NOTES TO THE BASIC FINANCIAL STATEMENTS

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September 30, 2011

(Dollar amounts expressed in thousands)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. BACKGROUND AND HISTORY OF THE GOVERNMENTAL UNIT

General Operations

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

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

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

B. FINANCIAL REPORTING ENTITY

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 whether 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 and Sports Authority, Not-for-Profit Hospital Corporation (d/b/a United Medical Center), Housing Finance Agency, and the University of the District of Columbia.

The Not-for-Profit Hospital Corporation, a legally separate entity, is a discretely presented component unit because the Mayor and Council appoint a voting majority of its governing board. In addition, the District is able to impose its will on the Not-for-Profit Hospital Corporation because the Mayor is authorized to remove any board member for misconduct, neglect of duty, or for other good cause and the District must approve its annual operating budgets.

The Mayor, with the consent of the Council, also appoints the governing bodies of the Water and Sewer Authority, Washington Convention and Sports Authority, 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 Washington Convention and Sports Authority, and the University of the District of Columbia, and must approve certain transactions of and certain tax revenues dedicated to the Washington Convention and Sports Authority. The Water and Sewer Authority is responsible for the payment of

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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.

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

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

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

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

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

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

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

The District established the District of Columbia Tobacco Settlement Financing Corporation (the Tobacco Corporation) as a special purpose, independent instrumentality of the District government. The Tobacco Corporation is a blended component unit because it provides services exclusively to the District and the District is able to impose its will on this organization. The District appoints all members of the Tobacco Corporation's governing body, which is 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.

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

C. RELATED ORGANIZATIONS

A related organization is one for which the primary government is responsible but not *financially accountable*. The District treats the District of Columbia Housing Authority and the District of Columbia Courts as related organizations because the District is not financially accountable for these entities. 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 participates with other local jurisdictions in a joint venture to plan, construct, finance and operate a public transit system serving the Metropolitan Washington Area Transit zone, which includes the District of Columbia; the cities of Alexandria, Falls Church, Fairfax, Manassas, and Manassas Park and the counties of Arlington, Fairfax, Loudoun, and Prince William in Virginia; and Montgomery, Anne Arundel, and Prince George's in Maryland. The Washington Metropolitan Area Transit Authority (WMATA) was created in February 1967 to fulfill the purposes of the joint venture.

Pursuant to P.L. 111-62, which revised the WMATA compact agreement, WMATA is governed by an eight-member Board and eight alternates, comprised of two Directors and two alternates for Maryland, Virginia, the District of Columbia, and the federal government. The Directors and alternates for Maryland are appointed by the Washington Suburban Transit Commission from among its members; for Virginia, by the Northern Virginia Transportation Commission from among its members; for the District of Columbia, by the Council from its members and mayoral nominees; and for the federal government, by the Administrator for General Services. The District does not have explicit measurable equity interest in the joint venture; accordingly, the District does not include the financial activities of the joint venture in its financial statements.

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Further information regarding this joint venture is discussed in Note 12 on page 118.

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 financial statements. Governmental activities of the primary government, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for services. The government-wide financial statements are comprised of the following:

- *Statement of Net Assets* – The Statement of Net Assets displays the financial position of the District's governmental and business-type activities and its discretely presented component units. The District reports all debts and capital assets, including infrastructure, in the government-wide Statement of Net Assets. The District reports net assets in three distinct 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 balance 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.

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

  The Housing Production Trust Fund was reported as a nonmajor fund in previous fiscal years. However, in fiscal year 2011, the fund met the minimum criteria for mandatory reporting as a major fund in accordance with the requirements of GASB Statement No. 34.

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

Nonmajor Governmental Funds include five Special Revenue Funds: (1) Tax Increment Financing (TIF) Program Fund; (2) Tobacco Settlement Financing Corporation (TSFC) Fund; (3) Community Health Care

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Financing Fund; (4) PILOT Special Revenue Fund; and (5) Baseball Project Fund. Other Nonmajor Governmental Funds include the Highway Trust Fund, and the Baseball Debt Service Fund.

Proprietary Funds are used to account for activities similar to those found in the private sector. The criteria for inclusion as a proprietary fund include: (a) the costs (including depreciation) of providing goods or services primarily or solely to the public on a continuing basis are financed or recovered primarily through user charges; and (b) the determination of net income is necessary or useful for sound financial administration. The District's proprietary funds include two major 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 are contributed by private employers at rates fixed by law, and by the federal government on a reimbursable basis. The administrative costs of the program are accounted for in the General Fund.

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

  The Emergency Unemployment Compensation (EUC) program is a 100% federally funded program that provides benefits to individuals who have exhausted regular state benefits. The EUC program was created on June 30, 2008 and has been modified several times. The extended benefits payments beyond the 26 weeks base period have to be authorized by the Federal Government. When this happens, the states, including the District of Columbia, are reimbursed from the Federal Government to cover the extended benefits. States are obligated to pay after the expenditures are incurred. Therefore, the District does not record the Federal Extended benefit because the expenditures have not actually been incurred.

- *Nonmajor Proprietary Fund* - used to account for the operations of the JB Johnson Nursing Center, which was dissolved in December 2010.

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

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

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

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

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

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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 U.S. generally accepted accounting principles (GAAP). Accordingly, such information should be read in conjunction with the District's financial statements for the year ended September 30, 2010, 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 the Governmental Accounting Standards Board (GASB).

Government-Wide Financial Statements

The government-wide financial statements are reported using the flow of economic resources measurement focus and the accrual basis of accounting. Therefore, the Statement of Net Assets reports all assets, including receivables regardless of when collected, and capital assets, such as heavy trucks and infrastructure (i.e., highways and bridges), and all liabilities regardless of when payment is due. The Statement of Activities is designed to present the degree to which the direct expenses of a particular function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include charges for goods or services, grant revenues, and fines. Tax revenues are reported separately as general revenues. The Statement of Activities reports: (a) expenses associated with governmental activities; (b) expenses associated with business-type activities; and (c) the expenses of component units. The expenses of the governmental activities include governmental fund expenditures that are not eliminated or reclassified and current year depreciation on capital assets. The effect of interfund activity is eliminated from the government-wide financial statements.

Fund Financial Statements

Governmental Funds

All governmental funds are accounted for using a flow of current financial resources measurement focus and the modified accrual basis of accounting. Under this measurement focus, only current assets and current liabilities are included on the balance sheet. Operating statements of these funds present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Unassigned fund balance represents spendable resources that have not been restricted, committed, or assigned to specific purposes.

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

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 reported in the government-wide financial statements as incurred.

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

The proprietary funds, pension and OPEB trust funds, private purpose trust fund, and discretely presented component units are accounted for on a flow of economic resources measurement focus and the accrual basis of accounting. Under this measurement focus, all assets and liabilities associated with the operation of these funds are included on the Statement of Net Assets. Net assets of the proprietary funds are segregated into invested in capital assets, net of related debt; and 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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

Revenue Recognition (by Type or Source)

Property Taxes

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

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

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

Other Taxes and Revenues

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

Intergovernmental Revenues

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

Supplemental Nutrition Assistance Program (SNAP)

The District participates in the federal government's Supplemental Nutrition Assistance Program (SNAP) (food stamp program), which is designed to increase the food purchasing power of economically disadvantaged residents. The District 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. SNAP expenditures totaled $227,783 in fiscal year 2011.

Revenues Susceptible To Accrual

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

Revenues Not Susceptible To Accrual

Licenses, permits, fines, and forfeitures are recorded as revenue when received in cash because they are generally not measurable until received.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

G. BASIS OF BUDGETING AND BUDGETARY CONTROL POLICIES

Process

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

Appropriations Act

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

Pursuant to Home Rule Act § 446 and the Reprogramming Policy Act (D. C. Official Code §47-363 (2001), as amended), the District may reallocate budget amounts. The appropriated budget amounts in the Budgetary Comparison Statement (Exhibit 2-d) include all approved reallocations and other budget changes. This statement reflects budget to actual comparisons at the function 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, 1351, 1511-1519 (2008)); the District of Columbia Anti-Deficiency Act (D.C. Official Code §§47-355.01-355.08, (2001)); and Section 446 of the Home Rule Act, (D.C. Official Code § 1-204.46). In addition, a negative expenditure variance for a particular agency within an appropriation is also a violation of the D.C. Anti-Deficiency Act.

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

By law, 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. The budgetary basis of accounting used to prepare this statement differs from the GAAP basis used to prepare the general fund and federal and private resources fund statements presented in Exhibit 2-b due to the following differences:

- *Basis Differences* – which arise because the basis of budgeting differs from the basis of accounting prescribed by GAAP as indicated in Note 1X on page 73.
- *Entity Differences* – which result from the inclusion or exclusion of certain activities for budgetary purposes as opposed to those included or excluded on a GAAP basis as indicated in Note 1X on page 73.

Budgetary Controls

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

Encumbrances

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

encumbered as part of the subsequent year's budget. However, encumbered amounts do not lapse at year-end in the Capital Projects Fund, Special Revenue 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 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 Act of 1997 (D.C. Law 12-56, D.C. Official Code §47-351.01, et seq.), which became effective March 18, 1998, and the District's Investment Policy, adopted November 2008. At September 30, 2011, 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 cash equivalents if they mature within 90 days after the date of purchase. The Pension Trust Funds are authorized to invest in fixed income, equity securities and other types of investments. Also, the Private Purpose Trust Fund is authorized to invest in eight portfolios which are comprised of equities, balanced funds, and fixed income securities.

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

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.

J. RESTRICTED ASSETS

Certain governmental and proprietary fund assets, some assets reported by the component units, and all fiduciary fund assets are restricted as to use by legal or contractual requirements. Any excess of restricted assets 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 "restricted" 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 include 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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

In governmental funds, long-term debt premiums/(discounts) and issuance costs are recognized in the current period as other financing sources/(uses) and fiscal charges, respectively. In the government-wide financial statements, long-term debt premiums/(discounts) and issuance costs are capitalized and amortized over the term of the related debt 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) revenue and expense/expenditure transactions consisting of temporary underfund transactions which include reimbursements and quasi-external transactions; or (b) reallocation of resources, transactions including temporary interfund loans, advances or operating transfers. Reimbursements between funds occur when expenditures/expenses made from one fund are properly applicable to another fund.

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

N. CAPITAL ASSETS

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

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

When the construction of assets is financed through the issuance of long-term debt, interest is capitalized in the government-wide financial statements 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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Capitalization and Depreciation Policies

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

Table 1 – Estimated Useful Lives (by Asset Class)

	Useful life
Storm Drains	45 years
Infrastructure	20-40 years
Buildings	50 years
Equipment and Machinery	5-10 years
Furniture and Fixtures	5 years
Vehicles (and Other Mobile Equipment)	5-12 years
Library Books	5 years
Leasehold Improvements	10 years

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 future minimum lease payments due during the 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. Annual (vacation) leave may be accumulated up to 240 hours, regardless of the employee's length of service, while there is no limit to the amount of compensatory leave (leave granted to eligible employees in lieu of paid overtime) that may be accumulated.

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).

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, net of debt service, 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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 6.60% to 6.65%. Accreted interest is calculated throughout the maturity periods of the bonds and is recorded in the government-wide financial statements. The accreted value of such bonds is the current value, plus the interest that has been accumulating on the bonds.

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

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

R. NEW ACCOUNTING STANDARDS ADOPTED

During the fiscal year ended September 30, 2011, the District adopted the following new accounting standards issued by the Governmental Accounting Standards Board (GASB):

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

Issued in February 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 must be made when reporting fund balance information is identifying amounts that are considered nonspendable, such as fund balance associated with inventories. Statement No. 54 also requires additional classification of fund balance 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 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 type, special revenue fund type, capital projects fund type, debt service fund type, and permanent fund type are also clarified in this statement.

Statement No. 59, Financial Instruments Omnibus

Issued in June 2010, this statement provides updates and refinements to existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice. This statement provides amendments to several standards.

Implementation of this statement had no material impact on the District's fiscal year 2011 financial statements.

S. NEW ACCOUNTING PRONOUNCEMENTS

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

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

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The requirements of this statement are effective for periods beginning after December 15, 2011, the District's fiscal year 2013.

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

Issued in November 2010, this statement modifies certain requirements for inclusion of component units in the financial reporting entity. For organizations that were previously required to be included as component units by meeting the fiscal dependency criterion, a financial benefit or burden relationship also needs to be present between the primary government and that organization for it to be included in the reporting entity as a component unit. Further, for organizations that do not meet the financial accountability criteria for inclusion as component units but that, nevertheless, should be included because the primary government's management determines that it would be misleading to exclude them, this statement clarifies the manner in which that determination should be made and the types of relationships that generally should be considered in making the determination.

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

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

The requirements of this statement are effective for periods beginning after June 15, 2012, the District's fiscal year 2013.

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

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

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

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

The requirements of this statement are effective for periods beginning after December 15, 2011, the District's fiscal year 2013.

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

Issued in June 2011, this statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined those elements as a consumption of net assets by the government that is applicable to a future period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. Previous

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities.

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

The requirements of this statement are effective for periods beginning after December 15, 2011, the District's fiscal year 2013.

Statement No. 64, Derivative Instruments: Application of Hedge Accounting Termination Provisions—An Amendment of GASB Statement No. 53

Some governments have entered into interest rate swap agreements and commodity swap agreements in which a swap counterparty, or the swap counterparty's credit support provider commits or experiences either an act of default or a termination event as described in the related swap agreement. Many of those governments have replaced their swap counterparty, or swap counterparty's credit support providers, either by amending existing swap agreements, or by entering into new swap agreements. When these swap agreements have been reported as hedging instruments, questions have arisen regarding the application of the termination of hedge accounting provisions in Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments.* Those provisions require governments to cease hedge accounting upon termination of the hedging derivative instrument, resulting in the immediate recognition of the deferred outflows of resources or deferred inflows of resources as a component of investment income.

Issued in June 2011, the objective of this statement is to clarify whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. Statement No. 64 sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue.

The requirements of this statement are effective for periods beginning after June 15, 2011, the District's fiscal year 2012.

T. NET ASSETS AND FUND BALANCE

The difference between assets and liabilities is "Net Assets" in the government-wide, proprietary, and fiduciary fund statements and "Fund Balance" in governmental fund statements. In the government-wide and proprietary fund financial statements "Net Assets" is further 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 cash balances from debt issuances not yet spent increase 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 not restricted for any project or other purpose.

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

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

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

- *Assigned* – resources neither restricted nor committed for which the District has a stated intended use as established by the Mayor, Council, or a body or official to which the Mayor or Council has delegated the authority to assign amounts for specific purposes. These are resources where the constraints/restrictions are less binding than that for committed resources.

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

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

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

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

As of September 30, 2011, the District's fund balance included the following categories (see **Table 50a** on page 117.)

Nonspendable Fund Balance

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

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

Restricted Fund Balance

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

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

Budget – This portion of fund balance represents unused FY 2011 budget reserve amounts that are available until expended.

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

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

Tobacco Settlement – This portion of fund balance is restricted to pay future debt service and related expenses associated with the Tobacco Corporation's

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

issuance of Tobacco Settlement Asset-Backed Bonds in fiscal years 2001 and 2006.

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

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

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

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

Baseball Special Revenue – This portion of fund balance represents resources set aside for baseball debt service payments.

Committed Fund Balance

Fiscal Stabilization Reserve – This portion of fund balance is committed to purposes permitted for use of the Contingency Reserve Fund (except for cash flow management purposes)

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

Budget Support Act – This portion of fund balance is committed to various non-lapsing accounts established in the budget support act, which is a local law.

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

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

Assigned Fund Balance

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

Subsequent Years' Expenditures – This portion of fund balance represents amounts to be used to finance certain non-recurring policy initiatives and other expenditures included in the FY 2012 budget approved by the District Council.

Minimum Fund Balance Policies

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

Contingency Reserve

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

Each fiscal year, the District must appropriate sufficient funds during the budget process to replenish any amounts allocated from the contingency reserve fund during the preceding fiscal years. Such appropriation is necessary so that not less than 50% of any amount allocated in the preceding fiscal year or the amount necessary to restore the contingency reserve fund to the 4% required balance, whichever is less, is replenished by the end of the first fiscal year following such allocation. In addition, 100% of the amount allocated or the amount necessary to restore the contingency reserve fund to the 4% required balance, whichever is less, must be replenished by the end of the second fiscal year following each such allocation.

Emergency Reserve

The emergency reserve fund may be used to provide for unanticipated and nonrecurring extraordinary needs of an emergency nature, including a natural disaster or calamity or unexpected obligations by federal law. The

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

emergency reserve fund may also be used in the event that a State of Emergency is declared by the Mayor. However, the emergency reserve fund may not be used to fund: (a) any department, agency, or office of the District government which is administered by a receiver or other official appointed by a court; (b) shortfalls in any projected reductions which are included in the budget proposed by the District for the fiscal year; or (c) settlements and judgments made by or against the District government.

