master custodian during fiscal year 2009.

During the fiscal year ended September 30, 2009, shares in the Quality D Fund purchased with cash collateral by the lending agent declined in value, resulting in an unrealized loss of $11,521.

During fiscal year 2009, the Retirement Board did not restrict the amount of the loans that the master custodian made on its behalf. There were no failures by any borrowers to return loaned securities or pay distributions thereon and there were no losses resulting from a default of the borrowers or the master custodian during 2009.

The Quality D Fund invests cash collateral from loans of U.S. and non-U.S. equities, U.S. corporate fixed income securities, U.S. Government securities and sovereign debt. It had a weighted average maturity of 46.90 days and an average expected maturity of 270.65 days. Because the loans were terminable at will, their duration did not generally match the duration of the investments made with cash collateral.

Investments are restricted to issuers with a short-term credit rating not lower than A1/P1, or long-term ratings not lower than A-/A3, or the equivalent thereof. The Quality D Fund may invest in other investment vehicles managed by the master custodian provided they conform to fund guidelines. On September 30, 2009, the Board had no credit risk exposure to borrowers. The collateral held (comprised of cash) and the market value of securities on loan for the Board was $482,328 and $468,081, respectively, as of September 30, 2009.

The collateral held is included in cash and investments shown in Table 2a and Exhibit 4-a, and the securities on

NOTE 2. CASH AND INVESTMENTS

loan are reported at their carrying amounts also in Table 2a and Exhibit 4-a.

Net security lending income is composed of three components: gross income, broker rebates, and agent fees. Gross income is equal to earnings on cash collateral received in a security lending transaction. A broker rebate is the cost of using that cash collateral. Agent fees represent the fees paid to the agent for administering the lending program. Net security lending income is equal to gross income less broker rebates and agent fees. Security lending income for fiscal year 2009 was recorded on a cash basis which approximated the accrual basis. For the year ending September 30, 2009, securities lending income was $8,522 and securities lending expense was $3,637, resulting in net securities lending income of $4,885.

NOTE 3. RESTRICTED ASSETS

At September 30, 2009, restricted assets of the primary government, component units, and fiduciary funds totaled $7,463,291 as summarized in **Table 7.**

Table 7 – Summary of Restricted Assets

The bond escrow accounts include bond escrow for capital lease payment of $10,923.

	Governmental Funds/Governmental Activities					
	General	**Federal & Private Resources**	**General Capital Improvements**	**Baseball**	**Non-Major**	**Total**
Bond Escrow Accounts	$ 231,864	$ -	$ -	$ -	$ -	$ 231,864
Public Transportation	-	-	739,621	-	10,758	750,379
Emergency Cash Reserves	284,316	-	-	-	-	284,316
Others	62,461	133,775	-	2,022	326,064	524,322
Total	$ 578,641	$ 133,775	$ 739,621	$ 2,022	$ 336,822	$ 1,790,881

	Proprietary Funds/Business-Type Activities					
	Lottery & Games	**Unemployment Compensation**	**Nonmajor**	**Total**	**Fiduciary Funds**	**Component Units**
Bond Escrow Accounts	$ -	$ -	$ -	$ -	$ -	$ 802,801
Unpaid Prizes	35,153	-	-	35,153	-	-
University Endowment	-	-	-	-	-	33,512
Benefits	-	366,403	-	366,403	4,429,914	-
Other	-	-	3,837	3,837	-	790
Total	$ 35,153	$ 366,403	$ 3,837	$ 405,393	$ 4,429,914	$ 837,103

NOTE 4. RECEIVABLES, INTERFUND TRANSFERS/BALANCES

A. RECEIVABLES

Receivables are valued at their estimated collectible amounts. These receivables are presented in various funds as shown in **Table 8.**

Table 8 – Receivables

	General	Federal & Private Resources	General Capital Improvements	Nonmajor Governmental Funds	Lottery & Games	Unemployment Compensation	Nonmajor Proprietary Fund	Fiduciary Funds
Gross Receivable:								
Taxes	$ 501,355	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Interest	-	-	-	-	-	-	-	-
Accounts	249,131	308,127	8,135	30,803	7,292	19,855	11,390	11,198
Federal	19,856	379,154	44,888	-	-	18,883	-	2,272
Total gross receivable	**770,342**	**687,281**	**53,023**	**30,803**	**7,292**	**38,738**	**11,390**	**13,470**
Less-allowance for uncollectibles	302,940	229,750	6,136	-	-	10,268	3,571	-
Total net receivable	**$ 467,402**	**$ 457,531**	**$ 46,887**	**$ 30,803**	**$ 7,292**	**$ 28,470**	**$ 7,819**	**$ 13,470**

B. INTERFUND TRANSFERS

Table 9 shows a summary of interfund transfers for the fiscal year ended September 30, 2009.

Table 9 – Summary of Interfund Transfers

TRANSFER FROM (Out)	TRANSFER TO (In)	PURPOSE	AMOUNT
General Fund	Highway Trust Fund	Motor fuel Taxes dedicated to the Highway Trust Fund	$ 23,830
General Fund	Highway Trust Fund	Transfer funds for DDOT	11,628
General Fund	PILOT Special Revenue Fund	Dedicated taxes	10,057
General Fund	Community Healthcare Fund	Dedicated taxes	18,840
General Fund	Capital Projects	PAYGO - Capital projects financed by the General Fund	75,935
General Fund	Capital Projects	Taxes imposed for capital projects	51,133
General Fund	Baseball Special Revenue	Taxes imposed for the Baseball Stadium Project	50,678
General Fund	Tax Increment Financing Program	Tax imposed to pay debt service on economic development projects	25,985
General Fund	Housing Production Trust Fund	Housing Production Trust Fund	26,101
Lottery and Games	General Fund	D.C. Lottery and Games excess revenues, after operating cost, to the General Fund	68,775
Tobacco Settlement Corp.	General Fund	Fund balance transfer	23,068
Baseball Special Revenue	Baseball Debt Service	Funds for debt service payments	31,801
Tax Increment Financing Program	General Fund	Fund balance transfer	28,053
Federal and Private Resources	General Fund	Reimbursement for General Fund expenses	1,755
		TOTAL INTERFUND TRANSFERS	**$ 447,639**

NOTE 4. RECEIVABLES, INTERFUND TRANSFERS/BALANCES

C. RECEIVABLES AND PAYABLES BETWEEN FUNDS AND COMPONENT UNITS

Due to/due from and interfund receivable and payable balances for each fund and individual component unit at September 30, 2009, are shown in **Table 10**.

Table 10 – Summary of Due To /Due From and Interfund Balances

	Primary Government/ Component Units		Interfund	
Fund or Component Unit	**Receivables**	**Payables**	**Receivables**	**Payables**
General	$ 24,489	$ 14,127	$ 346,597	$ 30,406
Federal & Private Resources	-	-	21,510	129,468
General Capital Improvements	-	24	485	204,028
Capital Projects, Highway Trust Fund	-	-	6,013	485
Baseball Capital Projects	1,527	-	-	-
Baseball Special Revenue	-	-	4,152	-
Housing Production Trust Fund	-	-	10,077	-
Unemployment Compensation	-	-	-	19,770
Pension/OPEB Trust Funds	-	-	8,219	5,963
Agency Fund	-	-	206	7,139
Water and Sewer Authority	4,400	1,251	-	-
Sports and Entertainment Commission	-	2,218	-	-
Washington Convention Center	8,438	-	-	-
University of the District of Columbia	1,313	22,547	-	-
Total	**$ 40,167**	**$ 40,167**	**$ 397,259**	**$ 397,259**

The above balances represent the impact of transactions among the funds and component units which will be settled during fiscal year 2010.

NOTE 5. CAPITAL ASSETS

Capital Outlays

Capital outlays totaled $1,130,971 for the fiscal year ended September 30, 2009, which are reported in the General Capital Improvements, Baseball Capital Project and Other Nonmajor Governmental Funds. As construction progresses, the cumulative expenditures are capitalized as construction in progress in the Governmental Activities column of the Government-Wide Financial Statements. Upon completion of the project, the balance in the Construction in Progress account is transferred to an appropriate descriptive capital asset account such as building, equipment, or infrastructure.

Impaired Capital Assets

Consistent with the District's School Consolidation Plan (the Plan), initiated in fiscal year 2006, the District closed 27 schools. The purpose of the Plan was to right-size the school-system and eliminate costs associated with maintaining excess facilities. By the end of fiscal year 2009, in addition to the seven permanently impaired school facilities reported in the prior year, the District identified three additional schools for closure. The total impairment loss on permanently impaired assets recorded by the District in fiscal year 2009 was $18,038. At September 30, 2009, the carrying value of idle facilities, including both permanently and temporarily impaired assets, was $36,054. **Table 11** presents the permanently impaired assets and the impairment losses associated with the school closures.

Also during fiscal year 2009, the Metropolitan Police Department's old 1st District headquarters building located at 415 4th Street, S.W. was slated for demolition to make way for the construction of a new forensic lab. Demolition is to be completed in February 2010. As a result of the planned demolition of this building, the District recorded an impairment loss of $5,082.

NOTE 5. CAPITAL ASSETS

In FY 2009, Gage-Eckington Elementary School and Bruce Monroe Elementary School were completely demolished and written off in the District's capital asset system.

In addition, during fiscal year 2009, the District closed the Oak Hill Juvenile Detention Center, located in Anne Arundel County, Maryland. The District did not record an adjustment or impairment loss associated with the closure of this facility. The carrying value of this asset at September 30, 2009 was $1,142.

Convention Center Land Swap

The District entered into an agreement with Square 370 LLC, a developer and limited liability company, to exchange the site of the former Washington Convention Center for sites adjacent to the new Washington Convention Center for the possible construction of the convention center hotel. The transaction, recorded at fair market value, resulted in a gain to the District of $54,819, which is presented as a special item in the statement of activities in the government-wide financial statements.

Table 11 – Public School Closures and Resulting Impairment Losses

School	Impairment Loss	Carrying Value at 09/30/2009
Backus Middle School	$ -	$ 1,027
Benning Elementary School	3,275	-
Birney Elementary School	6,092	-
Brookland Elementary School	-	1,762
Bruce Monroe Elementary School	1,523	-
Clark Elementary School	768	-
Douglass Transition Academy	1,275	-
Draper Elementary School	1,410	-
Gage-Eckington Elementary School	2,927	-
Gibbs Elementary School	-	1,132
Hine Middle School	-	775
J. F. Cook Elementary School	768	-
M.M. Washington Senior High School	-	1,035
McGogney Elementary School	-	425
Merritt Middle School	-	64
Moten Center for Special Education	-	563
Patricia R. Harris Education Center	-	4,634
Rudolph Elementary School	-	477
Shaw Middle School	-	4,817
Stevens Elementary School	-	145
Turner Elementary School	-	409
Van Ness Elementary School	-	108
Webb Elementary School	-	336
Young Elementary School	-	307
Total	$ 18,038	$ 18,016

NOTE 5. CAPITAL ASSETS

District Land Swaps With the Federal Government

Pursuant to the Federal and District of Columbia Government Real Property Act of 2005, Congress authorized the exchange of 29 parcels of land between the federal government and the District. The District will receive title to nine National Park Service (NPS) and two General Services Administration (GSA) properties, including 66 acres around the site of the former D.C. General Hospital, Poplar Point (approximately 100 acres on the east side of the Anacostia River adjacent to the 11th Street Bridge), 15 acres of the Robert F. Kennedy Stadium parking lot, and four other small Potomac Avenue parcels. The District will also gain administrative jurisdiction (which includes administration and maintenance, but not title) over seven smaller NPS properties.

In exchange, the NPS will gain administrative jurisdiction over eight properties and title to two others. GSA will gain title to five buildings on the west campus of St. Elizabeth's Hospital. In addition, as part of the exchange, the federal government would gain release from all current claims by the District regarding St. Elizabeth's Hospital, and the District will cover all costs associated with the relocation of federal facilities currently located at Poplar Point (headquarters of the National Capital Parks-East and the U.S. Park Police Anacostia Operations and Helicopter Facilities.) **Table 12** presents the properties which will be conveyed in title and **Table 13** presents the properties with transfer of administrative jurisdiction.