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

Fiscal Stabilization Reserve

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

Cash Flow Reserve

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

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

U. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

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

The District utilizes a graded contribution schedule whereby District contributions to the plan are based on the employee's years of creditable District service. District contributions are limited such that the District pays no more than 72% of the cost of health insurance, and 33% of the cost of life insurance for eligible retirees. The District also pays no more than 60% of the premium for a retiree's spouse and dependent health insurance coverage. More information regarding the OPEB contribution policy is presented in Note 10 on page 114.

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

As of September 30, 2011, there were 541 OPEB Plan participants receiving such benefits. The participants comprised of 411 teachers, police, and firefighters, and 130 general District retirees. During fiscal year 2011, $4.1 million was paid from the OPEB plan for the associated insurance carrier premiums and other administrative costs.

V. USE OF ESTIMATES

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 a reconciliation between fund balances - total governmental funds versus 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 $79,548 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 as this amount is not currently available for use in fiscal year 2011. 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 a reconciliation between net changes in fund balances of governmental funds and changes in net assets of governmental activities as reported in the government-wide statement of activities.

The details of the $586,781 difference related to capital outlay are as follows:

Capital outlay capitalized	$	895,484
Less:		
Depreciation expense		(336,212)
Capital asset additions		41,340
Transfer and dispositions		(13,831)
Net Adjustment	**$**	**586,781**

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 $2,946 more in the statement of activities than in the Statement of Revenues, Expenditures and Changes in Fund Balances.

The details of the ($548,716) difference related to long-term liabilities are as follows:

Bonds issued	$	(726,275)
Equipment financing program		(45,801)
Premium on long-term debt		(24,711)
GARVEE bonds		(82,610)
Less:		
Bonds current refunding		63,335
Principal payments on G.O. bonds		132,785
Principal payments on other long-term debt		124,311
Amortization of premium		7,224
Fiscal charges -net		3,026
Net Adjustment	**$**	**(548,716)**

The details of the ($2,845) difference related to the change in accrued liabilities are as follows:

Annual leave	$	(6,070)
CAB interest accretion		(24,635)
Grant disallowances		(190)
Accrued interest		(4,882)
Claims and judgments		21,658
Future disability benefits		9,177
Unfunded pension expenses		3,000
Net OPEB liability		(903)
Net Adjustment	**$**	**(2,845)**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

X. RECONCILIATION OF BUDGETARY BASIS TO GAAP BASIS

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

	GENERAL FUND	FEDERAL AND PRIVATE RESOURCES
EXCESS OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES - BUDGETARY BASIS	$ 239,695	$ 12,305
Basis differences:		
Inventory is recorded using the purchase method for budgetary purposes and the consumption method on a GAAP basis	897	49
Transfers - other financing (uses)	(1,649)	-
Debt related adjustments	2,616	-
Fund balance released from restrictions - a funding source for budgetary purposes but not revenue on a GAAP basis	(55,805)	(22,192)
Actuarial adjustments to retirement contributions to teachers' pension fund	(3,000)	-
State education loan program	(8,384)	2,425
Other	(245)	-
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES - GAAP BASIS	**$ 174,125**	**$ (7,413)**

Y. PRIOR PERIOD ADJUSTMENT - LEGISLATIVE CHANGE

Prior to fiscal year 2011, the District formulated its revenue budget for personal property tax using the premise that 25% of the tax levied was to be allocated to the current fiscal year (the year of the assessment), and the remaining 75% was to be allocated to the following fiscal year. Consequently, the District's General Fund carried a personal property tax deferred revenue balance that was equal to the 75% allocated to the subsequent fiscal year.

With the passage of the Clarification of Personal Property Tax Revenue Reporting Act of 2011, the District changed its policy regarding personal property tax revenue reporting. The period of intended use of the personal property tax was changed from 25% in the fiscal year when the assessment is made and 75% in the subsequent fiscal year, to 100% in the fiscal year of assessment. The revision of the period of intended use represents a change in the method of applying an accounting principle which requires retrospective application in the District's financial statements. Consequently, fiscal year 2010 personal property tax revenue has been adjusted to reflect the period-specific effect of this change of $4,469 and fund balance has been adjusted to reflect the cumulative impact of this change of $40,643.

October 1, 2010, as previously reported	$ 890,126
Decrease in deferred property tax revenue	40,643
October 1, 2010, as adjusted	$ 930,769

NOTE 2. CASH AND INVESTMENTS

A. CASH

The District of Columbia follows the practice of pooling cash and cash equivalents for some of its governmental funds and component units in order to provide better physical custody and control of cash, to enhance operational efficiency, and to maximize investment opportunities. Of the $2,834,575 within the custody of the District, in accordance with District policies, substantially all deposits as of September 30, 2011, were insured or collateralized with securities held by the District or by its agent in the District's name. At September 30, 2011, the carrying amount of cash for the primary government and fiduciary funds was $2,400,562 and the bank balance was $2,273,903. The carrying amount of cash (deposits) for the component units was $434,013 and the bank balance was $287,797.

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, and the District's Cash and Investment Management Policy, adopted November 2008. The District's investment policy limits investments to obligations of the United States and agencies thereof, prime commercial paper, bankers' acceptances and repurchase agreements fully collateralized in obligations of the United States government and agency securities. During the fiscal year, the District's investments (other than those held by the Retirement Board) consisted primarily of money market funds and/or obligations backed by the United States government or its agencies. See **Table 5a** on page 77 for details.

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

The fair values of the investments held in the control of the Retirement Board as of September 30, 2011 are presented in **Table 2**.

Table 2 – Fair Values of Investments: Retirement Board

	2011	2010
Cash and short-term investments	$ 149,759	$ 224,620
Investments at fair value:		
Domestic equity	1,127,083	1,576,779
International equity	1,104,957	769,148
Fixed income	1,339,980	1,025,589
Real estate	203,157	188,543
Private equity	716,486	614,419
Total cash and investments at fair value	$ 4,641,422	$ 4,399,098

Table 3 presents the debt instruments which were held by the Retirement Board's Investment Pool as of September 30, 2011.

Table 3 – Debt Instruments Held by the Retirement Board Investment Pool at September 30, 2011

Investment Type	Fair Value	% of Segment	Duration	Rating
US Agency	$ 29,107	2.17%	8.09	A+
Asset Backed	58,165	4.34%	2.15	AA-
CMBS	22,789	1.70%	2.95	A+
CMO	49,322	3.68%	4.50	AA-
Corporate	317,777	23.72%	3.98	BBB
Foreign	14,948	1.12%	2.16	A+
Mortgage Pass-Through	256,130	19.11%	3.42	AA+
Municipal	23,422	1.75%	9.75	AA-
US Treasury	136,390	10.18%	10.04	AA+
Yankee	111,781	8.34%	4.35	AA
Infrastructure Funds	79,362	5.92%	N/A	NR
US Tips Index Fund	106,022	7.91%	N/A	NR
US Debt Index Fund	132,565	9.90%	N/A	NR
Other	2,200	0.16%	N/A	NR
Total Fixed Income	$ 1,339,980	100.00%		

N/A - Not Available
NR - Not Rated

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

NOTE 2. CASH AND INVESTMENTS

The types of risks to which the District may be exposed are described below:

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

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

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

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

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

  The District's Investment Policy limits investments in commercial paper, bankers' acceptances, municipal obligations, and money market mutual funds to certain ratings issued by nationally recognized credit rating agencies. District policy requires that for investments in: (a) commercial paper, the issuing corporation, or its guarantor; have a short-term rating of no less than A-1 (or its equivalent) by at least two credit rating agencies, (b) bankers' acceptances, the short-term paper of the issuer be rated not lower than A-1 or the equivalent by a credit rating agency; (c) municipal obligations, such bonds, notes, and other evidences of indebtedness be rated in either of the two highest rating categories by a credit rating agency, without regard to gradation; and (d) money market mutual funds, the fund be rated AAAm or AAAm-G or the equivalent by a credit rating agency.

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

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

  Custodial credit risk occurs when investment securities are uninsured and/or not registered in the name of the government, and there is failure of the counterparty. In such cases, the government will not be able to recover the value of its investments or collateral securities held in the possession of an outside party. The District had no custodial credit risk exposure during the fiscal year. All District investments in fiscal year 2011 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.

- *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, 2011, the District was in compliance with this policy.

NOTE 2. CASH AND INVESTMENTS

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

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

At September 30, 2011, other than the Retirement Board, the District had no exposure to foreign currency risk. At the end of fiscal year 2011, the Retirement Board held investments that were denominated in a currency other than the United States dollar, as presented in **Table 4**.

Table 4 – Retirement Board Investments Denominated in Foreign Currency

	Asset Class (in $000s)					
	Cash	Equities	Fixed Income	Private Equity	Swaps	Total
Australian Dollar	$ 489	$ 11,090	$ -	$ -	$ 119	$ 11,698
Canadian Dollar	1	-	5,362	-	-	5,363
Swiss Franc	-	24,259	-	-	-	24,259
Danish Krone	3	1,244	9,060	-	-	10,307
Euro	734	147,693	8,736	18,099	-	175,262
Pound Sterling	58	35,554	485	-	35	36,132
Hong Kong Dollar	25	18,010	-	-	-	18,035
Israeli Shekel	1,681	-	-	-	-	1,681
Japanese Yen	152	92,596	-	-	-	92,748
South Korean Won	-	3,787	-	-	-	3,787
Norwegian Krone	3,247	-	-	-	-	3,247
New Zealand Dollar	-	-	-	-	-	-
Swedish Krona	101	9,444	-	-	-	9,545
Singapore Dollar	90	5,069	-	-	-	5,159
Mexican Peso	-	-	-	-	-	-
Brazilian Real	-	-	-	-	380	380
Total Foreign Currency	$ 6,581	$ 348,746	$ 23,643	$ 18,099	$ 534	$ 397,603

NOTE 2. CASH AND INVESTMENTS

Table 5a – Cash and Investments Detail

		Total Carrying Value
INVESTMENTS		
Primary Government:		
U. S. government securities	$ 48,504	
Mutual funds	319,735	
Total Primary Government		$ 368,239
Fiduciary Funds:		
Pension trust funds investments held by Board's agent in Board's name and Private Purpose Trust Fund:		
Equity securities	2,755,958	
Fixed income securities	1,398,537	
Real estate	203,157	
Private equity	716,486	
Total Fiduciary Funds		5,074,138
Component Units:		
U. S. government securities	558,524	
Corporate securities	17,695	
Investment contracts	209,780	
Mutual funds	191,625	
Total Component Units		977,624
Total reporting entity investments		$ 6,420,001
CASH BALANCES		
Primary government		$ 2,068,794
Fiduciary Funds		331,768
Component units		434,013
Total cash balances		**$ 2,834,575**

Table 5b – Reconciliation of the District's Deposit and Investment Balances

Total investments per Table 5a	$ 6,420,001
Total cash balances	2,834,575
Total	**$ 9,254,576**

	Exhibit 1-a	Exhibit 4-a	Total
Cash and cash equivalents	$ 863,942	$ -	$ 863,942
Investments	149,530	-	149,530
Cash and cash equivalents (restricted)	1,638,865	331,768	1,970,633
Investments (restricted)	1,196,333	5,074,138	6,270,471
Total	**$ 3,848,670**	**$ 5,405,906**	**$ 9,254,576**

NOTE 2. CASH AND INVESTMENTS

Derivative Instruments

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

Table 6 presents the fair value balances and notional amounts of the District's derivative instruments outstanding at September 30, 2011, classified by type, and the changes in fair value of such derivative instruments for the year then ended as reported in the fiscal year 2011 financial statements.

Table 6 - Derivative Instruments Outstanding at September 30, 2011

	Changes in Fair Value		Fair Value at September 30, 2011		
	Classification	**Amount**	**Classification**	**Amount**	**Notional**
Governmental Activities:					
Cash flow hedges:					
Floating to fixed interest rate swaps:					
2008C Swap	Deferred outflow	($7,780)	Debt	($54,346)	$224,300
2007 AWC Swap	Deferred outflow	($190)	Debt	($12,373)	$90,660
2004B Swap	Deferred inflow	$749	Debt	($2,368)	$38,250
Floating to floating interest rate swaps:					
2001C/D Basis Swap	Investment Revenue	$165	Investment	$333	$222,510

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

Objective and Terms of Hedging Derivative Instruments

Table 7 presents the objective and terms of the District's hedging derivative instruments outstanding at September 30, 2011, along with the credit rating of the associated counterparty.

NOTE 2. CASH AND INVESTMENTS

Table 7 – Objectives and Terms of Hedging Derivative Instruments Outstanding at September 30, 2011

Type	Objective	Notional Amount		Effective Date	Maturity Date	Terms	Counterparty Credit Rating
Pay-fixed interest rate swaps:							
2004 B Swap	Hedge of changes in cash flows on the 2004B General Obligation Bonds	$	38,250	12/03/04	06/01/20	Pay fixed rates of 4.598%, 4.701%, 4.794% and 5.121%; receive the rate that matches the rate on the underlying bonds	Aa3/A+/AA-
2008 C Swap	Hedge of changes in cash flows on the Series 2008C Bonds (formerly 2002 A/B Bonds)	$	224,300	10/15/02	06/01/27	Pay fixed rate of 3.651%; receive 67% Of 1-month LIBOR	A2/A/A
Pay Floating Basis Swaps:							
2001 C/D Basis Swap	Reduces basis risk by providing a closer match between the underlying variable rate bonds and the variable rate swap receipts from the counterparty	$	222,510	06/02/03	06/01/29	Pay 67% of LIBOR; receive variable rate as a percentage of the actual LIBOR reset each month ranging from 60% to 90% of LIBOR	Aa1/AA-/AA-
2007 AWC Swap	Hedge of changes in cash flows on the Series 2007 AWC PILOT Revenue Bonds	$	90,660	09/20/07	12/01/21	Pay fixed rate of 4.463%; receive the rate paid on the underlying bonds	Aa3/AA/AA-

Risks

Credit Risk

The fair market values of the interest rate swaps represent the District's obligation to the respective counterparties if the swap agreements were terminated. The District is exposed to credit risk on hedging derivative instruments that have positive fair values (or are in asset positions). To minimize its exposure to loss related to credit risk, the District diversified its counterparties and as such, has a different counterparty for each of its outstanding swaps. The credit ratings of each of the counterparties as of September 30, 2011 were as presented in **Table 7**.

The District was exposed to minimal credit risk because most of the interest rate swaps had negative fair values. The aggregate fair value of hedging derivative instruments in asset positions at September 30, 2011, was $333. This represents the maximum loss that would be recognized at the reporting date if all counterparties failed to perform as contracted. In each of the District's swap agreements, the payments are netted against obligation within each swap. As such, if the District is owed any payment due to an event of default by the counterparty that payment can be netted against any outstanding obligations within that specific swap agreement.

Interest Rate Risk

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

NOTE 2. CASH AND INVESTMENTS

As of September 30, 2011, the District had investments in derivative instruments with the following maturities:

Investment Type	Fair Value	Less Than 1	1 - 5	6 - 10	More than 10
Investment in derivative instruments	$ 333	$ -	$ -	$ -	$ 333

The District is invested in a floating-to-fixed rate swap in connection with its $214,155 Multimodal General Obligation Bonds, Series 2001C and its $69,715 Multimodal General Obligation Refunding Bonds, Series 2001D (2001C/D Swap). At September 30, 2011, the notional amount of the 2001C/D Swap was $222,510. The District pays the counterparty 67% of LIBOR and the counterparty pays the District a variable rate as a percentage of the actual LIBOR reset each month. The original swap agreement was executed on December 6, 2001 and the District entered into an enhanced swap agreement on June 2, 2003. The 2001C/D swap matures in June 2029. At September 30, 2011, this interest rate swap had a fair value of $333.

Basis Risk

The District is exposed to basis risk on its pay-fixed interest rate swap and rate cap hedging derivative instruments because the variable-rate payments received by the District on these hedging derivative instruments are based on a rate or index other than interest rates the District pays on its hedged variable-rate debt, which is remarketed every 7 days. In order to mitigate basis risk, the District typically executes a basis swap which pays the District a higher percentage of LIBOR as interest rates decrease. As of September 30, 2011, the weighted-average interest rate on the District's hedged variable–rate debt was approximately 0.16%, while the SIFMA swap index rate was 0.16% and 67% of LIBOR was 0.16%.

Termination Risk

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

The District was not exposed to termination risk on its rate cap because the current mark to market value of the swap is $0. The District would be exposed to increases in rates above the cap strike rate of 8.57%.

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

Rollover Risk

The District is exposed to rollover risk on hedging derivative instruments that are hedges of debt that mature or may be terminated prior to the maturity of the hedged debt. When these hedging derivative instruments terminate, or in the case of a termination option, if the counterparty exercises its option, the District will be re-exposed to the risks being hedged by the hedging derivative instrument. In order to mitigate this risk, the District matches the maturity of each fixed to floating rate swap with the maturity date of the underlying bonds. The District was not exposed to rollover risk during fiscal year 2011.

Retirement Board Derivatives

During fiscal year 2011, the District Retirement Funds, in accordance with the policies of the Retirement Board, and through the District Retirement Funds' investment managers who have full discretion over investment decisions, invested in various derivative instruments either to increase potential earnings or to hedge against potential losses.

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

Foreign currency forwards, futures contracts and foreign currency options are generally used by the District

NOTE 2. CASH AND INVESTMENTS

Retirement Funds for defensive purposes. These contracts hedge a portion of the District Retirement Funds' exposure to particular currencies on occasion when significant adverse short-term movement in exchange rate levels is expected.

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

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

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

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

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

NOTE 2. CASH AND INVESTMENTS

Table 8 presents a list of the District Retirement Funds' derivatives aggregated by type as of September 30, 2011.

Table 8 – Retirement Board Derivative Investments Aggregated by Type

Type of Derivative	Classification	Amount (1)	Classification	Amount (2)	Notional (3)
Credit Default Swaps Bought	Investment Income	$ 1,806	Swaps	$ 2,784	$ 40,300
Credit Default Swaps Written	Investment Income	(333)	Swaps	780	70,644
Fixed Income Futures Long	Investment Income	4,595	Futures	-	277,539
Fixed Income Futures Short	Investment Income	(1,891)	Futures	-	(12,000)
Fixed Income Options Written	Investment Income	(192)	Options	(1,412)	(132,700)
Foreign Currency Options Bought	Investment Income	32	Options	-	-
Foreign Currency Options Written	Investment Income	(1)	Options	(5)	(400)
Futures Options Bought	Investment Income	(271)	Options	-	-
Futures Options Written	Investment Income	383	Options	(52)	(64)
FX Forwards	Investment Income	(409)	LT Instruments	(329)	52,376
Index Futures Long	Investment Income	87	Futures	-	-
Pay Fixed Interest Rate Swaps	Investment Income	(3,884)	Swaps	(2,957)	29,369
Received Fixed Rate Interest Rate Swaps	Investment Income	942	Swaps	1,194	47,622
Rights	Investment Income	1,205	Common Stock	32	220
Warrants	Investment Income	(82)	Common Stock	17	142
Grand Totals		$ 1,987		$ 52	

(1) Negative values (in brackets) refer to losses

(2) Negative values refer to liabilities

(3) Notional may be a dollar amount or size of underlying for futures and options; negative values refer to short positions

(4) Excludes futures margin payments

C. SECURITIES LENDING

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

During fiscal year 2011, the master custodian, at the direction of the Retirement Board, loaned certain of the District Retirement Funds' equity and fixed income securities secured by collateral in the form of United States and foreign currency cash, securities issued or guaranteed by the United States government, the sovereign debt of foreign countries and irrevocable bank letters of credit. This collateral could not be pledged or sold unless the borrower defaulted on the loan. Borrowers were required to deliver and maintain collateral for each loan in an amount equal to (i) at least 102% of the market value of the loaned securities in the United States; or (ii) 105% of the market value of the loaned securities in the case of loaned securities not denominated in United States dollars or whose primary trading market was not located in the United States.

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

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

NOTE 2. CASH AND INVESTMENTS

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 District Retirement 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 2011.

During fiscal year 2011, 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 2011.

The cash collateral received on each loan was invested, together with the cash collateral of other qualified tax-exempt plan lenders, in the Quality D Fund which is comprised of a liquidity pool and a duration pool. As of September 30, 2011, the liquidity pool had an average duration of 22.45 days and an average weighted final maturity of 59.36 days for USD collateral. As of this date, the duration pool had an average duration of 36.65 days and an average weighted final maturity of 501.49 days for USD collateral. Because the securities lending transactions were terminable at will, their duration did not generally match the duration of the investments made with the cash collateral received from the borrower.

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, 2011, the Retirement Board had no credit risk exposure to borrowers.

As of September 30, 2011, the fair value of securities on loan was $400,805. Associated collateral totaling $419,096 was comprised of cash which was invested in the Quality D Fund. As of September 30, 2011, the invested cash collateral had a fair value of $416,288.

During the fiscal year ended September 30, 2011, the market value of the shares in the Quality D Fund purchased with cash collateral by the lending agent was less than the cost, resulting in an unrealized loss of $2,808.

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

Net security lending income is comprised 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 2011 was recorded on a cash basis which approximated the accrual basis. For the year ending September 30, 2011, securities lending income was $2,734 and securities lending expense was $868, resulting in net securities lending income of $1,866.

NOTE 3. RESTRICTED ASSETS

At September 30, 2011, restricted assets of the primary government, component units, and fiduciary funds totaled $8,241,104 as summarized in **Table 9**.

Table 9 – Summary of Restricted Assets

	Governmental Funds/Governmental Activities					
	General	Federal & Private Resources	Housing Production Trust Fund	General Capital Improvements	Non-Major	Total
Bond Escrow Accounts	$ 345,327	$ -	$ -	$ -	$ -	$ 345,327
Public Transportation	-	-	-	221,443	50,241	271,684
Emergency Cash Reserves	322,583	-	-	-	-	322,583
Others	-	119,029	57,302	-	287,147	463,478
Total	$ 667,910	$ 119,029	$ 57,302	$ 221,443	$ 337,388	$ 1,403,072

	Proprietary Funds/Business-Type Activities				
	Lottery & Games	Unemployment Compensation	Total	Fiduciary Funds	Component Units
Bond Escrow Accounts	$ -	$ -	$ -	$ -	$ 1,085,112
Unpaid Prizes	22,912	-	22,912	-	-
University Endowment	-	-	-	-	7,242
Benefits	-	313,190	313,190	5,405,906	-
Other	-	-	-	-	3,670
Total	$ 22,912	$ 313,190	$ 336,102	$ 5,405,906	$ 1,096,024

The bond escrow accounts include bond escrow for capital lease payment of $10,710.

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 10.**

Table 10 – Receivables

	General	Federal & Private Resources	General Capital Improvements	Nonmajor Governmental Funds	Lottery & Games	Unemployment Compensation	Fiduciary Funds
Gross Receivable:							
Taxes	$ 503,553	$ -	$ -	$ 2,539	$ -	$ -	$ -
Accounts and other	342,256	386,053	9,467	30,056	5,442	28,523	25,630
Federal	5,486	366,279	44,332	-	-	3,859	1,051
Total gross receivable	**851,295**	**752,332**	**53,799**	**32,595**	**5,442**	**32,382**	**26,681**
Less-allowance for uncollectibles	314,703	107,880	6,136	-	-	11,509	-
Total net receivable	$ **536,592**	$ **644,452**	$ **47,663**	$ **32,595**	$ **5,442**	$ **20,873**	$ **26,681**

NOTE 4. RECEIVABLES, INTERFUND TRANSFERS/BALANCES

B. INTERFUND TRANSFERS

Table 11 shows a summary of interfund transfers for the fiscal year ended September 30, 2011.

Table 11– 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	$ 29,938
General Fund	Highway Trust Fund	Taxes imposed for Capital Projects - DDOT	1,649
General Fund	Highway Trust Fund	PAYGO - Capital projects financed by operating funds	4,000
General Fund	Highway Trust Fund	Taxes imposed for Capital Projects - Parking and Storage	16,508
General Fund	Highway Trust Fund	Taxes imposed for Capital Projects - Public Space	3,869
Lottery and Games	General Fund	DC Lottery excess revenues, after operating cost, to the General Fund	62,175
General Fund	Capital Improvements Fund	PAYGO - Capital projects financed by the General Fund	27,726
General Fund	Capital Improvements Fund	PAYGO - Capital projects financed by the Local Roads Const Maint Fund	36,188
Capital Improvements Fund	General Fund	Capital Improvements Fund financing to help address potential budget shortfall	26,543
General Fund	Tax Increment Financing Fund	Tax imposed to pay debt service on economic development projects	350
General Fund	Federal & Private Resources Fund	Use of Local funds to satisfy federal grant accounts receivable	146
General Fund	Capital Improvements Fund	Funds for debt service payments on capital projects	3,125
Federal and Private Resources Fund	General Fund	Revenues generated from indirect cost recovery	1,349
Baseball Special Revenue Fund	Baseball Debt Service Fund	Funds for baseball debt service payments	30,988
Community Healthcare Fund	General Fund	Community Healthcare financing to help address potential budget shortfall	34,080
Baseball Special Revenue Fund	General Fund	Baseball Fund financing to help address potential budget shortfall	14,289
J.B. Johnson Nursing Home	General Fund	Closeout of the J.B. Johnson Nursing Home	9,136
		TOTAL INTERFUND TRANSFERS	**$ 302,059**

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, 2011, are shown in **Table 12**.

Table 12 – Summary of Due To /Due From and Interfund Balances

	Primary Government/ Component Units		Interfund	
Fund or Component Unit	**Receivables**	**Payables**	**Receivables**	**Payables**
General	$ 53,790	$ 15,194	$ 190,707	$ 35,893
Federal & Private Resources	-	-	36,091	105,179
Housing Production Trust Fund	-	-	16,134	-
General Capital Improvements	-	12,782	1,199	68,421
Nonmajor-Highway Trust Fund	-	-	2	1,199
Nonmajor-Baseball Special Revenue	666	-	2,643	14,289
Nonmajor - Tax Increment Financing Fund	-	-	10,883	-
Unemployment Compensation	-	-	3,177	36,277
Pension Trust Funds	-	-	3,000	2,573
Ageny Funds	-	-	52	57
Water and Sewer Authority	456	2,436	-	-
Not For Profit Hospital Corporation	-	6,000	-	-
Washington Convention and Sports Authority	8,405	791	-	-
University of the District of Columbia	19,114	45,228	-	-
Total	$ **82,431**	$ **82,431**	$ **263,888**	$ **263,888**

The above balances represent the impact of transactions among the funds and component units which will be settled during fiscal year 2012

NOTE 5. CAPITAL ASSETS

Capital Outlays

Capital outlays reported in the General Capital Improvements and Highway Trust Fund totaled $1,189,356 for the fiscal year ended September 30, 2011. As construction progresses, the cumulative expenditures are capitalized as Construction in Progress (CIP) in the governmental activities column of the government-wide financial statements. Upon completion of *the* project, the balance in the CIP account is transferred to an appropriate descriptive capital asset account such as land, building, equipment, or infrastructure.

Asset Impairment

On December 22, 2010, the Takoma Education Center (Takoma EC) was damaged extensively by fire. Takoma EC was closed for a year to allow the District to complete the needed renovations. During the interim, Meyer Elementary School, which was closed in 2008 due to under-enrollment, re-opened to house Takoma EC's 300 students. Upon completion of the renovations in December 2011, students returned to Takoma EC in January 2012.

The school's restoration costs totaled approximately $26.8 million and its replacement cost was determined to be $42.8 million. Using the restoration cost approach, the District calculated the impairment loss to be $5.3 million in fiscal year 2011.

A. GOVERNMENTAL ACTIVITIES CAPITAL ASSETS BY CLASS

Table 13 presents the changes in the governmental activities capital assets by class for the primary government:

Table 13 - Changes in the Governmental Activities Capital Assets by Asset Class

Asset Class	Balance October 1, 2010	Additions	Transfers/ Dispositions	Transfers from CIP	Balance September 30, 2011
Non-depreciable:					
Land	$ 916,721	$ 2,638	$ (1,016)	$ 1,215	$ 919,558
Construction in progress	2,175,190	895,484	-	(1,156,892)	1,913,782
Total non-depreciable	**3,091,911**	**898,122**	**(1,016)**	**(1,155,677)**	**2,833,340**
Depreciable:					
Infrastructure	4,133,806	-	-	296,882	4,430,688
Buildings	4,590,490	1,110	(19,261)	791,996	5,364,335
Equipment	1,312,185	37,592	(34,055)	66,799	1,382,521
Total depreciable	**10,036,481**	**38,702**	**(53,316)**	**1,155,677**	**11,177,544**
Less accumulated depreciation for:					
Infrastructure	(1,854,216)	(110,529)	-	-	(1,964,745)
Buildings	(1,161,436)	(95,369)	4,063	-	(1,252,742)
Equipment	(884,209)	(130,314)	36,438	-	(978,085)
Total accumulated depreciation	**(3,899,861)**	**(336,212)**	**40,501**	**-**	**(4,195,572)**
Total depreciable, net	**6,136,620**	**(297,510)**	**(12,815)**	**1,155,677**	**6,981,972**
Net governmental activities capital assets	**$ 9,228,531**	**$ 600,612**	**$ (13,831)**	**$ -**	**$ 9,815,312**

NOTE 5. CAPITAL ASSETS

B. GOVERNMENTAL ACTIVITIES CAPITAL ASSETS

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

Table 14- Governmental Activities Capital Assets by Function

Function	Balance October 1, 2010	Additions	Transfers/ Dispositions	CIP Transfers in (out)	Balance September 30, 2011
Governmental direction and support	$ 1,970,793	$ 1,573	$ (1,973)	$ 231,319	$ 2,201,712
Economic development and regulation	425,640	3,723	(4,948)	-	424,415
Public safety and justice	725,834	29,730	(24,839)	22,273	752,998
Public education system	2,023,118	4,219	(17,605)	558,283	2,568,015
Human support services	926,583	1,025	(832)	38,413	965,189
Public works	4,881,234	1,070	(4,135)	306,604	5,184,773
Construction in progress (CIP)	2,175,190	895,484	-	(1,156,892)	1,913,782
Total	**$ 13,128,392**	**$ 936,824**	**$ (54,332)**	**$ -**	**$ 14,010,884**

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 15**.

Table 15 – Governmental Activities Capital Assets Accumulated Depreciation by Function

Function	Balance October 1, 2010	Additions	Transfers/ Dispositions	Balance September 30, 2011
Governmental direction and support	$ 555,596	$ 96,644	$ (1,097)	$ 651,143
Economic development and regulation	36,022	3,258	(316)	38,964
Public safety and justice	347,575	31,291	(24,511)	354,355
Public education system	533,573	56,146	(13,377)	576,342
Human support services	313,786	17,333	14	331,133
Public works	2,113,309	131,540	(1,214)	2,243,635
Total	**$ 3,899,861**	**$ 336,212**	**$ (40,501)**	**$ 4,195,572**

NOTE 5. CAPITAL ASSETS

D. BUSINESS-TYPE ACTIVITIES CAPITAL ASSETS

Business-Type Activities Capital Assets are presented in **Table 16**.

Table 16 - Business-Type Activities Capital Assets

Asset Class	Balance October 1, 2010	Additions	Dispositions/ Adjustments	Balance September 30, 2011
Lottery:				
Depreciable:				
Equipment	$ 3,392	$ 69	$ -	$ 3,461
Total	**3,392**	**69**	**-**	**3,461**
Nonmajor business-type				
Depreciable:				
Building	11,739	-	(11,739)	-
Equipment	1,725	-	(1,725)	-
Total Depreciable, nonmajor business-type	**13,464**	**-**	(13,464)	**-**
Total Business-Type	**16,856**	**69**	**(13,464)**	**3,461**
Less: accumulated depreciation for:				
Building	(8,808)	-	8,808	-
Equipment	(3,221)	(170)	408	(2,983)
Total accumulated depreciation	(12,029)	(170)	9,216	(2,983)
Net capital assets	**$ 4,827**	**$ (101)**	**$ (4,248)**	**$ 478**

E. DISCRETELY PRESENTED COMPONENT UNITS CAPITAL ASSETS

A summary of capital assets by class for the discretely presented component units is shown in **Tables 17 and 18**.