Table 12 – Land Swap With Federal Government: Properties To Be Conveyed in Title

Property TO the Federal Government	
Property Description	**Agency**
St. Elizabeth's Hospital, West Campus (5 Buildings)	General Services Administration
Needwood, Niagra and Pitt Streets (C & O Canal)	National Park Service
Lovers Lane, NW (adjacent to Montrose Park)	National Park Service
Property FROM the Federal Government	
Property Description	**Agency**
U.S. Reservation 13	General Services Administration
Old Naval Hospital	General Services Administration
Poplar Point	National Park Service
Trash Transfer Site, S.E. (Reservation 17A)	National Park Service
Randall School Site (Reservation 484)	National Park Service
Potomac Avenue Triangles (Reservations 243-245, 247, 248)	National Park Service
Virginia Avenue Triangles (Reservations 128-130, 298, 299)	National Park Service
Anacostia Boathouse Row (Reservations 343D and 343E)	National Park Service
Waterside Mall (721, 722, 723)	National Park Service
Old Convention Center (Reservation 174)	National Park Service

NOTE 5. CAPITAL ASSETS

Table 13 – Land Swap With Federal Government: Properties To Be Conveyed Through Transfer of Administrative Jurisdiction

Property TO the Federal Government	
Property Description	**Agency**
Audubon Terrace, N.W.	National Park Service
Barnaby Street, N.W.	National Park Service
Canal Street, S.W.	National Park Service
Fort Circle Park	National Park Service
Western Avenue, N.W.	National Park Service
17th Street, N.W.	National Park Service
30th Street, N.W.	National Park Service
Whitehaven Parkway, N.W.	National Park Service
Disabled Veterans Memorial Site, S.W. (over I-395)	National Park Service, Architect of the Capitol
Property FROM the Federal Government	
Property Description	**Agency**
Gallatin Street (reservation 451)	National Park Service
Canal Road (Reservation 404)	National Park Service
Eastern Market (Reservation 44 – 49)	National Park Service
Eight and M Street (Reservation 251)	National Park Service
Mount Vernon Square (Reservation 8)	National Park Service
North Capitol, Florida and Lincoln (Reservations 277A and 277C)	National Park Service
Fort Reno Park (Reservation 470)	National Park Service

The conveyance of properties between the District and the federal government through the transfer of administrative jurisdiction was effective December 15, 2006. As of September 30, 2009, the following properties had been transferred (conveyed in title) to the District: Potomac Avenue Triangles (Reservations 243-245, 247, 248); Randall School Site (Reservation 484); Trash Transfer (Reservation 17A); Anacostia Boathouse Row (Reservations 343D and 343E); Virginia Avenue Triangle (Reservations 128-130, 298, and 299); and Waterside Mall (Reservations 721 – 723). Consequently, the conveyance of these properties to the District resulted in a gain of $232,318, which represents the fair market value of the land received. The transaction, recorded at fair market value, is presented as a special item in the statement of activities in the government-wide financial statements.

As of September 30, 2009, the District had transferred (conveyed in title) the following properties to the federal government: Needwood, Niagra and Pitt Streets (C & O Canal) and Lovers Lane, N.W. (adjacent to Montrose Park.)

Pollution Remediation Outlays

The Office of Public Education and Facilities Modernization (OPEFM) is responsible for the modernization, renovation, and repair of the District of Columbia Public Schools (DCPS). In the event that pollution is found during the course of completing a project at a DCPS facility, pollution remediation or removal becomes part of the work required to comply with relevant building codes and other applicable laws and regulations. During fiscal year 2009, OPEFM expended $6,423 for lead and asbestos abatement. Because all remediation work commenced and was completed during fiscal year 2009, the District had no associated liability (pollution remediation obligation) at September 30, 2009.

NOTE 5. CAPITAL ASSETS

A. GOVERNMENTAL ACTIVITIES CAPITAL ASSETS BY CLASS

Table 14 presents the changes in the governmental activities capital assets by class for the primary government:

Table 14 - Changes in the Governmental Activities Capital Assets by Asset Class

Asset Class	Balance October 1, 2008	Additions	Transfers/ Dispositions	Transfers from CIP	Balance September 30, 2009
Non-depreciable:					
Land	$ 311,388	$ 287,137	$ (3,932)	$ -	$ 594,593
Construction in progress	1,834,045	916,973	-	(890,034)	1,860,984
Total non-depreciable	**2,145,433**	**1,204,110**	**(3,932)**	**(890,034)**	**2,455,577**
Depreciable:					
Infrastructure	3,676,819	-	(17,057)	213,190	3,872,952
Buildings	3,644,275	645	(54,692)	536,919	4,127,147
Equipment	1,141,933	17,698	(28,122)	139,925	1,271,434
Total depreciable	**8,463,027**	**18,343**	**(99,871)**	**890,034**	**9,271,533**
Less accumulated depreciation for:					
Infrastructure	(1,656,329)	(95,528)	-	-	(1,751,857)
Buildings	(1,052,724)	(71,230)	31,993	-	(1,091,961)
Equipment	(655,770)	(137,596)	24,893	-	(768,473)
Total accumulated depreciation	**(3,364,823)**	**(304,354)**	**56,886**	**-**	**(3,612,291)**
Total depreciable, net	**5,098,204**	**(286,011)**	**(42,985)**	**890,034**	**5,659,242**
Net governmental activities capital assets	**$ 7,243,637**	**$ 918,099**	**$ (46,917)**	**$ -**	**$ 8,114,819**

B. GOVERNMENTAL ACTIVITIES CAPITAL ASSETS BY FUNCTION

Table 15 presents the changes in the governmental activities capital assets by function for the primary government:

Table 15- Governmental Activities Capital Assets by Function

Function	Balance October 1, 2008	Additions	Transfers/ Dispositions	CIP Transfers in (out)	Balance September 30, 2009
Governmental direction and support	$ 1,480,699	$ 13,650	$ (3,541)	$ 202,559	$ 1,693,367
Economic development and regulation	246,525	131,804	(2,053)	11,660	387,936
Public safety and justice	671,200	9,315	(3,916)	35,786	712,385
Public education system	1,437,604	4,865	(51,959)	388,007	1,778,517
Human support services	674,563	110,306	(41,991)	21,446	764,324
Public works	4,263,824	35,540	(343)	230,576	4,529,597
Construction in progress (CIP)	1,834,045	916,973	-	(890,034)	1,860,984
Total	**$ 10,608,460**	**$ 1,222,453**	**$ (103,803)**	**$ -**	**$ 11,727,110**

NOTE 5. CAPITAL ASSETS

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 16**.

Table 16 – Governmental Activities Capital Assets Accumulated Depreciation By Function

Function	Balance October 1, 2008	Additions	Transfers/ Dispositions	Balance September 30, 2009
Government direction and support	$ 354,528	$ 101,238	$ (2,656)	$ 453,110
Economic development and regulation	31,295	3,901	(1,749)	33,447
Public safety and justice	299,043	31,002	(4,671)	325,374
Public education system	492,178	34,134	(25,092)	501,220
Human support services	301,641	18,848	(22,707)	297,782
Public works	1,886,138	115,231	(11)	2,001,358
Total	**$ 3,364,823**	**$ 304,354**	**$ (56,886)**	**$ 3,612,291**

NOTE 5. CAPITAL ASSETS

D. BUSINESS-TYPE ACTIVITIES CAPITAL ASSETS

Business-Type Activities Capital Assets are presented in **Table 17**.

Table 17 - Business-Type Activities Capital Assets

Asset Class	Balance October 1, 2008	Additions	Dispositions/ Adjustments	Balance September 30, 2009
Lottery:				
Depreciable:				
Equipment	$ 3,563	$ 247	$ (559)	$ 3,251
Total	**3,563**	**247**	**(559)**	**3,251**
Nonmajor business-type				
Non-depreciable:				
Land	1,264	-	-	1,264
Depreciable:				
Building	47,533	828	-	48,361
Equipment	5,669	542	-	6,211
Total Depreciable, nonmajor business-type	**53,202**	**1,370**	-	**54,572**
Total Business-Type	**58,029**	**1,617**	**(559)**	**59,087**
Less: accumulated depreciation for:				
Equipment	(6,810)	(463)	559	(6,714)
Building	(34,472)	(1,889)	-	(36,361)
Total accumulated depreciation	(41,282)	(2,352)	559	(43,075)
Net capital assets	**$ 16,747**	**$ (735)**	**$ -**	**$ 16,012**

E. DISCRETELY PRESENTED COMPONENT UNITS CAPITAL ASSETS

A summary of capital assets by class for the discretely presented component units is shown in **Tables 18 and 19**.

Table 18 - Capital Assets by Class for the Discretely Presented Component Units

Asset Class	Balance October 1, 2008	Additions	Transfers/ Dispositions	CIP Transfers in (out)	Balance September 30, 2009
Land	$ 12,889	$ -	$ -	$ -	$ 12,889
Utility plant	2,877,463	41,524	-	238,338	3,157,325
Buildings and improvements	986,113	12,066	-	-	998,179
Equipment	177,237	2,651	(1,862)	12,670	190,696
Artwork	2,741	-	-	-	2,741
Construction in progress	430,148	259,034	-	(251,008)	438,174
Total	**4,486,591**	**315,275**	**(1,862)**	**-**	**4,800,004**
Less:accumulated depreciation for					
Utility plant	(755,817)	(49,255)	-	-	(805,072)
Buildings and improvements	(272,221)	(34,567)	-	-	(306,788)
Equipment	(147,308)	(13,581)	1,807	-	(159,082)
Total accumulated depreciation	**(1,175,346)**	**(97,403)**	**1,807**	**-**	**(1,270,942)**
Net Capital Assets	**$ 3,311,245**	**$ 217,872**	**$ (55)**	**$ -**	**$ 3,529,062**

NOTE 5. CAPITAL ASSETS

Table 19 - Capital Assets by Component Unit

Component Units	Balance October 1, 2008	Additions	Transfers/ Dispositions	Balance September 30, 2009
University of the District of Columbia	$ 184,398	$ 7,625	$ (482)	$ 191,541
Washington Convention Center	852,638	8,511	-	861,149
Water and Sewer Authority	3,382,448	299,026	(1,380)	3,680,094
Sports and Entertainment Commission	61,377	32	-	61,409
Housing Finance Agency	5,730	81	-	5,811
Total capital assets	**4,486,591**	**315,275**	**(1,862)**	**4,800,004**
Less-accumulated depreciation for:				
University of the District of Columbia	(116,350)	(5,677)	478	(121,549)
Washington Convention Center	(159,463)	(27,516)	-	(186,979)
Water and Sewer Authority	(852,204)	(59,288)	1,329	(910,163)
Sports and Entertainment Commission	(44,247)	(4,755)	-	(49,002)
Housing Finance Agency	(3,082)	(167)	-	(3,249)
Total accumulated depreciation	**(1,175,346)**	**(97,403)**	**1,807**	**(1,270,942)**
Net component units capital assets	**$ 3,311,245**	**$ 217,872**	**$ (55)**	**$ 3,529,062**

NOTE 5. CAPITAL ASSETS

F. CONSTRUCTION IN PROGRESS

Construction in progress by function for governmental activities capital assets is shown in **Table 20.**

Table 20– Construction in Progress by Function

Function and Subfunction	Number of Projects	Authorizations	Expenditures: Prior Year	Expenditures: Current Year	Expenditures: Transfers from CIP/Disposition	Expenditures: Total	Unexpended Balance
PRIMARY GOVERNMENT							
Governmental Direction and Support							
Legislative	1	$ 2,055	$ 420	$ 418	$ -	$ 838	$ 1,217
Finance	5	111,353	4,121	18,851	17,794	5,178	106,175
Executive	2	11,986	-	5,609	-	5,609	6,377
Administrative	90	985,774	183,076	119,476	152,494	150,058	835,716
Total	98	1,111,168	187,617	144,354	170,288	161,683	949,485
Public Safety and Justice							
Police	6	31,700	16,594	16,740	16,949	16,385	15,315
Fire	28	150,777	40,198	3,717	3,630	40,285	110,492
Corrections	4	34,466	6,844	1,176	7,782	238	34,228
Total	38	216,943	63,636	21,633	28,361	56,908	160,035
Economic Development and Regulation							
Community Development	10	149,512	26,145	14,787	11,386	29,546	119,966
Economic Regulation	1	23,210	496	-	-	496	22,714
Total	11	172,722	26,641	14,787	11,386	30,042	142,680
Public Education System							
Schools	107	920,090	628,402	273,376	386,385	515,393	404,697
Culture	16	145,951	16,680	15,454	1,560	30,574	115,377
Total	123	1,066,041	645,082	288,830	387,945	545,967	520,074
Human Support Services							
Health and Welfare	26	124,148	90,160	29,662	72,563	47,259	76,889
Human Relations	14	376,663	195,698	63,174	-	258,872	117,791
Recreation	32	397,698	115,952	48,039	-	163,991	233,707
Total	72	898,509	401,810	140,875	72,563	470,122	428,387
Public Works							
Environmental	87	623,564	509,259	306,494	219,491	596,262	27,302
Total	87	623,564	509,259	306,494	219,491	596,262	27,302
Totals	429	$ 4,088,947	$ 1,834,045	$ 916,973	$ 890,034	$ 1,860,984	$ 2,227,963

NOTE 6. CONDUIT DEBT TRANSACTIONS

A. INDUSTRIAL REVENUE BOND PROGRAM

The District has issued, under its Industrial Revenue Bond Program, private activity bonds for which the principal and interest are payable solely from defined revenues of private entities, such as non-profit organizations. The District has no obligation for this debt beyond resources that may have been provided by related leases or loans. Organizations participating in the Industrial Revenue Bond Program are allowed to borrow at the prevailing municipal bond rate. These private activity bonds provide economic incentive to construct, modernize or enhance private entity facilities in the District, thereby supporting the District's economic base. As of September 30, 2009, the aggregate outstanding principal amount for these conduit debt obligations was approximately $5.18 billion.

B. ENTERPRISE ZONE FACILITY BONDS

Beginning January 1, 1998, businesses located in the District of Columbia Enterprise Zone (D.C. Zone) are eligible to obtain up to $15 million of tax-exempt financing. Similar to Industrial Revenue Bonds, the principal and interest are payable solely from defined revenues of private entities, including non-profit and for-profit organizations. The District has no obligation for this debt beyond resources that may have been provided by related leases or loans. As of September 30, 2009, the aggregate outstanding principal amount for Enterprise Zone Facility Bonds was $92.1 million.

NOTE 7. SHORT-TERM LIABILITIES

TAX REVENUE ANTICIPATION NOTES

The District issued $400,000 in Tax Revenue Anticipation Notes (TRANs) on December 2, 2008. The TRANs are general obligations of the District, secured by the District's full faith and credit, and payable from available revenues, including tax revenues, of the District. The issuance of such notes is a short term financing method used to provide for seasonal cash flow needs in anticipation of the collection or receipt of revenues for fiscal year 2009. Operational and other disbursement costs are covered by the TRANs proceeds until periodic taxes, grants, and other revenues are received. The notes were issued as fixed-rate notes with an interest rate of 2.50%, priced to yield 1.09%, and matured on September 30, 2009.

Table 21- Changes in Short-Term Liabilities

Account	Balance October 1, 2008	Additions	Deductions	Balance September 30, 2009
Governmental Activities				
Tax Revenue Anticipation Notes	$ -	$ 400,000	$ 400,000	$ -

NOTE 8. LONG-TERM LIABILITIES

A. LONG-TERM DEBT

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

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

A summary of the District's outstanding long-term debt totaling $6,600,306 is shown in **Table 22**.

General Obligation Bonds

The District's general obligation bonds are authorized and issued primarily to provide funds for certain capital projects and improvements. The weighted average interest rate on the District's outstanding fixed-rate bonds is 5.013%. The weighted average interest rate on the District's variable-rate bonds for fiscal year 2009 is 1.593%. All general obligation bonds are backed by the full faith and credit of the District. In addition, the bonds are secured by a security interest in and lien on the funds derived from a Special Real Property Tax levied annually by the District on portions of certain real property. These tax revenues have been dedicated for the payment of bond principal and interest. Amounts collected are deposited in banks and held in escrow for payment of bond principal and interest when due.

Table 22- Changes in Governmental Activities Long-Term Debt of Primary Government

	General Obligation Bonds	Income Tax Secured Bonds	TIF Bonds	Tobacco Bonds	Ballpark Bonds	COPs	Housing Production Trust	QZAB Bonds	NCRC Revenue Bonds	AWC PILOT Revenue Bomds	Total
Debt Payable at September 30, 2008	$ 4,592,518	$ -	$ 100,664	$ 724,484	$ 526,415	$ 261,375	$ 33,570	$ 6,713	$ 46,900	$ 108,730	**$ 6,401,369**
Bond and Notes Issued:											
2009A	-	491,645	-	-	-	-	-	-	-	-	**491,645**
2009B	-	309,685	-	-	-	-	-	-	-	-	**309,685**
2009C	-	270,455	-	-	-	-	-	-	-	-	**270,455**
Total	**4,592,518**	**1,071,785**	**100,664**	**724,484**	**526,415**	**261,375**	**33,570**	**6,713**	**46,900**	**108,730**	**7,473,154**
Debt Payments:											
Principal Matured	224,305	-	4,467	13,245	4,665	9,860	560	669	7,732	5,760	**271,263**
Principal Defeased	601,585	-	-	-	-	-	-	-	-	-	**601,585**
Debt Payable at September 30, 2009	**$ 3,766,628**	**$ 1,071,785**	**$ 96,197**	**$ 711,239**	**$ 521,750**	**$ 251,515**	**$ 33,010**	**$ 6,044**	**$ 39,168**	**$ 102,970**	**$ 6,600,306**

Income Tax Secured Revenue Bonds

On October 22, 2008, the Council of the District of Columbia established the Income Tax Secured Revenue Bond Fund (the Fund) through the Income Tax Secured Bond Authorization Act of 2008 (the Act) (D.C. Code §47-340.26 – 47-340.36). Pursuant to the Act, amounts deposited in the Fund and all investment earnings on these funds, are to be irrevocably dedicated and pledged to the payment of the principal of, and interest on, the bonds and related costs (e.g., costs of the collection agent and trustee and debt service.) The Act further provides that bonds in one or more series may be issued in an aggregate amount not to exceed $2,918,815 to fund the costs of the District's capital projects and to refund outstanding debt. Bonds, as defined in the Act, includes the initial series of Income Tax Secured Bonds and additional bonds, notes, or other obligations, in one or more series, and authorized subordinated bonds. The Income Tax Secured Revenue Bond Fund is a non-lapsing fund that is separate and distinct from the General Fund. Funds held in the Income Tax Secured Revenue Bond Fund and all investments or earnings on these funds are to be irrevocably dedicated and pledged to the payment of the principal of, and interest on the bonds and other associated costs as set forth in the financing documents.

NOTE 8. LONG – TERM LIABILITIES

Series 2009A and 2009B

On March 19, 2009, the District issued its Series 2009A and 2009B bonds in the principal amount of $801,330, which comprised of $491,645 Income Tax Secured Revenue Bonds [Series 2009A] and $309,685 Income Tax Secured Revenue Refunding Bonds [Series 2009B]. These bonds were issued as Senior Bonds pursuant to: (a) the Income Tax Secured Bond Authorization Act of 2008 and (b) a Master Indenture of Trust between the District and Wells Fargo Bank, N.A., dated March 1, 2009, as supplemented by a first and second Supplemental Indenture, both dated March 1, 2009.

The proceeds of the Series 2009A Bonds will be used to: (a) provide funds for capital projects and (b) pay for financing costs. The proceeds of the Series 2009B Bonds will be used to: (a) refund outstanding debt and (b) pay for financing costs.

The Series 2009 A/B Bonds are special obligations of the District payable solely from the Trust Estate pledged under the Indenture. The bonds are without recourse to the District, and are not a pledge of, and do not involve, the faith and credit or the taxing power of the District (other than the pledge of the available tax revenues made by the Indenture and the Act), do not constitute a debt of the District, and do not constitute lending of the public credit for private undertakings as prohibited by District law. The Series 2009A/B Bonds were issued with interest rates ranging from 4.00% to 5.50% with a yield rate ranging from 1.32% to 5.32%.

Series 2009C

On September 3, 2009, the District issued $270,455 in Income Tax Secured Revenue Refunding Bonds, Series 2009C. These bonds were issued as Senior Bonds pursuant to: (a) the Income Tax Secured Bond Authorization Act of 2008 and (b) a Master Indenture of Trust between the District and Wells Fargo Bank N.A., dated March 1, 2009, as supplemented by a fourth Supplemental Indenture of Trust dated September 1, 2009. The purpose of the issuance of the Series 2009C Bonds was to refund the District's Series 1999A and Series 1999B Bonds. The proceeds of the Series 2009C Bonds were used to: (a) redeem the refunded bonds callable on December 1, 2009, at a redemption rate of 101% of the principal amount thereof, and (b) pay for financing costs.

The Series 2009C Bonds are special obligations of the District payable solely from the Trust Estate pledged under the indenture. The bonds are without recourse to the District, and are not a pledge of, and do not involve, the faith and credit or the taxing power of the District (other than the pledge of the available tax revenues made by the indenture and the Act), do not constitute a debt of the District, and do not constitute lending of the public credit for private undertakings as prohibited by District law. The Series 2009C Bonds were issued with interest rates ranging from 3.00% to 5.00% with yields ranging from 1.04% to 4.44%.

A summary of the debt service requirements to maturity for principal and interest for the Income Tax Secured Revenue Bonds is shown in **Table 23.**

Table 23 – Income Tax Secured Revenue Bonds

Year Ending September 30	INCOME TAX SECURED REVENUE BONDS Principal	Interest	Total
2010	$ -	$ 49,335	$ 49,335
2011	23,160	52,121	75,281
2012	74,520	49,991	124,511
2013	71,170	46,637	117,807
2014	85,465	43,021	128,486
2015 - 2019	135,175	189,210	324,385
2020 - 2024	216,840	150,517	367,357
2025 - 2029	277,360	84,851	362,211
2030 - 2034	153,970	29,285	183,255
2035 - 2039	34,125	897	35,022
Total	**$ 1,071,785**	**$ 695,865**	**$ 1,767,650**

Current and Advance Refunding

The District used the proceeds of the Series 2009B Income Tax Secured Revenue Bonds (discussed above), plus original issue premium, to current refund $318,905 of outstanding Series 2000A, 2000B, 2003C, and 2003D general obligation bonds with variable interest rates. The District completed the refunding to reduce its present value total debt service payment, since the existing Auction Rate Securities and Variable Rate Demand Bonds, enhanced with downgraded bond insurers, were trading well over the market for such bonds with high quality credit support. The result of the Series 2009B Income Tax Secured Revenue Bonds produced a reduction of $53,922 of future debt service with an economic gain of $37,840.

In addition, the District used the proceeds of its Series 2009C Income Tax Secured Revenue Refunding Bonds (discussed above), plus original issue premium, to advance refund $282,680 of outstanding Series 1999A and 1999B fixed rate general obligation bonds with interest rates ranging from 5.375% to 5.50%. The net proceeds from the issuance of the Series 2009C Bonds were deposited in an irrevocable trust with an escrow agent to provide debt service payments until the bonds

NOTE 8. LONG-TERM LIABILITIES

were fully called on December 1, 2009. The District completed the refunding to reduce the present value of its total debt service payments over the next 19 years. The result of the Series 2009C Income Tax Secured Revenue Refunding Bonds produced a reduction of $38,975 of future debt service with an economic gain of $31,471.

Demand Bond Program

As of September 30, 2009, the District had seven outstanding series of General Obligation Variable Rate Demand Obligations (VRDO) with an aggregate principal amount of $887,035. While all of the outstanding VRDO series are currently in a weekly interest rate reset mode, each series is a long-term obligation with final maturities ranging from 2026 to 2034. Each of the outstanding VRDO series is secured by a direct pay letter of credit (LOC) issued by a banking institution to provide both credit enhancement and liquidity support for the "demand" feature of the securities whereby, pursuant to the provisions of the authorizing documents for each of the VRDO series, bondholders have the right to tender their bonds to the District at any time for repurchase at 100% of the face value of the bonds (plus accrued interest). Pursuant to the terms of each LOC, each time bonds are tendered for purchase and at each principal and/or interest payment date, the LOC is drawn upon to make such payments. Following the draw on the LOC, the LOC provider is reimbursed by the trustee/tender agent from remarketing proceeds and/or Special Real Tax Property Revenue held in escrow by the trustee. To the extent that an LOC provider is not immediately reimbursed for a draw on its LOC, the terms and conditions of future repayment are set forth in the reimbursement agreement between the District and the LOC Provider.

Table 24 summarizes each of the outstanding VRDO series and certain of the terms and conditions of each supporting LOC and reimbursement agreement.

Table 24 – Outstanding Variable Rate Demand Obligations

Series	Par Outstanding	Final Maturity	Reset Mode / Payment Frequency	LOC Provider	LOC Issue Date	LOC Expiration Date
2001C	$170,895	06/01/26	7-Day Reset Semiannual Pay	JP MORGAN CHASE BANK	05/14/08	05/14/11
2001D	$67,195	06/01/29	7-Day Reset Semiannual Pay	DEXIA CREDIT LOCAL	05/14/08	05/14/11
2002D	$124,995	06/01/31	7-Day Reset Semiannual Pay	DEXIA CREDIT LOCAL	09/03/08	09/03/11
2008A	$59,980	06/01/34	7-Day Reset Monthly Pay	ALLIED IRISH BANK PLC	05/21/08	05/21/11
2008B	$125,655	06/01/34	7-Day Reset Monthly Pay	BANK OF AMERICA N.A.	05/21/08	05/21/11
2008C	$224,300	06/01/27	7-Day Reset Monthly Pay	DEXIA CREDIT LOCAL	05/21/08	05/21/11
2008D	$114,015	06/01/34	7-Day Reset Monthly Pay	DEXIA CREDIT LOCAL	05/21/08	05/21/11

Note : The Commitment Fees for certain issuances ranged from $0 to $62. The Annual Letter of Credit Fees range from 52 basis points to 70 basis points per annum based on outstanding principal.