Table 17 - Capital Assets by Class for the Discretely Presented Component Units

Asset Class	Balance October 1, 2010	Additions	Transfers/ Dispositions	CIP Transfers in (out)	Balance September 30, 2011
Land	$ 20,989	$	$ -	$ -	$ 20,989
Utility plant	3,517,125	28,315	-	170,474	3,715,914
Buildings and improvements	1,059,424	15,814	(295)	8,489	1,083,432
Equipment	214,876	10,480	(1,079)	12,213	236,490
Artwork	2,741	-	-	-	2,741
Construction in progress	375,496	351,957	-	(191,176)	536,277
Total	**5,190,651**	**406,566**	**(1,374)**	**-**	**5,595,843**
Less:accumulated depreciation for					
Utility plant	(859,830)	(59,494)	-	-	(919,324)
Buildings and improvements	(341,386)	(37,449)	641	-	(378,194)
Equipment	(168,587)	(17,125)	733	-	(184,979)
Total accumulated depreciation	**(1,369,803)**	**(114,068)**	**1,374**	**-**	**(1,482,497)**
Net Capital Assets	**$ 3,820,848**	**$ 292,498**	**$ -**	**$ -**	**$ 4,113,346**

NOTE 5. CAPITAL ASSETS

Table 18 - Capital Assets by Component Unit

Component Units	Balance October 1, 2010	Additions	Transfers/ Dispositions	Balance September 30, 2011
University of the District of Columbia	$ 211,276	$ 17,996	$ (343)	$ 228,929
Washington Convention and Sports Authority	937,653	13,710	-	951,363
Water and Sewer Authority	3,972,908	368,744	(733)	4,340,919
Housing Finance Agency	5,828	324	(298)	5,854
Not-for-Profit Hospital Corporation	62,986	5,792	-	68,778
Total capital assets	**5,190,651**	**406,566**	**(1,374)**	**5,595,843**
Less-accumulated depreciation for:				
University of the District of Columbia	(126,649)	(4,803)	343	(131,109)
Washington Convention and Sports Authority	(266,094)	(33,217)	-	(299,311)
Water and Sewer Authority	(972,096)	(70,210)	733	(1,041,573)
Housing Finance Agency	(3,448)	(200)	298	(3,350)
Not-for-Profit Hospital Corporation	(1,516)	(5,638)	-	(7,154)
Total accumulated depreciation	**(1,369,803)**	**(114,068)**	**1,374**	**(1,482,497)**
Net component units capital assets	**$ 3,820,848**	**$ 292,498**	**$ -**	**$ 4,113,346**

NOTE 5. CAPITAL ASSETS

F. CONSTRUCTION IN PROGRESS

Construction in progress by function for governmental activities capital assets is shown in **Table 19.**

Table 19– Construction in Progress by Function

			Expenditures				
Function and Subfunction	Number of Projects	Authorized	Prior Year	Current Year	Transfers from CIP/Disposition	Total	Unexpended Balance
PRIMARY GOVERNMENT							
Governmental Direction and Support							
Finance	5	$ 89,544	$ 4,496	$ 5,193	$ -	$ 9,689	$ 79,855
Executive	3	6,304	6,243	-	5,681	562	5,742
Administrative	128	459,092	200,778	82,075	215,988	66,865	392,227
Total	136	554,940	211,517	87,268	221,669	77,116	477,824
Public Safety and Justice							
Police	14	304,344	60,153	95,275	22,116	133,312	171,032
Fire	33	83,424	51,558	6,742	72	58,228	25,196
Corrections	6	18,036	3,788	12,886	16,674	-	18,036
Total	53	405,804	115,499	114,903	38,862	191,540	214,264
Economic Development and Regulation							
Community Development	33	211,148	95,881	31,578	-	127,459	83,689
Total	33	211,148	95,881	31,578	-	127,459	83,689
Public Education System							
Schools	150	534,167	567,778	252,280	516,711	303,347	230,820
Culture	31	60,778	32,468	29,305	37,973	23,800	36,978
Total	181	594,945	600,246	281,585	554,684	327,147	267,798
Human Support Services							
Health and Welfare	51	401,850	319,550	13,978	187	333,341	68,509
Human Relations	4	7,475	12,822	3,832	16,654	-	7,475
Recreation	55	125,082	114,129	25,620	21,452	118,297	6,785
Total	110	534,407	446,501	43,430	38,293	451,638	82,769
Public Works							
Environmental	42	764,686	705,546	336,720	303,384	738,882	25,804
Total	42	764,686	705,546	336,720	303,384	738,882	25,804
Totals	555	$ 3,065,930	$ 2,175,190	$ 895,484	$ 1,156,892	$ 1,913,782	$ 1,152,148

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, 2011, the aggregate outstanding principal amount for these conduit debt obligations was approximately $5.2 billion.

NOTE 6. CONDUIT DEBT TRANSACTIONS

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, 2011, the aggregate outstanding principal amount for Enterprise Zone Facility Bonds was $84.3 million.

NOTE 7. SHORT TERM LIABILITIES

TAX REVENUE ANTICIPATION NOTES

The District issued $700,000 in Tax Revenue Anticipation Notes (TRANs) on October 25, 2010. 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 2011. Operational and other costs are covered by the proceeds from the TRANs until periodic taxes, grants, and other revenues are received. The notes were issued as fixed-rate notes with an interest rate of 2.00%, and matured on September 30, 2011. These notes were paid in their entirety by September 30, 2011.

Table 20- Changes in Short-Term Liabilities

Account	Balance October 1, 2010	Additions	Deductions	Balance September 30, 2011
Governmental Activities				
Tax Revenue Anticipation Notes	$ -	$ 700,000	$ 700,000	$ -

NOTE 8. LONG -TERM LIABILITIES

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 statement of net assets of governmental activities, business-type activities, and proprietary funds. 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 $7,697,549 is shown in **Table 21**.

NOTE 8. LONG – TERM LIABILITIES

Table 21 – Changes in Governmental Activities Long Term Debt of the Primary Government

	General Obligation Bonds	QZAB	Income Tax Secured Bonds	Tobacco Bonds	TIF Bonds	Ballpark Bonds	GARVEE	Housing Production Trust	NCRC Revenue Bonds	AWC PILOT Revenue Bonds	CAPPER PILOT BANs	COPs	Total
Debt Payable at September 30, 2010	$ 2,781,053	$ 9,518	$ 2,570,650	$ 699,779	$ 91,807	$ 517,390	$ -	$ 85,615	$ 30,671	$ 96,950	$ 29,000	$ 241,185	**$ 7,153,618**
Bond and Notes Issued:													
G.O. 2010A	181,330	-	-	-	-	-	-	-	-	-	-	-	**181,330**
Inc. Tax 2010E	-	-	63,860	-	-	-	-	-	-	-	-	-	**63,860**
Inc. Tax 2010F	-	-	342,615	-	-	-	-	-	-	-	-	-	**342,615**
Inc. Tax 2011A	-	-	138,470	-	-	-	-	-	-	-	-	-	**138,470**
GARVEE 2011	-	-	-	-	-	-	82,610	-	-	-	-	-	**82,610**
Total	**2,962,383**	**9,518**	**3,115,595**	**699,779**	**91,807**	**517,390**	**82,610**	**85,615**	**30,671**	**96,950**	**29,000**	**241,185**	**7,962,503**
Debt Payments:													
Principal Paid	132,785	945	23,160	9,490	4,323	4,540	-	1,280	7,956	6,290	-	10,850	**201,619**
Principal Defeased	-	-	63,335	-	-	-	-	-	-	-	-	-	**63,335**
Debt Payable at September 30, 2011	**$ 2,829,598**	**$ 8,573**	**$ 3,029,100**	**$ 690,289**	**$ 87,484**	**$512,850**	**$ 82,610**	**$ 84,335**	**$ 22,715**	**$ 90,660**	**$ 29,000**	**$ 230,335**	**$ 7,697,549**

NOTE 8. LONG-TERM LIABILITIES

A. GENERAL OBLIGATION BONDS

The District's general obligation bonds are authorized and issued primarily to provide funds for certain capital projects and improvements. The 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.

Build America Bonds

Series 2010A

On December 22, 2010, the District issued $181,330 in General Obligation Bonds, Series 2010A (Federally Taxable – Build America Bonds – Direct Pay to Issuer). The Series 2010A Bonds are general obligations of the District, and the full faith and credit of the District is pledged to the payment of the principal of and interest on the Bonds when due. The Bonds are further secured by a security interest in and a lien on the funds derived from a Special Real Property Tax levied annually by the District, without limitation as to rate or amount, in amounts sufficient to pay the principal of and the interest on the Bonds and any outstanding general obligation Parity Bonds when due.

The proceeds of the Series 2010A Bonds were used to: (a) finance capital project expenditures in the District's capital improvements program, and (b) pay the costs and expenses of issuing and delivering the Bonds.

The Series 2010A Bonds mature on June 1 of each year between 2012 and 2023 and bear interest ranging from 1.911% to 5.920%.

A summary of debt service requirements to maturity for the District's outstanding general obligation bonds is shown in **Table 22.**

Table 22 - Summary of Debt Service Requirements for General Obligation Bonds

Year Ending	General Obligation Bonds		
September 30	Principal	Interest	Total
2012	$ 63,583	$ 141,794	$ 205,377
2013	62,610	141,664	204,274
2014	51,130	133,073	184,203
2015	113,500	116,271	229,771
2016	119,630	117,319	236,949
2017 - 2021	647,740	499,196	1,146,936
2022 - 2026	691,930	338,290	1,030,220
2027 - 2031	455,220	201,358	656,578
2032 - 2036	519,895	92,841	612,736
2037 - 2041	104,360	4,696	109,056
Total	$ 2,829,598	$ 1,786,502	$ 4,616,100

Qualified Zone Academy Bonds

The District issued the following Qualified Zone Academy Bonds (QZABs) as taxable general obligation bonds without incurring explicit interest costs:

- On December 21, 2001, the District issued QZAB as a taxable general obligation bond. The District received $4,665 and is obligated to deposit a total amount of $3,584 into a sinking fund in fourteen equal annual amounts of $256 beginning December 1, 2002. At September 30, 2011, the District had deposited $2,303 into the required sinking fund.

- On December 28, 2005, the District issued QZAB as a taxable general obligation bond. The District received $3,191 and is obligated to deposit a total amount of $2,655 into a sinking fund in fifteen equal annual amounts of $177 beginning December 1, 2006. At September 30, 2011, the District had deposited $887 into the required sinking fund.

- On May 29, 2008, the District issued QZAB as a taxable general obligation bond. The District received $2,360 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, 2011, the District had deposited $708 into the required sinking fund.

- On June 30, 2010, the District issued QZAB Series 2010 as a taxable general obligation bond. The District received $4,140 and is obligated to deposit a total amount of $4,140 into a sinking fund in fifteen equal annual amounts of $276 beginning December 1, 2010. At September 30, 2011, the District had deposited $276 into the required sinking fund.

NOTE 8. LONG-TERM LIABILITIES

A summary of debt service requirements to maturity for QZAB is shown in **Table 23.**

Table 23 - Summary of Debt Service Requirements for QZAB

Year Ending September 30	QZAB Principal
2012	$ 945
2013	945
2014	946
2015	946
2016	946
2017-2021	2,740
2022-2026	1,105
Total	**$ 8,573**

B. INCOME TAX SECURED REVENUE BONDS

The District's Income Tax Secured Revenue Bonds are issued to fund certain capital projects and improvements, as an alternative to the issuance of general obligation 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 to fund the costs of the District's capital projects and to refund outstanding debt. Bonds, as defined in the Act, include 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.

Series 2010E

On November 22, 2010, the District issued $63,860 in Income Tax Secured Revenue Refunding Bonds, Series 2010E (Adjusted SIFMA Rate) as Senior Bonds pursuant to: (a) the Income Tax Secured Bond Authorization Act of 2008 (the Act), effective October 22, 2008; (b) a Master Indenture of Trust between the District and Wells Fargo Bank as amended and supplemented; and (c) a Tenth Supplemental Indenture of Trust dated November 1, 2010, executed pursuant to the Act and the "Fiscal Year 2011 Income Tax Secured Revenue Refunding Bond Issuance Emergency Approval Act of 2010," effective November 17, 2010.

The proceeds of the Series 2010E Bonds were used, together with other funds of the District, to: (a) currently refund $63,335 of the outstanding principal amount of the District's Income Tax Secured Revenue Refunding Bonds, Series 2010C maturing on December 1, 2010; and (b) pay the costs and expenses of issuing and delivering the Series 2010E Bonds.

The Series 2010E Bonds, the outstanding bonds and any additional bonds issued under the terms of the indenture are payable from and secured by a security interest in and a statutory lien on the Trust Estate, consisting primarily of all available tax revenues received or to be received by the collection agent, the trustee, or the District. The Series 2010E Bonds bear interest at a variable rate equal to an adjusted SIFMA rate. The per annum interest rates are determined as follows: (a) SIFMA rate, plus 0.03% for bonds maturing on December 1, 2011; and (b) SIFMA rate, plus 0.35% for bonds maturing on December 1, 2013.

Series 2010F

On December 2, 2010, the District issued $342,615 in Income Tax Secured Revenue Bonds, Series 2010F (Federally Taxable – Build America Bonds – Direct Pay to Issuer) as Senior Bonds pursuant to: (a) the Income Tax Secured Bond Authorization Act of 2008 (the Act), effective October 22, 2008; (b) a Master Indenture of Trust between the District and Wells Fargo Bank as amended and supplemented; and (c) an Eleventh Supplemental Indenture of Trust dated December 1, 2010, executed pursuant to the Act and the "Fiscal Year 2011 Income Tax Secured Revenue Bond and General Obligation Bond Issuance Emergency Approval Act of 2010," effective November 17, 2010.

The proceeds of the Series 2010F Bonds were used to: (a) pay and/or reimburse the District for costs of capital projects; and (b) pay for costs and expenses of issuing and delivering the Series 2010F Bonds.

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The Series 2010F Bonds, the outstanding bonds and any additional bonds issued under the terms of the indenture are payable from and secured by a security interest in and a statutory lien on the Trust Estate, consisting primarily of all available tax revenues received or to be received by the collection agent, the trustee, or the District. The Series 2010F Bonds bear interest as follows: (a) Serial Bonds maturing on December 1 of 2022 and 2023 at rates of 4.709% and 4.909%, respectively; and (b) Term Bonds maturing on December 1 of 2026 and 2035 at rates of 5.282% and 5.582%, respectively.

Series 2011A

On September 29, 2011, the District issued $138,470 in Income Tax Secured Revenue Bonds, Series 2011A, as Senior Bonds pursuant to: (a) the Income Tax Secured Bond Authorization Act of 2008 (the Act), effective October 22, 2008, as amended by the Income Tax Secured Bond Authorization Act of 2011, effective August 9, 2011; and (b) a Master Indenture of Trust between the District of Columbia and Wells Fargo Bank, N.A., as Trustee, dated as of March 1, 2009, as amended and supplemented by a Third Supplemental Indenture of Trust between the same parties, and further supplemented by a Twelfth Supplemental Indenture of Trust between the same parties dated as of September 1, 2011, executed pursuant to the Act and the Fiscal Year 2011 Income Tax Secured Revenue Bond and General Obligation Bond Issuance Emergency Approval Resolution of 2011, effective September 20, 2011.

The proceeds were used to: (a) pay and/or reimburse the District for costs of capital projects; and (b) pay the costs and expenses of issuing and delivering the Series 2011A Bonds.

The Series 2011A Bonds bear interest as follows: (a) Serial Bonds maturing on December 1 of each year from 2012 through 2032, and on 2036, at rates ranging from 1.00% to 5.00%; and (b) Term Bond maturing on December 1, 2036, at a rate of 5.00%.

A summary of the debt service requirements to maturity for principal and interest for the District's Income Tax Secured Revenue Bonds is shown in **Table 24**.

Table 24 – Summary of Debt Service Requirements for Income Tax Secured Revenue Bonds

Year Ending	INCOME TAX SECURED REVENUE BONDS		
September 30	Principal	Interest	Total
2012	$ 90,830	$ 143,394	$ 234,224
2013	90,765	141,673	232,438
2014	115,460	137,186	252,646
2015	65,290	133,394	198,684
2016	56,400	132,411	188,811
2017 - 2021	468,980	608,420	1,077,400
2022 - 2026	716,105	468,666	1,184,771
2027 - 2031	897,295	250,929	1,148,224
2032 - 2036	519,080	60,323	579,403
2037 - 2041	8,895	222	9,117
Total	$ 3,029,100	$ 2,076,618	$ 5,105,718

Interest Rates on General Obligation Bonds and Income Tax Secured Revenue Bonds

The weighted average interest rate on the District's outstanding fixed-rate bonds is 5.029%. The weighted average interest rate on the District's variable rate bonds for fiscal year 2011 is 0.271%.

C. 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, 2011, $442,025 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

NOTE 8. LONG-TERM LIABILITIES

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 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 rights, 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 2011, the amount outstanding as of September 30, 2011, 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, 2011, the total outstanding balance for all Tobacco Bonds as shown in **Table 25** was $690,289.

Table 25 - Summary of Debt Service Requirements for Tobacco Bonds

Year Ending September 30	Tobacco Bonds Principal	Tobacco Bonds Interest	Total
2012	$ 25,320	$ 28,880	$ 54,200
2013	17,510	27,337	44,847
2014	19,060	26,279	45,339
2015	18,980	25,119	44,099
2016	20,765	23,933	44,698
2017 - 2021	130,695	97,284	227,979
2022 - 2026	209,695	48,915	258,610
2047 - 2051	159,733	1,697,592	1,857,325
2057 - 2061	88,531	2,478,469	2,567,000
Total	$ 690,289	$ 4,453,808	$ 5,144,097

D. 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 many 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, such TIF Notes are not included in **Table 21** as long-term debt of the District.