NOTE 8. LONG – TERM LIABILITIES

TIF Notes and Bonds

The Tax Increment Financing (TIF) Notes and Bonds are special limited obligations of the District. TIF is an economic development tool used to facilitate the financing of business investment activities within a locality. The sole source of repayment of the TIF Notes is the incremental sales and/or real property tax revenues from the Project, and the District has no obligation to make any payments on the TIF Notes other than through the remittance of the incremental revenues to the Paying Agent. For this reason, TIF Notes are not included in **Table 22** as long-term debt of the District.

Gallery Place and Mandarin Oriental Hotel

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. The District issued two Tax Increment Financing (TIF) Bonds 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. These included the Gallery Place TIF Bond, which matures on July 1, 2031, and the Mandarin Oriental TIF Bond, which matures on July 1, 2022. Interest rate yields on the Gallery Place and Mandarin Hotel TIF Bonds range from 3.28% to 5.91%. These two bond issuances are supported by the pledge of incremental sales and real property tax revenues from the respective projects and secondarily by incremental tax revenues from a Downtown TIF Area.

Embassy Suites Hotel

In 2004, the District issued TIF Notes to finance the Embassy Suites Hotel. The $11,000 Embassy Suites Hotel TIF Note, which has an interest rate of 5.00%, matures on the earlier of January 1, 2020, 12 years after the release from escrow, or upon payment in full. The Embassy Suite TIF Note was paid in full subsequent to year-end, on November 16, 2009.

Downtown Retail Priority Area: H & M, Zara, West Elm, National Crime and Punishment Museum

In March 2006, the Mayor executed the first Downtown Retail Priority Area TIF Note. The H & M TIF Note, which matures on March 1, 2016, or upon payment in full, is for approximately $2,996 with an 8.00% interest rate. In May 2008, the Mayor executed two additional notes, one for Zara, which matures on June 1, 2018 or upon payment in full, for $1,750 at a 5.50% interest rate, and one for West Elm, which also matures on June 1, 2018 or upon payment in full, for $5,000 at a 5.50% interest rate. In September 2008, the Mayor executed the fourth Downtown Retail Priority Area TIF Note for the National Crime and Punishment Museum for $3,000, also at a 5.50% interest rate. This TIF Note matures on October 1, 2018. Also under the Downtown Retail Priority TIF Program, the Mayor executed, in December 2008, the Madame Tussauds TIF Note for $1,300 at a 4.50% interest rate.

These Downtown Retail Priority Area TIF Notes are pledges of incremental sales tax revenues only. If the incremental revenues are insufficient to pay the principal and interest due on the TIF Notes when due, the payment shortfall will not constitute a default. If the incremental revenues are sufficient to pay the principal and interest due on the TIF Notes when due, the District must pay the amount of any previous shortfall(s) to the Development Sponsor without any penalty interest or premium thereon.

Capitol Hill Towers

On December 20, 2006, the District released the $10,000 TIF Note of the Capitol Hill Towers from escrow. The note matures on January 1, 2029 with an interest rate of 7.50% compounded semiannually on unpaid principal.

Verizon Center

In December 2007, the District issued $50,000 in taxable financing notes to finance upgrades at the Verizon Center. The 2007A Note was issued in the amount of $43,570 at a fixed interest rate of 6.734% and matures on August 15, 2047. The 2007B Note was issued in the amount of $6,430 at a fixed interest rate of 6.584% with a maturity date of August 15, 2027. These Notes are a special limited obligation of the District and are secured by a portion of the taxes on certain on-site personal property, services and public ticket sales at the Verizon Center. In the event such taxes are not sufficient, the Notes are further secured by incremental increases in the Downtown TIF Area, which are subordinate to the pledge of such revenues to the TIF Bonds that were issued to finance Gallery Place and the Mandarin Oriental Hotel.

Shakespeare Theatre

The Shakespeare Theatre TIF Note was issued in September 2006 for $10,000. The TIF Note is to be paid in a lump sum on July 1, 2011 from available incremental revenues from the Downtown TIF Area. The interest rate on this Note is 6.00%.

Waterfront Arts Project

The Waterfront Arts Project TIF Note was issued in May 2009 for $10,000 to help finance the expansion of the Arena Stage. The TIF Note is held in escrow pending the

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completion of the project. The TIF Note is to be paid in a lump sum on May 8, 2014 from available incremental revenues from the Downtown TIF Area. The interest rate on this Note is 4.66%

Great Streets Retail Priority Areas

In September 2009, the Mayor executed the first Great Streets TIF, the Georgia Avenue Retail Project Great Streets TIF Note in the amount of approximately $1,935. The note is subject to an Escrow Agreement, pending completion of the development project and other items. Upon its release from escrow, the note will bear interest at 5.00%. The note, which is to be repaid from project incremental sales and property tax revenues, has a maturity date of June 1, 2035. If the incremental revenues are insufficient to pay the principal and interest due on the note when payable, the payment shortfall will not constitute a default. If the incremental revenues are sufficient, the District will pay the principal and interest due, and the amount of any previous shortfall(s) to the Development Sponsor without any penalty interest or premium thereon.

Tables 25 and 26 show the summary of debt service requirements for *Gallery Place and Mandarin Oriental Hotel.*

Table 25 - Summary of Debt Service Requirements for Gallery Place TIF Bond

Year Ending	GALLERY PLACE		
September 30	Principal	Interest	Total
2010	$ 1,655	$ 3,551	$ 5,206
2011	1,740	3,464	5,204
2012	1,835	3,370	5,205
2013	1,930	3,272	5,202
2014	2,035	3,165	5,200
2015-2019	12,005	14,018	26,023
2020-2024	15,570	10,446	26,016
2025-2029	20,085	5,928	26,013
2030-2034	9,620	786	10,406
Total	$ 66,475	$ 48,000	$ 114,475

Table 26 - Summary of Debt Service Requirement for Mandarin Oriental Hotel TIF Bond

Year Ending	MANDARIN ORIENTAL HOTEL		
September 30	Principal	Interest	Total
2010	$ 2,735	$ 1,769	$ 4,504
2011	2,583	1,921	4,504
2012	2,434	2,070	4,504
2013	2,292	2,217	4,509
2014	2,148	2,356	4,504
2015-2019	8,848	13,683	22,531
2020-2024	8,682	4,836	13,518
Total	$ 29,722	$ 28,852	$ 58,574

Tobacco Bonds

In November 1998, the District (along with a number of States and various jurisdictions) signed a Master Settlement Agreement with the major U.S. tobacco companies that ended litigation over healthcare 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 its Tobacco Settlement Asset-Backed Bonds, Series 2001, the principal amount of which was $521,105. As of September 30, 2009, $462,975 remained outstanding.

In 2006, the Tobacco Corporation issued its Tobacco Settlement Asset-Backed Bonds, Series 2006, the principal amount of which was $248,264. Bond proceeds were used to pay: (i) the cash portion of the purchase price for the Residual Tobacco Assets; and (ii) certain costs of issuance related to the Series 2006 Bonds. The payment of these bonds is secured by the District's distribution under the November 1998 Master Settlement Agreement (MSA). As such, the Series 2006 Bonds are secured and payable solely from: (i) the residual annual and strategic contribution fund payments (TSRs) and all future aid, rents, fees, charges, payments, investment earnings and other income and receipts with respect to the pledged TSRs; (ii) all rights to receive revenues and

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proceeds from the TSRs; (iii) all accounts established under the Indenture and the related assets; and (iv) subject to certain limitations, all rights and interest of the Tobacco Corporation under the purchase agreement. Pursuant to the District of Columbia Tobacco Settlement Financing Act of 2000, and a Purchase and Sale Agreement dated August 1, 2006, the District's Tobacco Settlement Trust Fund sold all of its right, title, and interest in certain residual tobacco assets paid or payable to the District on or after April 1, 2015. Approximately 25% of the anticipated $1.2 billion in total annual payments to be received by the District was pledged as security for these bonds. 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. Because no payment was made in 2009, the amount outstanding as of September 30, 2009 was $248,264. Payments received by the Tobacco Corporation under the MSA in excess of the annual debt service requirements for the Tobacco Bonds may revert to the General Fund.

As of September 30, 2009, the total outstanding balance for all Tobacco Bonds as shown in **Table 27** was $711,239.

Summary of debt service requirements for general obligation and tobacco bonds to maturity is shown in **Table 27**.

Table 27 - Summary of Debt Service Requirements for General Obligation and Tobacco Bonds to Maturity

Year Ending	General Obligation Bonds		Tobacco Bonds		
September 30	Principal	Interest	Principal	Interest	Total
2010	$ 239,905	$ 168,601	$ 14,305	$ 30,112	$ 452,923
2011	193,900	155,885	15,450	29,278	394,513
2012	129,683	165,267	16,515	28,330	339,795
2013	121,550	161,797	17,510	27,337	328,194
2014	116,030	150,127	19,060	26,279	311,496
2015 - 2019	700,335	588,848	111,840	112,344	1,513,367
2020 - 2024	763,755	428,410	155,685	70,009	1,417,859
2025 - 2029	650,900	260,854	112,610	12,898	1,037,262
2030 - 2034	551,470	143,424	-	-	694,894
2035 - 2039	299,100	28,071	-	-	327,171
2045 - 2049 *	-	-	159,733	1,697,592	1,857,325
2055 - 2059	-	-	88,531	2,478,468	2,566,999
Total	**$ 3,766,628**	**$ 2,251,284**	**$ 711,239**	**$ 4,512,647**	**$ 11,241,798**

* The amortization period for the Series 2006 Tobacco bonds begins after the repayment period for the Series 2001 ends. Final payment occurs in FY 2055.

Defeased Bonds

In prior years, the District defeased certain bond issues by issuing refunding bonds. Defeased debt outstanding does not constitute a debt of the District because the net proceeds from the issuance of the refunding bonds have been deposited in an irrevocable trust with an escrow agent to provide debt service payments until the defeased bonds are fully called.

As of September 30, 2009, the total amount of defeased debt outstanding held by the escrow agent was $634,675. This amount has been removed from the government-wide financial statements. As presented in **Table 28**, the amount of bonds defeased through fiscal year 2009 refundings was $601,585.

Table 28- Summary of Defeased Bonds in FY 2009

SUMMARY OF DEFEASED GENERAL OBLIGATION BONDS IN FY2009 Defeased by Income Tax Revenue Bonds, Series 2009B and 2009C

Bond Series Refunded	Interest Rate	Refunded Amount
1999A	5.375% - 5.50%	$ 141,790
1999B	5.375% - 5.50%	140,890
2000A	Variable	59,140
2000B	Variable	119,440
2003C	Variable	50,025
2003D	Variable	90,300
		$ 601,585

NOTE 8. LONG-TERM LIABILITIES

Ballpark Revenue Bonds

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

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

The weighted average interest rate yield on the fixed-rate bonds (2006A and 2006B-1) is 5.33%. The interest rate yield on the 2006B-2 Bonds is variable. **Table 29** assumes an interest rate of 5.00% for the Series 2006 B-2 Bonds.

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

Table 29 - Summary of Debt Service Requirements for Ballpark Revenue Bonds

Year Ending	BALLPARK BONDS		
September 30	Principal	Interest	Total
2010	$ 4,360	$ 27,690	$ 32,050
2011	4,540	27,472	32,012
2012	4,915	27,237	32,152
2013	5,680	26,970	32,650
2014	6,835	26,644	33,479
2015-2019	47,895	126,468	174,363
2020-2024	76,595	110,246	186,841
2025-2029	115,860	84,848	200,708
2030-2034	168,780	46,937	215,717
2035-2039	86,290	4,600	90,890
Total	$ 521,750	$ 509,112	$ 1,030,862

Housing Production Trust Fund Program

On March 16, 1989, the Council enacted the Housing Production Trust Fund Act of 1988, D. C. Law 7-202, which was subsequently amended on May 7, 2003 with administration authority for the Trust Fund vested in the D.C. Department of Housing and Community Development (DHCD). The purpose of the Trust Fund is to provide financial assistance to non-profit and for-profit developers for the planning and production of low, very low, and extremely low income housing and related facilities. In fiscal year 2007, budget authority was established for $150 million for the New Communities projects (which the District planned to finance with bond proceeds). To pay the debt service on these bonds, the Council authorized up to $16 million annually to be transferred from the Allocated Fund of the Housing Production Trust Fund (HPTF), which was funded by dedicated revenue from deed recordation and transfer taxes. The District issued approximately $34.1 million of revenue bonds in 2007 for a major investment in the "Northwest One New Communities Project Area." The bonds were issued with an average interest rate of 4.68%. The District intends to issue additional HPTF revenue bonds in future years to fund other New Communities projects. **Table 30** details the annual funding requirements necessary to repay these bonds.

Table 30 - Summary of Debt Service Requirements for Housing Production Trust Fund

Year Ending	HOUSING PRODUCTION TRUST FUND		
September 30	Principal	Interest	Total
2010	$ 585	$ 1,561	$ 2,146
2011	605	1,538	2,143
2012	630	1,514	2,144
2013	655	1,488	2,143
2014	690	1,456	2,146
2015-2019	4,000	6,725	10,725
2020-2024	5,105	5,619	10,724
2025-2029	6,515	4,210	10,725
2030-2034	8,300	2,423	10,723
2035-2039	5,925	511	6,436
Total	$ 33,010	$ 27,045	$ 60,055

NOTE 8. LONG – TERM LIABILITIES

Qualified Zone Academy Bonds

The District issued the Qualified Zone Academy Bond (QZAB) as a taxable general obligation bond without incurring interest expense. The District received $4,665 and is obligated to deposit a total amount of $3,583 into a sinking fund in fourteen equal annual amounts of $256 beginning December 1, 2002. At September 30, 2009, the District had deposited $1,791 into the required sinking fund.

On December 28, 2005, the District issued another QZAB as a taxable general obligation bond without incurring interest expense. The District received $3,191 and is obligated to deposit a total amount of $2,662 into a sinking fund in fifteen equal annual amounts of $177 beginning December 1, 2006. At September 30, 2009, the District had deposited $532 into the required sinking fund.

On May 29, 2008, the District issued another QZAB as a taxable general obligation bond without incurring interest expense. The District received $2,160 and is obligated to deposit a total amount of $2,360 into a sinking fund in ten equal annual amounts of $236 beginning December 1, 2008. At September 30, 2009, the District had deposited $236 into the required sinking fund.

A summary of Debt Service Requirements to Maturity for QZAB is shown in **Table 31.**

Table 31 - Summary of Debt Service Requirements for QZAB

Year Ending September 30	QZAB Principal
2010	$ 669
2011	669
2012	669
2013	669
2014	670
2015-2019	2,343
2020-2024	355
Total	**$ 6,044**

National Capital Revitalization Corporation PILOT Revenue Bonds

On February 15, 2006, the National Capital Revitalization Corporation (NCRC) issued revenue bonds in the amount of $46,900 which currently have a variable interest rate based on 70% of LIBOR plus 1.50%. The bonds are due and payable on February 1, 2024. Under the bond indenture, minimum required debt service payments were calculated based on a 25-year amortization schedule. The repayment of the bonds comes from two sources: 1) a $42,000 District TIF Note supported by taxes generated from the DC USA retail project, and 2) the net cash flow generated from the attached District-owned parking garage. During fiscal year 2009, in addition to mandatory sinking fund payments, the District paid $7,335 of bond redemptions.

The bonds were issued to finance the development and acquisition of a 1,000-space underground parking garage attached to the DC USA retail project. Included in the bond issue is $39,300 cost of acquisition of the garage and $5,850 in capitalized interest. Effective October 1, 2007, NCRC was abolished and its assets and liabilities were assumed by the District.

A summary of the debt service requirements to maturity for principal and interest for the NCRC revenue bonds is shown in **Table 32** and has been calculated with a 4.949% interest rate for illustration purposes.

Table 32 - National Capital Revitalization Corporation Revenue Bonds Debt Service Requirements to Maturity

Year Ending September 30	National Capital Revitalization Corporation Principal	Interest	Total
2010	$ 987	$ 1,597	$ 2,584
2011	1,038	1,866	2,904
2012	1,091	1,819	2,910
2013	1,147	1,758	2,905
2014	1,205	1,700	2,905
2015-2019	7,018	7,525	14,543
2020-2024	26,682	4,949	31,631
Total	**$ 39,168**	**$ 21,214**	**$ 60,382**

NOTE 8. LONG-TERM LIABILITIES

Anacostia Waterfront Corporation PILOT Revenue Bonds (Anacostia DOT Waterfront Projects)

In September 2007, the Anacostia Waterfront Corporation (AWC) issued $111.55 million of PILOT Revenue Bonds (the AWC Bonds) with a 4.463% interest rate. The Bonds were issued to finance, refinance, and reimburse the AWC for development costs associated with park and infrastructure projects along the Anacostia River Waterfront. The AWC was a discretely presented component unit of the District at the time of issuance of the AWC Bonds. Effective October 1, 2007, the District dissolved the AWC, and assumed its assets and obligations, including the payment of the AWC Bonds.

A summary of the debt service requirements to maturity for principal and interest for the AWC PILOT Revenue Bonds is shown in **Table 33.**

Table 33 - Anacostia Waterfront Corporation PILOT Revenue Bonds Debt Service Requirements to Maturity

Year Ending	Anacostia Waterfront Corporation		
September 30	Principal	Interest	Total
2010	$ 6,020	$ 4,530	$ 10,550
2011	6,290	4,258	10,548
2012	6,575	3,974	10,549
2013	6,875	3,678	10,553
2014	7,180	3,368	10,548
2015-2019	41,085	11,674	52,759
2020-2024	28,945	2,177	31,122
Total	**$ 102,970**	**$ 33,659**	**$ 136,629**

COMPONENT UNITS

Water and Sewer Authority

Prior to the creation of the Water and Sewer Authority (WASA) as an independent entity, the District issued general obligation bonds to fund improvements to the water and wastewater system. WASA is responsible for this debt. While WASA is not directly liable for the general obligation bonds, it is required by enabling legislation to transfer to the District the funds necessary to pay its portion of the debt service on these bonds. Accordingly, District general obligation bonds totaling $5,180 are reflected in WASA's financial statements.

WASA derives part of its funding for future capital projects from the issuance of revenue bonds, District general obligation 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. There were no outstanding notes to the federal government for the Washington Aqueduct at the end of fiscal year 2009. Debt outstanding at September 30, 2009, totaling $1,266,624 included net unamortized bond premiums of $12,018 and a remaining principal balance of $1,254,606.

In February 2009, WASA issued $300,000 Senior Lien Public Utility Revenue Bonds (Series 2009A Bonds). The maturity dates of the Bonds range from 2010 to 2039, with interest rates ranging from 3.00 to 6.00%. The proceeds of the Series 2007A Bonds were used to refinance $14,800 of the taxable Series A Commercial Paper Notes and $50,000 of the tax-exempt Series B Commercial Paper Notes with the remainder of the proceeds used to finance the ongoing capital improvement program and other expenses associated with the cost of issuance.

Table 34 presents the debt service requirements to maturity for principal and interest for WASA's outstanding bonds.

NOTE 8. LONG – TERM LIABILITIES

Table 34 – Water and Sewer Authority Debt Service Requirements to Maturity

	Water and Sewer Authority		
Year Ending September 30	**Principal**	**Interest**	**Total**
2010	$ 13,846	$ 65,089	$ 78,935
2011	17,793	64,063	81,856
2012	18,721	63,087	81,808
2013	19,692	62,064	81,756
2014	20,749	60,966	81,715
2015 - 2019	122,179	285,886	408,065
2020 - 2024	158,891	248,255	407,146
2025 - 2029	200,606	200,434	401,040
2030 - 2034	234,859	144,733	379,592
2035 - 2039	304,794	72,808	377,602
2040 - 2044	142,476	5,937	148,413
Subtotal	**1,254,606**	**1,273,322**	**2,527,928**
Add: Unamortized Bond Premium-Net	12,018	-	12,018
Total	**$ 1,266,624**	**$ 1,273,322**	**$ 2,539,946**

Commercial Paper Note Payable

WASA's Board of Directors approved WASA's commercial paper program on November 1, 2001, with Series A and B notes, not to exceed $50,000 each at any one time. Under this program, WASA issues short-term (no greater than 270 days) notes. Proceeds from the sale of the notes are used to finance costs incurred in connection with the construction of capital improvements to WASA's wastewater treatment collection and disposal system, its water distribution system, and other capital equipment.

Series A and B notes are secured by separate letters of credit, issued by Westdeutsche Landesbank Gironzentrale (WestLB) and are rated P1, A1+ and F1+ by Moody's, S&P and Fitch, respectively. The letter of credit expires on November 30, 2015. In April 2008, the letter of credit for Series A was amended to include the issuance of taxable commercial paper for the purpose of refunding the Series 2007B subordinated bonds. As a result of the refunding, $44 million in taxable commercial paper was issued to refund the Series 2007B Bonds.

Table 35 presents the commercial paper activity which occurred in fiscal year 2009.

Table 35 – FY 2009 Commercial Paper Activity

Description	Balance at October 1, 2008	Addition	Reduction	Balance at September 30, 2009
Series A, (taxable) interest ranges from .2% to 7.0%	$ 44,000	$ -	$ (14,800)	$ 29,200
Series B, interest ranges from 1.9% to 2.1%	-	50,000	(50,000)	-
Total Commercial Paper	**$ 44,000**	**$ 50,000**	**$ (64,800)**	**$ 29,200**

NOTE 8. LONG-TERM LIABILITIES

Washington Convention Center Authority

WCCA was authorized to issue bonds to finance the costs of the new convention center pursuant to the WCCA Act, as amended. On September 28, 1998, WCCA issued $524,500 in Senior Lien Dedicated Tax Revenue Refunding Bonds (Series 1998A Bonds) to finance the construction of the new Washington Convention Center.

On February 1, 2007, WCCA issued $492,525 Senior Lien Dedicated Tax Revenue and Refunding Bonds, Series 2007A, with a net premium of $15,625 to effect a refunding for the Series 1998A Bonds. These refunding Bonds, with maturities ranging from October 2008 to October 2037, were issued with interest rates ranging from 3.75% to 5.00%. The net proceeds of these refunding bonds were used, in part, to advance refund all of the Series 1998A Bonds in the aggregate principal amount of $480,640. As a result, the previously outstanding refunded bonds are considered to be defeased and the liability for those bonds has been extinguished.

The proceeds of Series 2007A Bonds were placed in an irrevocable trust to provide for all future debt service payments on the Series 1998A Bonds. Accordingly, the trust account asset and liability for the defeased bonds were not included in the FY 2008 financial statements. During the first quarter of fiscal year 2009, the defeased bonds that were outstanding were paid by the Trustee.

A summary of WCCA's debt service requirements to maturity for principal and interest is shown in **Table 36**.

Table 36 – Washington Convention Center Authority Debt Service Requirements to Maturity

	Washington Convention Center Authority		
Year Ending September 30	**Principal**	**Interest**	**Total**
2010	$ 12,160	$ 22,222	$ 34,382
2011	12,700	21,655	34,355
2012	13,265	21,055	34,320
2013	13,865	20,376	34,241
2014	14,545	19,687	34,232
2015 - 2019	83,855	86,651	170,506
2020 - 2024	106,725	62,744	169,469
2025 - 2029	135,060	33,082	168,142
2030 - 2034	75,120	6,118	81,238
2035 - 2039	13,540	627	14,167
Subtotal	**480,835**	**294,217**	**775,052**
Less: Unamortized Bond Discount - Net	(3,050)	-	(3,050)
Total	**$ 477,785**	**$ 294,217**	**$ 772,002**

Housing Finance Agency

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

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

Bonds issued to provide financing for the Housing Finance Agency's housing programs are collateralized by: (a) mortgage-backed securities in connection with underlying loans; (b) mortgage loans made on the related multi-family developments or single family residential

NOTE 8. LONG – TERM LIABILITIES

mortgage loans purchased; or (c) investments of bond proceeds, debt service reserves and escrow accounts, and all revenues, mortgage payments, and recovery payments received by the Housing Finance Agency from mortgage loans and mortgage-backed securities in connection with the related developments.

A summary of Housing Finance Agency's debt service requirements to maturity for principal and interest is shown in **Table 37**.

Table 37- Housing Finance Agency Debt Service Requirements to Maturity

Year Ending September 30	Principal	Interest	Total
2010	$ 57,410	$ 45,883	$ 103,293
2011	18,432	44,204	62,636
2012	17,748	43,212	60,960
2013	14,623	42,503	57,126
2014	15,316	41,728	57,044
2015-2019	90,076	195,163	285,239
2020-2024	124,526	167,153	291,679
2025-2029	136,115	126,711	262,826
2030-2034	118,296	94,769	213,065
2035-2039	162,684	56,482	219,166
2040-2044	90,493	25,932	116,425
2045-2049	42,889	7,296	50,185
2050-2054	7,096	821	7,917
2055-2059	1,061	61	1,122
Subtotal	**896,765**	**891,918**	**1,788,683**
Add: Unamortized Bond Premium, net	7,750	-	7,750
Total	**$ 904,515**	**$ 891,918**	**$ 1,796,433**

B. OTHER LONG-TERM LIABILITIES

Certificates of Participation

In 2002, Certificates of Participation (COPs) were issued under an Indenture of Trust between Wells Fargo Delaware Trust Company (the "Lessor") and Wells Fargo Bank Minnesota, N.A. (the "Trustee"). The District agreed in the Lease Agreement to make lease payments (the "Lease Payments"), which are expected to be sufficient to pay the principal of and interest on the COPs. The District has $28,585 of outstanding COPs issued by a trust in 2002 with a final maturity of 2013. The 2002 COPs were used to finance the acquisition of certain real property located in the District at 441 Fourth Street, N.W. The debt service requirements on these COPs are included in capital leases payable (See Note 14C).