Downtown Retail Priority Area: Clyde's, Forever 21, H & M, Zara, West Elm, National Crime and Punishment Museum, and Madame Tussauds

In March 2006, the Mayor executed the first of several TIF notes under the Downtown Retail Priority Area Program. The H & M TIF Note, which had an original value of $2,996, was fully repaid in September 2011. In May 2008, the Mayor executed an additional note for Zara, which matures on June 1, 2018, or upon payment in full, of $1,750 at a 5.50% interest rate. In September 2008, the Mayor executed the National Crime and Punishment Museum TIF Note for $3,000, also at a 5.50% interest rate. This TIF Note matures on October 1, 2018. In December 2008, the Mayor executed the Madame Tussauds TIF Note for $1,300 at a 4.50% interest rate. The Madame Tussauds TIF Note matures on December 1, 2018. In February 2011, the Mayor executed the Forever 21 TIF Note for $4,985, at a 6% interest rate. The Forever 21 TIF Note matures on February 1, 2021. In May 2011, the Mayor executed the Clyde's TIF Note for $4,472 at a 5.5% interest rate. The Clyde's TIF Note is currently held in escrow pending satisfaction of conditions to its release under a development and finance agreement. The Clyde's TIF Note matures on December 1, 2021.

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, 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.

NOTE 8. LONG-TERM LIABILITIES

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 tax revenues from the Downtown TIF Area, which are subordinate to the pledge of such revenues to the TIF Bonds that were issued to finance 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 was fully repaid in a lump sum on July 1, 2011, from available incremental revenues from the Downtown TIF Area. The interest rate on this Note was 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 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 interest rate on the Note is 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.
In May 2011, the Mayor executed the Howard Theatre Project Note in the amount of $4,000. The interest rate on the Note is 6.50%, and the note has a maturity date of May 26, 2021. The note is secured by incremental real property and incremental sales taxes from the Howard Theatre TIF Area. In the event such taxes are not sufficient, the note is further secured by incremental tax revenues from the Downtown TIF area (subordinate to the pledge of such revenues to the TIF Bonds that were issued to finance Gallery Place and the Mandarin Oriental Hotel).

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 the Downtown TIF Area.

Tables 26 and 27 show the summary of debt service requirements for *Gallery Place and Mandarin Oriental Hotel.*

Table 26 - Summary of Debt Service Requirements for Gallery Place TIF Bond

Year Ending	GALLERY PLACE		
September 30	Principal	Interest	Total
2012	$ 1,835	$ 3,370	$ 5,205
2013	1,930	3,272	5,202
2014	2,035	3,165	5,200
2015	2,150	3,054	5,204
2016	2,270	2,935	5,205
2017-2021	13,350	12,672	26,022
2022-2026	17,225	8,788	26,013
2027-2031	22,286	3,730	26,016
Total	**$ 63,081**	**$ 40,986**	**$ 104,067**

NOTE 8. LONG-TERM LIABILITIES

Table 27 - Summary of Debt Service Requirements for Mandarin Oriental Hotel TIF Bond

Year Ending September 30	MANDARIN ORIENTAL HOTEL Principal	Interest	Total
2012	$ 2,434	$ 2,070	$ 4,504
2013	2,292	2,217	4,509
2014	2,148	2,356	4,504
2015	2,014	2,495	4,509
2016	1,878	2,626	4,504
2017-2021	9,357	13,174	22,531
2022	4,280	225	4,505
Total	**$ 24,403**	**$ 25,163**	**$ 49,566**

E. OTHER REVENUE BONDS

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 Bonds 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 28** assumes an interest rate of 4.89% 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 28 - Summary of Debt Service Requirements for Ballpark Revenue Bonds

Year Ending September 30	BALLPARK BONDS Principal	Interest	Total
2012	$ 4,915	$ 26,507	$ 31,422
2013	5,680	26,204	31,884
2014	6,835	25,899	32,734
2015	7,685	25,531	33,216
2016	8,550	25,418	33,968
2017-2021	58,340	119,088	177,428
2022-2026	90,850	99,954	190,804
2027-2031	135,165	70,481	205,646
2032-2036	194,830	27,045	221,875
Total	**$ 512,850**	**$ 446,127**	**$ 958,977**

Federal Highway Bonds (GARVEE)

On February 14, 2011, the District issued $82,610 in Federal Highway Grant Anticipation Revenue Bonds, Series 2011. The Series 2011 Bonds were issued under and secured by the Master Trust Indenture, as supplemented by the First Supplemental Trust Indenture and together with the Master Trust Indenture, each dated as of February 1, 2011 and by and between the District and U.S. Bank, N.A., as trustee. The Series 2011 Bonds is the first series issued under the Master Trust Indenture and will be secured on a parity with any additional bonds issued by the District under the Master Trust Indenture.

The issuance of the Series 2011 Bonds was authorized pursuant to the Transportation Infrastructure Improvements Grant Anticipation Revenue Vehicles (GARVEE) Bond Financing Act of 2009, effective September 23, 2009 to finance the 11th Street Bridge Project (Phase I) (the Project) which meets the eligibility requirements of the Federal Highway Administration as a Federal Project.

The proceeds of the Series 2011 Bonds were used to: (a) provide funds to finance a portion of the Project; (b) pay certain costs of issuing the Series 2011 Bonds; and (c) fund the Senior Lien Bonds Debt Service Reserve Subaccount.

The Series 2011 Bonds are special obligations of the District, payable solely from the revenues specifically pledged to the payment thereof and other amounts specifically pledged under the Trust Indenture. The Series 2011 Bonds are without recourse to the District, are not a pledge of, and do not involve, the full faith and credit, or the taxing power of the District. The Bonds do not constitute a debt of the District, and do not constitute lending of public credit for private undertakings as

NOTE 8. LONG-TERM LIABILITIES

prohibited in the Home Rule Act. The Bonds are payable from the pledged revenues, and shall be a valid claim of the respective owners thereof only against the Trust Estate, which is pledged, assigned, and otherwise secured for the equal and ratable payment of the Bonds and shall be used for no other purpose than to pay the principal of, premium, if any, and interest on the Bonds, except as may be otherwise expressly authorized in the Master Indenture.

The Series 2011 Bonds were issued with interest rates ranging from 2.00% to 5.25%.

A summary of the debt service requirements to maturity for principal and interest for the Federal Highway Grant Anticipation Revenue Bonds, Series 2011, is shown in **Table 29.**

Table 29 - Summary of Debt Service Requirements for Federal Highway Grant Anticipation Bonds

Year Ending	Federal Highway Grant Anticipation Revenue Bonds		
September 30	Principal	Interest	Total
2012	$ 3,835	$ 3,762	$ 7,597
2013	4,140	3,640	7,780
2014	4,330	3,449	7,779
2015	4,525	3,253	7,778
2016	4,710	3,068	7,778
2017-2021	26,835	12,069	38,904
2022-2026	34,235	4,663	38,898
Total	**$ 82,610**	**$ 33,904**	**$ 116,514**

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 4.82%.

On August 24, 2010, the District issued $23,190 in Deed Tax Revenue Bonds, Series 2010A; $26,540 in Deed Tax Revenue Bonds, Series 2010B; and $3,460 in Taxable Deed Tax Revenue Bonds, Series 2010C. These bonds were issued pursuant to: (a) the amended and restated Indenture of Trust dated August 1, 2010; and (b) the First Supplemental Indenture of Trust, dated August 1, 2010, each by and between the District and the Bank of New York Mellon (formerly known as the Bank of New York), as trustee.

The 2010 Bonds were issued to: (a) finance, refinance, and reimburse a portion of the costs of undertakings by the District to accomplish the New Communities Initiative, including the New Communities Projects; (b) satisfy, together with funds on deposit under the indenture, the debt service reserve account requirement; and (c) pay costs of issuance of the Series 2010 Bonds.

The Series 2010 Bonds are payable from and are secured by a pledge of the Trust Estate, which includes the pledged revenues. Pledged revenues include the amounts of the Allocated Fund that are received by the trustee under the indenture. The Series 2010A Bonds were issued with an interest rate of 5.00% and the series 2010B bonds were issued with interest rates ranging between 4.00% and 5.00%. The Series 2010C Bonds were issued with an interest rate of 3.39%.

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 the outstanding bonds.

NOTE 8. LONG-TERM LIABILITIES

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

Year Ending September 30	HOUSING PRODUCTION TRUST FUND Principal	Interest	Total
2012	$ 1,530	$ 4,044	$ 5,574
2013	1,585	3,988	5,573
2014	1,650	3,924	5,574
2015	1,720	3,857	5,577
2016	1,805	3,771	5,576
2017-2021	10,450	17,428	27,878
2022-2026	13,240	14,627	27,867
2027-2031	16,835	11,040	27,875
2032-2036	21,305	6,570	27,875
2037-2041	14,215	1,644	15,859
Total	**$ 84,335**	**$ 70,893**	**$ 155,228**

National Capital Revitalization Corporation 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 2011, in addition to mandatory sinking fund payments, the District paid $6,918 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 31** and has been calculated, for illustration purposes, with a 2.55% interest rate through fiscal year 2015 and 3.6% thereafter.

Table 31 - National Capital Revitalization Corporation Revenue Bonds Debt Service Requirements to Maturity

Year Ending September 30	National Capital Revitalization Corporation Principal	Interest	Total
2012	$ 1,091	$ 440	$ 1,531
2013	1,147	496	1,643
2014	1,205	467	1,672
2015	1,267	435	1,702
2016	1,332	568	1,900
2017-2021	7,754	2,047	9,801
2022-2026	8,919	438	9,357
Total	**$ 22,715**	**$ 4,891**	**$ 27,606**

PILOT Revenue Bonds and Notes

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. However, 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 32.**

Table 32 - Anacostia Waterfront Corporation PILOT Revenue Bonds Debt Service Requirements to Maturity

Year Ending September 30	Anacostia Waterfront Corporation Principal	Interest	Total
2012	$ 6,575	$ 3,974	$ 10,549
2013	6,875	3,678	10,553
2014	7,180	3,367	10,547
2015	7,510	3,044	10,554
2016	7,845	2,705	10,550
2017-2021	44,775	7,882	52,657
2022-2026	9,900	221	10,121
Total	**$ 90,660**	**$ 24,871**	**$ 115,531**

NOTE 8. LONG-TERM LIABILITIES

Capper PILOT Revenue Bond Anticipation Notes

On March 22, 2010, the District issued $29,000 in PILOT Revenue Bond Anticipation Notes (Arthur Capper/ Carrollsburg Public Improvements Issue), Series 2010. These notes were issued pursuant to the Capper PILOT Act and the Master Indenture of Trust, dated March 1, 2010, between the District of Columbia, and U.S. Bank National Association, as trustee, as supplemented by the first supplement to the master indenture of trust, dated March 1, 2010. Proceeds from the issuance of these notes were used to: (a) refinance certain outstanding indebtedness of the District of Columbia Housing Authority (DCHA) and reimburse DCHA for amounts expended, to construct certain Capper/Carrollsburg public improvements; (b) provide funding for the construction of additional Capper/Carrollsburg public improvements; and (c) pay costs of issuance of the notes.

The notes are special obligations of the District, secured by a lien on and pledge of, and payable from the trust estate pledged pursuant to the indenture, including: (a) the pledged PILOT payments within the Capper/Carrollsburg PILOT Area; (b) incremental tax revenues from the Downtown TIF Area (subordinate to the pledge of such revenues to the TIF Bonds that were issued to finance Gallery Place and the Mandarin Oriental Hotel) to the extent the pledged pilot payments are insufficient to pay principal and interest when due on the notes; and (c) monies and investments on deposit in the funds and accounts established under the indenture.

These notes were issued with an interest rate of 4.00% and will mature on December 1, 2012.

A summary of the debt service requirements to maturity for principal and interest for the Capper PILOT Revenue Bond Anticipation Notes is shown in **Table 33.**

Table 33 - Capper PILOT Revenue Bond Anticipation Notes Debt Service Requirements to Maturity

Year Ending September 30	Capper PILOT Revenue Bond Anticipation Notes Principal	Interest	Total
2012	$ -	$ 1,160	$ 1,160
2013	29,000	580	29,580
Total	**$ 29,000**	**$ 1,740**	**$ 30,740**

Rhode Island PILOT Note

In August 2011, the Mayor executed a revised PILOT Revenue Note for the Rhode Island Metro Plaza Project, in the amount of $7,200. The note is currently in escrow pending completion of construction and satisfaction of certain other related requirements. Upon its release from escrow, the note will bear interest at a rate of 5.78% and will mature on September 30, 2032. The note is to be repaid from: (1) PILOT revenues from the Rhode Island PILOT Area; and (2) incremental tax revenues from the Downtown TIF Area (subordinate to the pledge of such revenues to the TIF Bonds that were issued to finance Gallery Place and the Mandarin Oriental Hotel) to the extent such payments are insufficient to pay principal and interest due through September 30, 2013. If such revenues are insufficient to pay the principal and interest due on the note when payable, the payment shortfall will not constitute a default.

Southeast Federal Center PILOT Program (Foundry Lofts Project)

In August 2010, the Mayor executed the first PILOT note under the Southeast Federal Center PILOT Program, for the Foundry Lofts Project. The note, in the amount of $5,660, bears interest at 5.16% and will mature on January 1, 2038. The note is to be repaid from PILOT revenues from the project. If such PILOT revenues are insufficient to pay the principal and interest on the note when due, the payment shortfall will not constitute a default. However, if the PILOT revenues are sufficient to pay the principal and interest on the note when due, the District must pay the amount of any previous shortfall(s) to the Development Sponsor without any penalty interest or premium thereon.

F. REFUNDINGS AND BOND DEFEASANCES

Current Refunding

The District used the proceeds of its Series 2010E Income Tax Secured Revenue Refunding Bonds to currently refund $63,335 of the outstanding principal amount of the District's Income Tax Secured Revenue Refunding Bonds, Series 2010C. The net proceeds from the issuance of the Series 2010E Bonds were used to redeem the Series 2010C Bonds on November 30, 2010. The District completed the refunding to maintain the amortization schedule of the Series 2010C Bonds by extending the stated maturities to December 1, 2011 and December 1, 2013. The result of the current refunding of the Series 2010C Bonds by the Series 2010E Bonds, refinancing one variable-rate issue with another to roll the maturity forward and effectively maintain the amortization

NOTE 8. LONG-TERM LIABILITIES

schedule, produced no economic gain or loss.

Variable Rate Demand Bond Program

As of September 30, 2011, the District had three outstanding series of General Obligation Variable Rate Demand Obligations (VRDO) with an aggregate principal amount of $398,015. 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 2027 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 Property Tax Revenue held in escrow by the trustee. To the extent that a 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 34 summarizes each of the outstanding VRDO series and certain of the terms and conditions of each supporting LOC and reimbursement agreement.

Table 34 – Outstanding Variable Rate Demand Obligations

Series	Par Outstanding	Final Maturity	Reset Mode/ Payment Frequency	LOC Provider	LOC Issue Date	LOC Expiration Date
2008A	$ 59,960	6/1/2034	7-Day Reset / Monthly Pay	Bank of America	3/26/2010	3/26/2013
2008C-1	$ 67,195	6/1/2027	7-Day Reset / Monthly Pay	TD Bank	11/19/2009	11/19/2012
2008C-2	$ 157,105	6/1/2027	7-Day Reset / Monthly Pay	JP Morgan	11/19/2009	11/19/2012
2008D	$ 113,755	6/1/2034	7-Day Reset / Monthly Pay	Wells Fargo	3/26/2010	3/26/2013

Note: The annual Letter of Credit fees range from 107 basis points to 145 basis points per annum based on the stated amount of each the Letter of Credit.

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, 2011, the total amount of defeased debt outstanding held by the escrow agent was $466,520. This amount has been removed from the government-wide financial statements. As presented in **Table 35,** the amount of bonds defeased through fiscal year 2011 refundings was $63,335.

Table 35 Summary of Defeased Bonds in FY 2011

SUMMARY OF DEFEASED INCOME TAX SECURED REVENUE BONDS IN FY2011
Defeased by Income Tax Secured Revenue Bonds, Series 2010E

Bond Series Refunded	Interest Rate	Refunded Amount
2010C	3.00%	$ 63,335
		$ 63,335

NOTE 8. LONG-TERM LIABILITIES

G. HEDGING DERIVATIVE INSTRUMENT PAYMENTS AND HEDGED DEBT

Table 36 presents aggregate debt service requirements of the District's debt and net receipts/payments on associated hedging derivative instruments as of September 30, 2011. These amounts assume that current interest rates on variable-rate bonds and the current reference rates of hedging derivative instruments will remain the same for their term. As these rates vary, interest payments on variable-rate bonds and net receipts/ payments on the hedging derivative instruments will vary. Refer to Note 2 for information on derivative instruments.