In 2003, Certificates of Participation (COPs) were issued under an Indenture of Trust between Wells Fargo Delaware Trust Company (the "Lessor") and Wells Fargo Bank Minnesota, N.A. (the "Trustee"). The District has $58,200 of outstanding COPs issued by a trust in 2003 with a final maturity of 2023, as shown in **Table 38A**. The 2003 COPs were used to provide funds to finance portions of the design and construction of a public safety and emergency preparedness communications and command center and the design, construction and installation of a high-speed telecommunications network. In each case, the District's payment obligations are subject to and dependent upon the inclusion of sufficient funds in annual District budgets and annual appropriations being made by the United States Congress for such purpose. The weighted average interest rate on these COPs is 4.981%.

In 2006, COPs were issued under an Indenture of Trust between M&T Trust Company of Delaware (the "Lessor") and Manufacturers and Traders (the "Trustee"). The aggregate principal amount of this issuance was $211,680 to fund the Saint Elizabeth's Hospital and DMV Projects as shown in **Table 38B**. The COP's proceeds are being used to fund a portion of the cost of the design and construction of the Hospital, which

NOTE 8. LONG-TERM LIABILITIES

is estimated to cost approximately $208 million. Of this amount, $184,200 will be financed with COP proceeds and interest earning thereon. In addition, COP proceeds are being used to fund the purchase of the DMV Building from its current owner for $15,300 and $3,100 of improvements to include: parking enhancements, window replacement, elevators, a loading dock, and access to the adjacent inspection facility. The District has $193,315 of outstanding COPs issued by a trust in 2006 with a final maturity of 2026. The weighted average interest rate yield on these COPs is 4.982%.

Table 38A - Summary of Debt Service Requirements for COP- Public Safety Communications Center

Emergency Preparedness Communications Center & Related Technology (COP)			
Year Ending September 30	**Principal**	**Interest**	**Total**
2010	$ 2,960	$ 2,840	$ 5,800
2011	3,100	2,703	5,803
2012	3,255	2,544	5,799
2013	3,405	2,395	5,800
2014	3,545	2,256	5,801
2015-2019	20,820	8,186	29,006
2020-2023	21,115	2,085	23,200
Total	**$ 58,200**	**$ 23,009**	**$ 81,209**

Table 38B - Summary of Debt Service Requirements for COP- St Elizabeth/DMV Building

St Elizabeth/DMV Building (COP)			
Year Ending September 30	**Principal**	**Interest**	**Total**
2010	$ 7,370	$ 9,448	$ 16,818
2011	7,750	9,070	16,820
2012	8,145	8,672	16,817
2013	8,565	8,254	16,819
2014	9,015	7,804	16,819
2015-2019	52,860	31,240	84,100
2020-2024	67,590	16,507	84,097
2025-2026	32,020	1,621	33,641
Total	**$ 193,315**	**$ 92,616**	**$ 285,931**

A summary of changes in other long-term liabilities for governmental activities is shown in **Table 39**.

Table 39 - Changes in Other Long-Term Liabilities

Account	**Balance October 1, 2008**	**Additions**	**Deductions**	**Balance September 30, 2009**
Governmental Activities:				
Accrued disability compensation (Note 15)	$ 105,751	$ 65,939	$ (29,374)	$ 142,316
Accumulated annual leave	167,481	18,279	(6,208)	179,552
Grant disallowances	59,345	10,265	-	69,610
Claims & judgments (Note 15)	55,902	32,410	(29,475)	58,837
Equipment financing program (Note 14)	90,221	62,068	(33,774)	118,515
Accreted interest	83,864	23,580	-	107,444
Capital leases payable (Note 14)	52,403	-	(7,911)	44,492
Total	**$ 614,967**	**$ 212,541**	**$ (106,742)**	**$ 720,766**
Business-Type Activities:				
Obligation for unpaid prizes	**$ 41,379**	**$ 1,455**	**$ (7,681)**	**$ 35,153**

NOTE 8. LONG – TERM LIABILITIES

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

Table 40 presents the current and long-term portions of long-term liabilities. For the governmental activities, accumulated annual leave and claims and judgments are generally liquidated by the general fund.

Table 40 – Current & Long-Term Portions of Long-Term Liabilities

Type of Liability	Current Portion	Long-Term Portion	Total
Governmental Activities:			
General obligation bonds	$ 239,905	$ 3,526,723	$ 3,766,628
Income tax secured revenue bonds	-	1,071,785	1,071,785
Premium on long-term debt	8,881	145,181	154,062
TIF bonds	4,390	91,807	96,197
QZAB	669	5,375	6,044
Capital leases	8,384	36,108	44,492
Tobacco bonds	14,305	696,934	711,239
Ballpark bonds	4,360	517,390	521,750
Annual leave	159,622	19,930	179,552
Disability compensation	-	142,316	142,316
Equipment financing program	36,572	81,943	118,515
Accreted interest	-	107,444	107,444
Grant disallowances	-	69,610	69,610
Claims and judgements	-	58,837	58,837
Housing production trust fund	585	32,425	33,010
Verizon	-	4,495	4,495
Unfunded pension expenses	-	8,282	8,282
COPs	10,330	241,185	251,515
PILOT revenue bonds (AWC & NCRC)	7,007	135,131	142,138
OPEB liability	-	42,101	42,101
Severance pay	15,827	-	15,827
Total	**$ 510,837**	**$ 7,035,002**	**$ 7,545,839**
Business-Type Activities:			
Obligation for unpaid prizes	**$ 7,406**	**$ 27,747**	**$ 35,153**

Obligation for Unpaid Prizes

The D.C. Lottery and Charitable Games Control Board (the Lottery) is a member of the Multi-State Lottery Association (MUSL), which is responsible for payments to Lotto-America and Powerball winners. MUSL is responsible for providing cash to the Lottery for funding these installment payments. As of September 30, 2009, MUSL purchased for the Lottery, U.S. government securities totaling $37,932 to fund future installment payments to winners.

The market value of these securities at September 30, 2009, was $35,153. The Lottery has reflected the market value of the securities as restricted investments and as corresponding obligations for unpaid prizes on the statement of net assets.

NOTE 9. RETIREMENT PROGRAMS

A. DEFINED BENEFIT PENSION PLANS

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

Civil Service Retirement System

Plan Description

The District contributes to the Civil Service Retirement System (CSRS), a cost-sharing multiple-employer public employee retirement system, administered by the federal government's Office of Personnel Management (OPM). Permanent full-time District employees hired before October 1, 1987, except those covered by the District Retirement Program, are covered by CSRS, which provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. The OPM issues a publicly available financial report that includes financial statements and required supplementary information for CSRS, which may be obtained at www.opm.gov.

Funding Policy

The District contributes 7% of each covered employee's annual salary to the CSRS. The contribution requirements of plan members are established and may be amended by the OPM. The District's contributions to the CSRS for the years ended September 30, 2009, 2008, and 2007, were $17,513, $20,388, and $21,943, respectively.

Social Security System

Plan Description

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

Funding Policy

Consistent with the Federal Insurance Contributions Act (FICA), a 6.20% Social Security tax is withheld from the gross salary/wage amount of District employees, up to but not exceeding the applicable social security wage base, which was $106.8 for 2009. In addition, the District also pays a 1.45 % payroll tax for Medicare with an additional 1.45% being withheld from each employee's salary/wages. District contributions to the Social Security System for the years ended September 30, 2009, 2008, and 2007, were $65,653, $71,658, and $77,478 respectively.

District Retirement Programs

Plan Description

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. Retirement and disability benefit provisions for police and firefighters are established by the Policemen and Firemen's Retirement and Disability Act (D.C. Code §5-701 et seq. (2001 Ed.)). For the Teachers Plan, Title 38, Chapter 20 of the D.C. Code (D.C. Code § 38-2001, et seq. (2001 Ed.)) assigns the authority to establish and amend benefit provisions to the Council. The pension trust funds issue a publicly available financial report that includes financial statements and required supplementary information. This report can be obtained from the District of Columbia Retirement Board, Executive Director, 900 7th Street, N.W., 2nd Floor, Washington, D.C. 20001.

Funding Policy

Contribution requirements of the Fund members are established by D.C. Code § 5-706 and requirements for District contributions to the Pension Trust Fund are established by D.C. Code § 1-907.02 (2001 Ed.), which may be amended by the Council. Administrative costs are paid from investment earnings.

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

The District is required to contribute the remaining amounts necessary to finance the coverage of its employees through periodic contributions at actuarially determined amounts in accordance with the provisions of the Replacement Act. The Replacement Act defines the eligibility and the calculation of the amount of the benefit payment for covered District employees for service

NOTE 9. RETIREMENT PROGRAMS

accrued after June 30, 1997. The District's contributions for fiscal years 2009, 2008 and 2007, 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 $400,340 for the year ended September 30, 2009, and have been reported as intergovernmental revenue. Related expenditures of $316,269 and $84,071 have been reported in the public safety and justice and the public education systems functions, respectively.

Annual Pension Cost and Net Pension Obligation

The District's annual pension cost and net pension obligation to these plans for fiscal year 2009 are presented in **Table 41.**

Table 41 - Annual Pension Cost and Net Pension Obligation

	Police and Firefighters Plan	Teachers Plan
Annual required contribution (ARC)	$106,000	$0
Interest on net pension obligation	0	$0
Adjustment to ARC	0	$0
Annual pension cost	$106,000	$0
Contributions made	$106,000	$0
Increase (decrease) in net pension obligation	$0	$0
Net pension obligation beginning of year	$0	$0
Net pension obligation end of year	$0	$0

In fiscal year 2009, the District made its actuarially required contribution of $106,000 to the Police and Firefighters Pension Plan. As actuarially determined, the District was not required to make a contribution to the Teachers Pension Plan in fiscal year 2009.

Table 42 presents three-year trend information regarding annual pension cost, percentage of annual pension cost contributed, and net pension obligation.

Table 42 - Three Year Trend Information

Police and Firefighters				Teachers			
Fiscal Year Ending	Annual Pension Cost (APC) (millions)	Percentage of APC Contributed	Net Pension Obligation	Fiscal Year Ending	Annual Pension Cost (APC) (millions)	Percentage of APC Contributed	Net Pension Obligation
09/30/09	$106.0	100%	0	09/30/09	$0	100%	$0
09/30/08	$137.0	100%	0	09/30/08	$6.0	100%	$0
09/30/07	$140.1	100%	0	09/30/07	$14.6	100%	$0

Actuarial Methods and Assumptions

The District's Annual Required Contribution for the Police and Firefighters Pension Plan and the Teachers Pension Plan were calculated using the aggregate actuarial cost method. Because the aggregate actuarial cost method does not identify or separately amortize unfunded actuarial liabilities, information about funding status and funding progress has been prepared using the entry age actuarial cost method for that purpose. The information presented as required supplementary information is intended to serve as a surrogate for the funded status and funding progress of the plan.

NOTE 9. RETIREMENT PROGRAMS

Additional information as of the latest actuarial valuation for the two plans includes the following:

	Fiscal Year 2009
Valuation Date	October 1, 2008
Actuarial cost method for contributions	Aggregate
Actuarial cost method for accrued liabilities	Entry Age Normal
Amortization method	Not applicable
Remaining amortization period	Not applicable
Asset valuation method	Actuarial value: 1/7 excess earnings subtracted from expected actuarial value
Actuarial assumptions:	
Investment rate of return	7.00%
Projected salary increases:	
Police Officers and Fire Fighters	5.30% - 10.00%
Teachers	5.00% - 8.90%
Includes inflation at	4.25%
Cost of living adjustments (COLAs)	4.25%
COLAs (for Post November 10, 1996 hires)	Limited to 3.00%

Funded Status and Funding Progress

Police and Firefighters Pension Plan

As of October 1, 2008, the most recent actuarial valuation date, the Police and Firefighters Pension Plan was 99.8% funded. The actuarial accrued liability for benefits was $2,938,800, and the actuarial value of assets was $2,932,100 resulting in an unfunded actuarial accrued liability (UAAL) of $6,700. The covered payroll (annual payroll of active employees covered by the plan) was $421,800, and the ratio of the UAAL to the covered payroll was 1.59%.

Teachers Pension Plan

As of October 1, 2008, the most recent actuarial valuation date, the Teachers Pension Plan was 108.2% funded. The actuarial accrued liability for benefits was $1,338,000, and the actuarial value of assets was $1,447,600, resulting in an unfunded actuarial accrued liability (UAAL), or funding excess, of $(109,600). The covered payroll (annual payroll of active employees covered by the plan) was $359,100, and the ratio of the UAAL to the covered payroll was -30.52%.

The schedules of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, present multiyear trend information about whether the actuarial value of each plan's assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Contribution Receivable

During fiscal year 2007, the Retirement Board's actuary was engaged by the District of Columbia Public Schools to review active participant data in order to verify eligibility. The actuary noted a number of participants who should have been enrolled in the Plan, but were wrongly enrolled in the defined contribution plan of the District. The actuary also noted a number of active participants whose contribution rates were wrongly coded and those who should not have enrolled in the Plan.

The actuary used the Entry Age Normal method to estimate the amount receivable from the District of Columbia. The total actuarial impact including interest through October 1, 2011, is estimated to be approximately $9 (nine thousand). The District has accrued this amount in its government-wide financial statements as of September 30, 2009. The Retirement Board and the District of Columbia agreed to amortize this balance over three years with payments to begin in fiscal year 2010. As of September 30, 2009, the balance was $8,219. The first payment of $3,000 was made on October 30, 2009.

B. DEFINED CONTRIBUTION PENSION PLAN

Plan Description

Under the provisions of D. C. Code §1-627, the District sponsors a defined contribution pension plan with a qualified trust under Internal Revenue Code (IRC) Section 401(a) for permanent full-time employees covered under the Social Security System. 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, 2009, District contributions to the plan were $40,490.

This plan also covers employees of the Sports and Entertainment Commission, D. C. Housing Authority and Water and Sewer Authority, while the employees of the

NOTE 9. RETIREMENT PROGRAMS

Housing Finance Agency, Washington Convention Center and the University are covered under their own separate defined contribution plans. At September 30, 2009, there were 14,269 members of the District's defined contribution pension plan.

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 $16.5 of their annual compensation for calendar year 2009. Employees with 15 years of service or more were able to defer an additional amount, not to exceed the lesser of: (a) $3 (three thousand) in additional contributions; (b) $15.0 reduced by amounts contributed under this special provision in prior years; or (c) $5 (five thousand) times the number of years of service less the total elective deferrals from previous years. In addition, employees who were 50 years old or older by the end of the plan year were able to defer an additional amount as a catch up contribution. The maximum amount for catch up contributions was $5.5 (five thousand five hundred) in 2009. Contributions vest immediately and are not assets of the District.

Internal Revenue Code Section 457 Plan

The District offers its employees a deferred compensation plan (D. C. Code §47-3601) created in accordance with IRC Section 457. Employees, including teachers, are able to defer the lesser of $16.5 or 100% of includable compensation in calendar year 2009. Also, an additional deferral of $6.5 is available to participants who are at least 50 years old before the end of the calendar year. Compensation deferred and income earned are taxable when paid, or made available to the participant or beneficiary, upon retirement, death, termination, or unforeseeable emergency. Contributions are not assets of the District, which has no further liability to the plan.

NOTE 10. OTHER POST EMPLOYMENT BENEFITS (OPEB)

The District implemented Governmental Accounting Standards Board (GASB) Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* in fiscal year 2007. This statement requires additional reporting and disclosures for OPEB plans. Thus, the assets and actuarial accrued liabilities for the District's OPEB plan were initially determined through an actuarial valuation performed as of September 30, 2007, using the required parameters of GASB Statement No. 43.

The District implemented GASB Statement No. 45, *Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* in fiscal year 2008. This statement specifies the standards to be used for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities (assets), note disclosures, and required supplementary information, as applicable. In fiscal year 2008, the District began paying contributions based on an actuarially determined valuation, consistent with the parameters of GASB Statement No. 45.

As required by GASB Statement Nos. 43 and 45, the District is disclosing the following OPEB information:

a) Plan Description:

The District of Columbia Postretirement Health and Life Insurance Benefit Plan (the Plan) is a single-employer defined benefit healthcare and life insurance plan administered jointly by the Office of Human Resources and the Office of Finance and Treasury. The Plan is administered as an irrevocable trust through which assets are accumulated and benefits are paid as they become due in accordance with the substantive plan. All employees hired after September 30, 1987, and employees who retire under the Teachers Retirement System and Police and Fire Fighters Retirement System or who are eligible for retirement benefits under the Social Security Act, are eligible to participate in the Plan. The Plan provides medical care and life insurance benefits to eligible employees. D.C. Code §1-622 assigns the authority to establish and amend benefit provisions to the Mayor and the Council of the District of Columbia. The Plan's administrators issue a publicly available financial report that includes financial statements and required supplemental information for the Plan. This report may be obtained from the following location:

Office of Finance and Treasury
D.C. Treasurer
1275 K Street, N.W., 6th Floor
Washington, D.C. 20005

NOTE 10. OTHER POST EMPLOYMENT BENEFITS (OPEB)

b) Summary of Significant Accounting Policies

The Plan's financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. District contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan. Investments are reported at fair value determined by the mean of the most recent bid and ask prices as obtained from dealers that make markets in such securities.

c) Funding Policy

The contribution requirements of plan members and the District are established and may be amended by the Mayor and the Council of the District of Columbia. The first actuarial valuation of the Plan's assets and liabilities using GASB Statement No. 43 parameters was performed in fiscal year 2007, and the District began paying contributions based on an actuarially determined valuation using the parameters of GASB 45 in fiscal year 2008, as presented in the Schedule of Employer Contributions.

For fiscal year 2009, the District contributed $81,100 to the Plan. Employee contributions are not required prior to retirement to fund the Plan. After retirement, retirees pay 25% of their health insurance premiums and the District pays the remaining 75%. Participants also pay 35.75 cents per one thousand dollars of life insurance coverage until age 65 for the 75% reduction option. Participants can also elect a 50% or a 0% reduction, which require additional retiree contributions.

d) Annual OPEB Cost and Net OPEB Obligation

The District's annual OPEB cost (expense) is calculated based on the District's annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

Table 43 shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the Plan, and changes in the District's net OPEB asset or obligation to the Plan.

Table 43 – Annual OPEB Cost, Actual Plan Contributions, and Changes in Net OPEB Obligations

	FY 2009	FY 2008
Annual required contribution	$130,882	$103,400
Interest on net OPEB obligation	($488)	$0
Adjustment to annual required contribution	$314	$0
Annual OPEB cost (expense)	$130,708	$103,400
Contributions made	$81,100	$110,907
Net OPEB asset/(obligation)	($49,608)	$7,507
Net OPEB asset (obligation) – beginning of year	$7,507	$0
Net OPEB asset (obligation) – end of year	($42,101)	$7,507

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2009 and the two preceding years are shown in **Table 44.**

Table 44 - Annual OPEB Cost, Percentage of Annual OPEB Cost Contributed, Net OPEB Obligation (Fiscal Years 2007 Through 2009)

Fiscal Year Ended	Annual OPEB Cost (millions)	% of Annual OPEB Cost Contributed	Net OPEB Obligation
09/30/09	$130.7	62%	$42.1
09/30/08	$103.4	107.3%	($7.5)
09/30/07	N/A	N/A	N/A

N/A - Information is not available because the District began paying contributions based on an actuarially determined valuation using GASB 45 parameters in fiscal year 2008.

NOTE 10. OTHER POST EMPLOYMENT BENEFITS (OPEB)

e) Funded Status and Funding Progress

As of September 30, 2008, the most recent actuarial valuation date, the plan was 29.5% funded. The actuarial accrued liability for benefits was $745,200, and the actuarial value of assets was $219,700, resulting in an unfunded actuarial accrued liability (UAAL) of $525,500. The covered payroll (annual payroll of active employees covered by the Plan) was $1,107,100 and the ratio of the UAAL to the covered payroll was 47.5%.

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

Using the September 30, 2008 actuarial valuation results, the projected September 30, 2009 actuarial liability is $900,000 and the actuarial value of the assets is $309,100 resulting in an unfunded actuarial accrued liability (UAAL) of $590,900. The covered payroll (annual payroll of active employees covered by the Plan) was $1,185,700 and the ratio of the UAAL to the covered payroll is 49.8%.

f) Actuarial Methods and Assumptions

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

The entry age actuarial cost method was used to prepare the September 30, 2008 actuarial valuation. The actuarial assumptions included a 7.25% investment rate of return, a discount rate of 6.5%; a 5.0% salary increase rate (plus merit scale); and a medical inflation rate ranging between 10% (pre-Medicare) and 9% (post-Medicare) grading to 5.25% over 15 years. The amortization method applied was the level percent open method. The remaining amortization period at September 30, 2009 was 30 years.

NOTE 11. FUND BALANCE/NET ASSETS

Reserved and unreserved fund balances at September 30, 2009 are shown in **Table 45a**.

Table 45a - Schedule of FY 2009 Reserved and Unreserved Fund Balance

	General Fund	Federal & Private Resources	General Capital Improvements	Baseball Capital Project	Nonmajor Governmental Funds
Reserved					
Long term assets	$ 4,253	$ -	$ -	$ -	$ -
Emergency/contingency cash	284,316	-	-	-	-
Bond escrow	231,864	-	-	-	-
Subsequent years' expenditure	29,152	-	-	-	-
Inventory	10,221	-	-	-	-
Budget	35,262	-	-	-	-
Purpose restrictions	104,626	142,566	-	-	-
Student enrollment fund	4,000	-	-	-	-
Capital projects	-	-	406,854	3,549	-
PILOT	-	-	-	-	120,293
Tobacco settlement	-	-	-	-	87,235
Tax increment financing	-	-	-	-	19,398
Housing production	-	-	-	-	44,966
Community healthcare	-	-	-	-	45,561
Baseball	-	-	-	-	47,659
Highway projects	-	-	-	-	6,809
Total Reserved Fund Balances	**703,694**	**142,566**	**406,854**	**3,549**	**371,921**
Unreserved					
Designated Unreserved Fund Balances	**216,789**	**-**	**-**	**-**	**-**
Total Fund Balances	**$ 920,483**	**$ 142,566**	**$ 406,854**	**$ 3,549**	**$ 371,921**

Net assets at September 30, 2009 are shown in **Table 45b**.

Table 45b - Schedule of FY 2009 Net Assets

	Lottery & Games	Unemployment Compensation Fund	Nonmajor Proprietary Fund	Fiduciary Funds
Net Assets				
Invested in capital assets	$ 478	$ -	$ 15,534	$ -
Restricted for future benefits	-	304,773	-	4,156,448
Unrestricted	3,392	-	22,472	-
Total Net Assets	**$ 3,870**	**$ 304,773**	**$ 38,006**	**$ 4,156,448**

NOTE 12. JOINT VENTURE

Washington Metropolitan Area Transit Authority

The Washington Metropolitan Area Transit Authority (WMATA) was created by an Interstate Compact between Maryland, Virginia and the District of Columbia, pursuant to Public Law 89-774. The District's commitment or obligation to provide financial assistance to WMATA is established by annual appropriations, as approved by Congress. The District supports the Transit Authority through operating, debt service and capital grants. The District places the amounts to be provided to WMATA in an escrow account until such time when the funds are drawn down for use by WMATA. Operating grants may be in the form of operating and interest subsidies. WMATA records the District's operating grants as advanced contributions when received and as nonoperating revenues when the related expenses are incurred. WMATA recognizes the District's capital grants as additions to construction in progress and investment in capital assets when the grant resources are expended for capital acquisitions. A summary of the grants provided to WMATA during the year ended September 30, 2009, is shown in **Table 46a.**

Table 46a - Summary of Grants Provided to WMATA

Type		Amount
Operating grants	$	224,454
Debt service grants		10,331
Capital grants		65,634
Total	**$**	**300,419**

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. Information that would allow users of the financial statements to evaluate whether the joint venture is accumulating significant financial resources, or is experiencing fiscal stress that may cause additional financial benefits or burden to the District and other participating governments in the future is presented in **Table 46b**.

Table 46b - Summary of Financial Statements for WMATA as of and for the year ended June 30, 2009

Financial Position		
Total assets	$	9,897,007
Total liabilities		(1,948,612)
Net assets	$	7,948,395
Operating Results		
Operating revenues	$	745,303
Operating expenses		(1,905,047)
Nonoperating revenues, net		674,989
Revenue from capital contributions		578,306
Change in net assets	$	93,551
Change in Net Assets		
Net assets, beginning of year, restated	$	7,854,844
Change in net assets		93,551
Net assets, end of year	$	7,948,395

NOTE 13. TRANSACTIONS WITH THE FEDERAL GOVERNMENT

A. FEDERAL CONTRIBUTION

In accordance with the National Capital Revitalization and Self-Government Improvement Act of 1997 (Public Law 105-33), the annual federal payment was repealed and replaced with a federal contribution to cover special purpose and other unusual costs imposed on the District by the federal government. Federal contributions to the District for the year ended September 30, 2009, totaled $573,446.