Table 36 – Aggregate Debt Service Requirements and Net Receipts/Payments On Hedging Derivative Instruments

Fiscal Year Ending September 30	Principal	Interest	Hedging Derivatives, Net	Total
2012	$ 6,575	$ 2,804	$ 11,097	$ 20,476
2013	6,875	2,739	10,865	20,479
2014	16,315	2,683	10,611	29,609
2015	17,100	2,227	10,323	29,650
2016	17,910	1,746	10,015	29,671
2017-2021	103,860	4,919	44,445	153,224
2022-2026	152,575	909	20,844	174,328
2027-2031	32,000	37	1,105	33,142
Total	**$ 353,210**	**$ 18,064**	**$ 119,305**	**$ 490,579**

H. OTHER LONG-TERM LIABILITIES

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

As of September 30, 2011, the District financed approximately $378 million of its capital equipment needs through the program, and had approximately $116 million in principal outstanding. During the year, the average interest rate used to finance equipment through the Program was 2.84%. Payments on the liability are made on a quarterly basis.

Table 37 shows the schedule of equipment financing program payments.

Table 37– Schedule of Equipment Financing Program Payments

Year Ending September 30	Principal	Interest	Total
2012	$ 40,227	$ 3,396	$ 43,623
2013	33,536	2,016	35,552
2014	22,902	981	23,883
2015	14,115	384	14,499
2016	5,066	62	5,128
Total	**$ 115,846**	**$ 6,839**	**$ 122,685**

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 $15,040 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).

NOTE 8. LONG-TERM LIABILITIES

In 2003, 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 $52,140 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 4.75%.

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 COPs' proceeds were used to fund a portion of the cost of the design and construction of the hospital, which totaled approximately $208 million. Of this amount, $184,200 was financed with COP proceeds and interest earnings thereon. In addition, COP proceeds were 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 $178,195 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 4.53%.

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
2012	$ 3,255	$ 2,544	$ 5,799
2013	3,405	2,395	5,800
2014	3,545	2,256	5,801
2015	3,720	2,082	5,802
2016	3,930	1,872	5,802
2017-2021	23,215	5,785	29,000
2022-2026	11,070	532	11,602
Total	**$ 52,140**	**$ 17,466**	**$ 69,606**

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
2012	$ 8,145	$ 8,672	$ 16,817
2013	8,565	8,254	16,819
2014	9,015	7,804	16,819
2015	9,500	7,318	16,818
2016	10,015	6,805	16,820
2017-2021	58,500	25,604	84,104
2022-2026	74,455	9,642	84,097
Total	**$ 178,195**	**$ 74,099**	**$ 252,294**

NOTE 8. LONG-TERM LIABILITIES

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, 2010	Additions	Deductions	Balance September 30, 2011
Governmental Activities:				
Accrued disability compensation (Note 15)	$ 160,513	$ 17,224	$ (26,400)	$ 151,337
Accumulated annual leave	146,612	16,002	(9,932)	152,682
Grant disallowances	69,810	190	-	70,000
Claims & judgments (Note 15)	70,435	12,752	(34,410)	48,777
Equipment financing program	113,720	45,801	(43,675)	115,846
Accreted interest	133,041	24,633	-	157,674
Capital leases payable (Note 14)	36,108	-	(8,675)	27,433
Total	**$ 730,239**	**$ 116,602**	**$ (123,092)**	**$ 723,749**
Business-Type Activities:				
Obligation for unpaid prizes	**$ 29,218**	**$ 567**	**$ (6,873)**	**$ 22,912**

NOTE 8. LONG-TERM LIABILITIES

I. 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	$ 63,583	$ 2,766,015	$ 2,829,598
QZAB	945	7,628	8,573
Income tax secured revenue bonds	90,830	2,938,270	3,029,100
Tobacco bonds	25,320	664,969	690,289
TIF bonds	4,269	83,215	87,484
Ballpark bonds	4,915	507,935	512,850
GARVEE	3,835	78,775	82,610
Housing production trust fund	1,530	82,805	84,335
PILOT revenue bonds (AWC, NCRC & CAPPER)	7,666	134,709	142,375
COPs	11,400	218,935	230,335
Premium on long-term debt	18,105	222,324	240,429
Equipment financing program	40,227	75,619	115,846
Accreted interest	-	157,674	157,674
Parks and Recreation notes	3,125	6,250	9,375
Capital leases	9,189	18,244	27,433
Annual leave	110,114	42,568	152,682
Disability compensation	-	151,337	151,337
Grant disallowances	-	70,000	70,000
Claims and judgments	-	48,777	48,777
Verizon	-	4,494	4,494
Unfunded pension expenses	-	2,609	2,609
OPEB liability	-	45,606	45,606
Total	**$ 395,053**	**$ 8,328,758**	**$ 8,723,811**
Business-Type Activities:			
Obligation for unpaid prizes	**$ 6,878**	**$ 16,034**	**$ 22,912**

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, 2011, MUSL purchased for the Lottery, U.S. government securities totaling $23,653 to fund future installment payments to winners.

The market value of these securities at September 30, 2011, was $22,912. 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 8. LONG-TERM LIABILITIES

J. 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. Although WASA is not directly liable for these general obligation bonds, WASA 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, the District's general obligation bonds totaling $245 are reflected in WASA's financial statements.

WASA derives part of its funding for future capital projects from the issuance of public utility revenue bonds, District general obligation bonds, notes payable to the federal government and various other non-debt sources of financing.

In October 2010, WASA issued public utility subordinate lien revenue bonds, (Series 2010A Bonds). The Build America Bonds federally taxable issuer subsidy in the amount of 35% yielded all-in true interest costs of 3.6%. The $300,000 par amount consisted of $18,550 in serial bonds maturing in 2033 and gross interest rates ranging from 4.1% to 4.6%, $30,950 in term bonds maturing in 2028 and a gross interest rate of 5.4%, and $250,500 in index term bonds maturing in 2044 and a gross interest rate of 5.5%. Approximately $214,640 was issued to fund costs of certain capital improvements, including $2,420 for the cost of issuance and underwriter's discount. In addition, approximately $75,000 was issued to fund the Digester Project and $10,360 for capitalized interest.

Debt outstanding at September 30, 2011, totaling $1,548,895 included net unamortized bond premiums of $25,928 and a remaining principal balance of $1,522,967.

Table 41 presents the debt service requirements to maturity for principal and interest for WASA's outstanding bonds.

Table 41 – Water and Sewer Authority Debt Service Requirements to Maturity

	Water and Sewer Authority		
Year Ending September 30	**Principal**	**Interest**	**Total**
2012	$ 18,721	$ 73,691	$ 92,412
2013	19,692	72,669	92,361
2014	20,749	71,571	92,320
2015	21,888	70,385	92,273
2016	23,120	69,105	92,225
2017 - 2021	140,288	324,893	465,181
2022 - 2026	200,306	280,655	480,961
2027 - 2031	254,572	223,916	478,488
2032 - 2036	322,123	152,817	474,940
2037 - 2041	410,313	60,777	471,090
2042 - 2046	91,195	3,046	94,241
Subtotal	**1,522,967**	**1,403,525**	**2,926,492**
Add: Unamortized Bond Premium-Net	25,928	-	25,928
Total	**$ 1,548,895**	**$ 1,403,525**	**$ 2,952,420**

Commercial Paper Note Payable

In November 2001, WASA closed on its $100 million commercial paper program. This program provided interim financing for a portion of WASA's approved $3.8 billion capital improvement program. Under the commercial paper program, WASA issues fixed-rate, short-term (no greater than 270 days) notes. WASA's commercial paper program is backed by a direct letter of credit issued by Westdeutsche Landesbank Giroznetrale (West LB). The notes are rated based on West LB's rating; in effect, the letter of credit of the bank substitutes WASA's security with the paying ability of the bank, enhancing the appeal and marketability of the notes.

In June 2010, WASA closed on its $225 million commercial paper program. Three series of notes have been issued under the commercial paper program: (1) the tax-exempt Series A CP Notes in an aggregate principal amount not to exceed 100 million; (2) the tax-exempt

NOTE 8. LONG-TERM LIABILITIES

Series B CP Notes in an aggregate principal amount not to exceed $50 million; and (3) the taxable Series C CP Notes in an aggregate principal amount not to exceed $75 million, each as subordinate debt. To provide liquidity and credit support for the commercial paper notes, WASA obtained irrevocable, direct-pay letters of credit issued by J.P. Morgan Chase Bank and U.S. Bank, N.A., which expire on May 31, 2013. In connection with the banks' issuance of the letters of credit, WASA and each bank entered into a reimbursement agreement. Each agreement, dated June 1, 2010, obligates WASA to pay bank obligations and reimbursement obligations (as defined in the Eleventh Supplemental Indenture relating to the Commercial Paper Notes) and fee obligations (as defined in each reimbursement agreement) to the applicable bank. The bank obligations, reimbursement obligations, and fee obligations are subordinate debt under the indenture.

There was $35.2 million in outstanding taxable commercial paper at the end of fiscal year 2011. **Table 42** presents a schedule of commercial paper activity for the year ended September 30, 2011.

Table 42 – FY 2011 Commercial Paper Activity

Description	Balance at October 1, 2010	Addition	Deduction	Balance at September 30, 2011
Series C, (taxable), interest ranges from .2% to .28%	$ 29,200	$ -	$ -	$ 29,200
Series B, (tax-exempt), interest at .17%	-	6,000	-	6,000
Total Commercial Paper	**$ 29,200**	**$ 6,000**	**$ -**	**$ 35,200**

Washington Convention and Sports Authority

The Washington Convention and Sports Authority (WCSA), formerly known as the 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, WCSA issued $492,500 of refunding bonds, Series 2007A Bonds, to refund the Series 1998A Bonds. The refunding bonds have maturities ranging from October 1, 2008 to October 1, 2036 and interest rates ranging from 3.75% to 5%. The net proceeds of these refunding bonds were used to: (a) advance refund all of the Series 1998A Bonds in the aggregate principal amount of $480,600; (b) refinance a portion of the land acquisition cost of WCSA related to the headquarters hotel; and (c) pay the premium for the Reserve Account Credit Facility that will fund the Series 2007A Bonds. As a result, the refunded bonds were considered defeased and the liabilities for those were extinguished. The aggregate difference in debt service between the refunded debt and the refunding debt was $10,000 (NPV). In October 2008, the defeased bonds that were outstanding were paid by the Escrow Agent.

In October 2010, WCSA issued senior lien dedicated tax revenue bonds (Series 2010 Bonds) with face value of $249,200, with maturities ranging from October 2015 to October 2040, at interest rates ranging from 3.1% to 7.0%. The proceeds are to be used to (a) make funds available to the developer to pay a portion of the costs of acquiring, developing, constructing, and equipping the Convention Center Hotel project to be constructed on the Hotel Site adjacent to the Walter E. Washington Convention Center; (b) fund capitalized interest for a portion of the Series 2010 Bonds during the construction phase of the Convention Center Hotel Project; (c) fund the Debt Service Reserve Account Requirement for each series of Series 2010 Bonds; (d) defease to the earliest optional redemption date that portion of WCSA's outstanding senior lien dedicated tax Revenue and Refunding Bonds, Series 2007 A maturing on December 1, 2036 in the aggregate principal amount of $25,400; (e) make $2,000 available to WCSA for the establishment of the D.C. Citizen's Job Program created pursuant to the Hotel Act; and (f) pay the Cost of Issuance for the Series 2010 Bonds.

A portion of the net proceeds from the issuance of the Series 2010 Bonds were used to purchase U.S. government securities and those securities were deposited in an irrevocable trust with an escrow agent to provide debt service payments until the Series 2007A bonds are called or mature. As a result, the aggregate principal amount of $25,400 from Series 2007A Bonds is considered to be defeased and therefore has been removed as a liability from WCSA's financial statements.

NOTE 8. LONG-TERM LIABILITIES

As of September 30, 2011, WCSA's bond liability totaled $672,309. A summary of WCSA's debt service requirements to maturity for principal and interest is shown in **Table 43**.

Table 43 – Washington Convention and Sports Authority Debt Service Requirements To Maturity

	Washington Convention and Sports Authority		
Year Ending September 30	**Principal**	**Interest**	**Total**
2012	$ 13,265	$ 34,752	$ 48,017
2013	13,865	34,073	47,938
2014	15,625	33,384	49,009
2015	18,200	32,652	50,852
2016	18,970	31,769	50,739
2017 - 2021	111,360	143,459	254,819
2022 - 2026	146,360	111,649	258,009
2027 - 2031	199,540	68,472	268,012
2032 - 2036	71,970	36,214	108,184
2037 - 2040	70,635	10,741	81,376
Subtotal	**679,790**	**537,165**	**1,216,955**
Less: Unamortized Bond Discount - Net	(7,481)	-	(7,481)
Total	**$ 672,309**	**$ 537,165**	**$1,209,474**

Housing Finance Agency

Bonds issued by the Housing Finance Agency (HFA) 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 bonds for multifamily projects financed to date have been issued by HFA 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 HFA or the borrower, in whole or in part at any time, after certain dates, as specified in the respective bond indentures and bond resolutions, at prescribed redemption prices. The redemption premiums 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 HFA'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 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 HFA from investments, mortgage loans and mortgage-backed securities in connection with the related developments.

A summary of HFA's debt service requirements to maturity for principal and interest is shown in **Table 44**.

NOTE 8. LONG-TERM LIABILITIES

Table 44- Housing Finance Agency Debt Service Requirements to Maturity

Year Ending September 30	Principal	Interest	Total
2012	$ 40,459	$ 40,503	$ 80,962
2013	28,305	39,045	67,350
2014	14,675	38,335	53,010
2015	16,846	37,550	54,396
2016	17,022	36,733	53,755
2017-2021	92,683	170,011	262,694
2022-2026	141,405	139,869	281,274
2027-2031	102,074	105,687	207,761
2032-2036	117,693	77,911	195,604
2037-2041	140,104	46,761	186,865
2042-2046	116,056	18,941	134,997
2047-2051	35,266	4,829	40,095
2052-2056	38,677	339	39,016
Subtotal	**901,265**	**756,514**	**1,657,779**
Add: Unamortized Bond Premium, net	6,461	-	6,461
Total	**$ 907,726**	**$ 756,514**	**$ 1,664,240**

During fiscal year 2010, HFA secured two committed lines of credit with PNC Bank, N.A. in the total amount of $53,000: (1) one line of credit for $3,000 to be used to acquire ownership of and make improvements to HFA's headquarters building; and (2) another line of credit for $50,000 to be used to provide interim financing for the costs of extending multi-family and single-family mortgages and/or mortgage-backed securities under the United States Treasury New Issue Bond Program or any subsequent bond program of HFA as approved by PNC Bank. During fiscal year 2011, HFA and PNC Bank modified the $50,000 line of credit by reducing it to $25,000, extending its term until the end of calendar year 2011. As of September 30, 2011, HFA requested and received a $5,000 advance under the $25,000 line of credit. The $5,000 draw was used to provide additional funding for the acquisition of single family mortgage-backed securities pending the issuance of long-term single family mortgage revenue bonds by the end of calendar year 2011.

NOTE 9. RETIREMENT PROGRAMS

A. DEFINED BENEFIT PENSION PLANS

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

Civil Service Retirement System

Plan Description

The District contributes to the 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 their beneficiaries. In fiscal year 2011, there were 2,732 District employees who were covered by CSRS. The OPM issues a publicly available financial report that includes financial statements and required supplementary information for CSRS, which may be obtained at www.opm.gov.

Funding Policy

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 contributed 100% of the required amount to the CSRS for each of the past three fiscal years. The District's CSRS contributions for the years ended September 30, 2011, 2010, and 2009, were $14,554, $15,076 and $17,513, respectively.

Social Security System

Plan Description

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

Funding Policy

Consistent with the Federal Insurance Contributions Act (FICA), a 6.20% Social Security tax is to be withheld from the gross salary/wage amount of District employees, up to but not exceeding the applicable social security wage base, which was $106,800 (not in thousands) for 2011. 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.

Consistent with the 2010 Tax Reform Act, the Social Security tax rate for employees was temporarily lowered to 4.20% in 2011, giving employees and self-employed workers a two-percentage-points tax holiday. The employer tax rate remained unchanged.

District contributions to the Social Security System for FICA, for the years ended September 30, 2011 and 2010, were $70,475 and $67,815, respectively. In addition, District contributions for Medicare for fiscal years 2011 and 2010 were $28,991and $27,340, respectively.

District Retirement Programs

Plan Descriptions

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

Each plan 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 Retirement Board issues a publicly available financial report which includes financial statements and required supplementary information for the plans. 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

Police and firefighter member contribution requirements are established by D.C. Code § 5-706 and requirements for District contributions 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.

Teachers contribute by salary deductions on the basis of a normal rate of contributions, which is assigned by the Program upon membership. Members contribute 7% (or

NOTE 9. RETIREMENT PROGRAMS

8% for teachers hired on or after November 16, 1996) of annual pay minus any pay received for summer school. Members may also contribute up to 10% of annual pay toward an annuity in addition to any vested pension.

The District is required to contribute the remaining amounts necessary to finance the coverage of its employees through periodic contributions at actuarially determined amounts in accordance with the provisions of the Replacement Act. The Replacement Act defines the eligibility and the calculation of the amount of the benefit payment for covered District employees for service accrued after June 30, 1997. The District's contributions for fiscal years 2011, 2010 and 2009, 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 $491,690 for the year ended September 30, 2011, and have been reported as intergovernmental revenue. Related expenditures of $388,435 and $103,255 have been reported in the public safety and justice and the public education system functions, respectively.

Annual Pension Cost and Net Pension Obligation

As actuarially determined, the District was not required to make a contribution to the Teachers Pension Plan in fiscal year 2011. However, in that year, the District made its actuarially required contribution of $127,200 to the Police and Firefighters Pension Plan.

The District's annual pension cost and net pension obligation to these plans for fiscal year 2011 are presented in **Table 45.**

Table 45 - Annual Pension Cost and Net Pension Obligation

	Teachers	Police and Firefighters
Annual required contribution (ARC)	$0	$127,200
Interest on net pension obligation	$0	$0
Adjustment to ARC	$0	$0
Annual pension cost	$0	$127,200
Contributions made	$0	$127,200
Increase (decrease) in net pension obligation	$0	$0
Net pension obligation beginning of year	$0	$0
Net pension obligation end of year	$0	$0

Table 46 presents three-year trend information regarding annual pension cost, percentage of annual pension cost contributed, and net pension obligation.

Table 46 - Three Year Trend Information

	Teachers			Police and firefighters		
Fiscal Year Ending	Annual Pension Cost (APC) (millions)	Percentage of APC Contributed	Net Pension Obligation	Annual Pension Cost (APC) (millions)	Percentage of APC Contributed	Net Pension Obligation
09/30/11	$0	N/A	$0	$127.2	100%	$0
09/30/10	$0	N/A	$0	$132.3	100%	$0
09/30/09	$0	N/A	$0	$106.0	100%	$0

NOTE 9. RETIREMENT PROGRAMS

Actuarial Methods and Assumptions

The District's Annual Required Contributions 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 was 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.

Additional information regarding the plans as of the latest actuarial valuation date is presented in **Table 47**:

Table 47 – Additional Actuarial Information (District Retirement Funds

Fiscal Year 2011	
Valuation date	October 1, 2010
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	7-year smoothed market return
Actuarial assumptions:	
Investment rate of return	7.00%
Projected salary increases:	
Police officers and fire fighters	5.25% - 9.75%
Teachers	4.95% - 8.75%
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

As of October 1, 2010, the most recent actuarial valuation date, the Teachers', Police Officers' and Firefighters' Pension Plan was 111.0% funded. The actuarial accrued liability for benefits was $4,495,129 and the actuarial value of assets was $4,989,764 resulting in a negative unfunded actuarial accrued liability (UAAL), or funding excess, of ($494,635). The covered payroll (annual payroll of active employees covered by the plan) was $761,370 and the ratio of the UAAL to the covered payroll was -65.0%. (In prior years, actuarial data regarding funded status and funding progress was reported separately by the Retirement Plans. However, for the most recent actuarial valuation date, this information was combined for both plans.)

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

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. In fiscal year 2011, there were 14,916 employees participating in the Section 401(a) plan.

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 incrementally beginning after two years of service, including a one-year waiting period, and vest fully after five years of service including the one-year waiting period. Contributions and earnings are forfeited for the period of service during which the employee does not achieve incremental vesting, if separation occurs before five years of credited service. These contributions are not considered assets of the District, and the District has no further liability to this plan.

For the fiscal years ended September 30, 2011, 2010, and 2009, District contributions to the plan were $46,955, $43,167, and $40,490, respectively.

This plan also covers employees of the D.C. Housing Authority and Water and Sewer Authority, while the employees of the Housing Finance Agency, Washington Convention and Sports Authority, the University of the District of Columbia, and the Not-for-Profit Hospital Corporation are covered under their own separate defined contribution plans.

NOTE 9. RETIREMENT PROGRAMS

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 ($16.5 thousand) of their annual compensation for calendar year 2011. Employees with 15 years of service or more were able to defer an additional amount, not to exceed the lesser of: (a) $3 ($3 thousand) in additional contributions; (b) $15 ($15 thousand) reduced by amounts contributed under this special provision in prior years; or (c) $5 ($5 thousand) times the number of years of service less the total elective deferrals from previous years. In addition, employees who were 50 years old or older by the end of the plan year were able to defer an additional amount as a catch up contribution. The maximum amount for catch up contributions was $5.5 ($5.5 thousand) in 2011. District employees contributed $17,603 to this annuity plan in fiscal year 2011. Contributions vest immediately and are not assets of the District.

Internal Revenue Code Section 457 Plan

The District offers its employees a deferred compensation plan (D.C. Code §47-3601) created in accordance with IRC Section 457. Employees, including teachers, were able to defer the lesser of $16.5 ($16.5 thousand) or 100% of includable compensation in calendar year 2011. A special catch-up provision is also available to participants that allows them to "make up" or "catch up" for prior years in which they did not contribute the maximum amount to the plan. The "catch up" limit is the lesser of: (a) twice the annual contribution limit, $34 ($34 thousand); or (b) the annual contribution limit for the year plus underutilized amounts from prior taxable years. An additional deferral of $5.5 ($5.5 thousand) is available to participants who are at least 50 years old before the end of the calendar year.

Compensation deferred and income earned are taxable when paid, or made available to the participant or beneficiary, upon retirement, death, termination, or unforeseeable emergency. District employees contributed $36,183 to this plan in fiscal year 2011. Contributions are not assets of the District, and the District has no further liability to the plan.

NOTE 10. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Information on the District's Postretirement Health and Life Insurance Benefit Plan is provided below.

a) Plan Description:

The District of Columbia Postretirement Health and Life Insurance Benefit Plan (the Plan) is a single-employer defined benefit healthcare and life insurance plan administered jointly by the Department of Human Resources and the Office of Finance and Treasury. The Plan is administered as an irrevocable trust through which assets are accumulated and benefits are paid as they become due in accordance with the substantive plan. All employees hired after September 30, 1987, and employees who retire under the Teachers Retirement System and Police and Firefighters 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 §1-621.09 authorizes the Mayor to determine the amount of District contribution for enrollments before the beginning of each contract period. In addition, the Mayor may propose amendments to establish and/or revise benefit provisions and the Council may elect to pass the appropriate legislation. 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
1101 4th Street, S.W., Suite 800
Washington, D.C. 20024

State Street serves as the Master Custodian for the OPEB Trust Fund and as an independent source, provides information on investment transactions, thereby confirming or disputing information provided by the Plan's investment managers.

b) Summary of Significant Accounting Policies

The Plan's financial statements are prepared using

NOTE 10. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

the economic resources measurement focus and the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. District contributions to the plan are recognized when due and the District has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan. The Plan's administrative costs are paid by the District.

Investments are reported at fair value with realized and unrealized gains and losses included in the Statement of Changes in Plan Net Assets. Fair value of marketable securities is based on quoted market price, dealer quotes, and prices obtained from independent pricing sources. Securities for which market quotations are not readily available are valued at their fair value, as determined by the custodian under the direction of the plan or fund, with the assistance of a valuation service.

c) Funding Policy

The contribution requirements of plan members and the District are established by the Mayor and the Council of the District of Columbia. The Mayor and Council may also amend contribution requirements. The 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 2011, the District contributed $94.2 million to the plan and retiree contributions totaled $265,597 ($265.6 thousand). Employee contributions are not required prior to retirement to fund the plan.

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 72% of the cost of the selected health benefit plan. For annuitants with 30 or more years of creditable District service or police officer or firefighter annuitants who are injured in the line of duty, the District pays 72% of the cost of the selected health benefit plan and the annuitant pays 28% 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 2.5% 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 police officer or firefighter annuitants who are injured or killed in the line of duty.

The participant pays $.03575 per $1,000 of life insurance coverage until age 65 for the 75% reduction option, with no contributions required thereafter. Participants can also elect a 50% or 0% reduction of life insurance benefits, which require additional contributions.

d) Annual OPEB Cost and Net OPEB Obligation

The District's annual OPEB cost (expense) is calculated based on the District's annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

Table 48 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.

NOTE 10. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Table 48 – Annual OPEB Cost, Actual Plan Contributions, and Changes in Net OPEB Obligations

	FY 2011	FY 2010	FY 2009
Annual required contribution	$94,165	$92,193	$130,882
Interest on net OPEB obligation	$3,129	$3,052	($488)
Adjustment to annual required contribution	($2,191)	($1,943)	$314
Annual OPEB cost (expense)	$95,103	$93,302	$130,708
Contributions made	$94,200	$90,700	$81,100
Net OPEB asset/(obligation)	($903)	($2,602)	($49,608)
Net OPEB asset (obligation) – beginning of year	($44,703)	($42,101)	$7,507
Net OPEB asset (obligation) – end of year	($45,606))	($44,703)	($42,101)

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2011 and the two preceding years are shown in **Table 49.**

Table 49 - Annual OPEB Cost, Percentage of Annual OPEB Cost Contributed, Net OPEB Obligation (Fiscal Years 2009 through 2011)

Fiscal Year Ended	Annual OPEB Cost (millions)	% Of Annual OPEB Cost Contributed	Net OPEB Obligation
09/30/11	$95.1	99%	$45.6
09/30/10	$93.3	97%	$44.7
09/30/09	$130.7	62%	$42.1

e) Funded Status and Funding Progress

As of September 30, 2010, the most recent actuarial valuation date, the Plan was 54.1% funded. The actuarial accrued liability for benefits was $784,900 and the actuarial value of assets was $424,300, resulting in an unfunded actuarial accrued liability (UAAL) of $360,600. The covered payroll (annual payroll of active employees covered by the plan) was $1,544,500 and the ratio of the UAAL to the covered payroll was 23.3%.

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, 2010, actuarial valuation results, the September 30, 2011, estimated actuarial liability is $913,300 and the actuarial value of the assets is $511,500 resulting in an estimated unfunded actuarial accrued liability (UAAL) of $401,800. The estimated covered payroll (annual payroll of active employees covered by the Plan) is $1,642,300 and the estimated ratio of the UAAL to the covered payroll is 24.5%.

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.

NOTE 10. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

The Entry Age Normal Actuarial cost method was used to prepare the September 30, 2010 actuarial valuation. The actuarial assumptions included a 7.00% investment rate of return, a discount rate of 7.00%; a 4.25% salary increase rate (plus merit scale); and a medical inflation rate ranging between 9.5% (pre-Medicare) and 8.5% (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, 2010, was 30 years.

NOTE 11. FUND BALANCE/NET ASSETS

Fund balances at September 30, 2011, are shown in **Table 50a**.

Table 50a - Schedule of FY 2011 Fund Balance

	General Fund	Federal & Private Resources	Housing Production Trust	General Capital Improvements	Nonmajor Governmental Funds	Total Governmental Funds
Fund Balances:						
Nonspendable						
Long-Term Assets	$ 7,955	$ -	$ -	$ -	$ -	$ 7,955
Inventory	10,510	-	-	-	-	10,510
Restricted for:			-			
Emergency and Contingency Cash Reserve	338,583	-	-	-	-	338,583
Debt Service - Bond Escrow	345,327	-	-	-	-	345,327
Budget	35,430	-	-	-	-	35,430
Purpose Restrictions	37,310	183,610	-	-	-	220,920
Payment in Lieu of Taxes (PILOT)	-	-	-	-	144,583	144,583
Tobacco Settlement	-	-	-	-	84,900	84,900
Tax Increment Financing Program	-	-	-	-	31,446	31,446
Housing Production Trust Fund	-	-	73,436	-	-	73,436
Capital Projects	-	-	-	4,970	-	4,970
Highway Projects	-	-	-	-	43,851	43,851
Baseball Special Revenue	-	-	-	-	54,944	54,944
Committed to:						
Fiscal Stabilization Reserve	41,775	-	-	-	-	41,775
Cash Flow Reserve	152,407	-	-	-	-	152,407
Budget Support Act	3,421	-	-	-	-	3,421
Dedicated Taxes	1,254	-	-	-	-	1,254
Other Special Purposes	57,430	-	-	-	-	57,430
Assigned to:						
Other Special Purposes (O-Type)	42,582	-		-	-	42,582
Subsequent Year's Expenditures	30,910	-		-	-	30,910
Unassigned	-	-		-	-	-
Total Fund Balance	**$ 1,104,894**	**$ 183,610**	**$ 73,436**	**$ 4,970**	**$ 359,724**	**$ 1,726,634**

NOTE 11. FUND BALANCE/NET ASSETS

Net assets at September 30, 2011, are shown in **Table 50b**.

Table 50b - Schedule of FY 2011 Net Assets, Proprietary and Fiduciary Funds

	Lottery & Games	Unemployment Compensation Fund	Fiduciary Funds
Net Assets			
Invested in capital assets	$ 478	$ -	$ -
Restricted for future benefits	-	226,229	5,146,906
Unrestricted	3,501	-	-
Total Net Assets	**$ 3,979**	**$ 226,229**	**$ 5,146,906**

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 WMATA through operating, debt service and capital grants. The District places the amounts to be provided to WMATA in an escrow account until such time when the funds are drawn down for use by WMATA. Operating grants may be in the form of operating and interest subsidies. WMATA records the District's operating grants as advanced contributions when received and as 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, 2011, is shown in **Table 51a.**

Table 51a - Summary of Grants Provided to WMATA

Type	Local	Capital
Operating grants	$ 257,703	$ -
School Transit Subsidy	4,882	-
Capital grants	-	94,889
Total	**$ 262,585**	**$ 94,889**

WMATA issues separate audited financial statements which can be requested from the Washington Metropolitan Area Transit Authority, General Manager, 600 5th Street, N.W., Washington, D.C. 20001. **Table 51b** presents information that allows financial statement users to assess whether WMATA is accumulating significant financial resources or experiencing fiscal stress that may cause additional financial benefits or burden to the District and other participating governments.

Table 51b - Summary of Financial Statements for WMATA as of and for the year ended June 30, 2011

Financial Position	
Total assets	$ 10,279,014
Total liabilities	(1,901,449)
Net assets	**$ 8,377,565**
Operating Results	
Operating revenues	$ 804,504
Operating expenses	(2,079,881)
Nonoperating revenues, net	696,392
Revenue from capital contributions	886,597
Change in net assets	**$ 307,612**
Change in Net Assets	
Net assets, beginning of year, restated	$ 8,069,953
Change in net assets	307,612
Net assets, end of year	**$ 8,377,565**

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 by a federal contribution to cover special purpose and other unusual costs imposed on the District by the federal government. Federal contributions to the District for the year ended September 30, 2011, totaled $617,845.

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. In fiscal year 2002, the District received $155,900 in federal funding for emergency preparedness. This funding was provided by the federal government to assist the District in preparing for response to potential terrorist threats or other attacks. By the end of fiscal year 2008, the District had expended $151,659, or 97.3%, of the $155,900 received in fiscal year 2002. Since that time, the District has not expended any of the remaining emergency preparedness funds totaling $4,241. The District did not receive additional federal funding for emergency preparedness in fiscal year 2011.

C. GRANTS

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

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 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 $28,315 for the fiscal year ended September 30, 2011.

NOTE 14. LEASES

A. CAPITAL LEASES

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

Capital lease payments are classified as debt service expenditures in the governmental funds. Such expenditures totaled $8,675 in fiscal year 2011.

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 totaled $126,773 in fiscal year 2011.

NOTE 14. LEASES

C. SCHEDULE OF FUTURE MINIMUM LEASE COMMITMENTS

Table 52 shows 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, 2011.

Table 52 - Schedule of Future Minimum Lease Payments

	Primary Government		
	Capital	Operating Leases	
Year Ending September 30	Leases	Facilities	Equipment
2012	$ 10,710	$ 94,150	$ 1,325
2013	10,715	90,248	546
2014	2,792	83,995	433
2015	2,792	79,358	322
2016	2,792	77,428	129
2017-2021	1,398	253,201	-
2022-2026	-	76,367	-
2027-2031	-	503	-
2032-2036	-	513	-
2037-2041	-	523	-
2042-2046	-	533	-
2047-2051	-	345	-
Minimum lease payments	**31,199**	**$ 757,164**	**$ 2,755**
Less - imputed interest	(3,766)		
Present value of payments	**$ 27,433**		

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 from its general fund resources and reports all of its risk management activities as governmental activities in the government-wide financial statements. Non-incremental claims adjustment expenses are not included in the liability for claims and judgments. Claim 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 reported in the general fund when due and payable. These losses include an estimate of claims that have been incurred but not reported.