B. EMERGENCY PREPAREDNESS

The District, as the nation's capital, serves as the command post and the source of first response to any national threat or terrorist act against the nation. The District did not receive any federal payment for emergency preparedness in fiscal year 2009. In prior years, these funds were made available to assist the District in effectively preparing to respond to potential threats or possible terrorist attacks. As of September 30, 2008, the District had spent $151,659, or 97.3%, of the $155,900 received in fiscal year 2002. None of the remaining $4,241 was spent during fiscal year 2009.

NOTE 13. TRANSACTIONS WITH THE FEDERAL GOVERNMENT

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 capital assets. Capital grants are recorded as intergovernmental revenue in the General Capital Improvements Fund. Federal grants and contributions are shown by function on the government-wide financial statements.

D. WATER AND SEWER SERVICES

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

Capital outlays are capitalized and depreciated over 60-years by the Water and Sewer Authority. Total capital outlays including capitalized interest from the U.S. Treasury drawdowns and pay-as-you-go financing were $41,524 for the fiscal year ended September 30, 2009.

NOTE 14. 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 debt service expenditures in the governmental funds. Such expenditures totaled $7,911 in fiscal year 2009.

Equipment Financing Program

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

As of September 30, 2009, the District financed approximately $299 million of its capital equipment needs through the Program, and had approximately $119 million in principal outstanding. During the year, the average interest rate used to finance equipment through the Program was 4.41%. Payments on the liability are made on a quarterly basis.

Equipment procured under this program included 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.

NOTE 14. LEASES

Table 47 shows the schedule of equipment financing program payments.

Table 47– Schedule of Equipment Financing Program Payments

Year Ending September 30	Principal	Interest	Total
2010	$ 36,572	$ 4,448	$ 41,020
2011	33,065	2,895	35,960
2012	24,766	1,587	26,353
2013	17,613	670	18,283
2014	6,499	114	6,613
Total	**$ 118,515**	**$ 9,714**	**$ 128,229**

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 the options will be exercised. Certain other operating leases contain escalation clauses and contingent rentals that are not included in the calculation of the future minimum lease payments. Operating lease expenditures recorded in governmental funds were $135,851 in 2009.

C. SCHEDULE OF FUTURE MINIMUM LEASE COMMITMENTS

The present value of future minimum lease payments under capital leases and minimum lease payments for all operating leases having non-cancelable terms in excess of one year at September 30, 2009, are shown in **Table 48**.

Table 48 - Schedule of Future Minimum Lease Payments

	Primary Government		
		Operating Leases	
Year Ending September 30	Capital Leases	Facilities	Equipment
2010	$ 10,920	$ 104,422	$ 2,089
2011	10,715	81,499	1,757
2012	10,710	69,614	1,548
2013	10,715	47,556	1,578
2014	2,792	36,505	182
2015-2019	6,981	70,405	-
Minimum lease payments	**52,833**	**$ 410,001**	**$ 7,154**
Less - imputed interest	(8,341)		
Present value of payments	**$ 44,492**		

NOTE 15. COMMITMENTS AND CONTINGENCIES

A. RISK MANAGEMENT

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

B. GRANTS AND CONTRACTS

The District has received federal grants for specific purposes that are subject to review and audit by the grantor agencies. Claims against these resources are generally conditional upon compliance with the terms and conditions of grant agreements and applicable federal regulations, including the expenditure of resources for allowable purposes. Any disallowance resulting from an audit may become a liability of the District. The audits of these federally assisted programs have not been conducted for the year ended September 30, 2009. As such, the District's compliance with applicable grant and federal requirements will be assessed and established at some future date. An accrual of $3,379 has been provided in the government-wide financial statements to reflect the probable cumulative expenditures that may be disallowed by the granting agencies based on prior experience. Furthermore, an additional $66,231 was recognized as part of the accrued liability in the government-wide financial statements for grants already disallowed by grantors.

C. LITIGATION

The District is named as a party in legal proceedings and investigations that occur in the normal course of governmental operations. Although the ultimate outcome of these legal proceedings and investigations is unknown, the District is vigorously defending its position in each case. All amounts in connection with lawsuits in which a loss is probable have been included in the liability for claims and judgments at September 30, 2009.

The accrued liability is based on estimates of the payments that will be made upon judgment or resolution of the claim. This accrued amount is the minimum amount in the range of estimates that have the same probability of occurrence. The sum of excess of the range of probable losses and the minimum range of losses that are reasonably possible which are not accrued is estimated to be $73,496.

A summary of the changes in the accrued liability for claims and judgments in the government-wide financial statements is shown in **Table 49.**

Table 49 - Summary of Changes in Claims and Judgments Accrual

Description	2009	2008
Liability at October 1	**$ 55,902**	**$ 60,462**
Incurred claims	32,410	32,677
Less:		
claims payments/adjustments	(29,475)	(37,237)
Liability at September 30	**$ 58,837**	**$ 55,902**

D. DISABILITY COMPENSATION

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

A summary of changes in this accrual is shown in **Table 50**.

Table 50 – Summary of Changes in Disability Compensation Accrual

Description	2009	2008
Liability at October 1	**$ 105,751**	**$ 89,942**
Claims incurred	65,939	46,178
Less-benefit payments/adjustments	(29,374)	(30,369)
Liability at September 30	**$ 142,316**	**$ 105,751**

NOTE 15. COMMITMENTS AND CONTINGENCIES

E. 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, 2009, unearned revenue of $1,166 related to this agreement was recorded in the government-wide financial statements.

NOTE 16. SUBSEQUENT EVENTS

A. TAX REVENUE ANTICIPATION NOTES

The District issued $500,000 in Tax Revenue Anticipation Notes (TRANs) on October 30, 2009. The issuance of such notes is a short term financing method used to provide for seasonal cash flow needs, and the proceeds are to be used to finance general governmental expenses of the District in anticipation of the collection or receipt of revenues for fiscal year 2010.

The TRANs are general obligations of the District, secured by the District's full faith and credit, and are payable from all funds of the District not otherwise legally committed and constitute continuing obligations until paid in accordance with their terms. The District has covenanted to deposit amounts in an escrow account for the purpose of paying the principal and interest on the TRANs when due. Under the TRANs Escrow Agreement, the District is to make escrow deposits in accordance with the following schedule:

Date of Deposit	Amount of Deposit
September 1, 2010	20% of the outstanding principal amount
September 16, 2010	60% of the outstanding principal amount
September 27, 2010	20% of the outstanding principal amount, plus 100% of accrued interest to maturity

The TRANs were issued as fixed rate notes with an interest rate of 2.50%, and will mature on September 30, 2010.

B. INCOME TAX SECURED REVENUE BONDS

On December 22, 2009, the District issued $129,620, in Income Tax Secured Revenue Bonds, Series 2009D (Tax-Exempt) and $501,290 in Income Tax Secured Revenue Bonds, Series 2009E (Federally Taxable – Build America Bonds – Direct Pay to Issuer), as Senior Bonds pursuant to: (a) the Income Tax Secured Bond Authorization Act of 2008, effective October 22, 2008, (b) the Fiscal Year 2010 Income Tax Secured Revenue Bond and General Obligation Bond Issuance Emergency Approval Act of 2009, effective December 4, 2009, and (c) a Master Indenture of Trust between the District and Wells Fargo Bank, as supplemented by a Supplemental Indenture dated December 1, 2009. The District will make an irrevocable election to treat the Series 2009E bonds as taxable Build America bonds that are qualified under the American Recovery and Reinvestment Act of 2009, the credits with respect to which will be payable directly to the District, and not available as tax credits to the beneficial owners of the Series 2009E bonds. The proceeds of the Series 2009D and Series 2009E bonds will be used to: (a) provide funds for capital projects, (b) pay for financing costs, and (c) fund capitalized interest on the Series 2009D and Series 2009E bonds.

The Series 2009D and Series 2009E bonds, the outstanding bonds, and any additional bonds issued under the terms of the indenture will be payable from and secured by a security interest in and a statutory lien on the Trust Estate. The Series 2009D bonds were issued with interest rates ranging from 2.50% to 5.00% with a yield rate ranging from 0.770% to 2.680%. The Series 2009E bonds were issued with interest rates ranging from 4.343% to 5.541% with a yield rate ranging from 4.343% to 5.541%. A $300,000 term bond, with an interest rate of 5.591% will be due on December 1, 2034, priced to yield 5.591%.

C. DEMAND BOND PROGRAM

Letters of Credit (LOC) Substitutions

On November 20, 2009, the District undertook LOC substitutions on three of its outstanding General Obligation VRDO series – Series 2001D, Series 2002D and Series 2008C. These LOC substitution transactions were undertaken in order to replace the existing Dexia

NOTE. 16. SUBSEQUENT EVENTS

Credit Local (Dexia) LOCs which, due to Dexia's credit rating downgrades, caused the associated VRDO series to reset at higher interest rates. The new LOCs are provided by the following: the Series 2001D Bonds - Bank of America, the Series 2002D – Wachovia, and J.P Morgan and TD Bank - the Series 2008C.

D. CHANGE IN OPEB CONTRIBUTION POLICY

Employee contributions are not required prior to retirement to fund the OPEB Plan. Since the establishment of the OPEB Plan, District retirees have been required to pay 25% of their health insurance premiums and 35.75 cents per one thousand dollars of life insurance coverage until age 65 for the 75% reduction option and could also elect a 50% or 0% reduction, which would require additional retiree contributions.

Beginning in fiscal year 2010, the District transitioned to a graded contribution schedule. Annuitants with at least 10 years of creditable District service but less than 30 years of creditable District service pay 75% of their health insurance premiums and the District pays the remaining 25%, plus an additional 2.5% for each year of creditable service over 10 years, provided that the District's contribution shall not exceed 75% of the cost of the selected health benefit plan. For annuitants with 30 or more years of creditable District service or annuitants who are injured in the line of duty, the District pays 75% of the cost of the selected health benefit plan and the annuitant pays 25% of the cost of the selected health benefit plan.

Covered family members of an annuitant with at least 10 years of creditable District service but less than 30 years of creditable District service pay 80% of their health insurance premiums and the District pays the remaining 20%, plus an additional 2% for each year of creditable District service over 10 years, provided that the District's contribution shall not exceed 60% of the cost for the covered family member of the annuitant. The District pays 60% of the cost of the selected health benefit plan for covered family members of an annuitant with 30 or more years of creditable District service and the family member pays 40% of the cost of the selected health benefit plan. The District pays 60% of the cost of the selected health benefit plan and the family member pays 40% of the cost of the selected health benefit plan for covered family members of annuitants who are injured or killed in the line of duty. The impact this change will have on the District's portion of future OPEB costs has not been determined.

E. COMPONENT UNITS

Housing Finance Agency Bond Activity

On December 30, 2009, $25,000 of District of Columbia Housing Finance Agency Single Family Housing Revenue Bonds, Series 2009 A (Program Bonds-Taxable) were issued with a delivery date of January 12, 2010. On December 30, 2009, $168,100 of District of Columbia Housing Finance Agency Multifamily Housing Revenue Bonds 2009 Series A (NIB Program) (Program Bonds - Taxable) were issued with a delivery date of January 12, 2010.

On November 1, 2009, $2,775 of Single Family Mortgage Revenue Bonds 2007 Series A were redeemed. On December 1, 2009, Single Family Mortgage Revenue Bonds totaling $14,445 were redeemed. In addition, between October 1, 2009 and December 31, 2009, $8,701 in multi-family mortgage revenue bonds were issued through draws on the existing draw down bonds.

Between October 1, 2009 and December 31, 2009, multi-family mortgage revenue bonds totaling $12,911 were redeemed or matured.

Dissolution of Sports and Entertainment Commission

Upon approval of the Fiscal Year 2010 Budget Support Act of 2009 and through the passage of the Washington Convention Center Authority and the Sports and Entertainment Commission Merger Act of 2009, the Sports and Entertainment Commission (SEC) was abolished, effective October 1, 2009, and the Washington Convention and Sports Authority (WCSA) was created. Consequently, members of the Board of Directors of the Washington Convention Center Authority (WCCA) became members of WCSA's Board of Directors, and are to serve in that capacity until the expiration of their original WCCA Board terms. In addition, the chairperson and vice chairperson of SEC's Board of Directors also became WCSA Board members, to serve in that capacity until the expiration of their original SEC Board terms. Management of WCSA's daily operations rests with its General Manager (who served as WCCA's General Manager prior to the SEC-WCCA merger).

Pursuant to the merger, all SEC authorities and functions transferred to WCSA. With SEC's dissolution, all SEC assets, including but not limited to, cash, accounts receivable, reserve funds, real and personal property and contract and other rights, were transferred to WCSA. Similarly, WCSA also assumed SEC's liabilities, commitments, and other similar obligations, held by SEC at the time of its dissolution.