B. GRANTS AND CONTRACTS

The District has received federal grants for specific purposes that are subject to review and audit by the grantor agencies. Claims against these resources are generally conditional upon compliance with the terms and conditions of grant agreements and applicable federal regulations, including the expenditure of resources for allowable purposes. Any disallowance resulting from an audit may become a liability of the District. The audits of these federally assisted programs have not been conducted for the year ended September 30, 2011. As such, the District's compliance with applicable grant and federal requirements will be assessed and established at some future date. Based on prior experience and resolutions reached with grantor agencies, the District determined that at September 30, 2011, there were no probable cumulative expenditures that may be disallowed by grantor agencies. Accordingly, an accrual for such expenditures has not been provided in the government-wide financial statements. Certain grant expenditures of prior years have been disallowed by grantors based on the outcome of audits of federally assisted programs. Accordingly, $200 ($200 thousand) has been included as part of the accrued liability to reflect these known grant disallowances.

NOTE. 15. COMMITMENTS AND CONTINGENCIES

C. CONTINGENCIES RELATED TO DERIVATIVE INSTRUMENTS

All of the District's derivative instruments, except the rate cap, include provisions that require the District to post collateral in the event its credit rating falls below AA as issued by Fitch Ratings and Standard and Poor's or Aa as issued by Moody's Investors Service. The collateral posted is to be in the form of U.S. treasury securities in the amount of the fair value of hedging derivative instruments in liability positions net of the effect of applicable netting arrangements. If the District does not post collateral, the hedging derivative instrument may be terminated by the counterparty. At September 30, 2011, the aggregate fair value of all hedging derivative instruments with these collateral posting provisions was $333,470. If the collateral posting requirements were triggered at September 30, 2011, the District would have been required to post $0 in collateral to counterparties. The District's general obligation credit rating is A+/Aa2/AA-; therefore, no collateral had been posted at September 30, 2011.

D. LITIGATION

The District is named as a party in legal proceedings and investigations that occur in the normal course of governmental operations. Although the ultimate outcome of these legal proceedings and investigations is unknown, the District is vigorously defending its position in each case. All amounts in connection with lawsuits in which a loss is probable have been included in the liability for claims and judgments at September 30, 2011.

The accrued liability is based on estimates of the payments that will be made upon judgment or resolution of the claim. This accrued amount is the minimum amount in the range of estimates that have the same probability of occurrence. The sum of the amount in excess of the minimum range of probable losses and the amount of the minimum range of losses that are reasonably possible which are not accrued is estimated to be $44,259.

A summary of the changes in the accrued liability for claims and judgments reported in the government-wide financial statements is shown in **Table 54.**

Table 54 - Summary of Changes in Claims and Judgments Accrual

Description	Fiscal Year 2011	Fiscal Year 2010
Liability at October 1	**$ 70,435**	**$ 58,837**
Incurred claims	12,752	35,310
Less:		
claims payments/adjustments	(34,410)	(23,712)
Liability at September 30	**$ 48,777**	**$ 70,435**

E. DISABILITY COMPENSATION

The District, through its Office of Risk Management, administers a disability compensation program under Title XXIII of the District of Columbia Compensation Merit Personnel Act of 1978 (CMPA). This program, which covers all District employees hired under the authority of CMPA, provides compensation for lost wages, medical expenses, and other limited rehabilitation expenses to eligible employees and/or their dependents, where a work-related injury or illness results in disability or death. The benefits are funded on a pay-as-you-go basis. The present value discounted at 1.75% of projected disability compensation is accrued in the government-wide financial statements.

A summary of changes in this accrual is shown in **Table 55.**

Table 55 – Summary of Changes in Disability Compensation Accrual

Description	Fiscal Year 2011	Fiscal Year 2010
Liability at October 1	**$ 160,513**	**$ 142,316**
Claims incurred	17,224	45,268
Less-benefit payments/adjustments	(26,400)	(27,071)
Liability at September 30	**$ 151,337**	**$ 160,513**

F. DEBT SERVICE DEPOSIT AGREEMENTS

In prior years, the District entered into debt service deposit agreements which will be effective through fiscal year 2014. Under these agreements, the District exchanged future cash flows of certain special tax fund escrow accounts for fixed amounts received by the District. Execution of the debt service deposit agreements increased the District's ability to predict cash flows from the earnings on escrow account investments.

Upon early termination of an agreement and depending upon the prevailing interest rates at the time of

NOTE. 15. COMMITMENTS AND CONTINGENCIES

termination, a termination amount may be owed by the District. At September 30, 2011, unearned revenue of $573 related to debt service deposit agreements was recorded in the government-wide financial statements.

G. 225 VIRGINIA AVENUE LEASE

On May 14, 2010, the District entered into a 20-year lease agreement with S/C 225 Virginia Avenue, LLC (the Lessor). Under this agreement, the Lessor will redevelop the existing unoccupied building on land owned by the District at 225 Virginia Avenue, S.E. The redevelopment plan is to provide approximately 350,000 square feet of space for city agency offices, with about 175 code required parking spaces. Delivery of the building and commencement of the lease are scheduled for June 30, 2012.

Table 53 shows the present value of future minimum lease payments under this capital lease at September 30, 2011.

Table 53 – Schedule of Future Minimum Lease Payments (225 Virginia Avenue Lease)

Year Ending September 30	225 Virginia Avenue
2012	$ 2,705
2013	8,116
2014	8,116
2015	8,116
2016	8,116
2017 - 2021	40,579
2022 - 2026	40,579
2027 - 2031	40,579
2032	5,411
Total	**$ 162,317**

NOTE. 16. SUBSEQUENT EVENTS

A. TAX REVENUE ANTICIPATION NOTES

The District issued $820,000 in General Obligation Tax Revenue Anticipation Notes (TRANs) on October 6, 2011. 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 2012.

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. In addition, the TRANs constitute continuing obligations until paid in accordance with their terms. The District has covenanted to deposit certain receipts into a TRANs Escrow Account, a segregated special purpose account, for the purpose of paying the principal of and interest on the TRANs when due.

Under the TRANs Escrow Agreement, the District is to make deposits into the TRANs Escrow Account in accordance with the following schedule:

Date of Deposit	Amount of Deposit
September 2, 2012	20% of the outstanding principal amount
September 20, 2012	60% of the outstanding principal amount
September 27, 2012	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 2.00%, and will mature on September 28, 2012.

B. INCOME TAX SECURED REVENUE BONDS

Series 2011B-C-D-E

In November 2011, the District issued $95,720 in Income Tax Secured Revenue Refunding Bonds, Series 2011B (Adjusted SIFMA Rate); $3,415 in Income Tax Secured Revenue Refunding Bonds, Series 2011C (Adjusted SIFMA Rate); $29,550 in Income Tax Secured Revenue Refunding Bonds, Series 2011D (Adjusted SIFMA Rate); and $113,050 in Income Tax Secured Revenue Refunding Bonds, Series 2011E (Adjusted SIFMA Rate) (together,

NOTE. 16. SUBSEQUENT EVENTS

$241,735 in Income Tax Secured Revenue Refunding Bonds, Series 2011B-C-D-E Bonds) pursuant to the Income Tax Secured Bond Authorization Act of 2008, effective October 22, 2008, as amended by the Income Tax Secured Bond Authorization Congressional Review Emergency Act of 2011, effective October 31, 2011 and a Master Indenture of Trust between the District of Columbia and Wells Fargo Bank, N.A., as trustee, dated March 1, 2009, as amended, and as supplemented by a Thirteenth Supplemental Indenture of Trust between the District and the Trustee dated as of November 1, 2011.

The proceeds of the Series 2011B Bonds were used, together with certain other funds of the District, to (i) currently refund $63,335 of the outstanding principal amount of the District's Income Tax Secured Revenue Refunding Bonds, Series 2010C (Adjusted SIFMA Rate) and pay the costs and expenses of issuing and delivering the Series 2011B Bonds. The proceeds of the 2011C Bonds, Series 2011D Bonds and Series 2011E Bonds were used, together with certain other funds of the District, to advance refund to the earliest call date the District's General Obligation Bonds, Series 2003A, maturing on June 1 in the years 2015 and 2023 through 2027, inclusive, and the District's General Obligation Bonds, Series 2003B, maturing on June 1 in the years 2015 and 2019 and pay the costs and expenses of issuing and delivering the Series 2011C Bonds, Series 2011D Bonds and Series 2011E Bonds.

The Series 2011B-C-D-E Bonds, the Outstanding Bonds, and any Additional Bonds under the terms of the Indenture are payable from and secured by a security interest in and a statutory lien on the Trust Estate, consisting primarily of the available tax revenues received or to be received by the collection agent, the trustee, or the District. "Available tax revenues" means the sum of available business franchise tax revenues and available income tax revenues generated and to be generated in any fiscal year of the District.

Series 2011F-G Bonds

In December 2011, the District issued $200,000 in Income Tax Secured Revenue Bonds, Series 2011F (Negotiated) and $210,470 in Income Tax Secured Revenue Bonds, Series 2011G (Competitive) (together, the Series 2011F-G Bonds) as senior bonds pursuant to: the Income Tax Secured Bond Authorization Act of 2008, effective October 22, 2008 as amended by the Income Tax Secured Bond Authorization Act of 2011, a Master Indenture of Trust between the District of Columbia and Wells Fargo Bank, N.A., as trustee, dated March 1, 2009, as amended and supplemented, and a Fourteenth Supplemental Indenture of Trust between the same parties dated as of December 1, 2011, executed pursuant to the Act. The issuance of the Series F-G Bonds was also subject to the Council's adoption of the Fiscal Year 2012 Income Tax Secured Revenue Bond and General Obligation Bond Issuance Approval Resolution of 2011, which occurred in December 2011.

The proceeds of the Series 2011F-G Bonds were used to: (i) pay and/or reimburse the District for costs of capital projects and (ii) pay the costs and expenses of issuing and delivering the Series 2011F-G Bonds.

The Series 2011F-G Bonds, the outstanding bonds, and any additional bonds issued under the terms of the indenture are payable from and secured by a security interest in and a statutory lien on the trust estate, consisting primarily of the available tax revenues received or to be received by the collection agent, the trustee, or the District. "Available tax revenues" means the sum of available business franchise tax revenues and available income tax revenues generated and to be generated in any fiscal year.

C. TAX INCREMENT FINANCING BONDS AND NOTES

In November 2011, the District issued the City Market at O Street TIF Bonds in the amount of $38,650. The bonds are secured by the incremental real property and incremental sales taxes to be generated from the City Market at O Street mixed-use project. In the event that such taxes are not sufficient, the bonds are further secured by incremental tax revenues from the Downtown TIF Area (subordinate to the pledge of such revenues to the TIF Bonds that were issued to finance Gallery Place and the Mandarin Oriental Hotel.)

Also in November 2011, the District issued the Fort Lincoln Retail Project TIF Notes, in the total amount of $10,000. The TIF Notes remain in escrow pending the completion of Phase I and Phase II of the retail project. The Notes are to be repaid from project incremental sales and property tax revenues. If such revenues are insufficient to pay the principal and interest due on the notes 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 previous shortfall(s) to the Development Sponsor without any penalty interest or premium thereon.

NOTE. 16. SUBSEQUENT EVENTS

D. COMPONENT UNITS

Housing Finance Agency Bond Activity

Subsequent to the end of fiscal year 2011, the following events occurred at the Housing Finance Agency (HFA):

Single Family New Issue Bond Program Issuance:

- On December 22, 2011, $14,150 of District of Columbia Housing Finance Agency Single Family Housing Revenue Bonds, Series 2009 A-1 were issued.

Multi-Family New Issue Bond Program Issuances:

- On October 24, 2011, $8,390 of District of Columbia Housing Finance Agency Multifamily Housing Revenue Bonds, Series 2009 A-10 (NIB Program) were issued to finance the Mayfair III project.
- On October 24, 2011, $2,610 of District of Columbia Housing Finance Agency Multifamily Housing Revenue Bonds, Series 2011A were issued in a draw down mode to finance the Mayfair III project.
- On October 24, 2011, $5,730 of District of Columbia Housing Finance Agency Multifamily Housing Revenue Bonds, Series 2011 were issued in a draw down mode to finance the Mayfair III project.
- On October 24, 2011, $5,050 of District of Columbia Housing Finance Agency Multifamily Housing Revenue Bonds, Series 2009 A-12 (NIB Program) were issued to finance the Alabama project.
- On October 24, 2011, $2,389 of District of Columbia Housing Finance Agency Multifamily Housing Revenue Bonds, Series 2011B were issued in a draw down mode to finance the Alabama project.
- On December 21, 2011, $8,370 of District of Columbia Housing Finance Agency Multifamily Housing Revenue Bonds, Series 2009 A-16 (NIB Program) were issued to finance the Capitol Hill Towers project.
- On December 21, 2011, $14,610 of District of Columbia Housing Finance Agency Multifamily Housing Revenue Bonds, Series 2011, were issued to finance the Capitol Hill Towers project.
- On December 21, 2011, $7,900 of District of Columbia Housing Finance Agency Multifamily Housing Revenue Bonds, Series 2009 A-14 (NIB Program) were issued to finance the Samuel Kelsey Apartments project.
- On December 21, 2011, $16,500 of District of Columbia Housing Finance Agency Multifamily Housing Revenue Bonds, Series 2011 were issued to finance the Samuel Kelsey Apartments project.
- On December 21, 2011, $3,630 of District of Columbia Housing Finance Agency Multifamily Housing Revenue Bonds, Series 2009 A-15 (NIB Program) were issued to finance the Nannie Helen project.
- On December 21, 2011, $4,594 of District of Columbia Housing Finance Agency Multifamily Housing Revenue Bonds, Series 2011 were issued in a draw down mode to finance the Nannie Helen project.
- Between October 1, 2011 and December 31, 2011, the following multifamily mortgage revenue bonds were issued through draws on the draw down bonds:

Series	Project Name	Draw Date(s)	New Issue Draw Amount
2011 Series	Alabama	10/27/2011	$51
2011 Series	Nannie Helen	12/21/2011	50
Total			**$101**

Multifamily (Conduit Bond) Program, New Issuances:

- On December 16, 2011, $12,377 of District of Columbia Housing Finance Agency Multifamily Housing Revenue Bonds, Series 2011 A were issued in a draw down mode to finance the Heights project.
- Between October 1, 2011 and December 31, 2011, the following multifamily mortgage revenue bonds were issued through draws on the draw down bonds:

Series	Project Name	Draw Date(s)	New Issue Draw Amount
2010 Series B	Sheridan Station	11/9/2011–12/6/2011	$1,635
2010 Series A	Mathews Memorial	11/14/2011	1,700
2010 Series A	Arthur Capper II	10/20/2011–12/12/2011	881
2011 Series	The Heights	12/21/2011	1,188
Total			**$5,404**

NOTE. 16. SUBSEQUENT EVENTS

On December 20, 2011, $5,000 loan draw under the General Fund PNC Bank Credit Line was fully repaid.

Single Family New Issue Bond Program Redemptions and Maturities:

- On December 22, 2011, $14,150 in District of Columbia Housing Finance Agency Single Family Housing Revenue Bonds Series 2009 A (Program Bonds - Taxable) were redeemed to be modified and redelivered as tax exempt bonds Series 2009 A-1.

Single Family Mortgage Revenue Bonds Redemptions and Maturities:

- On December 1, 2011, the following 1996 Single Family Mortgage Revenue Bonds were redeemed:

Series	Maturing Principal	Principal Redemptions	Total
1997 Series B	$0	$75	$75
1998 Series A	35	60	95
1999 Series A	120	0	120
2000 Series A	0	25	25
2000 Series C	5	105	110
2000 Series D	0	15	15
2001 Series A	0	50	50
2005 Series A	10	135	145
2005 Series B	0	340	340
2006 Series A	10	85	95
2006 Series B	0	540	540
2006 Series D	30	0	30
2006 Series E	0	745	745
2007 Series A	0	430	430
Total	**$210**	**$2,605**	**$2,815**

- On December 14, 2011, the Agency sent out a notice of full redemption for all 1986 Whole Loan Program Bonds in the amount of $1,005 to be redeemed on January 3, 2012.

Multifamily New Issue Bond Program Redemptions and Maturities:

- On October 24, 2011, $13,440 in Multifamily Housing Revenue Bonds Series 2009 A (NIB Program) (Program Bonds - Taxable) were redeemed to be modified and redelivered as tax exempt bonds in connection with funding multifamily projects.

- On December 21, 2011, $19,900 in Multifamily Housing Revenue Bonds Series 2009A (NIB Program) (Program Bonds - Taxable) were redeemed to be modified and redelivered as tax exempt bonds in connection with funding multifamily projects.

- On October 1, 2011, $60 in Multifamily Housing Revenue Bonds Series 2009 A-1 were redeemed through a sinking fund maturity.

Multifamily (Conduit Bond) Program, Redemptions and Maturities:

- Between October 1, 2010 and December 31, 2011, $5,618 in multifamily mortgage revenue bonds were redeemed or matured.

- On December 18, 2011, the Agency sent out a notice of full redemption for all Multifamily Housing Revenue Bonds Series 1998, which financed Burke, Randolph, Ft. Stephens and 7th Street projects, in the amount of $6,960 to be redeemed on January 1, 2012.